



September 28, 2021

To Kansai Super Market Ltd., Board of Directors:

OK Corporation
Representative Director & Chairman Susumu Iida
Representative Director & President Ryotaro Ninomiya

Questions to Kansai Super Market

We hope this letter finds all of you well.

We have read the press release published by Kansai Super Market Ltd. (“KSM”) on September 24, 2021 entitled “The Company’s Views on the Proposals by H2O Retailing Group and OK Corporation” (“September 24 Press Release”). We are sending this document in order to request additional disclosure of information for KSM’s shareholders to make their decisions at the KSM extraordinary general shareholders meeting scheduled to be held on October 29 (“KSM extraordinary general shareholders meeting”).

As you know, we have made a proposal for a friendly transaction with KSM. Even now that KSM has announced a business integration with H2O Retailing Corporation (“H2O”), Izumiya, Co., Ltd. (“Izumiya”) and Hankyu Oasis Co., Ltd. (“Hankyu Oasis”; these three companies are referred to as “H2O Group”, collectively), we still think that the proposal for us to take KSM private has obvious advantages to KSM and its shareholders, and continue to aim for the realization of a friendly transaction.

Under these circumstances, it goes without saying that disclosure of adequate information is necessary for KSM’s shareholders to appropriately make a decision regarding the business integration with H2O Group, but as a KSM shareholder, we believe that the disclosures of the September 24 Press Release are inadequate. We have indicated in the attachment points that we consider important for KSM shareholders to appropriately make a decision regarding the business integration with H2O Group, so we are requesting that you disclose answers regarding such matters through timely disclosures to all KSM shareholders, including us.

We have read KSM’s views regarding our management policies, corporate philosophy, and business lineup in the September 24 Press Release. Our understanding is that these views are influenced by the fact that we did not receive an opportunity to engage in substantive discussions with KSM’s management and directly provide information regarding us. In particular, the statement that “the essence of OK’s management policy is low-priced sales through cost-cutting” is not an accurate understanding of our management policies, and is very regrettable. We will not enumerate rebuttals here for all of our thoughts about how our management policy, corporate philosophy, and business lineup were described by KSM in the September 24 Press Release, but we believe if we had only been given the opportunity to discuss with KSM to the same degree as H2O Group, even if there were some impediment, we could absolutely find a means to overcome it, and we could realize a promising management integration under amicable terms.

We want to add that at the upcoming KSM extraordinary general shareholders meeting, if KSM’s other shareholders approve the business integration with H2O Group, we intend to accept this as the determination of KSM’s shareholders.

**(Attachment) Questions for KSM Shareholders to
Appropriately Make Determination**

General Thoughts Behind Each Question

In the explanations of the September 24 Press Release, KSM makes the determination that, pursuant to the third-party valuation institutions' report, the theoretical share price of KSM based on the business integration with H2O Group could exceed the 2,250 yen price that we proposed, and therefore the business integration will contribute to maximizing the common interests of all shareholders. However, while our proposal allows all shareholders to enjoy an opportunity to surely sell at 2,250 yen, the proposal for the business integration with H2O Group merely provides a theoretical share price on the assumption that the business plan is based on reasonable forecasts, and therefore we believe that in order for all shareholders to appropriately make a determination, the information supporting the theoretical share price needs to be disclosed in detail.

KSM's press release dated August 31, 2021 ("August 31 Press Release") explains that third-party valuation institutions calculated the share swap ratios on the basis of the following assumptions.

IR Japan, Inc. ("IR Japan")

"The calculation of the share swap ratios by IR Japan reflects information and economic conditions up to the calculation reference date, and the financial forecasts (including earnings plans) of the Company (KSM), Izumiya, and Hankyu Oasis were reasonably considered or prepared by the management of the Company (KSM), Izumiya, and Hankyu Oasis on the basis of the best forecasts and judgements currently available."

Plutus Consulting Co., Ltd. ("Plutus Consulting")

"Plutus Consulting has assumed that the business plans and other materials of the Company (KSM), Izumiya, and Hankyu Oasis used as supporting materials for the Fairness Opinion were prepared reasonably by managements of the Company (KSM), Izumiya, and Hankyu Oasis on the basis of the best forecasts and judgements available at the time such materials were prepared; Plutus Consulting does not guarantee the feasibility thereof, and has not represented any views regarding the analyses or forecasts that were assumed in the preparation of the foregoing, or the assumptions used as the basis thereof."

This means that the third-party valuation institutions did not independently verify the business plans, and made their calculations taking the business plans prepared by KSM, Izumiya, and Hankyu Oasis as given. In other words, the calculation results of the third-party valuation institutions could change significantly depending on the business plans prepared by the three companies, and for the reliability of the calculation results by the third-party valuation institutions, not only the calculation methods they adopted, but also the fact that the business plans prepared by the three companies are based on reasonable forecasts is an important factor. If the fact that the calculation results of the third-party valuation institutions exceeded the price we offered is being taken to determine that the business integration with H2O Group would better contribute to the maximization of the common interests of all shareholders, then we think that KSM should appropriately explain to shareholders the feasibility of the business plans that served as the basis for those calculation results. In particular, the business integration with H2O Group, for KSM, is also an acquisition of Izumiya and Hankyu Oasis, and we believe that the business plans prepared by negotiation counterparties Izumiya and Hankyu Oasis were not left to the total discretion of a special committee composed of outside directors and attorneys, but rather their feasibility should have been conservatively verified by KSM as an expert in the super market business in order to calculate an acquisition price that can be reasonably explained. We think that the verification results for the Izumiya and Hankyu Oasis business plans especially should be explained in detail. In addition, the consideration in the business integration consists of shares, whose value is harder to understand than to cash, and also will have a significant impact on minority shareholders in conjunction with significant dilution of KSM's shares, so we think there needs to be more detailed explanation regarding the equity values that KSM, Izumiya, and Hankyu Oasis were considered to have.

A) Regarding the Integrated Business Plan

① The September 24 Press Release discloses only an “Integrated Business Plan” that simply adds KSM, Izumiya, and Hankyu Oasis together. Please disclose the business plans for each of the three companies.

- ✓ The reliability of the theoretical share price would change significantly depending on the feasibility of the business plans, but the September 24 Press Release did not explain the specific basis or the attainment of the plans.
- ✓ As shown in the table below, compared to past actual figures, we see a plan that expects significant improvement in business performance (in particular, profit margin improvement), so we think that an adequate explanation of specific measures to realize significant improvement (including quantitative impacts) would be mandatory.
- ✓ Please disclose the numbers for the 12-month period ending March 2022, not the nine-month period.
- ✓ The September 24 Press Release states that “the Company’s (KSM) shareholders will become shareholder of a food super markets group with sales of 400 billion yen, and can enjoy synergies generated going forward and appreciation of the Company’s share price”, but we think that the risks that will be borne by minority shareholders, such as declining earnings per share and declining share price if the business plan is not attained, also needs to be explained..

(Reference): Past Actual Results since FY Ending March 2017 and Projections in the Integrated Business Plan with H2O Group (Summarized by OK Corporation)

(JPY 100 million)

Fiscal Year Ending	Actual Results					Projection Period						
	March 2017	March 2018	March 2019	March 2020 ⁽¹⁾	March 2021	March 2022			March 2023	March 2024	March 2025	March 2026
						1Q	2Q-4Q ⁽²⁾	Total				
Sales (three-company total)	4,933	4,724	4,545	4,465	3,747	933	3,001	3,934	3,927	3,937	3,988	4,028
<i>Growth rate</i>	-1.5%	-4.2%	-3.8%	-1.8%	-16.1%	—	—	5.0%	-0.2%	0.3%	1.3%	1.0%
KSM	1,207	1,227	1,237	1,262	1,309	320	971	1,291	“No significant increase in earnings during the projected period”			
<i>Growth rate</i>	0.5%	1.7%	0.8%	2.1%	3.8%	—	—	-1.4%				
Izumiya	2,578	2,329	2,183	2,109	1,330	335						
<i>Growth rate</i>	-4.7%	-9.7%	-6.3%	-3.4%	-36.9%	—						
Hankyu Oasis	1,149	1,168	1,126	1,094	1,108	279						
<i>Growth rate</i>	4.2%	1.7%	-3.6%	-2.8%	1.2%	—						
Operating profit (three-company total)	47	31	12	-9	73	20	53	73	80	94	118	135
<i>Profit margin</i>	1.0%	0.6%	0.3%	-0.2%	2.0%	2.1%	1.8%	1.8%	2.0%	2.4%	3.0%	3.4%
KSM	18	21	20	23	27	7	22	28	“No significant increase in earnings during the projected period”			
<i>Margin</i>	1.5%	1.7%	1.6%	1.8%	2.1%	2.1%	2.2%	2.2%				
Izumiya	15	4	-12	-31	31	7	“In FYE March 2025, operating profit increases by 30% or more over the preceding year”					
<i>Margin</i>	0.6%	0.2%	-0.6%	-1.5%	2.3%	2.1%						
Hankyu Oasis	14	6	5	0	15	6	“In FYEs March 2024 and March 2025, operating profit increases by 30% or more over the preceding years”					
<i>Margin</i>	1.2%	0.5%	0.4%	0.0%	1.4%	2.2%						
EBITDA(three-company total)							91		132	147	173	193
<i>Margin</i>							3.0%		3.4%	3.7%	4.3%	4.8%
KSM	31	35	37	40	46							
<i>Margin</i>	2.6%	2.9%	3.0%	3.2%	3.5%							
Izumiya												
Hankyu Oasis												

Source: H2O Annual Securities Report (“Yuhu”), Presentation Materials of Quarterly Financial Report, Supplementary Materials for First Quarterly Financial Results of 2022, Izumiya electronic public note, KSM First Quarterly Report of 2022 (“Kessan Tanshin”), 8/31 Press Release

Note 1: Izumiya’s data through 2020/3 includes non-food divisions

Note 2: Net sales for 9 months. Figures for KSM are calculated based on KSM Quarterly Report of 2022 (“Kessan Tanshin”)

② As shown in the table above, the business plans of Izumiya and Hankyu Oasis presumably assume a significant increase in profit compared to past levels. Please explain specifically what kind of verification, including the due diligence carried out between KSM and H2O from late July to August 2021, was conducted in order for KSM to confirm the reasonableness of the two companies' business plans.

- ✓ In the explanations of the third-party valuation institutions, KSM is not expected to have a significant change in earnings, but Izumiya and Hankyu Oasis look to be based on a aggressive business plans, with operating profit increasing by 30% or more over the preceding year in FYE March 2025 (Izumiya) and in both FYEs March 2024 and March 2025 (Hankyu Oasis).
- ✓ The business integration with H2O Group is a transaction in which H2O would acquire 58% of KSM's equity, so we think that H2O would be paying a premium to KSM's shareholders. However, as long as the plans for significant increase in earnings of Izumiya and Hankyu Oasis have not been correctly verified, we worry that if a share price has been calculated pursuant to such plans, then KSM, which will have a new controlling shareholder, would conversely be paying a large premium for the acquisition of the shares of Izumiya and Hankyu Oasis.
- ✓ If our understanding as described above is correct, we worry that KSM will record a large amount of goodwill, of which amortization and/or impairment will be a factor in lowering earnings in the future.

③ Please explain the specific timing and amounts of synergies that are expected to be realized. Further, please explain how specifically the significant dilution that will occur through the business integration with H2O Group will be compensated by the expected synergy.

- ✓ We are concerned because attaining synergies are described as being "easy", while no mention is made of the specific amounts or timing.
- ✓ We explained to the special committee that we would increase KSM's sales per *tsubo* (3.3 square meters) up to 130% compared to current levels.

B) Regarding the Valuation of Integrated Companies

④ KSM has determined that the theoretical share price could exceed 2,250 yen through the business integration with H2O Group. We understand this to mean the theoretical share price as of the effective date of the share swap, not the price conditional upon the realization of the business plan; please explain, at what point in time do you expect reaching this share price level in the future?

- ✓ KSM's board of directors determined that, not the 2,250 yen price proposed by us, which surely provides an opportunity to shareholders to sell, but rather the business integration with H2O Group, will lead to a higher price in the future. We think that shareholders need an explanation regarding when you are expecting to reach a share price exceeding 2,250 yen.

⑤ Please disclose the respective equity value of KSM, Izumiya, and Hankyu Oasis that served as the basis for the theoretical share price and the calculation of the share swap ratio. Further, please indicate the theoretical share prices and equity values based on a market price analysis and comparable companies analysis.

- ✓ KSM's price at the close of August 30 was 1,320 yen, and on the assumption of this market price being correct, in order for the theoretical share price of the three companies after the business integration to reach 2,250 or higher, we would think that Izumiya and Hankyu Oasis would have to have considerably high valuations.
- ✓ Further, if KSM's market price is not appropriate, then it needs to be explained why there is a difference between the market price and the theoretical share price (the share price based on the DCF analysis).
- ✓ According to the August 31 Press Release, the share swap ratios with Izumiya and Hankyu Oasis were outside of the ranges calculated by IR Japan using DCF analysis, so we presume that they were not determined relying on only the price calculated using the DCF analysis. Please disclose the theoretical share prices of the combined companies calculated using methods other than the DCF analysis set forth in the August 31 Press Release (comparable companies analysis and market price analysis). The theoretical share price (without synergies) of the three companies after integration

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would be 1,787-3,128 yen, and with an equity value (market capitalization) of 114.1-199.7 billion yen, reverse calculating from the actual results for the FYE March 2021 (total post-tax earnings of 3.27 billion yen for the three companies), gives a profit-to-earnings ratio (PER) of between 34.9x-61.1x, significantly exceeding the industry average of 15x-20x. We think that fair disclosure of not only the theoretical share price based on the DCF analysis pursuant to future business plans, but also the theoretical share price based on the comparable companies analysis and the like pursuant to the actual results of the most recent fiscal year and forecasts of current and next fiscal year needs to be made to shareholders.

⑥ Please explain how much it will cost for KSM to acquire the shares of Izumiya and Hankyu Oasis (what the equity value per KSM share allotted to H2O will be).

- ✓ In the business integration with H2O Group, concurrently with the acquisition of Izumiya and Hankyu Oasis by KSM, H2O will acquire a 58% stake in KSM; H2O should pay a premium for acquiring a majority stake in KSM. Please explain whether such a structure has been adopted.

⑦ According to the September 24 Press Release, our understanding is that the equity value for Izumiya and Hankyu Oasis could even exceed the market capitalization of parent company H2O. Is this correct? Please explain so we can be sure.

- ✓ On the basis of the theoretical share price from simply adding the three companies together disclosed in the September 24 Press Release (1,787-3,128 yen), the total equity value of the three companies would be 114.1-199.7 billion yen. Supposing that KSM's equity value represents 39.6 billion yen of this (as of August 30, 2021 which is the day preceding the date of the announcement of the business integration with H2O Group), the combined equity value of Izumiya and Hankyu Oasis would be roughly 74.5-160.1 billion yen. This equity value exceeds the market capitalization of 106.7 billion yen (as of the close of August 30, 2021) of H2O, which runs the main department store business in addition to the supermarket businesses carried out through the two subsidiaries. Although we surmise from the share swap ratios that the actual values can be different from such estimated values, please explain whether this thinking (our understanding that the values for Izumiya and Hankyu Oasis are considerably large, and represent a significant portion of H2O's market capitalization) is correct.

⑧ The third-party valuation institutions adopted the perpetual growth method for the calculation of the terminal value, but we think that because domestic interest rates are so low in the current environment, the perpetual growth method tends to provide a high value. Please explain how such characteristic of the perpetual growth method was treated, compared to the calculation results based on other valuation methodologies.

- ✓ If IR Japan did not perform calculations using the exit multiple method, please explain why it was not used for calculating the terminal value.
- ✓ It appears that Plutus Consulting performed its calculations using both the perpetual growth method and the exit multiple method; please disclose the range of the theoretical share price based on each method.
- ✓ Particularly in the FYE March 2026, the last fiscal year in the business plan, there is a significant increase in earnings, so we think that the calculation of the terminal value is a critical point of discussion.

⑨ We think that, for KSM, not negotiating a capital increase by H2O in Izumiya and Hankyu Oasis, but negotiating a reduction in the share swap ratios would better serve the interests of KSM's minority shareholders. Please explain what kind of negotiations were held.

- ✓ The September 24 Press Release states that, for the interests of KSM's minority shareholders, "H2O came out with the condition of carrying out capital increases totaling roughly 16.4 billion yen". We wonder if these capital increases in Izumiya and Hankyu Oasis, which would increase H2O's stake in KSM, and simultaneously increase dilution of KSM's shares, would conversely be disadvantageous to minority shareholders.

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- ✓ If such capital increases were carried out in order to improve financial soundness, we think that they are for making up past losses of Izumiya and Hankyu Oasis.

C) Regarding Goodwill

⑩ Please explain the risk of goodwill being recorded through the business integration with H2O Group and the impact of amortization in conjunction therewith.

- ✓ The amortization burden or impairment loss risks of goodwill that KSM will record through the business integration with H2O Group could be a factor in putting pressure on KSM's earnings, which will also be borne by minority shareholders. The risks and impacts in conjunction with goodwill are extremely important for minority shareholders to make their determinations, so please explain.
- ✓ The simply aggregated operating profit of the three companies is shown in the integrated business plan, but because the goodwill amortization cost in conjunction with the share swap will actually be recorded as selling, general and administrative expenses in KSM's consolidated accounting, we think that even if consolidated operating profit of KSM (the post-integration holding company) goes as planned for each company, there will be a reduction in earnings corresponding to the goodwill amortization cost.

D) Regarding the Issue of a Subsidiary Listing

⑪ The September 24 Press Release includes an explanation that through maintaining KSM's listing, it will be possible to build a strong governance system. Regarding the issue of a subsidiary listing, which are widely seen as problematic, please specifically explain how the demerits will be mitigated. Further, please explain why it was set so that H2O's stake would be precisely "58%".

- ✓ In the business integration with H2O Group, H2O will carry out capital increases for Izumiya and Hankyu Oasis in advance so that H2O will own 58% of KSM's shares after the business integration.
Although 58% does considerably exceed a majority, it does not exceed two-thirds, and for an acquisition of a company intending to maintain its listing, it would be a rarely seen and halfhearted ratio, so please explain why it is set so that H2O will have a 58% stake in KSM after the business integration.
- ✓ After the business integration with H2O Group, the 58% of KSM's owned by H2O will exceed two-thirds combined with the stock ownership ratios of KSM's business partners and employee shareholding association. Even with H2O on its own, considering that the voting rights exercise ratio (general shareholders meeting attendance ratio) for KSM's past general shareholders meetings is roughly 87% (average of past 10 years), the influence of 58% of voting rights is not $58\% / 100\% = 58\%$, but $58\% / 87\% = 66.7\%$, so H2O will essentially come to hold a two-thirds equity stake after the business integration with KSM, which means H2O alone will essentially be able to approve any general shareholders meeting proposals. Given the genuine concerns regarding conflicts of interest due to a subsidiary listing, we think that there needs to be an explanation regarding the significance and merits for KSM's minority shareholders of KSM maintaining its listing under these circumstances, and conversely the specific measures for mitigating the demerits.
- ✓ Further, please explain how concerns of a subsidiary listing were handled in negotiations with H2O, and whether H2O made a proposal to take KSM private like our proposal to avoid such status.

E) Regarding Listing Market Classification

⑫ KSM is currently listed on the First Section of the Tokyo Stock Exchange, and we feel there is a possibility that in the new market classification review by the Tokyo Stock Exchange effective April 2022, it will not remain in the Prime Market because of the impact of the business integration with H2O Group. Please provide an explanation regarding this point and the impacts on KSM's minority shareholders.

- ✓ During discussions on June 17, 2021 (because our initial proposal was based on the assumption that we would acquire 50.1% of KSM's shares and maintain its listing), KSM explained that its goal was to remain in the prime market, and that it was worried that it might not be able to remain in the prime

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market under our proposal. Meanwhile, after the business integration with H2O Group, the liquid stock ratio required for the prime market will not be satisfied because H2O will become the controlling shareholder, so we think that moving to the standard market is possible. It is also important for KSM, but for shareholders, we think that which market classification it will be is important information, and this matter is not mentioned in the August 31 Press Release or September 24 Press Release. Please explain KSM's thinking.

- ✓ The equity value of KSM and the equity value of Izumiya and Hankyu Oasis are nearly identical (the fact that H2O, which currently holds 10%, will come to hold 58% through the business integration can be taken to infer that after the business integration 48% of KSM will correspond to the equity values of Izumiya and Hankyu Oasis, and the remaining 52% will correspond to KSM's equity value), and therefore, for KSM, the business integration with H2O Group is an acquisition of two unlisted companies of essentially the same size. The aggregate net assets and sales of these two unlisted companies will be at least the amounts of KSM's consolidated net assets and sales, and we feel that this could be subject to an extra scrutiny by the Tokyo Stock Exchange in a "Delisting Examination for Inappropriate Merger etc." (a so-called backdoor listing of two unlisted companies). Please explain specifically how in that case you would envision explaining it and obtaining approval.

End