

[Translation]

October 2, 2020

To All Concerned

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**Notice Concerning Commencement of Tender Offer for  
the Common Shares of Shimachu Co., Ltd. (Securities Code: 8184), and  
Execution of Management Integration Agreement with Shimachu Co., Ltd.**

DCM Holdings Co., Ltd. (the “Tender Offeror”) announces that it has agreed to enter into a management integration (the “Management Integration”) with Shimachu Co., Ltd. (Securities Code: 8184 listed on the First Section of the Tokyo Stock Exchange, Inc. (the “Tokyo Stock Exchange”); the “Target Company”), and decided at its Board of Directors held today, to execute a Management Integration Agreement regarding the Management Integration (the “Management Integration Agreement”), and to conduct a Tender Offer to acquire all common shares of the Target (the “Target Shares”) (excluding treasury shares held by the Target Company) pursuant to the Financial Instruments and Exchange Act (Act No. 25 of 1948, as amended; the “Act”) as set forth below.

The Management Integration will be implemented for the purpose of maximizing the value of the Tender Offeror Group (defined in “(I) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer” of “(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer” of “1. Purpose, Etc. of Tender Offer, Etc.” of “I. Tender Offer” below; hereinafter the same) including the Target Company by consolidating the respective management resources of the Tender Offeror and the Target Company and realizing synergies at an early stage by utilizing the know-hows of each other’s business areas of strength, and in accordance with the spirit of equality between the Tender Offeror and Target Company.

## Description

### I. Tender Offer

#### 1. Purpose, Etc. of Tender Offer, Etc.

##### (1) Outline of the Tender Offer

Today, for the purpose of maximizing the value of the Tender Offeror Group including the Target Company by consolidating the respective management resources of the Tender Offeror and the Target Company and realizing synergies at an early stage by utilizing the know-hows of each other's business areas of strength, the Tender Offeror and the Target Company agreed to implement the Management Integration between the two and executed the Management Integration Agreement regarding the Management Integration (for details of the Management Integration Agreement, please refer to "(6) Matters Related to Important Agreements Concerning Tender Offer" below.).

The Management Integration will be implemented for the purpose of carrying out business alliance between the Tender Offeror and the Target Company, and for the Tender Offeror Group including the Target Company to swiftly conduct business operations as an integrated group, on the assumption that a series of transactions aimed at acquiring all Target Shares listed on the First Section of the Tokyo Stock Exchange (excluding treasury shares held by Target Company) (the "Transactions") will be executed, and that the Target Company will be made a wholly-owned subsidiary of the Tender Offeror through the Tender Offer implemented as part of the Transactions.

At its Board of Directors' meeting held today, the Tender Offeror resolved to execute the Management Integration Agreement, and to implement the Tender Offer as part of the Transactions. As of the date of this announcement, the Tender Offeror Group holds no Target Shares.

The Tender Offeror has set the minimum number of shares to be purchased at 19,477,700 shares (Note 1) (shareholding ratio (Note 2): 50.00%). If the total number of the Share Certificates, etc. being tendered in the Tender Offer (the "Tendered Share Certificates, etc.") is less than the minimum number of shares to be purchased, the Company will not purchase any Tendered Share Certificates, etc. Although the Tender Offeror aims to make the Target Company a wholly-owned subsidiary of the Tender Offeror through the Tender Offer, it has taken into consideration the existence of a certain number of passive index funds (Note 3) among the shareholders of the Target Company who refrains, as a matter of policy, from tendering their shares in response to a tender offer regardless of the appropriateness of the transaction terms. Specifically, according to the Target Company's Annual Securities Report for the fiscal year ended August 2019 submitted on November 29, 2019, the shares held by financial institutions and foreign corporate and other (non-individual) shareholders respectively constituted 29.2 % and 37.3% among all the shares of the Target Company. As this is a very high percentage, the Tender Offeror requested its financial advisor SMBC Nikko Securities Inc. (hereinafter, "SMBC Nikko") to make a preliminary calculation of the ratio of the Target Shares held by passive index funds. According to SMBC Nikko, although SMBC

Nikko was unable to make a precise assessment and stringent estimation, it has, upon making a preliminary calculation taking into consideration its discussions with the Tender Offeror and based on database information provided by various information vendors whose business is to provide data on financial markets, etc., derived a preliminary finding that in terms of shareholding, approximately 25% of the Target Shares are held by Japanese and overseas passive investment funds, including the 2,137,900 shares (Note 4) (shareholding ratio: 5.49%) held by exchange traded funds (ETFs) listed on the Tokyo Stock Exchange that track TOPIX (Tokyo Price Index). The Tender Offeror believes that, as pointed out in the “Fair M&A Guidelines” (June 28, 2019) issued by the Ministry of Economy, Trade and Industry, “as the scale of passive index funds has increased in recent years as a trend in the Japanese capital markets, some of these investors refrain, as a matter of policy, from tendering their shares in response to a tender offer regardless of the appropriateness of the transaction terms,” generally speaking many of the passive index funds would place importance on tracking stock price index or other indices and, as such, would not tender their shares in response to a tender offer regardless of the appropriateness of the transactions terms. For this reason, the Tender Offeror recognizes that the ratio of shareholders of the Target Company who will decide on whether or not to respond to the tender based on the appropriateness of the transactions terms may be no more than around 75%, after subtracting the aforesaid 25% shareholding ratio of passive index funds from 100% shareholding. Under such circumstances, if the minimum number of shares to be purchased by the Tender Offer is set to around two-thirds of total shareholding (shareholding ratio: approximately 66.67%), the Tender Offer will fail to be consummated if among the shareholders who will be responding to the tender based on the appropriateness of the transactions terms, those holding more than 8.33% of the Target Shares refrain from tendering their shares. This means that even if many shareholders respond to the Tender Offer upon determining that the terms are appropriate, the Tender Offeror will not be able to provide such shareholders with a reasonable opportunity to sell their shares. Therefore, in order to ensure the implementation of the procedures regarding the Share Consolidation (defined in “(4) Policy for Organizational Restructuring, Etc. after Tender Offer (Matters Regarding the So-called ‘Two-Step Acquisition’)” below; hereinafter the same), which will be implemented as part of a series of procedures to make the Target Company a wholly-owned subsidiary of the Tender Offeror, the Tender Offeror has set the minimum number of shares to be purchased at 19,477,700 shares (shareholding ratio: 50.00%), which is the minimum number that satisfies the majority-of-minority condition (the majority of the number of Target Shares (excluding treasury shares of the Target Company) held by shareholders with no conflict of interest with the Tender Offeror).

(Note 1) The minimum number of shares to be purchased shall be (19,477,700), which was calculated by multiplying (a) a majority (194,777) of the number of the voting rights (389,552) pertaining to the total number of issued and outstanding shares as of August 31, 2020 stated in the “Summary of Financial Results for the Fiscal Year ended August 2020 [Japan GAAP] (Non-consolidated)” (the “Financial Summary”) published by the Target Company today (42,609,104 shares) less the number of

treasury shares held by the Target Company as of said date (3,653,817); by (b) 100 shares (one share unit).

- (Note 2) “Shareholding ratio” is the ratio (rounded to the nearest hundredth (0.01) percentage point) of the shares held by the relevant shareholder to the number of shares (38,955,287 shares) calculated by deducting (a) the number of treasury shares held by the Target Company as of August 31, 2020 (3,653,817 shares); from (b) the total number of issued and outstanding shares as of said date (42,609,104 shares) stated in the Financial Summary.
- (Note 3) Passive index fund is a fund that aims to match its investment performance with a benchmark index to provide returns similar to that of stock or other investment asset market.
- (Note 4) This is the total number of shares of the Target Company listed in the list of shares held by the ETFs linked to the TOPIX (Tokyo stock price index) and listed on the Tokyo Stock Exchange which is available as of September 29, 2020.

As it is the Tender Offeror’s intent to make the Target Company its wholly-owned subsidiary by acquiring all of the Target Shares (excluding treasury shares held by the Target Company), there will be no cap on the number of Target Shares to be purchased, and except when the Tendered Share Certificates, etc. fall below the minimum number of shares to be purchased (19,477,700 shares), all of the Tendered Share Certificates, etc. shall be purchased.

If the Tender Offer is consummated, but not all of the Target Shares were purchased by the Tender Offer (excluding treasury shares held by the Target Company), after consummation of the Tender Offer the Tender Offeror intends, as set forth in “(4) Policy for Organizational Restructuring, Etc. after Tender Offer (Matters Regarding the So-called ‘Two-Step Acquisition’)” below, to make the Tender Offeror the sole shareholder of the Target Company and take the series of steps to make the Target Company a wholly-owned subsidiary of the Tender Offeror.

Since the minimum number of shares to be purchased through the Tender Offer is set to the number equivalent to 50.00% in shareholders ratio as described above, after the Tender Offer is consummated, in the event that the voting rights held by the Tender Offeror are less than two-thirds of the voting rights of the Target Company’s total shareholders, and the agenda regarding Share Consolidation which will be implemented as part of a series of procedures to make the Target Company a wholly-owned subsidiary of the Tender Offeror is not approved at the Extraordinary Shareholders Meeting (defined in “(4) Policy for Organizational Restructuring, Etc. after Tender Offer (Matters Regarding the So-called ‘Two-Step Acquisition’)” below, hereinafter the same), it is assumed that certain constraints, such as delays in establishing a system that can respond to the severe business environment with a sense of urgency and in achieving the synergies set out in “(I) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer” below, with the group as a whole, will be imposed, and in order to maximize the corporate value of the Tender Offeror Group, including the Target Company, it is necessary to make the Target Company a

wholly-owned subsidiary. Therefore, as described in “(4) Policy for Organizational Restructuring, Etc. after Tender Offer (Matters Regarding the So-called ‘Two-Step Acquisition’)” below, even if the agenda on the share consolidation is not approved at the Extraordinary Shareholder’s Meeting, the Tender Offeror plans to acquire additional shares of the Target Company until it has acquired the number of shares equivalent to two-thirds of the voting rights pertaining to the total number of issued and outstanding shares of the Target Company less the number of treasury shares held by the Target Company for the purpose of eventually acquiring all of the Target Shares (excluding treasury shares held by the Target Company). However, as the Tender Offeror thinks that the specific timing and method of such additional acquisition will be reviewed in consideration of the status of subscriptions to the Tender Offer and subsequent trends in the market share price, the degree of approval or disapproval of the agenda on the share consolidation at the Extraordinary Shareholders Meeting, whether the Target Company's support can be obtained again, and other factors, at present, nothing has been determined.

As settlement funds for the Tender Offer, Tender Offeror intends to obtain all of the funds for settlement of the Tender Offer by borrowing from Sumitomo Mitsui Banking Corporation in the event that the Tender Offer is consummated. Details of the loan terms of the foregoing borrowing will be stipulated in the loan agreement for the borrowing in separate consultation with Sumitomo Mitsui Banking Corporation.

According to the “Announcement of Opinion Regarding the Tender Offer of the Company’s Shares by DCM Holdings Co., Ltd.” made by the Target Company today (the “Target Company’s Press Release”), the Target Company resolved at a meeting of the Board of Directors held today to express its support for the Tender Offer and to recommend the Target Company’s shareholders to tender their shares in the Tender Offer. For details on the aforementioned Board of Directors' meeting of the Target Company, please refer to the Target Company’s Press Release and “(VI) Approval of All Directors of Target Company” of “(3) Measures to Ensure the Fairness of Tender Offer Price, Etc.” below.

(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer

(I) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer

The Tender Offeror is a holding company established in September 2006 under the company name DCM Japan Holdings Co., Ltd. by joint share transfer of the following three home center business companies: Kahma Co., Ltd., Daiki Co., Ltd. and Homac Co., Ltd. The Tender Offer primarily engages in management and operation of, and supplying products to, its consolidated subsidiaries, and was listed on the First Section of the Tokyo Stock Exchange, the First Section of the Osaka Stock Exchange, Inc. (the “OSE”), the First Section of the Nagoya Stock Exchange, Inc. (the “NSE”) and the Sapporo Stock Exchange, Inc. (the “SSE”) in September of the same year. The Tender Offeror delisted from the OSE, NSE and SSE in September 2009 thereafter. After that, on June 1, 2010, the Tender Offeror changed its company name to DCM Holdings Co.,

Ltd., and on March 1, 2015, Kahma Co., Ltd., Daiki Co., Ltd. and Homac Co., Ltd. respectively changed their company names to DCM Kahma Co., Ltd. (hereinafter, “DCM Kahma”), DCM Daiki Co., Ltd. (hereinafter, “DCM Daiki”) and DCM Homac Co., Ltd. (hereinafter, “DCM Homac”). Subsequently, the Tender Offeror made Sanwado Co., Ltd. (whose company name was changed on the same day to DCM Sanwa Co., Ltd.; hereinafter, “DCM Sanwa”) and Kuroganeya Co., Ltd. (whose company name was changed on the same day to DCM Kuroganeya Co., Ltd.; hereinafter, “DCM Kuroganeya”) as its wholly-owned subsidiary by share exchange respectively on July 1, 2015 and December 1, 2016. By integrating its businesses with those who embrace the Tender Offeror’s philosophy of “Service, Creation, Solidarity” and who are willing to work together in realizing the two “DCM” (“Demand Chain Management = innovation of distribution from the customer’s standpoint” and “Do Create Mystyle = give concrete form to lifestyle dreams”), the Tender Offeror has actively promoted expansion of its businesses and enhancement of its business platforms.

The Tender Offeror Group is a home center group with the largest consolidated sales in Japan, comprised of ten (10) consolidated subsidiaries, eight (8) unconsolidated subsidiaries, and one (1) equity method associate (as of August 31, 2020; hereinafter collectively with the Tender Offeror, the “Tender Offeror Group”), operating 677 retail stores in 37 prefectures throughout Japan (Note 1). By responding flexibly to changes in the environment and creating mechanisms and corporate culture desired by society, the Tender Offeror aims to become an essential social presence, and to achieve this goal, continues to bolster product development, enhance the capability to offer products focused on “experimental consumption,” propose “ease of use,” “fun,” and “products with value,” thereby “build appealing stores” that are supported by its customers. So that the Tender Offeror may respond to changes in customer consumption behavior from “product consumption” to “experimental consumption”, changes in the social environment, such as the aging and declining population, and changes and evolution of digital technologies in the Japanese economy, such as the growing use of e-commerce and cashless payments even more rapidly and effectively going forward, the Tender Offeror intends to have DCM Split Preparation Company (the trade name will be changed to DCM Co., Ltd. from March 1, 2021), established on April 1, 2020 fully capitalized by the Tender Offeror, succeed to the Tender Offeror’s home center business as of March 1, 2021 by way of an absorption-type company split, and after merger by absorption of DCM Kahma, DCM Daiki, DCM Homac, DCM Sanwa and DCM Kuroganeya, change the company name to DCM Co., Ltd.

(Note 1) Source: Please refer to page 9 of Diamond Home Center Industry Handbook (2019 edition).

According to the Target Company’s Press Release, the Target Company, on the other hand, has been engaged in the sale of furniture since its establishment in November 1969 as Shimachu Furniture Co., Ltd., and since expanding into the home center business in April 1978, has been engaged in that business. Also, in May 1979 the Target Company

changed its company name from Kabushiki Kaisha Kagu no Shimachu to Shimachu Co., Ltd. It listed on the Second Section of the Tokyo Stock Exchange in 1982, and was designated on the First Section of the Tokyo Stock Exchange in 1991. Thereafter, under the business philosophy of aiming at building stores that are full of satisfaction, surprise and smile to give customers a “special everyday,” the Target Company has opened stores in chiefly in the metropolitan areas of Saitama, Tokyo and Kanagawa prefectures. As of August 2020, the Target Company operates 60 stores to provide as much “convenience” as possible to local customers, and satisfy their needs concerning their homes and lifestyles.

The Target Company is aware that the slow recovery the Japanese economy had been displaying as a result of the economic and financial measures taken by the Japanese government while being faced with US-China trade frictions, Brexit and other instabilities in the international area, has suffered serious setback from the softening of consumer interest after the consumption tax hike. In particular, the Target Company is mindful that the outlook for the Japanese economy is becoming increasingly uncertain, partly due to fears of a rapid recession in the future, as economic activities both within and outside of Japan have been curtailed due to the novel coronavirus (COVID-19) pandemic. The Target Company also recognizes that the retail business continues to experience increasing rapid changes in consumer behavior due to increased lifestyle choices available to their customers, and intensifying competition across industry classifications. The Target Company recognizes that, according to “Changes in Total Annual Sales and Number of Home Centers (Estimates)” released by the Japan DIY · HC Association, while the Japanese home center business market has matured and has not shown much growth since 2000, there has been a slow but steady increase in the number of home centers throughout Japan, resulting in a steep decline in sales and productivity per store and a decrease in profitability. E-commerce and individual transactions of used goods are also accelerating consumption outside of physical retail stores, forcing companies to be more responsive to changes.

Under such circumstances, the Target Company believes that in order to boost sales that have been sluggish, it is of utmost importance to entice customers to visit its stores. To increase the number of visitors, the Target Company has been renovating existing stores, installing tenants, expanding into new businesses by joining a franchise, and taking other measures to conform with the needs of the local community.

In 2018 the Target Company implemented a new medium-term business plan to promote structural reform including development of stores and businesses, reformation of cost structures and improvement of management infrastructure. While the plan is showing a certain amount of success such as increase in the number of customers at existing stores, the Target Company is burdened by a higher cost of sales ratio compared to its competitors in the home center business, and was aware that it must embark on a drastic reformation of its profit structure in order to secure growth in high-rent, high-labor cost metropolitan areas.

To enhance purchasing power by increasing the scale of business and to launch and expand more profitable, private brand products (the “PB products”) is one of the keys measures in order for the Target Company to radically improve its profitability. However, the Target Company’s sales of PB products are smaller than that of LIXIL VIVA CORPORATION (PB product sales of approximately JPY45.7 billion) and Kohnan Shoji Co., Ltd. (PB product sales of approximately JPY98.2 billion), both of which disclose their PB product sales, and for this reason, the Target Company recognized enhancement of its environment for product innovation to be a critical issue. With the home center industry becoming increasingly oligopolistic given the fact that the top nine (9) sales companies in the industry such as the Tender Offeror, Cainz Corporation and KOMERI Co., Ltd. etc. account for 62.1% of the sales in the home center industry (approximately JPY3,798.8 billion) (Note 2), and while such competitors with top sales are making cost improvements taking advantage of economies of scale, the Target Company recognized that there are constraints on the measures that could be implemented on its own without expanding the scale of its operations, such as reducing procurement costs through bulk and large-scale purchases of products, fixtures and equipment, and further reducing costs from within its existing distribution networks.

Against this backdrop, the Target Company has been carefully considering strategic business alliance, and the possibility of M&A as part of such alliance, to increase the Target Company’s corporate value by improving its profitability.

(Note 2) Source: Please refer to page 8 of Diamond Home Center Industry Handbook (2019 edition).

The Tender Offeror is also aware of rising uncertainties in the Japanese economy. While labor market remained strong in fiscal 2019, lower capital investments and exports are indicating sluggishness in corporate profits, and the economy is affected by the prolonged trade frictions between the U.S. and China, the Brexit issue, increased tension in the Middle East and the spread of COVID-19. The Tender Offeror recognizes that the retail business is also facing uncertain and difficult times ahead, with consumers spending less as they too face uncertainties, an unavoidable result of requests made by the government and local governments for individuals to refrain from non-essential, non-emergency outings and businesses to suspend their operations to fight the spread of COVID-19.

Further, the home center business that the Tender Offeror engages in performed well in the short-term, as sales of gardening, DIY, outdoor, and home office-related goods increased pushed by demand arising from more people staying at home, finding interest in nearby leisure activities, and working remotely. However, the Tender Offeror is mindful that the business environment continues to be challenging due to contraction of market size as a result of reduced population, labor shortage caused by fewer children and aging society, intensifying sales competition across business categories, surge in E-commerce and fewer opportunities for opening new stores.



The Tender Offeror holds as its business challenge to keep and improve store sales and profits per floor space and other efficiencies in store management. The Tender Offeror considers it is vital to enhance its ties with existing customers and to gain new customers to overcome this business challenge. To achieve this, the Tender Offeror is revitalizing its stores by actively launching new business styles, introducing more PB products, and soliciting new tenants. The Tender Offeror is also strengthening its management practices by introducing membership points available at all of its stores for service enhancement, cost-cutting through business rationalization, and other measures. On the other hand, the Tender Offeror recognized management integration with those in the same business who share the same philosophy as a feasible option of realizing expansion in a more expeditious and continuous manner. Specifically, the Tender Offeror believed that through management integration with those in the same business, it will be possible to lower purchasing costs, strengthen product development capability through an integrated PB product development, increase sales of PB products, bolster e-commerce sales, and increase customer convenience and entice new customers through cross-company membership points.

Taking each and all of the foregoing into consideration, the Tender Offeror had been carefully assessing an alliance or M&A with companies in the same business as a medium-term strategy to enhance the corporate value of the Tender Offeror. In the course of such evaluation, in early May 2020, the Tender Offeror and the Target Company determined that it had a strongly complementary relationship with each other, for while the Target Company, who operates stores mainly in Saitama, Tokyo, Kanagawa, Chiba and Tochigi prefectures where the Tender Offeror has few stores, and has know-how in the furniture business, the founding business of the Target Company, as well as in the business where a group of products, including furniture, lighting, curtains, carpets, interior accessories, etc., are coordinated and proposed for sale as if they were fashion items (the “home fashion”), which are not the Tender Offeror’s forte, the Tender Offeror, on the other hand, can provide the Target Company the potential of enhancement in areas of Tender Offeror’s strength, such as merchandise aimed for professional use, home renovation and housing materials, and development of PB products. In early May 2020, as the Tender Offeror was approached by the Target Company, with which the management team had been acquainted from before, about an opportunity to exchange opinions on trends in the home center industry and other matters, the Tender Offeror and the Target Company exchanged their views on the future prospects of the home center industry, trends in industry reorganization, trends in personal consumption due to the spread of COVID-19, etc. The Tender Offeror had in mind that in order for the Tender Offeror Group to strengthen its competitiveness in the above-mentioned severe business environment in the Japanese economy and retail market, it is necessary to improve its product development capabilities, reduce procurement costs by joint purchase of products taking advantage of economies of scale, and reduce expenses and distribution costs by joint procurement of furniture and fixtures, and the Tender Offeror considered that the Target Company becoming a wholly-owned subsidiary of the Tender Offeror would enable it to do so. The Tender Offeror also believed that by becoming a wholly-

owned subsidiary of the Tender Offeror, the Target Company would benefit by provision of know-how on development of professional-use products, renovation and housing materials and on PB products, which are the Tender Offeror's area of expertise. Further, although the Tender Offeror considered making the Target Company a consolidated subsidiary of the Tender Offeror, under the above-mentioned severe business environment, it considered that establishing a system that enables the two companies to quickly respond to the severe business environment in a unified manner, and achieving synergies such as mutual use and effective utilization of the management resources and know-how of the two companies at an early stage, and thus maximizing the corporate value of the Tender Offeror Group is important. As making the Target Company a consolidated subsidiary of the Tender Offeror requires consideration of the interests of the Target Company's general shareholders and would impair prompt decision-making which may cause certain constraints such as lack of sufficient mutual use and effective utilization of management resources and know-how, the Tender Offeror decided that making the Target Company a wholly-owned subsidiary instead of a consolidated subsidiary is necessary. Furthermore, the Tender Offeror believed that upon making the Target Company a wholly-owned subsidiary of the Tender Offeror, by the Management Integration, the Tender Offeror will be able to maximize the corporate value of the Tender Offeror Group, including the Target Company, by implementing a business alliance and aiming for the Tender Offeror Group, including the Target Company, to conduct business operation with a sense of unity and speed. In mid-June of the same year, taking a further step forward from making the Target Company a wholly-owned subsidiary, a formal proposal regarding implementation of the Transactions was made to the Target Company to implement a business alliance between the Tender Offeror and the Company in addition to the Transactions, and to realize the Management Integration between the two, and in mid-June commenced discussions with the Target Company. The Tender Offeror also considered the impact of the spread of COVID-19 on the Management Integration, and as stated above, the Tender Offeror performed well in the short-term as sales of gardening, DIY, outdoor and home office-related goods increased, pushed by the demand arising from more people staying at home, finding interest in nearby leisure activities, and working remotely due to COVID-19. As such, the Tender Offeror has decided to continue to consider and discuss the Management Integration even in light of the expansion of COVID-19.

Subsequently in mid-June, 2020, the Tender Offeror appointed SMBC Nikko Securities as a financial advisor and third-party valuation organization, and Sato Sogo Law Office as a legal advisor, respectively as outside advisors independent from both the Tender Offeror and the Target Company, and established a consideration process and system for the Management Integration, including the Transactions. In addition to conducting due diligence on the Target Company between late July and late August, 2020, from late July, 2020, the Tender Offeror and the Target Company have held multiple discussions and examinations regarding the significance and purpose of the Management Integration, post-Management Integration management policies, creation of synergies through the Management Integration and other matters.

As a result of the foregoing, in early September 2020, the two companies reached a common understanding that (i) the synergies described below are expected to be achieved through the Tender Offeror and the Target Company consolidating their respective management resources and utilizing each other's know-how in their respective business areas of strength; (ii) after the Tender Offeror makes the Target Company a subsidiary of the Tender Offeror, the actions described below should be promptly taken to achieve the synergies; (iii) a management integration agreement that provides post-Tender Offer business alliance between the two companies to realize such synergies and other business operation and management system of the Tender Offeror Group, including the Target Company, should be executed between the Tender Offeror and the Target Company; and (iv) on the premise of such management integration agreement, the management policy after the management integration shall be as set forth in “(III) Management Policy Following Tender Offer” below.

The Tender Offeror believes that in order for the Tender Offeror Group including the Target Company to strengthen its competitiveness in the above-mentioned severe business environment in the Japanese economy and retail market, it must establish a system that enables the two companies to quickly respond to the severe business environment in a unified manner, and must achieve the synergies described below at an early stage. Moreover, the Tender Offeror considers that in the event that the Target Company does not become a wholly-owned subsidiary of the Tender Offeror and the Target Company operates its business independently as a listed company, as it requires careful consideration of the interests of the general shareholders of the Target Company, the Tender Offeror may require more time to make decisions regarding product development strategies for each product, including PB products, and mutual customer referral through the introduction of cross-company membership points. In addition, the Tender Offeror also considers that, if the Target Company conducts independent business operations as a listed company, it would require careful consideration of the interests of the general shareholders of the Target Company when considering the usefulness and objective fairness of mutually using and effectively utilizing the management resources and know-hows of both the Tender Offeror and the Target Company. As a result, the Tender Offeror believes that there may be certain constraints on the mutual use and effective utilization of management resources and know-how, which may limit the realization of the synergies described below. The Tender Offeror believes that by the Target Company becoming a wholly-owned subsidiary of the Tender Offeror, these constraints will be removed and the Tender Offeror Group, including the Target Company, will be able to establish a system to enable the Tender Offeror Group, including the Target Company, to respond to the severe business environment with a sense of unity and speed, and the synergies described below will be realized at an early stage. Therefore, in order to maximize the corporate value of the Tender Offeror Group, including the Target Company, we considered that it is necessary to make the Target Company a wholly-owned subsidiary of the Tender Offeror Group after the completion of the Tender Offer.

A) Improvement of sales and profit margins through mutual supply, etc. of PB products

In the development and sale of its PB products, the Tender Offeror places importance on “product development from the customer’s standpoint,” and always asks itself, “What is value that the customer really needs?.” “DCM brand,” the Tender Offeror’s private brand, offers products that have features that meet the customer’s needs according to TPOS (Time, Place, Occasion and Style) and are of “satisfying quality” and “acceptable price.” The Tender Offeror believes that DCM brand products have been appraised highly by the Tender Offeror’s customers, with the Tender Offeror Group posting sales of approximately JPY77.8 billion (year-on-year change of 109.4%, approximately 21.4% of total sales) in the year ended February 29, 2020.

On the other hand, according to the Target Company, although it has been selling PB products, sales of PB products by the Target Company for the fiscal year ending August 2020 are smaller than that of LIXIL VIVA CORPORATION (PB product sales of approximately JPY45.7 billion) and Kohnan Shoji Co., Ltd. (PB product sales of approximately JPY98.2 billion), both of which disclose their PB products sales. As such, Target Company is thinking that placing the Tender Offeror’s PB products in each of the Target Company’s stores are expected to raise consumer satisfaction and increase profit margin.

Moreover, in addition to the mutual supply of the two companies’ existing PB products, the two companies will aim to further enhance the attractiveness of their PB products and expand its sales by developing new PB products jointly with each other, which will lead to an increase in sales and profit margins.

B) Improvement of product development ability

With respect to product development, on the one hand, collaboration utilizing the Tender Offeror’s know-how gained from being a pioneer in the development of PB products in the home center sector, and on the other hand, collaboration utilizing the Target Company’s know-how on product procurement and product coordination based on its achievements since its establishment in the furniture and home fashion sector will be possible. Furthermore, management integration between two companies with little overlap in store locations enable the two, as a group, to reach out to an ever wider range of clientele. This would allow for a more accurate assessment of customer needs and potentially improve product development capabilities.

C) Improvement of profit margin utilizing economies of scale

The Management Integration will expand the business size of the Tender Offeror Group, including the Target Company. Improvement is expected in profit margins, as the two companies as a group will be able to more efficiently operate by taking advantage of economies of scale. Specifically, the Business Transaction will enable reduction of procurement costs through joint purchases of national brand

products, suppression of advertisement costs and joint procurement of furniture and fixtures by utilizing economies of scale, thereby further improving profit margins. It will also potentially reduce delivery lead time and reduce logistics volume through joint delivery and mutual use of each of the companies' logistical centers.

- D) Use cross-company membership points to entice customers to visit both companies' stores and attract new customers

The two companies will introduce a cross-company membership points that can be used by stores operated by each company and on their respective websites that are for conducting online sales aiming at increasing convenience to the customers, enticing customers to visit both companies' stores and attracting new customers, through the Management Integration. The introduction of the cross-company membership points will also strengthen database marketing and development of joint sales promotion, which are expected to further boost customer attraction.

- E) Cross-company use of business resources and know-how

In addition to know-how in professional-use products and materials and materials for renovations and housing, which are the Tender Offeror's areas of expertise, the Tender Offeror also has know-how in sales of PB products, and business resources such as its own logistics centers. On the other hand, according to the Target Company, it possesses skills in developing and proposing mid- to high-priced furniture of high value in the furniture business, the founding business of the Target Company, and also has know-how in the sale, etc. of home fashion goods in terms of product coordination with furniture and proposal methods, etc. Through this Management Integration, by integrating the know-how they hold and enabling cross-company exchange of their specialists, the two companies will strive to operate even more attractive stores and enhance their profitability.

- F) Lower selling and administration costs

The two companies will be able to aim to reduce logistics costs by sharing warehouses and joint deliveries, reduce costs through joint procurement of furniture, fixtures and equipment, and reduce merchant commissions and other settlement costs, IT-related costs, facility management and real estate management costs, human resources training costs, and other costs through commonality of operations and mutual use of human resources. In addition, according to the Target Company, it will be able to reduce various listing-related costs after the Target Company is taken private through the Management Integration.

- G) Coordination and cooperation in EC business

By linking the Tender Offeror's EC business handling home center products, including PB products in main, with the Target Company's stores in Saitama, Tokyo, Kanagawa, Chiba and Tochigi prefectures, it would be possible to increase the

number of new customers and improve the convenience of customers in Saitama, Tokyo, Kanagawa, Chiba and Tochigi prefectures. In addition, by linking the Target Company's EC business handling furniture with the Tender Offeror's nationwide store network, it would be possible to expand the furniture business on a nationwide scale. Furthermore, by mutually linking the two EC businesses, it would be possible to send customers to each other's stores as well as between ECs and physical stores.

The Tender Offeror and the Target Company have engaged in multiple discussions and examinations from late July, 2020 regarding the significance and purpose of the Transaction, post-Transaction business policies, creation of synergies and other matters. Taking into consideration the findings of the due diligence reviews conducted as described above, the Tender Offeror also engaged in multiple discussions and negotiations with the Target Company from late August, 2020 regarding the various terms of the Transaction, including the tender offer price per Target Share at which the Tender Offer will be implemented (the "Tender Offer Price").

Specifically, on September 14, 2020, the Tender Offeror made a proposal to the Target Company offering a Tender Offer Price of JPY 3,800, to which the Target Company requested that the Tender Offeror re-examine the terms of the proposal on that ground that the proposal failed to adequately reflect the Target Company's corporate value. Subsequently, after re-examining the terms of the proposal as per the Target Company's request, and in consideration of the impact the speculative coverage by some media regarding the Tender Offeror's acquisition of the Target Shares (which was released for the stock market closed on September 18, 2020), the Tender Offeror proposed a Tender Offer Price of JPY 4,050 on the 24th day of the same month. Further, in response to the Target Company's renewed request to reconsider its proposal, the Tender Offeror proposed that the Tender Offeror set the Tender Offer Price at JPY4,100 on the 28th day of the same month. Based on the discussions and negotiations mentioned above, on September 29, 2020, the Tender Offeror and the Target Company reached an agreement to set the Tender Offer Price at JPY4,200 per share.

Upon conclusion of such discussions, the Tender Offeror resolved at its meeting of the Board of Directors held today to make the Tender Offer with the Tender Offer Price at JPY4,200 for the purpose of making the Target Company a wholly-owned subsidiary of the Tender Offeror.

As set forth in "(1) Overview of Tender Offer," based on the result of the preliminary calculation which pointed out the possibility that in terms of shareholding ratio, approximately 25% of the Target Shares may be held by Japanese and overseas passive investment funds, in late August, 2020 the Tender Offeror notified the Target Company that it is considering, as one option, of setting the minimum number of shares to be purchased by the Tender Offer to be 19,477,700 shares (shareholding ratio: 50.00%) even though the purpose of the Tender Offer was to make the Target Company a wholly-owned subsidiary of the Tender Offeror, and in mid-September, formally proposed

setting the minimum number of shares to be purchased by the Tender Offer to be 19,477,700 shares (shareholding ratio: 50.00%). After receiving such proposal, as described in “(ii) Background of Consideration and Negotiation” of “(II) Process of and reasons for Decision-Making by the Target Company” below, the Target Company examined the reasonableness of the minimum number of shares to be purchased by the Tender Offer, and based upon such examination, consented the minimum number of shares to be purchased by the Tender Offer to be set at 19,477,700 shares (shareholding ratio: 50.00%). Please note that according to the Target Company, nothing has been decided by the Target Company regarding the additional acquisition of the Target Shares by the Tender Offeror in the event that the agenda on the Share Consolidation is not approved at the Extraordinary Shareholder’s Meeting and the Target Shares continue to be listed on the First Section of the Tokyo Stock Exchange.

At the aforesaid meeting of the Board of Directors, the Tender Offeror approved of the execution of the Management Integration Agreement for the purpose of maximizing the corporate value of the Tender Offeror Group including the Target Company after the Management Integration, through the implementation of the Management Integration in the spirit of equality, and establishment of business alliance and other business operations between the Tender Offeror and the Target Company, and establishment of a management structure within the Target Company (for an overview of the Tender Offer Agreement, please refer to “(6) Matters Related to Important Agreements Concerning Tender Offer” below).

## (II) Process of and reasons for Decision-Making by the Target Company

### (i) Events leading up to the establishment of a consideration process and system

According to the Target Company’s Press Release, in early May, 2020 the Target Company and the Tender Offeror exchanged ideas on the future of the home center business, trends in industry reorganization, trends in personal consumption due to the spread of COVID-19 and other matters, and in mid-June the Target Company received a formal offer to implement the Transactions to realize management integration of the two companies. In response, later in the same month the Target Company retained Nomura Securities Co., Ltd. (hereinafter, “Nomura Securities”), as the Target Company’s financial advisor on the Transaction which is independent from the Tender Offeror and the Target Company, and from the Transactions, and Mori Hamada & Matsumoto (hereinafter, “Mori Hamada & Matsumoto”) as the Target Company’s legal advisor on the Transaction which is independent from the Tender Offeror and the Target Company and from the Transactions. While the Transaction does not fall under transactions with controlling shareholder, taking into consideration the advice provided by Mori Hamada & Matsumoto, the Target Company has, from the standpoint of taking abundant caution in guaranteeing the fairness of the Transaction, commenced setting up a structure independent from the Tender Offeror, the Target Company and the Transaction to examine and determine the need for the Transaction, the appropriateness of its

transaction terms and fairness of the transaction procedures.

Specifically, by a resolution of the meeting of the Board of Directors held on June 22, the Target Company established a Special Committee comprised of four members (three after the resignation of Mr. Tajima), being Mr. Hikari Imai (Independent Outside Director of the Target Company; former Vice-Chairman of Merrill Lynch Japan Securities Co., Ltd.), Mr. Yasushi Kubomura (Independent Outside Director of the Target Company; attorney-at-law and the managing partner of Kubomura Law Office), Mr. Kouji Tajima (Independent Outside Director of the Target Company; tax accountant and the managing partner of Kouji Tajima Tax Accountant Office; Mr. Tajima resigned from his positions on September 4, 2020 due to his death on the same date), and Mr. Hidehiko Nishikawa, (Independent Outside Director of the Target Company; Professor of the Faculty of Business Administration and Graduate School of Business Administration of Hosei University), and consulted with Special Committee on the following matters (collectively, the “Consulted Matters”):

- I. (a) to consider and determine the appropriateness of the Transactions, including the Tender Offer, from the perspective of whether or not they will contribute to the enhancement of the Target Company's corporate value, and (b) to consider whether or not the Board of Directors of the Target Company should express its support of the Tender Offer and whether or not to recommend that the shareholders of the Target Company tender their shares in the Tender Offer, and to make a recommendation to the Board of Directors of the Target Company, in examination and determination of the appropriateness of the terms and conditions of the Transactions and the fairness of the procedures, from the perspective of promoting the interests of the general shareholders of the Target Company.
- II. To consider whether the following decisions on the Transactions, including the Tender Offer, made by the Board of Directors of the Target Company is not disadvantageous to the general shareholders of the Target Company, and to state its opinion to the Board of Directors of the Target Company: (i) a decision to express its opinion to support the Tender Offer and recommend that the Target Company's shareholders tender their shares in the Tender Offer, and (ii) a decision on the procedures for making the Target Company a wholly-owned subsidiary through a Demand for Sale of Shares (defined in “(4) Policy for Organizational Restructuring, Etc. after Tender Offer (Matters Regarding the So-called ‘Two-Step Acquisition’)” below; hereinafter the same) or a share consolidation, etc., to be implemented after the Tender Offer as part of the Transaction.

In addition, the Target Company's Board of Directors has resolved that decisions regarding the Transaction, including approval or disapproval of the Tender Offer, shall be made by the Board of Directors of the Target Company, in utmost respect of the judgment of the Special Committee, and that if the Special Committee determines that the implementation of the Tender Offer or the terms and conditions of the transaction are not appropriate, the Board of Directors of the Target Company shall not express its support of the Tender Offer.



Furthermore, the Target Company's board of directors has resolved to authorize the Special Committee to (i) substantially participate in the process of negotiation between the Target Company and the Tender Offeror (including, as necessary, giving instructions or requests regarding the negotiation policy with the Tender Offeror and negotiating with the Tender Offeror on its own); (ii) in reporting on the Consulted Matters, appoint its own financial and legal advisors at the Target Company's expense, or to designate or approve (including post-approval) Target Company's advisors regarding the Target Company's financial or legal matters, as necessary; (iii) receive, as necessary, information from directors and employees of the Target Company that is required for them to review and make decisions regarding the Transactions; and (iv) grant authority over any other matters deemed necessary by the Special Committee for the consideration and determination of the Transactions. As described in "(IV) Establishment of Independent Special Committee by Target Company" of "(3) Measures to Ensure Fairness of Tender Offer Price, Etc." below, based on the authority described above, the Special Committee has appointed Plutus Consulting Co. (hereinafter, "Plutus") as its own financial advisor and a third-party valuation organization.

Furthermore, as described in "(IV) Establishment of Independent Special Committee by Target Company" of "(3) Measures to Ensure Fairness of Tender Offer Price, Etc." below, the Special Committee approved the appointment of Nomura Securities, which is the Target Company's financial advisor and third-party valuation organization, and Mori Hamada & Matsumoto, which is the Target Company's legal advisor, after confirming the degree of independence, expertise and performance of each of them.

In addition to the above, please refer to "(IV) Establishment of Independent Special Committee by Target Company" of "(3) Measures to Ensure Fairness of Tender Offer Price, Etc." below for the background of the establishment of the Special Committee, the process of consideration and the content of the decision-making process, etc.

(ii) Background of Consideration and Negotiation

According to the Target Company, it has received a report on the valuation results of the shares of the Target Company, advice on the negotiation policy with the Tender Offeror and other advice from a financial point of view from Nomura Securities, as well as guidance and other legal advice from Mori Hamada & Matsumoto on how to ensure the fairness of the procedures in the Transaction, and in light of this, has carefully considered the propriety of the Transaction and the appropriateness of the terms of the transaction.

In addition, the Target Company received a proposal on the terms and conditions of the Transactions, including the Tender Offer Price of JPY3,800 from the Tender Offeror on September 14, 2020, and since then, the Target Company has continuously discussed and negotiated with the Tender Offeror on the terms and conditions of the Transaction, including the Tender Offer Price. Specifically, in response to the foregoing proposal, the Target Company examined the proposal, taking into consideration the report on the results of the preliminary calculation of the value of the Target Shares that the Special Committee received from Nomura Securities and Plutus, the advices received from

Plutus, as well as the opinions obtained from Nomura Securities and from Mori Hamada & Matsumoto, and on September 18, 2020, the Target Company requested the Tender Offeror to reconsider its proposal. Thereafter, on September 24, 2020, the Target Company received a second proposal from the Tender Offeror to set the Tender Offer Price at JPY4,050, and then the Target Company reviewed such proposal in light of the advices that the Special Committee received from Plutus and the opinions obtained from Nomura Securities and from Mori Hamada & Matsumoto, and on September 25, 2020, requested again the Tender Offeror to reconsider the Tender Offer Price. Further, on September 28, 2020, the Target Company received another proposal from the Tender Offeror to set the Tender Offer Price at JPY4,100, and then the Target Company reviewed such proposal in light of the advices that the Special Committee received from Plutus and the opinions obtained from Nomura Securities and from Mori Hamada & Matsumoto, and on the same day, requested again the Tender Offeror to reconsider the Tender Offer Price. As a result of the above-mentioned negotiations, the Target Company received a proposal from the Tender Offeror, including setting the Tender Offer Price at JPY 4,200 per share, on September 29 2020.

In addition, after the Target Company received a proposal from the Tender Offeror to set the minimum number of shares to be purchased in the Tender Offer at 19,477,700 shares (shareholding ratio: 50.00%) in mid-September 2020, the Target Company verified the reasonableness of such proposed minimum number of shares to be purchased in the Tender Offer by, among other things, receiving a report from an outside advisor regarding the percentage of shares in the Target Shares that are considered to be held under the policy of not tendering in a tender offer regardless of the appropriateness of the terms of the transaction, including shares held in a passive index funds. Please note that according to the Target Company, nothing has been decided by the Target Company regarding the additional acquisition of the Target Shares by the Tender Offeror in the event that the agenda on the Share Consolidation is not approved at the Extraordinary Shareholder's Meeting and the Target Shares continue to be listed on the First Section of the Tokyo Stock Exchange.

During the above review and negotiation process, the Target Company has reported to the Special Committee from time to time at critical junctures, and has received its approval, if necessary. Specifically, first of all, the reasonableness of the content, material assumptions and preparation process of the Business Plan (defined in "(ii) Outline of Computation" of "(II) Share Valuation Report Obtained by Target Company from Independent Third-Party Valuation Organization" of "(3) Measures to Ensure Fairness of Tender Offer Price, Etc." below, hereinafter the same), which is presented to the Tender Offeror and serves as the basis for the calculation of the value of the Target Shares by Nomura Securities and Plutus, was confirmed and approved by the Special Committee. In addition, the Target Company has been negotiating with the Tender Offeror in accordance with the negotiation policy determined upon deliberation by the Special Committee in advance. Upon receipt of a proposal from the Tender Offeror regarding the Tender Offer Price, the Target Company immediately reports to the Special

Committee and takes action in accordance with its instructions.

Today, the Target Company received a report (the “Findings Report”) from the Special Committee stating that (1) it considers that the Board of Directors of the Target Company should support the Tender Offer and recommend that the shareholders of the Target Company tender their shares in the Tender Offer; and (2) it considers that the following decisions on the Transactions, including the Tender Offer, made by the Board of Directors of the Target Company is not disadvantageous to the general shareholders of the Target Company: (i) decision to express its opinion to support the Tender Offer and recommend that the Target Company's shareholders tender their shares in the Tender Offer, and (ii) decision on the procedures for making the Target Company a wholly-owned subsidiary through a Demand for Sale of Shares or a share consolidation, etc., to be implemented after the Tender Offer as part of the Transaction (for more details of the Findings Report, please refer to “(IV) Establishment of Independent Special Committee by Target Company” of “(3) Measures to Ensure Fairness of Tender Offer Price, Etc.” below). In addition to the Findings Report, the Target Company has received from the Special Committee a share valuation report regarding the results of the valuation of the Target Shares, which was submitted by Plutus on October 1, 2020 (the "Target Share Valuation Report (Plutus)"), and a fairness opinion (the "Target Company Fairness Opinion") to the effect that the Tender Offer Price of JPY4,200 per share is fair to the general shareholders of the Target Company from a financial point of view (for overview of the Target Share Valuation Report (Plutus) and the Target Company Fairness Opinion, please refer to “(V) Share Valuation Report and Fairness Opinion Obtained by Special Committee from Independent Third-Party Valuation Organization” of “(3) Measures to Ensure Fairness of Tender Offer Price, Etc.” below).

(iii) Content of Decision

According to the Target Company, under the process described above, taking into account the legal advice received from Mori Hamada & Matsumoto, the advice from a financial perspective received from Nomura Securities, and the share valuation report regarding the results of the valuation of the Target Shares submitted today (the “Target Share Valuation Report (Nomura)”), as well as the Target Share Valuation Report (Plutus) and the Target Company Fairness Opinion submitted through the Special Committee, and in utmost respect of the judgment of the Special Committee presented in the Findings Report, the meeting of the Board of Directors of the Target Company held today carefully discussed and deliberated at a meeting held today on whether or not the Transactions, including the Tender Offer, would contribute to the enhancement of the Target Company's corporate value, and whether or not the terms and conditions of the Transactions, including the Tender Offer Price and those to be agreed upon in the Management Integration Agreement, are appropriate.

As a result, the Target Company has also concluded that the execution of the Management Integration upon conclusion of the Management Integration Agreement, which sets forth the business alliance between the Tender Offeror Group and the Target

Company and other policies regarding the business operations of both companies after the Management Integration, will enable the creation of the synergies described above in “(I) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer” and will contribute to the enhancement of the Target Company's corporate value.

Also, according to the Target Company, it determined from the following points, etc. that the Tender Offer Price of 4,200 per share was an appropriate price that ensured the benefit that should be received by the Target Company's general shareholders and that the Target Company's general shareholders are being provided with a reasonable opportunity to sell the Target Shares with an appropriate premium.

- I. The Tender Offer Price is one that was agreed as a result of thorough, repeated negotiations with the Tender Offeror, and subject to sufficient measures to ensure the fairness of the transaction terms, including the Tender Offer, stated in “(3) Measures to Ensure Fairness of Tender Offer Price, Etc.”
- II. The Tender Offer Price is a price that exceeds the upper limit of the valuation range of the market stock price method and the upper limit of the valuation range of the comparable company analysis method, and considerably exceeds the median of the valuation range of the DCF method out of the valuation results based on the market share price analysis of the Target Shares by Nomura Securities in the Target Share Valuation Report (Nomura), which is set out below in “(II) Share Valuation Report Obtained by Target Company from Independent Third-Party Valuation Organization” of “(3) Measures to Ensure Fairness of Tender Offer Price, Etc.”
- III. The Tender Offer Price is a price that exceeds the upper limit of the range of the market stock price method and the upper limit of the range of the comparable company analysis method, and exceeds the median of the range of the DCF method out of the valuation results based on the market share price analysis of the Target Shares by Plutus in the Target Share Valuation Report (Plutus), which is set out below in “(V) Share Valuation Report and Fairness Opinion Obtained by Special Committee from Independent Third-Party Valuation Organization” of “(3) Measures to Ensure Fairness of Tender Offer Price, Etc.” Regarding the Tender Offer Price, as stated below in “(V) Share Valuation Report and Fairness Opinion Obtained by Special Committee from Independent Third-Party Valuation Organization” of “(3) Measures to Ensure Fairness of Tender Offer Price, Etc.,” a fairness opinion was received from Plutus to the effect that the Tender Offer Price is fair to the Target Company's minority shareholders.
- IV. The Tender Offer Price has a premium of 45.93% (rounded to two decimal places; hereinafter the same in calculating the premium rate) compared to the closing price of the Target Shares of JPY2,878 on the First Section of the Tokyo Stock Exchange on September 18, 2020 (the day on which some news media reported the speculation about the Tender Offer), a premium of 43.64% over the simple

average closing price of JPY2,924 (rounded to the nearest yen; hereinafter the same in calculating the simple average closing price) for the one month prior to September 18, 2020, a 42.61% premium over the simple average closing price of JPY2,945 for the three months prior to the same day, and a 47.42% over the simple average closing price of JPY2,849 for the six months prior to the same day.

- V. As explained in “(V) Share Valuation Report and Fairness Opinion Obtained by Special Committee from Independent Third-Party Valuation Organization” of “(3) Measures to Ensure Fairness of Tender Offer Price, Etc.” below, the Tender Offer Price is found to be reasonable in the Findings Report obtained from the Special Committee.

In addition, according to the Target Company, it has carefully considered the possibility that the Target Company may not become a wholly-owned subsidiary of the Tender Offeror even if the Tender Offer is successfully consummated, as the Tender Offer sets forth a minimum number of shares to be purchased which would result in the Tender Offeror’s ownership percentage after the Tender Offer being 50.00%. First of all, because the Management Integration Agreement provides for that the provisions relating to the business alliance in conjunction with the Management Integration and the business operation and management system after the Management Integration shall take effect on the date of commencement of the settlement for the Tender Offer, subject to the successful completion of the Tender Offer as a condition precedent, the Target Company has determined that, even if the Target Shares remain listed on the First Section of the Tokyo Stock Exchange, as long as the Tender Offer is successfully consummated, the Tender Offeror will become the parent company of the Target Company at the least, the synergies (excluding reduction in listing-related costs) of the Management Integration described in “(I) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer” can be realized. In addition, based on the results of the analysis by the outside advisors as stated in “(ii) Background of Consideration and Negotiation” above, the Target Company has determined that setting the minimum number of shares to be purchased in the Tender Offer in consideration of the existence of shareholders holding the Target Shares with the intention not to tender their shares in a tender offer regardless of the appropriateness of the terms of the transaction may, in some sense, contribute to the interests of the shareholders who agree to the terms of the transaction but are unable to tender their shares in the tender offer due to their holding policies. Therefore, the Target Company has also determined that the setting of the minimum number of shares to be purchased in the Tender Offer is appropriate.

According to the Target Company, therefore, it has determined that the Transaction, which is being conducted for the Management Integration, serves to improve the corporate value of the Target Company and that the transaction terms of the Transaction including the Tender Offer are appropriate. The meeting of the Target Company’s board of directors held today passed a resolution approving the execution of the Management Integration Agreement and that it would announce an opinion to support

the Tender Offer and to recommend that the Target Company's shareholders to tender their shares for the Tender Offer.

Please see “(VI) Approval of All the Directors of the Target Company” of “(3) Measures to Ensure Fairness of Tender Offer Price, Etc.,” for details of the decision-making process of the board of directors.

### (III) Management Policy after the Tender Offer

Upon completion of the Tender Offer, the Tender Offeror and the Target Company intend to form a business alliance and establish a management structure to maximize the corporate value of the Tender Offeror Group, including the Target Company, to realize the synergies of the Management Integration to the maximum extent. As for the management system of the Tender Offeror and the Target Company after the Tender Offer, the Tender Offeror plans to dispatch one (1) director to the Target Company and the Target Company plans to dispatch two (2) directors to the Tender Offeror. The aforesaid business alliance and management system, etc. have been agreed upon between the Tender Offeror and the Target Company in the Management Integration Agreement. For details thereof, please refer to “(6) Matters Related to Important Agreements Concerning Tender Offer” below for details of the business alliance to maximize synergies from the Management Integration.

### (3) Measures to Ensure Fairness of Tender Offer Price, Etc.

As of the date hereof, the Tender Offeror does not own Target Shares, and therefore, the Tender Offer is not a tender offer conducted by a controlling shareholder. Further, there is no plan for all or any member of the management of the Target Company to invest in the Tender Offeror directly or indirectly, and therefore, the Transactions including the Tender Offer is not also a so-called management buyout. However, the Tender Offeror and the Target Company have taken the following measures in order to ensure the fairness of the Transactions including the Tender Offer Price, and to protect the interests of general shareholders of the Target Company. Please note that the descriptions concerning the measures taken by the Target Company set out below are based on the explanations received from the Target Company.

#### (I) Share Valuation Report Obtained by Tender Offeror from Independent Third-Party Valuation Organization

In determining the Tender Offer Price, the Tender Offeror asked SMBC Nikko Securities Inc., as the financial advisor, which is a third-party valuation organization independent from the Tender Offeror and the Target Company, to compute the value of Target Shares, obtained a share valuation report dated October 1, 2020 (the “Share Valuation Report”) therefrom, and referred to such report. The Tender Offeror has not obtained from SMBC Nikko Securities a fairness opinion regarding the fairness of the Tender Offer

Price. SMBC Nikko Securities is not a related party of the Tender Offeror or the Target Company, and does not have any material interest to be noted in the Transactions, including the Tender Offer. For the details, please refer to “(I) Basis for Calculation” and “(II) Background of Calculation” of “(4) Basis for Calculation, Etc. of Price for Purchase, Etc.” of “2. Outline of Tender Offer” below.

(II) Share Valuation Report Obtained by Target Company from Independent Third-Party Valuation Organization

(i) Name of Valuation Advisor and Relationship with Target Company and Tender Offeror

According to the Target Company’s Press Release, in making consideration, negotiation and determination of the appropriateness of the terms and conditions of the Transactions including the Tender Offer Price, the Target Company asked Nomura Securities, an financial advisor and third-party valuation organization, which is independent from the Tender Offeror and the Target Company, and from the Transactions to compute the value of the Target Shares and to conduct financial analyses pertaining thereto, in order to ensure the fairness of such terms and conditions, and obtained the Target Company Share Valuation Report (Nomura) as of October 1, 2020.

It says that Nomura Securities is not a related party of the Tender Offeror or the Target Company, and does not have any material interest in the Transactions including the Tender Offer.

Please note further that the remuneration to be paid to Nomura Securities for the Transactions includes success fee payable on the condition that the Tender Offer is completed. The Target Company appointed Nomura Securities as the Target Company's financial advisor and third-party valuation organization subject to the above remuneration structure, in determination that the inclusion of a success fee, which is contingent on the successful completion of the Tender Offer, does not negate the independence of Nomura Securities, taking into account the general practice in similar transactions and the appropriateness of a remuneration structure that would cause a substantial financial burden on the Target Company in the event that the Transactions are not completed as well.

(ii) Outline of Computation

Nomura computed the value of the Target Shares by adopting (a) the market stock price method because the Target Company is listed on the First Section of the Tokyo Stock Exchange and market stock prices are available, (b) the comparable company analysis method because there are several comparable listed companies that are comparable to the Target Company and it is possible to infer the value of shares through comparison with the market value of comparable companies, and (c) the discounted cash flow method (the “DCF method”) to reflect the future business

activities in the evaluation. The Target Company has not obtained an opinion as to the fairness of the Tender Offer Price (fairness opinion) from Nomura Securities.

According to the Target Company Share Valuation Report (Nomura), the range of the per-share value of the Target Shares computed based on each of said methods is as follows:

Market stock price method (1):	JPY2,849 to JPY2,945
Market stock price method (2):	JPY2,894 to JPY3,590
Comparable company analysis method:	JPY2,217 to JPY3,311
DCF method:	JPY3,350 to JPY4,383

Under the market stock price method (1), in order to eliminate the impact on the stock price due to speculative reports about the Tender Offer by some news media (which was released after trading hours of the stock market on September 18, 2020), September 18, 2020 (which is considered to be unaffected by such media reports) was set as the reference date for evaluation, and the per-share value of the Target Shares was computed to be within the range of JPY2,849 to JPY2,945, based on the closing price of the reference date (JPY2,878), the simple average closing price in the last 5 business days (JPY2,868, the one-month simple average closing price up to the reference date (JPY2,924), the three-month simple average closing price (JPY2,945) and the six-month simple average closing price (JPY2,849), respectively, of the Target Shares on the First Section of the Tokyo Stock Exchange. Under the market stock price method (2), using September 30, 2020 (the trading day immediately preceding the date of announcement of the Tender Offer (Note 1)) as the reference date for evaluation, the per-share value of the Target Shares was computed to be within the range of JPY2,894 to JPY3,590, based on the closing price of the reference date (JPY3,555), the simple average closing price in the last 5 business days (JPY3,590), the one-month simple average closing price up to the reference date (JPY3,047), the three-month simple average closing price (JPY3,010) and the six-month simple average closing price (JPY2,894), respectively, of the Target Shares on the First Section of the Tokyo Stock Exchange.

Under the comparable company analysis method, the per-share value of the Target Shares was computed to be within the range of JPY2,217 to JPY3,311 by comparing the market share prices and financial ratio indicating the profitability, etc. of listed companies engaged in the businesses which are relatively similar to the Target Company's businesses.

Under the DCF method, the per-share value of the Target Shares was computed to be within the range of JPY3,350 to JPY4,383 by computing the corporate value and the share value of the Target Company by determining the present value of the free cash flows expected to be generated by the Target Company on and after June 1, 2020, which is calculated by discounting the value of such free cash flows by a certain discount rate, based on the financial forecasts for the period from the Fiscal Year ended August 2020 to the Fiscal Year ending August 2025 which were



provided by the Target Company to Nomura Securities and various factors including publicly available information. The Business Plan has been prepared taking into account the impact of the COVID-19 on the recent operations. In the Business Plan, there is no Fiscal Year during which a significant increase or decrease in income is expected. Further, the synergies expected to be realized through the Transactions have not been included in the Business Plan, as it is difficult to estimate the specific impact on earnings at this point.

(Note 1) As trading of all listed shares on the Tokyo Stock Exchange was suspended for all day on October 1, 2020 due to a system failure at the Tokyo Stock Exchange, September 30, 2020 is the immediately preceding trading day. The same applies hereinafter to any description regarding the trading day immediately preceding the date of announcement of the Tender Offer.

(Note 2) In computing the value of the Target Shares, Nomura Securities has assumed that the publicly-available information and all information provided to Nomura Securities are accurate and complete, and has not conducted any independent verification of their accuracy or completeness. Nomura Securities has not made any independent evaluation, appraisal or assessment of the assets and liabilities of the Target Company (including financial derivatives, off-balance sheet assets and liabilities, and other contingent liabilities), including analysis and valuation of individual assets and liabilities, and has not requested any third-party organization to conduct any appraisal or assessment. The financial forecasts by the Target Company (including the profit planning and other information) is assumed to have been reasonably reviewed and prepared by the Target Company's management based on the best currently available estimates and judgments in good faith. The computation by Nomura Securities reflect the information and economic conditions available to them on or prior to September 30, 2020. Please note that the sole purpose of the computation by Nomura Securities is to assist the board of directors of the Target Company in considering the value of the Target Shares.

### (III) Advice Received by Target Company from Independent Legal Advisor

According to the Target Company's Press Release, as set out in "(IV) Establishment of Independent Special Committee by Target Company" below, the Target Company appointed Mori Hamada & Matsumoto as its legal advisor independent from the Tender Offeror and the Target Company, and from the Transactions, and received legal advices from them, including those with respect to the measures to be taken to ensure the fairness of procedures taken in this Transactions, various steps to be taken for the Transactions, and the method for decision-making by the Target Company for the Transactions and the process, etc. thereof.

Mori Hamada & Matsumoto is not a related party of the Tender Offeror or the Target Company, and does not have any material interest to be noted in the Transactions including the Tender Offer.

(IV) Establishment of Independent Special Committee by Target Company

(i) Background to Establishment, Etc.

According to the Target Company's Press Release, as set out in "(II) Process of and reasons for Decision-Making by the Target Company" of "(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer" above, the Target Company established a Special Committee by a resolution adopted at the meeting of its board of directors held on June 22, 2020.

Prior to the establishment of such Special Committee, immediately after a formal approach by the Tender Offeror as to the implementation of the Transactions in mid-June 2020, the Target Company, with advice from Mori Hamada & Matsumoto, explained individually to all of its Independent Outside Directors on, among others, such approach by the Tender Offeror and the necessity of measures to be taken to ensure the fairness of the terms and conditions of the Transactions, in order to set up a system to make consideration, negotiation and determination of the Transactions from the standpoint of increasing the Target Company's corporate value and securing its general shareholders' interest, independently from the Tender Offeror and the Target Company, and from the Transactions. At the same time, the Target Company, with advice from Mori Hamada & Matsumoto, after confirming that its Independent Outside Directors who would become a candidate for the member of the Special Committee have independence, qualifications, etc. and do not have any special interest with respect to whether or not the Transactions would be successfully completed, elected four persons (i.e., Mr. Hikari Imai (Independent Outside Director of the Target Company; former Vice-Chairman of Merrill Lynch Japan Securities Co., Ltd.), Mr. Yasushi Kubomura (Independent Outside Director of the Target Company; attorney-at-law and the managing partner of Kubomura Law Office), Mr. Kouji Tajima (Independent Outside Director of the Target Company; tax accountant and the managing partner of Kouji Tajima Tax Accountant Office; please note that Mr. Tajima retired as the member of the Special Committee upon his death on September 4, 2020) and Mr. Hidehiko Nishikawa (Independent Outside Director of the Target Company; Professor of the Faculty of Business Administration and Graduate School of Business Administration of Hosei University)) as the candidates for the members of the Special Committee (Please note that except for the retirement of Mr. Tajima, the members of such committee have not been changed).

After that, as set out in "(II) Process of and reasons for Decision-Making by the Target Company" of "(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following

Tender Offer” above, the Target Company established a Special Committee by a resolution adopted at the meeting of its board of directors held on June 22, 2020, and consulted with the Special Committee on the Consulted Matters.

In addition, the board of directors of the Target Company resolved that decisions on the Transactions should be made with maximum respect for the contents of the judgment of the Special Committee and that the board of directors of the Target Company should not support the Tender Offer if the Special Committee determines that the implementation of the Tender Offer or the terms and conditions of the Transactions are not appropriate. Furthermore, the board of directors of the Target Company resolved to give authority to the Special Committee on (i) substantial involvement in the process of the negotiations conducted by the Target Company with the Tender Offeror (including giving an instruction or making a request as to the policy for negotiations with the Tender Offeror, as necessary, and conducting negotiations with the Tender Offer for itself); (ii) appointment of any advisor for its financial or legal matters or appointment or approval (including subsequent approval) of any advisor of the Target Company for the financial or legal matters at the Target Company’s expense, as necessary, in making a report on the Consulted Matters; (iii) receipt from personnel of the Target Company of the information necessary for the consideration of and decision on the Transactions, as necessary; and (iv) other matters approved by the Special Committee for the consideration of and the decision on the Transactions.

Please note that each member of the Special Committee shall be paid a fixed amount of compensation for his/her services, regardless of the nature of the report.

(ii) Background to Considerations

According to the Target Company, the meetings of the Special Committee were held a total of 12 times for a total of approximately 16 hours from June 22, 2020 to today , and also, the members fulfilled their duties by frequently communicating each other to, among others, report, share information, deliberate, make decisions through e-mails between meetings.

In particular, in mid-July 2020, the Special Committee appointed Plutus as its own financial advisor and third-party valuation organization with a high degree of independence from the Tender Offeror and the Target Company, and from the Transactions, after at first, considering the independence, expertise, past catches, etc., of several candidates for financial advisors and third-party valuation organizations. The Special Committee confirmed that no business relationship has existed between Plutus and either the Tender Offeror or the Target Company in the past three (3) years.

The Special Committee approved the foregoing appointments of Nomura Securities as the Target Company’s financial advisor and third-party valuation organization, and Mori Hamada & Matsumoto as the Target Company’s legal advisor, after

confirming the degree of their respective independence, their professionalism, track records, etc.

Thereafter, the Special Committee has been considering the measures to be taken to ensure the fairness of the procedures in the Transactions, based on the opinions obtained from Mori Hamada & Matsumoto.

Further, the Special Committee has requested the management personnel of the Target Company (Takaaki Okano, President and Representative Director; Shigeyuki Kushida, Director; Koichiro Oshima, Director; Tadahiro Hosokawa, Director; and Kazuya Orimoto, Director) to attend several meetings of the Special Committee to hear the views as its management on the significance, etc. of the Transactions, the timing and method of the Transactions, the management policy and governance of the Target Company after the Transactions, the view on value of Target Shares, the synergies expected in connection with the Transactions, and other matters, as well as the related information, and also held question-and-answer sessions regarding the foregoing matters.

After that, the Special Committee requested the Target Company to provide related materials, including a written proposal for the Transactions and the draft of the Management Integration Agreement submitted by the Tender Offeror, confirmed the contents thereof, and held question-and-answer sessions on the foregoing matters.

Furthermore, the Special Committee confirmed and approved the reasonableness of the contents, material assumptions and preparation process of the Business Plan prepared by the Target Company for the Transactions, taking into account the advice from a financial point of view. After doing that, while Plutus and Nomura Securities conducted the computation of the value of the Target Shares based on the Business Plan, as described in “(II) Share Valuation Report Obtained by Target Company from Independent Third-Party Valuation Organization” above and “(V) Share Valuation Report and Fairness Opinion Obtained by Special Committee from Independent Third-Party Valuation Organization” below, the Special Committee received explanations from Plutus and Nomura Securities on the computation method for their respective computation of the value of Target Shares, the reason for the adoption of such method, the details of the computation made by using each computation method and material assumptions (including the basis for the computation of the discount rate for the DCF method and the reason for selecting comparable companies for the comparable company method or comparable company analysis). As set out in “(II) Share Valuation Report Obtained by Target Company from Independent Third-Party Valuation Organization” above and “(V) Share Valuation Report and Fairness Opinion Obtained by Special Committee from Outside Third-Party Valuation Organization” below, at the time when the Special Committee was provided with the Target Company Fairness Opinion by Plutus on October 1, 2020, the Special Committee received and confirmed the explanations from Plutus on the contents and material assumptions, respectively.

In addition, the Special Committee conducted deliberations and considerations on the negotiation policy with the Tender Offeror after hearing the opinions from Nomura Securities and based on the advice received from Plutus from a financial standpoint, and decided the negotiation policy. Every time when the Target Company received any proposal on the price, the Special Committee has received reports on such proposal since their receipt of the first proposal from the Tender Offeror, including the proposal for the Tender Offer Price being JPY3,800 per share, on September 14, 2020, and they took the central role in the discussion and negotiation process between the Target Company and the Tender Offeror regarding the Tender Offer Price, by conducting deliberations and considerations on such reports after hearing the opinions from Nomura Securities as to the policy to be taken, the negotiation policy with the Tender Offeror, etc. and based on the advice received from Plutus from a financial standpoint, in the way that, for example, they sent a response to the Tender Offeror to further raise the Tender Offer Price. Resultingly, on September 29, 2020, the Target Company received from the Tender Offeror a proposal including the Tender Offer Price being JPY4,200 per share.

Moreover, the Special Committee received from Mori Hamada & Matsumoto, on several occasions, explanations on the contents of the drafts of the press release and the Position Statement concerning the Tender Offer and the Management Integration Agreement scheduled to be released or submitted by the Target Company, as well as the drafts of the press release and the Tender Offer Statement concerning the Tender Offer scheduled to be released or submitted by the Tender Offeror, and confirmed that sufficient information would be disclosed.

(iii) Details of Determination

According to the Target Company, under the above-mentioned circumstances, the Special Committee carefully discussed and considered the Consultation Matters based on the opinions obtained from Mori Hamada & Matsumoto and the advice received from Plutus from a financial standpoint, as well as the contents of the Target Company Share Valuation Report (Plutus) and the Target Company Fairness Opinion submitted on October 1, 2020, and submitted the Findings Report the contents of which are outlined below with unanimous approval from all members, after careful discussions and exhaustive considerations of the Consulted Matters to the board of directors of the Target Company on the same day.

(a) Contents of Report

- i) We consider that the board of directors of the Target Company should resolve to support the Tender Offer and to recommend its shareholders to tender their shares in the Tender Offer.
- ii) We consider that the decisions on the Transactions, including the Tender Offer, made by the board of directors of the Target Company (i.e., (i)

decisions to express an opinion to support the Tender Offer and to recommend the shareholders of the Target Company to tender their shares in the Tender Offer; and (ii) decisions concerning the procedures for making the Target Company a wholly owned subsidiary by means of Demand for Sale of Shares, consolidation of shares, etc. to be made after the Tender Offer, as part of the Transactions) are not detrimental to the general shareholders of the Target Company.

(b) Reason for Report

- i) In consideration of the points below, the Special Committee determined that the Transactions would contribute to the enhancement of the Target Company's corporate value.
  - There is no disagreement with the current situation shared by the Tender Offeror and the Target Company, and we consider that aiming by the Tender Offeror and the Target Company to consolidate their respective management resources and to realize synergies at an early stage by implementing the Management Integration through the Transactions, and the purpose of maximizing the corporate value of the Tender Offeror Group, including the Target Company, after the Management Integration through the Transactions, are reasonable.
  - The Management Integration Agreement contains provisions regarding a business operation system to enable business alliance between the Tender Offeror and the Target Company and realization of synergies, and thus stipulates the rights and obligations required as a precondition for the creation of synergies. Furthermore, among other things, such provisions are provided to take effect immediately after the settlement of the Tender Offer, without waiting for the Target Company to become a wholly-owned subsidiary of the Tender Offeror, which serves as a basis for the creation and early realization of synergies through the Management Integration and is thus consistent with the purpose stated above.
  - The Target Company and the Tender Offeror believe that each of the synergies described in “(I) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer” of “(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer” above, as a result of discussions between the Target Company and the Tender Offeror, is expected to result in an increase in sales and improved profitability for the Target Company, and the feasibility of such effects can be reasonably estimated.
  - The Transactions are not expected to cause any material dis-synergies in the first place, and even if such dis-synergies were to occur, we

believe that taking reasonable measures to mitigate or reduce them is being considered.

- The Transactions are deemed to be the most reasonable of the management options currently available to the Target Company.
- ii) In consideration of the points below, the Special Committee determined that fair procedures have been implemented in the Transactions to ensure the interests of the general shareholders.
- In this Transactions, an independent special committee was established in the Target Company and is deemed to have functioned effectively.
  - The Special Committee received financial advice from Plutus, its own financial advisor and third-party valuation organization who is independent from the Tender Offeror and the Target Company, as well as from the Transactions, and has also obtained the Target Share Valuation Report (Plutus) and the Target Company Fairness Opinion.
  - The Target Company received legal advice from Mori Hamada & Matsumoto, a legal advisor who is independent from the Tender Offeror and the Target Company, and from the Transactions.
  - The Target Company obtained the Target Share Valuation Report (Nomura) from Nomura Securities, a financial advisor and third-party valuation organization who is independent from the Tender Offeror, the Target Company, and from the Transactions.
  - The Transactions are structured so that other potential acquirers can make a counter-proposal after the announcement, and mechanism of so-called indirect market checks is in place.
  - The fairness of the Transactions is ensured by making it conditional on the support of a majority of the general shareholders who do not share a material interest with the acquirer, the Tender Offeror.
  - It is acknowledged that the Target Company plans to provide sufficient disclosure on the Transactions and ensure that general shareholders have the opportunity to make an informed and appropriate decision.
  - In the Transaction, it is expected to make the Target Company a wholly-owned subsidiary of the Tender Offeror as soon as possible after the Tender Offer is consummated, and in that sense, consideration has been given to eliminating coercion.
- iii) In consideration of the points below, the Special Committee determined that the appropriateness of the terms and conditions of the transaction has been ensured from the perspective of serving the interests of the Target Company's general shareholders.
- In view of the purpose of the Transactions, which is to realize synergies from the Management Integration at an early stage, there is

no particular unreasonableness in taking the method of the Transactions that involves a tender offer with cash as the consideration.

The Tender Offer Price is considered to be appropriate for the following reasons:

(a) There is no particular unreasonableness in the formulation procedures and content of the Business Plan, which is used as the basis for the calculation using the DCF method in the Share Valuation Report (Plutus) and the Share Valuation Report (Nomura).

(b) No particular unreasonable points are found in the valuation method or the contents of the Target Share Valuation Report (Plutus), which are considered to be credible, and the Tender Offer Price exceeds the upper limit of the valuation range of the market stock price method and the upper limit of the valuation range of the comparable company analysis method, and considerably exceeds the median of the valuation range based on the DCF method in the Target Share Valuation Report (Plutus).

(c) No unreasonable points are found in the issuance procedures and content of the Target Company Fairness Opinion, which are considered to be credible, and the Tender Offer Price is assessed to be fair to the minority shareholders from a financial point of view.

(d) No particular unreasonable points are found in the valuation method or the contents of the Target Share Valuation Report (Nomura) as well, which are considered to be credible, and the Tender Offer Price exceeds the upper limit of the valuation range of the market stock price method and the upper limit of the valuation range of the comparable company analysis method, and considerably exceeds the median of the valuation range based on the DCF method in the Target Share Valuation Report (Nomura).

(e) Based on the stock price as of September 18, 2020, the day which some news media reported the speculation about the Tender Offer, it is considered that the premium for the Tender Offer Price is adequate in light of the level of premiums added in similar past cases (i.e., tender offers for the purpose of going private).

(f) It can be considered that the premium of the Tender Offer Price correspondingly includes the allocation of the increase in the corporate value of the Target Company (synergies from the Management Integration) as a result of the Transactions.

The minimum number of shares to be purchased in the Tender Offer is also considered to be appropriate for the following reasons:

(a) Setting a lower limit taking into account the existence of passive index funds, etc. is not particularly unreasonable because it may



contribute to the interests of shareholders who may not be able to tender their shares in the tender offer due to their holding policies, even if they agree with the terms of the transaction.

- (b) Setting a minimum number equal to a majority rather than two-thirds of ownership, as is the case for the Tender Offer, would not impair the fairness assurance function of the majority of minority condition in the Transaction, nor would it raise any issues in terms of coercion on the Target Company's shareholders.

(V) Share Valuation Report and Fairness Opinion Obtained by Special Committee from Independent Third-Party Valuation Organization

- (i) Name of Valuation Advisor and Relationship with Target Company and Tender Offeror

According to the Target Company's Press Release, in considering the Consulted Matters, in order to ensure the fairness of the terms and conditions of the Transactions including the Tender Offer Price, the Special Committee asked Plutus, its own financial advisor and third-party valuation organization, which is independent from the Tender Offeror and the Target Company, and from the Transactions, to express an opinion (fairness opinion) on the fairness of the computation of the value of the Target Shares and analyses pertaining thereto, as well as of the Tender Offer Price, and obtained the Share Valuation Report (Plutus) and the Target Company Fairness Opinion as of October 1, 2020.

Please note that as set out in "(II) Process of and reasons for Decision-Making by the Target Company" of "(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer" above, today, the board of directors of the Target Company obtained the Share Valuation Report (Plutus) and the Target Company Fairness Opinion at the time when it received the Findings Report from the Special Committee, and made a resolution mentioned in "(VI) Approval of All Directors of Target Company" below, taking into account the contents thereof.

Plutus is not a related party of the Tender Offeror or the Target Company and does not have any material interest to be noted in the Transactions including the Tender Offer. As set out in "(IV) Establishment of Independent Special Committee by Target Company" above, the Special Committee appointed Plutus as its own financial advisor and third-party valuation organization, after considering the independence, expertise, past catches, etc., of several candidates for a financial advisor and third-party valuation organization. The remuneration payable to Plutus for the Transactions is only a fixed fee to be paid regardless of the success or failure of the Transactions and does not include any incentive fee to be paid conditional upon the closing, etc. of the Transactions, including the Tender Offer.

(ii) Outline of Computation

According to the Target Company, Plutus computed the value of the Target Shares by adopting (a) the market stock price method because the Target Company is listed on the First Section of the Tokyo Stock Exchange and market stock prices are available, (b) the comparable company analysis method because there are several comparable listed companies that are comparable to the Target Company and it is possible to infer the value of shares through comparison with the market value of comparable companies, and (c) the DCF method to reflect the future business activities in the evaluation. According to the Target Company Share Valuation Report (Plutus), the range of the per-share value of the Target Shares computed based on each of said methods is as follows:

Market stock price method:	JPY2,849 to JPY2,945
Comparable company analysis method:	JPY2,670 to JPY2,995
DCF method:	JPY3,371 to JPY4,219

Under the market stock price method, in order to eliminate the impact on the stock price due to speculative reports about the Tender Offer by some news media (which was released after trading hours of the stock market on September 18, 2020), September 18, 2020 (which is considered to be unaffected by such media reports) was set as the reference date for evaluation, and the per-share value of the Target Shares was computed to be within the range of JPY2,849 to JPY2,945, based on the closing price of the reference date (JPY2,878), the one-month simple average closing price (JPY2,924), the three-month simple average closing price (JPY2,945) and the six-month simple average closing price (JPY2,849), respectively, of Target Shares on the First Section of the Tokyo Stock Exchange.

Under the comparable company analysis method, the per-share value of the Target Shares was computed to be within the range of JPY2,670 to JPY2,995 by comparing the market share prices and financial ratio indicating the profitability, etc. with the Tender Offeror, KOMERI Co., Ltd., JOYFUL HONDA CO., LTD., Kohnan Shoji Co., Ltd., NAFCO Corporation and Alleanza Holdings Co., Ltd., that are listed companies engaged in the businesses which are relatively similar to the Target Company's businesses.

Under the DCF method, the per-share value of the Target Shares was computed to be within the range of JPY3,371 to JPY4,219 by computing the corporate value and the share value of the Target Company by determining the present value of the free cash flows expected to be generated by the Target Company on and after June 1, 2020, which is calculated by discounting the value of such free cash flows by a certain discount rate, based on the financial forecasts for the period from the Fiscal Year ended August 2020 to the Fiscal Year ending August 2025 which were provided by the Target Company to Plutus and various factors including publicly-disclosed information. Please note that the Weighted Average Cost of Capital

(WACC) is used as the discount rate. The discount rate is set between 5.4% and 5.6%, which was calculated by weighting the cost of capital estimated by the Capital Asset Pricing Model (CAPM) and the cost of debt estimated based on the expected funding rates net of tax savings in proportion to the shareholders' equity estimated based on the information about the Target Company and similar listed companies. In computing the terminal value, the permanent growth rate method and the multiple method were adopted, and the growth rate for the permanent growth rate method is 0% and the EBITDA multiplier for the multiple method is between 6.5 and 7.0 times.

The financial forecasts based on the Target Company's business plan which was used by Plutus as a premise for the computation by the DCF method (the "Business Plan") are as shown in the below table. Please note that with respect to the Business Plan, Plutus analyzed and reviewed the contents thereof by means of several interviews with the Target Company, and as set out in "(IV) Establishment of Independent Special Committee by Target Company" above, the Special Committee confirmed the reasonableness of the contents, material assumptions and preparation process thereof. The Business Plan has been prepared taking into account the impact of the COVID-19 on the recent operations. In the Business Plan, there is no Fiscal Year during which a significant increase or decrease in income is expected. Although the synergies expected to be realized through the Transactions have not been included in the Business Plan as it is difficult to estimate the specific impact on earnings at this point, in the following financial forecast, only the effect of reducing listing-related costs was considered.

(Unit: millions of yen)

	Fiscal Year ended August 2020 (3 months)	Fiscal Year ending August 2021	Fiscal Year ending August 2022	Fiscal Year ending August 2023	Fiscal Year ending August 2024	Fiscal Year ending August 2025
Operating Revenue	38,357	158,819	162,287	165,893	169,666	173,637
Operating profit	2,186	11,342	11,594	11,893	12,249	12,677
EBITDA	3,731	16,818	17,346	17,921	18,554	19,258
Free Cash Flow	1,697	4,703	5,270	5,745	6,259	6,820

### (iii) Outline of Target Company Fairness Opinion

According to the Target Company, as of October 1, 2020, the Special Committee obtained from Plutus the Target Company Fairness Opinion stating that the Tender Offer Price of JPY4,200 per share is fair to the minority shareholders of the Target Company from a financial point of view. In the Target Company Fairness Opinion,

an opinion is expressed to state that the Tender Offer Price is fair, from a financial standpoint, to the general shareholders of the Target Company. Please note that the Target Company Fairness Opinion was issued taking into consideration the results of the computation of share value of the Target Company conducted by Plutus based on the current status of the business, future business plan, etc. disclosed by the Target Company and explanations thereon by the Target Company, and after question-and-answer sessions with the Target Company about the outline, background and purpose of the Tender Offer, examination of the business environment of the Target Company, economic, market and financial conditions, etc. to such extent as is deemed by Plutus to be necessary, as well as review process by the examination board of Plutus, which is independent from their engagement team.

(Note) In preparing and submitting the Target Company Fairness Opinion and computing the share value as the basis therefor, Plutus has relied on the information and basic materials provided by or discussed with the Target Company, and publicly available materials, assuming that they are accurate and complete and that there is no undisclosed fact that might materially impact on the analyses and computation of share value of Target Shares, and has not conducted any independent investigation or verification thereon, nor has not assumed any obligation to conduct such investigation or verification.

Plutus has assumed that the Business Plan and other materials used by Plutus as the basis for the Target Company Fairness Opinion have been reasonably prepared by the Target's management based on their best estimates and judgments available at this point, and Plutus does not guarantee their feasibility, and Plutus has not expressed any view on the analyses or forecasts based on which they were prepared or assumptions on which they were based.

The Target Company Fairness Opinion addresses whether or not the Tender Offer Price is fair to the Target Company's minority shareholders from a financial standpoint, based on the financial, capital market and economic conditions, and other circumstances as of the date of its preparation, and based on the information available to Plutus up to the date of its preparation, and the contents of the Target Company Fairness Opinion may be affected by subsequent changes in circumstances, but even in such case, Plutus is under no obligation to revise, amend or supplement the contents of the Target Company Fairness Opinion. In addition, the Target Company

Fairness Opinion does not infer or imply any opinion with respect to the matters other than those which are expressly set out therein or with respect to the events occurring after the date of submission of the Target Company Fairness Opinion. Further, the Target Company Fairness Opinion is limited to expressing an opinion that the Tender Offer Price is fair and not disadvantageous to the minority shareholders of the Target Company from a financial standpoint, does not express any opinion or make any recommendation as to the appropriateness of the implementation of the Tender Offer, or as to the tendering in the Tender Offer or any other action relating to the Tender Offer, and does not express any opinion to the holders of the securities issued by the Target Company, creditors or other related parties.

Furthermore, the Target Company Fairness Opinion was provided by Plutus for the purpose of being used as a basis for the decisions of the board of directors and Special Committee of the Target Company as to the Tender Offer Price, and may not be relied upon by any other person.

#### (VI) Approval of All Directors of Target Company

According to the Target Company's Press Release, the board of directors of the Target Company carefully discussed and considered whether the Transactions, including the Tender Offer, would contribute to the increase of corporate value of the Target Company, and whether the terms and conditions of the Transactions, including the Tender Offer Price, are reasonable, based on the legal advice received from Mori Hamada & Matsumoto and the advice from a financial standpoint and the Target Company Share Valuation Report (Nomura) received from Nomura Securities, and the Target Company Share Valuation Report (Plutus) and the Target Company Fairness Opinion obtained through the Special Committee, and with maximum respect for the contents of the determinations by the Special Committee stated in the Findings Report, as described in "(II) Process of and reasons for Decision-Making by the Target Company" of "(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer" above.

As a result, the Target Company determined that (i) the Transactions, including the Tender Offer, would contribute to the increase of corporate value of the Target Company; and (ii) the terms and conditions of the Transactions, including the Tender Offer Price, are reasonable so as to secure the interests to which the general shareholders of the Target Company are entitled and therefore, the Tender Offer would provide the general shareholder of the Target Company with a reasonable opportunity to sell Target Shares held by them at a price with an appropriate premium, and at the meeting of its board of directors held today, resolved to express an opinion to support the Tender Offer and to recommend its shareholders to tender their shares in the Tender Offer, with unanimous

approval from all of the Directors of the Target Company, as described in “(II) Process of and reasons for Decision-Making by the Target Company” of “(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer” above.

Please note that none of the directors of the Target Company are concurrently serving as officers or employees of the Tender Offeror Group, nor are from the Tender Offeror Group, and there is no conflict of interest between them and the Target Company. Moreover, in the Management Integration Agreement, it is provided that the Target Company may nominate two (2) directors of the Tender Offeror after the settlement for the Tender Offer; however, such candidates have not yet been determined.

#### (VII) No Deal Protection and Other Measures to Ensure Opportunities for Acquisition Proposals Other Than the Transactions

The Tender Offeror and the Target Company have not entered into any agreement, including the agreement under the Management Integration Agreement, which includes a transaction protection clause that may prohibit the Target Company from contacting any acquisition offeror other than the Tender Offeror (the “Competing Acquisition Offeror”) or any other agreement that may restrict any competing acquisition offeror’s contact with the Target Company, and they have given consideration to ensure the fairness of the Tender Offer by ensuring not to prevent an opportunity for any Competing Acquisition Offeror to make acquisition proposals.

In addition, the Tender Offeror set the period of the Tender Offer (the “Tender Offer Period”) as 30 business days, even though the minimum tender offer period required under law is 20 business days. By setting the Tender Offer Period to a relatively long period, the Tender Offeror intends to ensure the opportunities for the Target Company’s shareholders to appropriately determine whether or not to tender in the Tender Offer, and to ensure the appropriateness of the Tender Offer Price by ensuring an opportunity for any Competing Acquisition Offeror to make offers.

#### (VIII) Setting Lower Limit to Meet Majority-of-Minority Condition

As set out in “(1) Overview of Tender Offer” above, the minimum number of shares planned to be purchased in the Tender Offer is set as 19,477,700 shares (equivalent to the shareholding of 50.00%). Because the Tender Offeror or any party having common interests with the Tender Offeror does not hold any share of the Target Company and the lower limit for the number of shares planned to be purchased has been set, the Tender Offer will not be successfully consummated unless the so-called “majority of minority” condition is satisfied and the applications for tender of the shares of the same level as those with a majority of the total number of voting rights held by the general shareholders of the Target Company are made.

The Tender Offeror has given consideration to ensure the fairness of the terms and conditions of the Transactions by implementing the Transactions conditional on the

support by a majority of the general shareholders who do not share material interests in the Tender Offeror.

(IX) Measures to Ensure Opportunities for Target Company's Shareholders to Appropriately Determine Whether or Not to Tender in Tender Offer

The Tender Offeror (i) is planning to request the Target Company to hold an Extraordinary Shareholders Meeting for, among others, the Tender Offeror's making demand for the sale of all of Target Shares (excluding the treasury shares held by the Target Company) depending on the number of shares acquired as a result of the successful completion of the Tender Offer or the share consolidation and the partial amendment to the articles of incorporation to abolish the provisions as to share unit number conditional upon coming into effect of the share consolidation, immediately after the completion of the settlement of the Tender Offer, as set out in "(4) Policy for Organizational Restructuring, Etc. after Tender Offer (Matters Regarding the So-called 'Two-Step Acquisition')" below, and will not adopt any method not ensuring the right to request a sale of shares or the right to request price determination (appraisal right) to be granted to the Target Company's shareholders, and (ii) made it clear that the cash consideration to be delivered to the Target Company's shareholders in the case of a request for sale of shares or the consolidation of shares would be calculated so as to be equal to the Tender Offer Price multiplied by the number of the Target Shares held by each of such shareholders (excluding the Target Company), in order to ensure that the Target Company's shareholders would have the opportunity to appropriately determine whether or not to tender in the Tender Offer and would not coerce the shareholders.

In addition, promptly after the completion of the Tender Offer, the Tender Offeror plans to take the above-mentioned procedures to make the Target Company a wholly-owned subsidiary of the Tender Offeror, and, according to the Target Company, it also plans to take necessary procedures immediately upon receipt of the above-mentioned request and demand from the Tender Offeror. Therefore, the Transactions are planned to make the Target Company a wholly-owned subsidiary as soon as possible after the successful completion of the Tender Offer, and in such a sense, consideration has been given to eliminating coercion.

Please note that because the minimum number of shares to be purchased in the Tender Offer has been set at a number equivalent to a majority of the total number of voting rights of the Target Company rather than two-thirds thereof, it is theoretically possible that even if the Tender Offer is successfully completed, the listing of shares of the Target Company may be maintained as a result of the failure to obtain a special resolution of the general meeting of shareholders of the Target Company, which is required for the subsequent procedures for making the Target Company a wholly-owned subsidiary. With respect to this point, please refer to "(4) Policy for Organizational Restructuring, Etc. after Tender Offer (Matters Regarding the So-called 'Two-Step Acquisition')" below.

(4) Policy for Organizational Restructuring, Etc. after Tender Offer (Matters Regarding the So-

called ‘Two-Step Acquisition’)

As stated in “(1) Overview of Tender Offer” above, the Tender Offeror intends to make the Target Company a wholly owned subsidiary of the Tender Offeror and, if the Tender Offeror is unable to acquire all Target Shares (excluding the treasury shares held by the Target Company) through the Tender Offer, then the Tender Offeror will take the following series of actions to acquire all Target Shares (excluding the treasury shares held by the Target Company) after the closing of the Tender Offer.

In particular, if the Tender Offeror becomes to hold at least 90% of the total voting rights of the Target Company after the closing of the Tender Offer and becomes a special controlling shareholder of the Target Company as stipulated in Article 179, Paragraph 1 of the Companies Act (Act No. 86 of 2005, as amended; hereinafter the same), the Tender Offeror intends, promptly following the completion of settlement of the Tender Offer, to require all shareholders of the Target Company who have not applied for the Tender Offer (other than the Tender Offeror and the Target Company; the “Shareholders Subject to Sale of Shares”) to sell their Target Shares to the Tender Offeror (the “Demand for Sale of Shares”), as stipulated in Part II, Chapter 2, Section 4-2 of the Companies Act. In a Demand for Sale of Shares, it will be provided that each one (1) share of Target Shares would be exchanged for cash consideration equal to the Tender Offer Price payable to the shareholders of the Target Company. In making such demand, the Tender Offeror will notify the Target Company of such demand and seek the Target Company’s approval of the Demand for Sale of Shares, in accordance with the provisions of Article 179-3, Paragraph 1 of the Companies Act. If the Target Company approves the Demand for Sale of Shares by a resolution of its board of directors, then, in accordance with the procedures under applicable law, and without the consent of the individual shareholders of the Target Company, the Tender Offeror will acquire all of Target Shares held by all of the Shareholders Subject to Sale of Shares on the date of acquisition stipulated by the Demand for Sale of Shares. Then, the Tender Offeror will deliver to each such shareholder an amount of cash consideration per share held by such shareholder equal to the Tender Offer Price.

Please note that according to the Target Company’s Press Release, if the Tender Offeror makes a Demand of Sale of Shares, the Target Company intends to approve such Demand of Sale of Shares at the meeting of its board of directors. It is provided in the Companies Act that in the case where a Demand for Sale of Shares is made, the Shareholders Subject to Sale of Shares may file a petition with the court for a determination of the sale price for their Target Shares in accordance with Article 179-8 of the Companies Act and other applicable laws and regulations. Please note that if said petition is filed, the sale price of the Target Shares will be finally determined by the court.

Alternatively, if the Tender Offeror cannot hold 90% or more of the total voting rights in the Target Company after the closing of the Tender Offer, the Tender Offeror intends to request the



Target Company to perform the consolidation of Target Shares pursuant to Article 180 of the Companies Act (the “Share Consolidation”) and to hold an extraordinary meeting of shareholders (the “Extraordinary Shareholders Meeting”) for, among purposes, the partial amendment of the Target Company’s articles of incorporation to abolish the provisions as to share unit number immediately after the completion of the settlement of the Tender Offer (at around late January or early February 2021), conditional upon coming into effect of Share Consolidation. Even in the case where the Tender Offeror holds less than two-thirds of the total voting rights in the Target Company after the closing of the Tender Offer, as set out in “(1) Overview of Tender Offer” above, taking into account the existence of shareholders, such as passive index funds which hold the Target Shares with policies of not subscribing to tender offers regardless of the appropriateness of the terms of the transactions, the Tender Offeror recognizes that there may be some shareholders who did not tender in the Tender Offer but are in favor of each of the above-mentioned proposals, and therefore, plans to make these requests in order to confirm the intentions of those shareholders who did not tender in the Tender Offer. Please note that the Tender Offeror intends to approve each of the above-mentioned proposals at the Extraordinary Shareholders Meeting. If the proposal for Share Consolidation is approved at the Extraordinary Shareholders Meeting, the shareholders of the Target Company will, on the effective date of Share Consolidation, hold the number of Target Shares in proportion to the ratio of Share Consolidation approved at the Extraordinary Shareholders Meeting. If any fractional share less than one share is included in the number of shares resulting from Share Consolidation, each shareholder of the Target Company will receive an amount of cash obtained by selling Target Shares equivalent to the total number of such fractional shares (with such aggregate sum rounded down to the nearest whole number; hereinafter the same) to the Target Company or the Tender Offeror as per the procedures specified in Article 235, and Article 234, Paragraphs 2 through 5 of the Companies Act and other applicable laws. Please note that with respect to the purchase price for the aggregate sum of such fractional shares in the Target Company, the Tender Offeror intends to request the Target Company to set the amount of cash to be received by each shareholder who did not tender in the Tender Offer (other than the Tender Offeror and the Target Company) would be equal to the price obtained by multiplying the Tender Offer Price by the number of Target Shares owned by each such shareholder, and then to obtain a permission of court to authorize such voluntary purchase of such Target Shares. In addition, although the ratio of Share Consolidation of Target Shares has not been determined as of the date hereof, the Tender Offeror intends to request the Target Company to determine such ratio so that the shareholders who did not tender in the Tender Offer would have their shares classified as fractional shares in order for the Tender Offeror to hold all of the Target Shares (excluding treasury shares held by the Target Company). Under the Companies Act, if Share Consolidation is performed and there are fractional shares less than one share of the Target shares as a result thereof, each shareholder

of the Target Company (other than the Tender Offeror and the Target Company) may request that the Target Company purchase all such fractional shares held by itself at a fair price and each such shareholder may file a petition with the court to determine the price of Target Shares, in accordance with Articles 182-4 and 182-5 of the Companies Act, and other applicable laws and regulations. Please note that if said petition is filed, the purchase price of the Target Shares will be finally determined by the court.

With respect to each of the foregoing procedures, it is possible that, depending on circumstances, such as the amendments to, enforcement of and interpretation by authorities of the relevant laws and regulations, the method therefor and timing thereof may be changed. However, even in such case, a method whereby the shareholders of the Target Company who did not tender in the Tender Offer (other than the Tender Offeror and the Target Company) will ultimately receive cash consideration will be adopted, in which case the amount to be delivered to each such shareholder will be calculated so as to equal the Tender Offer Price multiplied by the number of Target Shares held by each such shareholder.

In each of the foregoing cases, the Target Company will announce specific details and expected timing, etc. promptly once they are determined through consultation between the Tender Offeror and the Target Company.

The Tender Offer does not constitute any solicitation to shareholders of the Target Company to support it at the above-mentioned Extraordinary Shareholders Meeting. Please note that each of the shareholders of the Target Company should, as a matter of its own responsibility, confirm with a tax accountant or other experts with respect to the tax treatment of tendering in the Tender Offer or receipt of cash, etc. in accordance with any of the foregoing procedures and purchase, etc. of shares in response to a Demand for Sale of Shares.

Please note that if the proposal for the Share Consolidation is rejected at the Extraordinary Shareholders Meeting, it is expected that there will be certain constraints such as delays in establishment of a system that enables the parties to work together as a group with a sense of unity and speed to respond to the severe business environment as well as realization of the synergies described in “(I) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer” of “(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer” above. In order to maximize the corporate value of the Tender Offeror Group, including the Target Company, it is necessary to make the Target Company a wholly-owned subsidiary. Therefore, as described in “(1) Overview of the Tender Offer” above, the Tender Offeror plans to acquire additional shares of the Target Company until it has acquired the number of shares equivalent to two-thirds of the voting rights pertaining to the total number of issued and outstanding shares of the Target Company less the number of treasury shares held by the Target Company for the purpose of eventually acquiring all of the Target Shares. However, as the

Tender Offeror thinks that the specific timing and method of such additional acquisition will be reviewed in consideration of the status of subscriptions to the Tender Offer and subsequent trends in the market share price, the degree of approval or disapproval of the agenda on the share consolidation at the Extraordinary Shareholders Meeting, whether the Target Company's support can be obtained again, and other factors, at present, nothing has been determined.

(5) Prospect of and Reasons for Delisting

Target Shares are listed on the First Section of the Tokyo Stock Exchange as of the date hereof. However, as the Tender Offeror has not set a maximum limit on the number of shares to be purchased in the Tender Offer, Target Shares may be delisted through prescribed procedures in accordance with the delisting criteria of the Tokyo Stock Exchange, depending on the results of the Tender Offer. Further, in the case where the Tender Offer is successfully completed, the Target Shares will be delisted through prescribed procedures in accordance with the delisting criteria even if the delisting criteria are not met at the time of the completion of the Tender Offer, because the Tender Offeror intends to hold all of the Target Shares (excluding treasury shares held by the Target Company) thereafter in accordance with the procedures set forth in applicable laws and regulations and as set out in “(4) Policy for Organizational Restructuring, Etc. after Tender Offer (Matters Regarding the So-called ‘Two-Step Acquisition’)” above. After delisting, Target Shares may no longer be traded on the First Section of the Tokyo Stock Exchange. The reasons for the purpose of delisting and the impact on minority shareholders and the Target Company's stance on these matters are described in “(iii) Content of Decision” of “(II) Process of and reasons for Decision-Making by the Target Company” of “(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer” above.

If the proposal for the Share Consolidation is rejected at the Extraordinary Shareholders Meeting, it is assumed that certain restrictions, such as delays in establishing a system that can respond to the severe business environment with a sense of urgency and in achieving synergies set out in “(I) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer” of “(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer” above, with the group as a whole, will be imposed, and in order to maximize the corporate value of the Tender Offeror Group, including the Target Company, it is necessary to make the Target Company a wholly-owned subsidiary. Therefore, if the listing of shares of the Target Company is maintained, the Tender Offeror plans to acquire additional shares of the Target Company until it has acquired the number of shares equivalent to two-thirds of the voting rights pertaining to the total number of issued and outstanding shares of the Target Company less the number of treasury shares held by the Target Company for the purpose of eventually acquiring all of the Target Shares. However, as the Tender Offeror thinks that the specific timing and

method of such additional acquisition will be reviewed in consideration of the status of subscriptions to the Tender Offer and subsequent trends in the market share price, the degree of approval or disapproval of the agenda on the share consolidation at the Extraordinary Shareholders Meeting, whether the Target Company's support can be obtained again, and other factors, at present, nothing has been determined.

(6) Matters Related to Important Agreements Concerning Tender Offer

As set out in “(1) Overview of Tender Offer” above, the Tender Offeror entered into the Management Integration Agreement with the Target Company effective as of today.

In the Management Integration Agreement, the following matters, among others, have been agreed upon. Please note that in the Management Integration Agreement, it is provided that the matters specified in “(iv) Business Operation after Implementation of Tender Offer and Transactions” below, out of the following matters, shall become effective on the date of commencement of the settlement for the Tender Offer, subject to the successful completion of the Tender Offer as a condition precedent. With respect to the additional acquisition of the Target Shares by the Tender Offeror until it acquires the number of shares equivalent to two-thirds of the voting rights pertaining to the total number of issued and outstanding shares of the Target Company less the number of treasury shares held by the Target Company, as the Tender Offeror thought that the specific timing and method of such additional acquisition of the Target Shares will be reviewed in consideration of the status of subscriptions to the Tender Offer and subsequent trends in the market share price, the degree of approval or disapproval of the agenda on the share consolidation at the Extraordinary Shareholders Meeting, whether the Target Company's support can be obtained again, and other factors, it was not agreed in the Management Integration Agreement.

(i) Purpose

- The purpose of the Management Integration Agreement is to realize the Management Integration in the spirit of equality and to maximize the corporate value of the Tender Offeror Group including the Target Company after the Management Integration by stipulating the business alliance and other business operations between the Tender Offeror Group and the Target Company and the management system, etc. of the Target Company after the Management Integration.

(ii) Outline of Management Integration, Etc.

- The Management Integration will be performed through the Tender Offer and the subsequent squeeze-out procedures.

(iii) Covenants

(a) Matters concerning the operation of business before the completion of the Tender Offer

- During the Tender Offer Period, the Target Company will operate its business within the scope of its normal operations in accordance with its prior practices. Provided, however, that the acts or omissions of the Target Company considered to be reasonably necessary based on the duty of care of its directors shall not be restricted in any way.
- If the Target Company receives any notice by the last day of the Tender Offer Period from a shareholder of the Target Company regarding any matter that may have a material adverse impact on the implementation of the Transactions, or if the Target Company receives a shareholder proposal from any of the shareholders of the Target Company pursuant to Article 303 of the Companies Act, the Target Company shall immediately notify the Tender Offeror of such fact.

(b) Matters concerning the dividend of surplus of the Target Company

- The Target Company will not submit a proposal for a dividend of surplus or a proposal to amend its articles of incorporation to change the decision-making body for dividends of surplus at the 61st Annual General Meeting of Shareholders of the Target Company.
- If any proposal that conflicts with any of the proposals submitted by the Target Company is made by a shareholder of the Target Company at the 61st Annual General Meeting of Shareholders of the Target Company, the Target Company will make its utmost efforts to prevent such proposal from being approved, and the Tender Offeror will reasonably cooperate therewith.
- The Target Company will not pay interim dividend during the period from the date of execution of the Management Integration Agreement to the completion of the procedures to make the Target Company to become a wholly-owned subsidiary of the Tender Offeror. Provided, however, that this will not apply to the case where the proposal for the Share Consolidation is rejected at the Extraordinary Shareholders Meeting.

(c) Matters concerning the election of directors and officers

- The Target Company will submit an agenda for the election of one (1) person to be separately designated by the Tender Offeror as a director of the Target Company at the Extraordinary Shareholders Meeting or a general meeting of shareholders to be held on any date to be separately agreed upon with the Tender Offeror, and will make every effort to ensure that such agenda is approved and passed.

- The Tender Offeror will submit an agenda for the election of two (2) persons to be separately designated by the Target Company as directors of the Tender Offeror at the 15th annual general meeting of shareholders of the Tender Offeror, and the Tender Offeror shall make its utmost efforts to ensure that such agenda is approved and passed.

(iv) Business Operation after Implementation of Tender Offer and Transactions

(a) Contents of Business Alliance, Etc. after Tender Offer

- In order to maximize the synergies of the Management Integration, the Target Company and the Tender Offeror shall, on and after the commencement date of the settlement for the Tender Offer, implement the business alliance with respect to each of the following matters, and the Tender Offeror shall cause the Tender Offeror Group (excluding the affiliated companies of the Tender Offeror) to implement each of the following matters:
  - Cooperative purchasing of national brand products
  - Sharing of private brand products (including joint development)
  - Provision of the Tender Offeror's home-improvement and housing materials to the Target Company
  - Provision of the Target Company's furniture and home fashion products to the Tender Offeror Group
  - Consolidation of mutual supply chains and logistics, etc.
  - Cooperation and collaboration in EC business
  - Sharing of know-how and other forms of mutual cooperation in the opening of new stores, renovation of existing stores and other management matters
  - Other matters to be separately agreed upon by both parties

(b) Integration Promotion Committee

- For smooth implementation of the Management Integration, an Integration Promotion Committee consisting of persons designated respectively by the Target Company and the Tender Offeror will be established as of the commencement date of the settlement for the Tender Offer, and thereafter, the Integration Promotion Committee will share the information necessary for the Management Integration and discuss and decide on matters relating to the implementation of the Management Integration.

(c) Management System of Target Company

- In order to realize the synergies of the Management Integration while maintaining the continuity and sustainability of the management and operations of the Target Company, the current system and conditions for the treatment of

the officers of the Target Company will be maintained for the time being even after the commencement date of the settlement for the Tender Offer.

- Tender Offeror will appoint one (1) Director of the Target Company

(d) Management System of Tender Offeror

- Target Company will appoint two (2) directors of the Tender Offeror

(e) Employment of Employees and Maintenance of Employment Conditions of Target Company

- For at least three (3) years after the commencement of the settlement for the Tender Offer, the employees of the Target Company shall be maintained and the conditions of their employment shall not be less than the level as of the date of the execution of the Management Integration Agreement.

(f) Matters for Prior Consultation and Advance Consent

- In case the Target Company decides on certain important matters after the commencement of the settlement for the Tender Offer, it shall consult with the Tender Offeror on matters to be decided or implemented in advance, and shall obtain the Tender Offeror's written consent (provided that the Tender Offeror shall not unreasonably reject, withhold, delay or impose conditions on such consent). Provided, however, that there shall be no limitation on the acts or omissions that the Target Company deems reasonably necessary based on the duty of care of its directors.

(7) Matters Related to Important Agreements Concerning Tendering in the Tender Offer between the Tender Offeror and the Shareholders of the Target Company

Not applicable.

2. Outline of Tender Offer

(1) Outline of Target Company

(1) Name	SHIMACHU Co., Ltd.
(2) Location	8-3-32,Kamiochiai,Chuo-ku,Saitama-shi,Saitama
(3) Name and Title of Representative	Takaaki Okano, President and Representative Director
(4) Description of Business	Retail business for furniture and interior goods (curtains, carpet, interior small items, etc.), and home center goods (daily goods, gardening, pets, timber, tools, etc.)
(5) Capital	JPY16,533 million (as of August 31, 2020)
(6) Date of Incorporation	November 15, 1969

(7) Major Shareholders and Shareholding Ratio (as of February 29, 2020)	Japan Trustee Services Bank, Ltd. (Trust Account)	7.88%
	The Master Trust Bank of Japan, Ltd. (Trust Account)	7.28%
	Japan Trustee Services Bank, Ltd. (Trust Account 9)	5.69%
	NORTHERN TRUST CO. (AVFC) RE SILCHESTER INTERNATIONAL INVESTORS INTERNATIONAL VALUE EQUITY TRUST	5.67%
	(Standing Proxy: Tokyo Branch of The Hongkong and Shanghai Banking Corporation Limited)	
	IRIS OHYAMA Inc.	4.80%
	Saitama Resona Bank, Limited	3.22%
	NORTHERN TRUST CO. (AVFC) RE U.S.TAX EXEMPTED PENSION FUNDS	
	(Standing Proxy: Tokyo Branch of The Hongkong and Shanghai Banking Corporation Limited)	2.95%
	Hitoshi Shimamura	2.42%
Minami Aoyama Real Estate Co., Ltd.	2.17%	
NORTHERN TRUST CO. (AVFC) ACCOUNT NON TREATY		
(Standing Proxy: Tokyo Branch of The Hongkong and Shanghai Banking Corporation Limited)	2.05%	
(8) Relationship between Tender Offeror and Target Company		
Capital Relationship	N/A	
Personal Relationship	N/A	
Business Relationship	N/A	
Applicability to Related Parties	N/A	

(Note) “Major Shareholders and Shareholding Ratio (as of February 29, 2020)” is based on the information stated in “Description of Major Shareholders” of the 2nd Quarterly Report for the 61st Fiscal Year filed by the Target Company on April 10, 2020.

(2) Schedule, Etc.

(I) Schedule

Resolution of Board of Directors	October 2, 2020 (Friday)
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Date of public notice of commencement of Tender Offer	October , 2020 (Monday) Public notice shall be provided electronically and a statement to such effect shall be posted in the <i>Nihon Keizai Shimbun</i> . (Address of electronic public notice: <a href="http://disclosure.edinet-fsa.go.jp/">http://disclosure.edinet-fsa.go.jp/</a> )
Date of filing of Tender Offer Registration Statement	October 5, 2020 (Monday)

(II) Anticipated Tender Offer Period at the time of filing of the Tender Offer Statement

From October 5, 2020 (Monday) to November 16, 2020 (Monday) (30 business days)

(III) Possibility of extending the period based on Target Company's request

Not applicable

(3) Price for Purchase, Etc.

JPY4,200 per share of common shares

(4) Basis for Calculation, Etc. of Price for Purchase, Etc.

(I) Basis for Calculation

In conducting the Transactions, including the Tender Offer, the Tender Offeror asked SMBC Nikko Securities Inc., as the financial advisor, which is a third-party valuation organization independent from the Tender Offeror and the Target Company, to compute the value of Target Shares. SMBC Nikko Securities conducted the computation by adopting the market stock price method, the comparable company analysis method and the DCF method after considering which method among several methods for computation of stock value should be adopted for the computation of the Target Shares, and the Tender Offeror obtained the Share Valuation Report as of October 1, 2020. Please note that SMBC Nikko Securities is not a related party of the Tender Offeror or the Target Company, and does not have any material interest in the Tender Offer. Also, the Target Company has not obtained an opinion as to the fairness of the Tender Offer Price (fairness opinion) from SMBC Nikko Securities.

The range of the per-share value of the Target Shares computed based on each of said methods is as follows (Note):

Market stock price method (1):	JPY2,849 to JPY2,945
Market stock price method (2):	JPY2,894 to JPY3,047
Comparable company analysis method:	JPY2,894 to JPY3,686
DCF method:	JPY3,166 to JPY4,837

Under the market stock price method (1), in order to eliminate the impact on the stock price due to speculative reports about the Tender Offer by some news media (which was released after trading hours of the stock market on September 18, 2020), September 18, 2020 (which is considered to be unaffected by such media reports) was set as the reference date, and the per-share value of the Target Shares was computed to be within the range of JPY2,849 to JPY2,945, based on the one-month simple average closing price up to such date (JPY2,924), the three-month simple average closing price (JPY2,945) and the six-month simple average closing price (JPY2,849), respectively, of the Target Shares on the First Section of the Tokyo Stock Exchange immediately preceding such date. Under the market stock price method (2), using September 30, 2020 (the trading day immediately preceding the date of announcement of the Tender Offer) as the reference date, the per-share value of the Target Shares was computed to be within the range of JPY2,894 to JPY3,047, based on the one-month simple average closing price up to such date (JPY3,047), the three-month simple average closing price (JPY3,010) and the six-month simple average closing price (JPY2,894), respectively, of the Target Shares on the First Section of the Tokyo Stock Exchange immediately preceding such date.

Under the comparable company analysis method, the per-share value of the Target Shares was computed to be within the range of JPY2,894 to JPY3,686 by evaluating through comparison with the market share prices and financial ratio indicating the profitability, etc. of listed companies engaged in the businesses which are relatively similar to the Target Company's businesses.

Under the DCF method, the per-share value of the Target Shares was computed to be within the range of JPY3,166 to JPY4,837 by analyzing and evaluating the corporate value and the share value of the Target Company by determining the present value of the free cash flows expected to be generated in the future by the Target Company in and after the fourth quarter of the Fiscal Year ended August 2020, which is calculated by discounting the value of such free cash flows by a certain discount rate, based on the business plan (for the period from the Fiscal Year ended in August 2020 to the Fiscal Year ending in August 2025) provided by the Target Company and taking into consideration various factors such as interviews with managements personnel of the Target Company, moves in the performance of the Target Company up to date, and publicly-available information. Please note that, according to the Target Company, in the business plan on which the above-mentioned computation by the DCF method was made, there is no Fiscal Year during which a significant increase or decrease in income compared with the previous year is expected. In addition, the synergies expected to be realized through the Transactions have not been included in such business plan as it is difficult to specifically estimate such synergies at this point.

Tender Offeror finally determined, at the meeting of its board of directors held today, that the Tender Offer Price shall be JPY4,200, based on the results of discussions and negotiations with the Target Company and comprehensively taking into consideration the results of the computation of share value of the Target Company stated in the Share Valuation Report obtained from SMBC Nikko Securities, as well as the results of the due

diligence as to the Target Company conducted by the Tender Offeror for the period from late July 2020 to late August 2020, the recent trend of market stock price of Target Shares on the First Section of the Tokyo Stock Exchange, the likelihood of obtaining the support of the Tender Offer by the board of directors of Target Company and the prospects of number of tendered shares. Please note that the Tender Offer Price of JPY4,200 per share as determined is within the range of the per-share value of the Target Company computed as stated in the Share Valuation Report.

(Note) In preparing the Share Valuation Report, SMBC Nikko Securities has assumed that all of the information provided by the Target Company and publicly-available information, etc. are accurate and complete, and has not conducted any independent verification of the accuracy or completeness of such information, and does not assume any obligation or responsibility for such accuracy or completeness. Also, SMBC Nikko Securities has not conducted any independent evaluation, appraisal or assessment of the Target Company's assets and liabilities, and has not requested any third-party organization to conduct such evaluation, appraisal or assessment. SMBC Nikko Securities assumes that the business plan, etc. used by it in the Share Valuation Report have been prepared by the Target Company in accordance with reasonable and appropriate procedures, based on the best estimates and judgments as of the reference date for the valuation.

Furthermore, the Tender Offer Price of JPY4,200 represents a premium of 45.93% over the closing price of the Target Shares on September 18, 2020 on the First Section of the Tokyo Stock Exchange before some news media reported the speculation about the Tender Offeror's acquiring Target Shares through a tender offer (which was reported after the trading hours on September 18, 2020) (JPY2,878), 43.64% over the one-month simple average closing price up to such date (JPY2,924), 42.61% over the three-month simple average closing price up to such date (JPY2,945) and 47.42% over the six-month simple average closing price up to such date (JPY2,849), respectively, and represents a premium of 18.14% on the closing price for Target Shares quoted on the First Section of the Tokyo Stock Exchange on September 30, 2020 (which was the trading day immediately preceding the announcement of the Tender Offer) (JPY3,555), 37.84% over the one-month simple average closing price up to such date (JPY3,047), 39.53% over the three-month simple average closing price up to such date (JPY3,010) and 45.13% over the six-month simple average closing price up to such date (JPY2,894), respectively.

## (II) Background of Calculation

### (Background of Determination of Tender Offer Price)

The Tender Offeror has been carefully assessing an alliance or M&A with companies in the same business as a medium-term strategy to enhance the corporate value of the Tender Offeror. In the course of such evaluation, the Tender Offeror determined that it had a strongly complementary relationship with the Target Company, and then the Tender

Offeror and the Target Company exchanged their views in early May 2020. Based on this, the Tender Offeror reached an understanding that in order for the Tender Offeror Group to strengthen its competitiveness in the above-mentioned severe business environment in the Japanese economy and retail market, it must establish a system that enables the two companies to quickly respond to the severe business environment in a unified manner, and must achieve synergies such as mutual use and effective utilization of the management resources and know-how of the two companies at an early stage, and thus it is important to maximize the corporate value of the Tender Offeror Group and for that purpose, it is necessary to make the Target Company a wholly-owned subsidiary of the Tender Offeror. In mid-June of the same year, to realize management integration between the two, a formal proposal regarding implementation of the Transactions was made to the Target Company, and commenced discussions with the Target Company from mid-June of the same year.

Thereafter, the Tender Offeror established a consideration process and system for the Transactions in mid-June 2020, and performed due diligence as to the Target Company from late July 2020 to late August; and from late July 2020, the Tender Offeror and the Target Company have held multiple discussions and examinations regarding the significance and purpose of the Transactions, business policies after the Transactions, creation of synergies and other matters. As a result of the foregoing, the two companies reached a common understanding that the Transactions may be expected to generate synergies and that they will aim to realize the synergies at an early stage immediately after the consummation of the Tender Offer. In addition, the Tender Offeror has engaged in multiple discussions and examinations with the Target Company, on several occasions, from late August 2020 regarding the terms and conditions of the Transactions, etc. including the Tender Offer Price as well, based on the results of the above-mentioned due diligence. In particular, the Tender Offer made a proposal to the Target Company as to the Tender Offer Price on September 14, 2020 to set it at JPY3,800. However, the Target Company requested the Tender Offeror that the proposal be reconsidered, arguing that the proposal did not adequately reflect the Target Company's corporate values. Then, the Tender Offeror took into consideration the request from the Target Company for reconsideration of the contents of the proposal and the impact on the market price of the Target Shares due to the speculative reports by some media regarding the Tender Offeror's acquisition of the Target Shares through the Tender Offer (after the close of trading hours of September 18, 2020), and on the 24<sup>th</sup> of the same month in 2020, the Tender Offeror proposed that the Tender Offer Price should be set at JPY4,050. Further, in response to the Target Company's renewed request to reconsider its proposal, the Tender Offeror proposed that the Tender Offeror set the Tender Offer Price at JPY4,100 on the 28th day of the same month. Thereafter, after discussions and negotiations, the Tender Offeror and the Target Company agreed that the Tender Offer Price should be JPY4,200 per share on September 29, 2020.

After said discussions, the Tender Offeror resolved at the meeting of its board of directors held today to conduct the Tender Offer with the Tender Offer Price being JPY4,200 for

the purpose of making the Target Company a wholly owned subsidiary of the Tender Offeror.

Please note that if the ratio of voting rights of the Target Company held by the Tender Offeror to the total number of voting rights of the Target Company held by all of its shareholders after the completion of the Tender Offer is less than two-thirds, and the proposal for the Share Consolidation, which will be performed in the course of a series of the procedures to make the Target Company a wholly-owned subsidiary of the Tender Offeror, is not approved at the Extraordinary Shareholders Meeting, it is expected that there would be certain restrictions in pursuing such system as would be able to respond to the severe business environment with a sense of urgency within the group as a whole, and in achieving synergies set out in “(1) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer” of “(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer” of “1. Purpose, Etc. of Tender Offer, Etc.” above, and the Tender Offeror believes that, in order to maximize the corporate value of the Tender Offeror Group, including the Target Company, it is necessary to make the Target Company a wholly-owned subsidiary. Therefore, as set out in “(1) Overview of Tender Offer” of “1. Purpose, Etc. of Tender Offer, Etc.” above, if the listing of shares of the Target Company is maintained, the Tender Offeror plans to acquire additional shares of the Target Company until it has acquired the number of shares equivalent to two-thirds of the voting rights pertaining to the total number of issued and outstanding shares of the Target Company less the number of treasury shares held by the Target Company for the purpose of eventually acquiring all of the Target Shares. However, as the Tender Offeror thinks that the specific timing and method of such additional acquisition will be reviewed in consideration of the status of subscriptions to the Tender Offer and subsequent trends in the market share price, the degree of approval or disapproval of the agenda on the share consolidation at the Extraordinary Shareholders Meeting, whether the Target Company's support can be obtained again, and other factors, at present, nothing has been determined.

(a) Name of Third-Party Organization from Which Opinions Were Taken for Computation

In conducting the Transactions including the Tender Offer, the Tender Offeror referred to the Share Valuation Report submitted by SMBC Nikko Securities, a third-party valuation organization independent from the Tender Offeror and the Target Company. Please note that SMBC Nikko Securities is not a related party of the Tender Offeror or the Target Company, and does not have any material interest in the Tender Offer. Further, the Tender Offeror has not obtained from SMBC Nikko Securities an opinion regarding the fairness of the Tender Offer Price (fairness opinion).

(b) Outline of Said Opinions

SMBC Nikko Securities computed the share value of the Target Company using each of the market stock price method, the comparable company analysis method and the DCF method, and the range of the per-share value of the Target Company computed using each of such methods is as follows:

Market stock price method (1):	JPY2,849 to JPY2,945
Market stock price method (2):	JPY2,894 to JPY3,047
Comparable company analysis method:	JPY2,894 to JPY3,686
DCF method:	JPY3,166 to JPY4,837

(c) Background Leading to Decision to Conduct Tender Offer Based on Said Opinions

The Tender Offeror finally determined, at the meeting of its board of directors held today, that the Tender Offer Price shall be JPY4,200, based on the results of discussions and negotiations with the Target Company and comprehensively taking into consideration the results of the computation of share value of the Target Company stated in the Share Valuation Report obtained from SMBC Nikko Securities, as well as the results of the due diligence as to the Target Company conducted by the Tender Offeror, the recent trend of market stock price of Target Shares on the First Section of the Tokyo Stock Exchange, the likelihood of the Target Company's obtaining the approval of the Tender Offer by its board of directors, and the prospects for successful completion of the Tender Offer.

(III) Relationship with Valuation Advisor

SMBC Nikko Securities, the financial advisor (valuation organization) of the Tender Offeror, is not a related party of the Tender Offeror or the Target Company, and does not have any material interest in the Tender Offer.

(5) Number of Shares, Etc. Planned to be Purchased

Number of Shares Planned to be Purchased	Minimum Number of Shares Planned to be Purchased	Maximum Number of Shares Planned to be Purchased
38,955,287 (shares)	19,477,700 (shares)	- (shares)

(Note 1) If the total number of Tendered Shares, Etc. is less than the minimum number of shares planned to be purchased (19,477,700 shares), the Tender Offeror will not purchase any of Tendered Shares, Etc. If the total number of Tendered Shares, Etc. is equal to or exceeds the minimum number of shares planned to be purchased (19,477,700 shares), the Tender Offeror will purchase all of Tendered Shares, Etc.

(Note 2) Because no maximum number of shares planned to be purchased is set for the Tender Offer, the maximum number of Target Shares to be potentially acquired by the Tender Offeror in the Tender Offer (38,955,287 shares) is stated as the number of shares planned to be purchased. Such maximum number is calculated by deducting the number of the

treasury shares held by the Target Company as of August 31, 2020 (3,653,817 shares) from the total number of issued and outstanding shares as of August 31, 2020 (42,609,104 shares) as stated in the Summary of Financial Results of the Target Company.

(Note 3) The Tender Offer also applies to fractional units of shares. If the right to request a sale of fractional shares is exercised pursuant to the Companies Act, the Target Company may purchase such fractional shares during the Tender Offer period in accordance with applicable legal procedures.

(Note 4) There is no plan to acquire the treasury shares held by the Target Company through the Tender Offer.

(6) Changes to Ratio of Holding of Shares, Etc. after Tender Offer

Number of voting rights represented by shares held by Tender Offeror prior to Tender Offer	-	(Ratio of holding of shares, etc. prior to Tender Offer: -%)
Number of voting rights represented by shares held by special related parties prior to Tender Offer	-	(Ratio of holding of shares, etc. prior to Tender Offer: -%)
Number of voting rights represented by shares held by Tender Offeror after Tender Offer	389,552	(Ratio of holding of shares, etc. after Tender Offer: 100.00%)
Number of voting rights represented by shares held by special related parties after Tender Offer	-	(Ratio of holding of shares, etc. after Tender Offer: -%)
Total number of voting rights held by all shareholders of Target Company	415,898	

(Note 1) “Total number of voting rights held by all shareholders of Target Company” is the total number of voting rights as of February 29, 2020, which is stated in the 3rd Quarterly Report for 61st Fiscal Year filed by the Target Company on July 10, 2020. Provided that because fractional units of shares are targeted by the Tender Offer, in calculating “Ratio of holding of shares, etc. after Tender Offer,” the number of voting rights (389,552) as to the total number of Target Shares as of August 31, 2020 stated in the Summary of Financial Results of the Target Company (42,609,104 shares) minus the treasury shares as of the same day (3,653,817 shares) was used as the denominator.

(Note 2) “Ratio of holding of shares, etc. prior to Tender Offer” and “Ratio of holding of shares, etc. after Tender Offer” are rounded off to two decimal places.

(7) Purchase Price: JPY163,612,205,400 million

(Note) “Purchase Price” is the amount calculated by multiplying the number of shares planned to be purchased in Tender Offer (38,955,287 shares) by the Tender Offer Price (JPY4,200).

(8) Settlement Method

- (I) Name and Location of Head Office of Financial Instruments Business Operator or Bank, Etc. Responsible for Settlement of Purchase, Etc.

SMBC Nikko Securities Inc.

3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo

- (II) Commencement Date of Settlement

November 20, 2020 (Friday)

- (III) Method of Settlement

Notice of purchase, etc. through the Tender Offer shall be mailed to the addresses of the tendered shareholders, etc. (or the addresses of its standing proxies in the case of non-resident shareholders, etc.) without delay after the expiry of the Tender Offer period. Please note that if applications are made from Nikko Easy Trade, notice will be delivered by electromagnetic means.

Payment for the purchase, etc. will be made by payment of cash. The purchase price for the shares, etc. purchased will be remitted by the tender offer agent to the place designated by the respective tendering shareholders, etc. (or its standing proxies in the case of non-resident shareholders, etc.) upon instructions of the tendered shareholders, etc. (or its standing proxies in the case of non-resident shareholders, etc.) on and after the commencement date of settlement without delay.

- (IV) Method of Returning of Shares, Etc.

If it was decided not to purchase all of the Tendered Shares, Etc. pursuant to the conditions set forth in “(I) Conditions set forth in Each Item of Article 27-13, Paragraph 4 of the Act and Description thereof” or “(II) Conditions of Withdrawal, Etc. of Tender Offer, Details thereof and Method of Disclosure of Withdrawal, Etc.” of “(9) Other Conditions and Methods of Purchase, Etc.” below, the Tender Offer Agent will return the shares, etc. required to be returned by restoring the record on the account of each of the relevant tendered shareholders to the status at the time when the tendering was made, on the second business day after the last day of the Tender Offer Period (or the date of withdrawal, etc. in the event of withdrawal, etc. of the Tender Offer) (which means the status that the execution of orders for the tender was cancelled).

(9) Other Conditions and Methods of Purchase, Etc.

- (I) Conditions set forth in Each Item of Article 27-13, Paragraph 4 of the Act and Description



thereof

If the total number of Tendered Shares, Etc. is less than the minimum number of shares planned to be purchased (19,477,700 shares), none of the Tendered Shares, Etc. will be purchased. If the total number of Tendered Shares, Etc. is equal to or exceeds the minimum number of shares planned to be purchased (19,477,700 shares), all of Tendered Shares, Etc. will be purchased.

(II) Conditions of Withdrawal, Etc. of Tender Offer, Details thereof and Method of Disclosure of Withdrawal, Etc.

The Tender Offer may be withdrawn, if any of the matters set forth in Article 14, Paragraph 1, Item 1 (a) through (i) and (l) through (r), Item 3 (a) through (h) and (j), and Article 14, Paragraph 2, Items 3 through 6 of the Order for Enforcement of the Financial Instruments and Exchange Act (the “Order”) occurs.

Please note that the Tender Offer may be withdrawn, if (i) the decision-making body for the execution of business of the Target Company determines to pay dividends of surplus (excluding the case where the amount of cash or other property to be distributed to the shareholders is expected to be less than 10% (JPY18,869,800 thousand (Note)) of the book value of the net assets of the Target Company stated in the non-consolidated balance sheet as of the last day of the latest Fiscal Year) by setting any day before the commencement of the settlement for the Tender Offer as the record day; or (ii) the decision-making body for the execution of business of the Target Company determines to acquire treasury shares (excluding the case where the amount of cash or other property to be delivered in exchange for shares is expected to be less than 10% (JPY18,869,800 thousand (Note)) of the book value of the net assets of the Target Company stated in the non-consolidated balance sheet as of the last day of the latest Fiscal Year), as such case is deemed to fall under the case of “anything equivalent to what is set forth in (a) to (r)” set forth in Article 14, Paragraph 1, Item 1 (s) of the Order.

The “facts equivalent to those set forth in (a) to (i)” set forth in Article 14, Paragraph 1, Item 3 (j) of the Order shall mean the case where it is found that there is a false statement on any material matter or an omission of any material matter that should have been stated in the statutory disclosure documents submitted by the Target Company in the past.

To make withdrawal, etc., a public notice shall be given electronically and a statement to such effect shall be posted on the *Nihon Keizai Shimbun*. Provided, however, that if it is difficult to give such public notice by the end of the tender offer period, any public announcement shall be made by such method as is set forth in Article 20 of the Cabinet Office Order on Disclosure Required for Tender Offer for Share Certificates by Persons Other Than Issuers, to be followed by a public notice immediately.

(Note) Assuming the total number of issued and outstanding shares and the number of treasury shares remain unchanged, the amount of dividends per share would be equivalent to JPY485 (In particular, such amount was calculated by dividing (i) JPY18,869,800 thousand (which is equivalent to 10% of the amount of net assets of JPY188,698,000 thousand as of August 31, 2019 stated in the Annual Securities Report for the Fiscal Year ended August 2019 of the Target Company; any resulting fraction less than JPY1 million was disregarded) by (ii) the number of shares (38,955,287 shares) calculated by deducting the number of treasury shares held by the Target Company as of such day (3,653,817 shares) from the total number of issued and outstanding shares of the Target Company as of August 31, 2020 stated in the Summary of Financial Results of the Target Company (42,609,104 shares); and any resulting fraction less than JPY1 was rounded up to the nearest JPY1).

(III) Conditions of Reduction of Purchase Price, Etc., Details thereof, and Method of Disclosure of Reduction

Pursuant to Article 27-6, Paragraph 1, Item 1 of the Act, if the Target Company conducts any of the acts set forth in Article 13, Paragraph 1 of the Order during the Tender Offer Period, the purchase price, etc. may be reduced in accordance with the standards set forth in Article 19, Paragraph 1 of the Ordinance.

To reduce the purchase price, etc., a public notice shall be given electronically and a statement to such effect shall be posted on the Nihon Keizai Shimbun. Provided, however, that if it is difficult to give such public notice by the end of the tender offer period, any public announcement shall be made by such method as is set forth in Article 20 of the Ordinance, to be followed by a public notice immediately.

If the purchase price, etc. is reduced, Tendered Shares, Etc. having been tendered before the date of such public notice will also be purchased at the reduced purchase price, etc.

(IV) Matters concerning Right of Cancellation of Contracts of Tendered Shareholders, Etc.

Tendered shareholders, etc. may cancel any agreements with respect to the Tender Offer at any time during the Tender Offer Period.

To cancel such an agreement, a document indicating its intention to cancel the agreement for the Tender Offer (the "Cancellation Document") must be delivered or sent to the party specified below by no later than 3:30 p.m. of the last day of the Tender Offer Period (Please note that the business hours might vary from one business place to another. Therefore, please check the business hours, etc. of the relevant business place before carrying out relevant procedures). Please note further that if sent by any means, the Cancellation

Document must arrive at the business place of the following party no later than 3:30 p.m. of the last day of the Tender Offer Period (Please note that the business hours might vary from one business place to another. Therefore, please check the business hours, etc. of the relevant business place before carrying out relevant procedures).

Please note that in the case of a cancellation of the agreement for which application tendering was made from Nikko Easy Trade, procedures for cancellation must be taken by following the steps displayed on the screen after logging into the Nikko Easy Trade no later than 3:30 p.m. of the last day of the Tender Offer Period.

Party authorized to accept the Cancellation Document:

SMBC Nikko Securities Inc.

3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo

(And any other business office of SMBC Nikko Securities Inc. in Japan)

Please note that no compensation for damages or penalty payments will be claimed against any tendered shareholder, etc. by the Tender Offeror in the event that the agreement is cancelled by any tendered shareholder, etc. Further, costs for returning the Tendered Shares, Etc. shall be borne by the Tender Offeror.

(V) Method of Disclosure if Conditions for Purchaser, Etc. are Changed

Except as prohibited under Article 27-6, Paragraph 1 of the Act and Article 13 of the Order, the Tender Offeror may change the conditions for purchase, etc. during the Tender Offer Period.

To make any change to the conditions for purchase, etc., a public notice shall be given electronically regarding the substance of the change, etc. and a statement to such effect shall be posted on the *Nihon Keizai Shimbun*. Provided, however, that if it is difficult to give such public notice by the end of the tender offer period, any public announcement shall be made by such method as is set forth in Article 20 of the Ordinance, to be followed by a public notice immediately.

If any change is made to the conditions for purchase, etc., the Tendered Shares, Etc. tendered before the date of such public notice will be purchased under the changed conditions for purchase, etc.

(VI) Method for Disclosure if Amended Statements to Tender Offer Statement is Submitted

If any amended statement to Tender Offer Statement is filed to the Director-General of the Kanto Local Finance Bureau (excluding, however, the case set forth in the proviso of Article 27-8, Paragraph 11 of the Act), the portion of the amended statement which pertains

to the contents stated in the public notice of the commencement of tender offer will be publicly announced immediately by such method as is set forth in Article 20 of the Ordinance. In addition, the Tender Offer Explanation Statement shall be immediately amended, and the amended Tender Offer Explanation Statement shall be provided for correction to tendered shareholders to whom the Tender Offer Explanation Statement had already been delivered. However, if the scope of the amendment is minor, such amendment shall be made by preparing a document indicating the reason for the amendment, the amended matters and the amended descriptions, which shall be delivered to tendered shareholders.

(VII) Method for Disclosure of Result of Tender Offer

The results of the Tender Offer will be publicly announced by such method as is set forth in Article 9-4 of the Order and Article 30-2 of the Ordinance on the day following the last day of the tender offer period.

(10) Date of Announcement of Commencement of Tender Offer

October 5, 2020 (Monday)

(11) Tender Offer Agent

SMBC Nikko Securities Inc.  
3-1, Marunouchi 3-chome, Chiyoda-ku, Tokyo

3. Policies, Etc. after Tender Offer and Future Prospects

(1) Policies, Etc. after Tender Offer

Please refer to “(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer – (III) Management Policy Following Tender Offer”, “(4) Policy for Organizational Restructuring, Etc. after Tender Offer (Matters Regarding the So-called ‘Two-Step Acquisition’)” and “(5) Prospect of and Reasons for Delisting” of “1. Purpose, Etc. of Tender Offer, Etc.” above.

(2) Future Prospects

We have determined that the Tender Offeror and the Target Company will work towards the realization of synergies between two companies as a result of the Management Integration, which will contribute to the enhancement of corporate values and ultimately lead to an increase in the interests of existing shareholders. Although operating revenue and profits in the consolidated statement of income are expected to increase because the Target Company

becomes a consolidated entity of the Tender Offeror after the completion of the Tender Offer, at present, the specific amount of impact on the financial results for the Fiscal Year ending February 2021 has not yet been determined. If there is any matter required to be announced in the future, we will notify you immediately.

#### 4. Others

##### (1) Agreements Between Tender Offeror and Target Company or its Officers and Details Thereof

According to the Target Company's Press Release, at the meeting of its Board of Directors held today, the Target Company adopted a resolution to support the Tender Offer and to recommend its shareholders to tender their shares in the Tender Offer.

For details, please refer to the Target Company's Press Release, as well as "(VI) Approval of All Directors of Target Company" of "(3) Measures to Ensure Fairness of Tender Offer Price" of "1. Purpose, Etc. of Tender Offer, Etc." above.

The Tender Offeror entered into the Management Integration Agreement with the Target Company as of today. For details, please refer to "(6) Matters Related to Important Agreements Concerning Tender Offer" of "1. Purpose, Etc. of Tender Offer, Etc." above.

##### (2) Other Information Deemed to Be Necessary for Investors to Decide on Whether or not to Tender Shares in Tender Offer

###### (I) Release of "Summary of Financial Results for the Fiscal Year Ended August 2020 (Japanese GAAP) (Non-Consolidated)"

The Target Company released the Summary of Financial Results dated today, and the outline of such release is as follows. Please note that the information contained therein has not been audited by the audit firm under the provisions of Article 193-2, Paragraph 1 of the Act. The following summary of the release is an excerpt from the Target Company's summary of financial results. For details, please refer to such summary of financial results.

###### (i) Status of Profit and Loss

Period	Fiscal Year Ended August 2020 (Non-Consolidated)
Net sales	JPY146,694million
Cost of sales	JPY97,251 million
Selling, general and administrative expenses	JPY46,691 million
Operating profit	JPY9,598 million

Ordinary profit	JPY10,094 million
Net profit before income taxes	JPY6,422 million

(ii) Status per Share

Period	Fiscal Year Ended August 2020 (Non-consolidated)
Net profit per share	JPY156.80
Annual dividends per share	JPY50.00
Net assets per share	JPY4,661.36

(II) Release of “Notice Concerning Revisions to Forecast of Year-End Dividend for Fiscal Year Ended August 2020”

According to the Target Company, it resolved at the meeting of its board of directors held today to revise the forecast of the dividend for the Fiscal Year ended August 2020 released on July 9, 2020 and not to pay any year-end dividend for such Fiscal Year. For details, please refer to the “Notice Concerning Revisions to Forecast of Dividend for Fiscal Year Ended August 2020” released by the Target Company today.

II. Execution of Integration Agreement

1. Reason for Management Integration

Please refer to “(I) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer” of “(2) Background, Purpose and Decision-making Process Leading to Decision to Conduct Tender Offer and Management Policy Following Tender Offer” of “1. Purpose, Etc. of Tender Offer, Etc.” of “I. Tender Offer” above.

2. Contents of Integration Agreement

Please refer to “(6) Matters Related to Important Agreements Concerning Tender Offer” of “1. Purpose, Etc. of Tender Offer, Etc.” of “I. Tender Offer” above.

3. Outline of Counterparty of Integration Agreement

Please refer to “(1) Outline of Target Company” of “2. Outline of Tender Offer” of “I. Tender Offer” above. As set out in “(6) Matters Related to Important Agreements Concerning Tender Offer” of “1. Purpose, Etc. of Tender Offer, Etc.” of “I. Tender Offer” above, the Target Company will convene an extraordinary general meeting of shareholders, submit a proposal for the election of the candidate persons, including one (1) candidate appointed by the Tender Offeror, as directors of the Target Company, and take other necessary steps, conditional upon the completion of the

settlement for the Tender Offer.

#### 4. Schedule for Management Integration

Date of resolution of Board of Directors	October 2, 2020
Date of execution of Integration Agreement	October 2, 2020
Starting date of Tender Offer	October 5, 2020 (scheduled)
End of Tender Offer	November 16, 2020 (scheduled)
Starting Date of settlement for Tender Offer	November 20, 2020 (scheduled)
Effective date of a part of Integration Agreement (*)	November 20, 2020 (scheduled)
Effective date of request for sale of shares or Share Consolidation	From December 2020 to February 2021 (scheduled)

\* Provisions as to the business management, etc. after the Tender Offer out of the Management Integration Agreement (Please refer to “1. Purpose, Etc. of Tender Offer, Etc. - (6) Matters Related to Important Agreements Concerning Tender Offer” of “I. Tender Offer” above.)

#### 5. Future Prospects

Please refer to “3. Policies, Etc. after Tender Offer and Future Prospects – (2) Future Prospects” of “I. Tender Offer” above.

End

- The Tender Offer is conducted to purchase common stock of the Target, a corporation incorporated in Japan. Although the Tender Offer will be conducted in accordance with the procedures and information disclosure standards prescribed in the Financial Instruments and Exchange Act, these procedures and standards may differ from the procedures and standards in the United States. In particular, Sections 13(e) and 14(d) of the U.S. Securities Exchange Act of 1934, as amended, and the rules prescribed thereunder do not apply to the Tender Offer, and the Tender Offer does not conform to those procedures and standards. All of the financial information contained in this press release is based on Japanese accounting standard, not U.S. accounting standards, and may not necessarily be comparable to financial information based on U.S. accounting standards. Further, it may be difficult to enforce any right or demand arising under U.S. federal securities laws, because both of the Tender Offeror and the Target are incorporated outside the United States and none of its officers are U.S. residents. It may be impossible to sue a company outside the United States and its officers in a non-U.S. court for a violation of the U.S. Securities laws. Furthermore, there is no guarantee that one would be able to compel a company outside the United States or its subsidiaries and affiliated parties to subject themselves to the jurisdiction of a U.S. court.
- Unless otherwise specified, all procedures relating to the Tender Offer shall be conducted in Japanese language. If some of the documents relating to the Tender Offer are prepared in English language and if there is any inconsistency between the English version and the Japanese version, the Japanese version shall prevail.
- This press release contains “forward-looking statements” as defined in Section 27A of the U.S. Securities Act of 1933, as amended, and Section 21E of the U.S. Securities Exchange Act of 1934. Known or unknown risks, uncertainties and other factors could cause actual results to substantially differ from the projections and other matters expressly or impliedly set forth herein as “forward-looking statements.” Neither the Tender Offeror nor the Target, nor any of their respective affiliated parties, assumes that such express or implied projections, etc. set forth herein as “forward-looking statements” will eventually prove to be correct. The “forward-looking statements” contained in this press release have been prepared based on the information held by the Tender Offeror and the Target as of the date hereof and, unless otherwise required under applicable laws and regulations, neither the Tender Offeror nor the Target, nor any of their respective affiliated parties, assumes any obligation to update or revise this press release to reflect any future events or circumstances.
- There is a possibility that the Tender Offeror, any of the Target’s financial advisors or the tender offer agent (including their respective related parties) may conduct purchases of common stock of the Target not under the Tender Offer for its or their own account or on the account of its or their clients, or may take any action toward such purchase, prior to the commencement of the Tender Offer or during the tender offer period, in the ordinary course of business in accordance with the requirements under Article 5(b) of Rule 14(e) of the U.S. Securities Exchange Act of 1934, to such extent as is permitted by Japanese legislation related to financial instruments transactions and other applicable laws and regulations.