

Unleash “With us Corporation” from the Founding Family

31 May 2024
Global ESG Strategy

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Free With us from Subservience to Founding Family

- GES started investing in With us Corporation (“With us” or the “Company”, securities code 9696), which is listed on the TSE Standard Market, in 2023, and has continued to engage with management since then. Over that period, GES has obtained confirmation of the company’s high growth potential, but has also identified serious governance issues related to the founding family. It is clear that management is complacently unmindful of the levels of capital efficiency required of a listed company.
- More specifically, management policy at With us ignores both the cost of capital and capital efficiency, and its share price valuations have dropped to sector lows. One reason for this is the huge net cash position, which completely ignores capital efficiency and for which the company has no remedial financial policy in place. A corporate culture that allows such unjustifiable cash buildup is clearly contrary to the TSE’s call for management with “more consideration of cost of capital and profitability based on the balance sheet” .
- Moreover, the Company awards a privileged position and special remuneration to the founder and the founding Horikawa family, which permits founding family members to serve simultaneously on rival company boards, distributes profits to the founding family through the acquisition of subsidiary equity, and has introduced and maintains takeover prevention measures designed to protect the founding family. As a result, despite being a listed company, With us gives excessive consideration to one group of shareholders – the founding family – and channels profits in their direction. This is detrimental both to the growth that a listed company ought to aim for, and the realization of the common interests of all shareholders.
- GES has reached out to With us management to request improvement in these issues. However, management has consistently argued that there is nothing inappropriate about its policies, demonstrating that there is no sign of the Company undertaking improvements on its own initiative. For this reason, GES has submitted the following shareholder proposals to the Annual General Meeting of Shareholders scheduled for June 2024, with the aim of achieving radical reform to governance and improving capital efficiency.
- The proposal consists of a total of 10 resolutions with the following four goals: **1) Large-scale shareholder returns to improve capital efficiency; 2) Governance reform to free the company from anachronistic management that favors the founding family; 3) The promotion of constructive dialogue with shareholders; and 4) The discontinuation of anti-takeover measures that protect the vested interests of the founder and associates.**
- GES hopes that by submitting these shareholder proposals and publicizing them to With us shareholders, it will be help resolve the critical governance failings at With us, promote management that genuinely pursues capital efficiency, and maximize the common interests of all shareholders.



Investing long term from ESG perspective

Global ESG Strategy (GES) is an investment fund managed by Swiss-Asia Financial services.

As an institutional investor that invests in companies over the medium to long term from an ESG (Environment, Social and Governance) perspective, GES's policy is to promote improvements in enterprise value and shareholder value of portfolio companies through constructive dialogue.

Funds managed by SAFS hold around 19% of the voting rights in With us Corporation.

Refer below for information about Global ESG Strategy:

https://prtimes.jp/main/html/searchrlp/company_id/135781

Summary

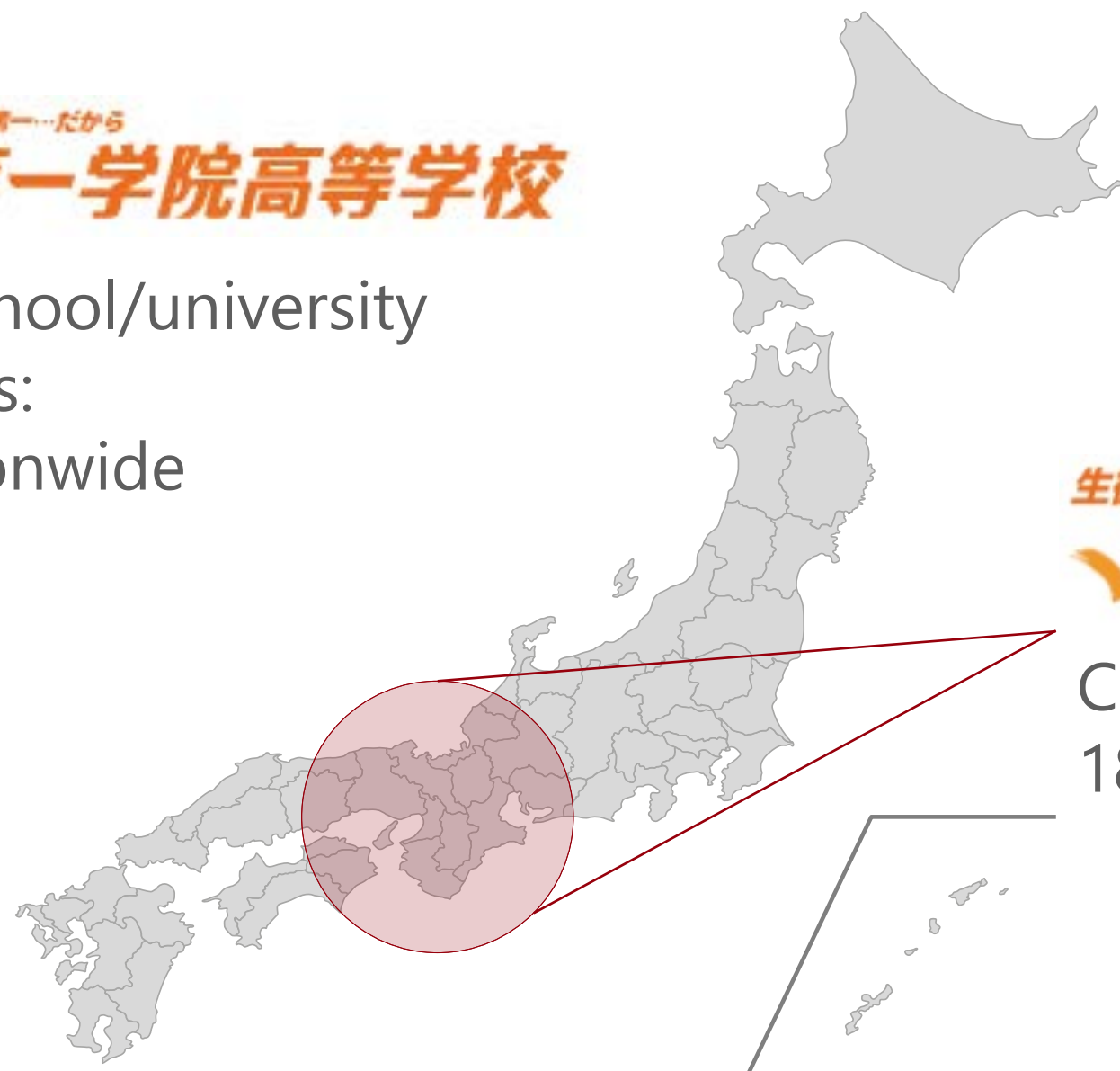


- In 1976, Kazuaki Horikawa opened Gakken Juku (now Dai-ichi Seminar) in Osaka, and set up Gakken Kenshusha Co., Ltd. (now With us Corporation). Went public in 1990. Runs education services, incl. Dai-ichi Gakuin High School (distance learning) and Dai-ichi Seminar (cram school).

Locations



High school/university business:
42 nationwide

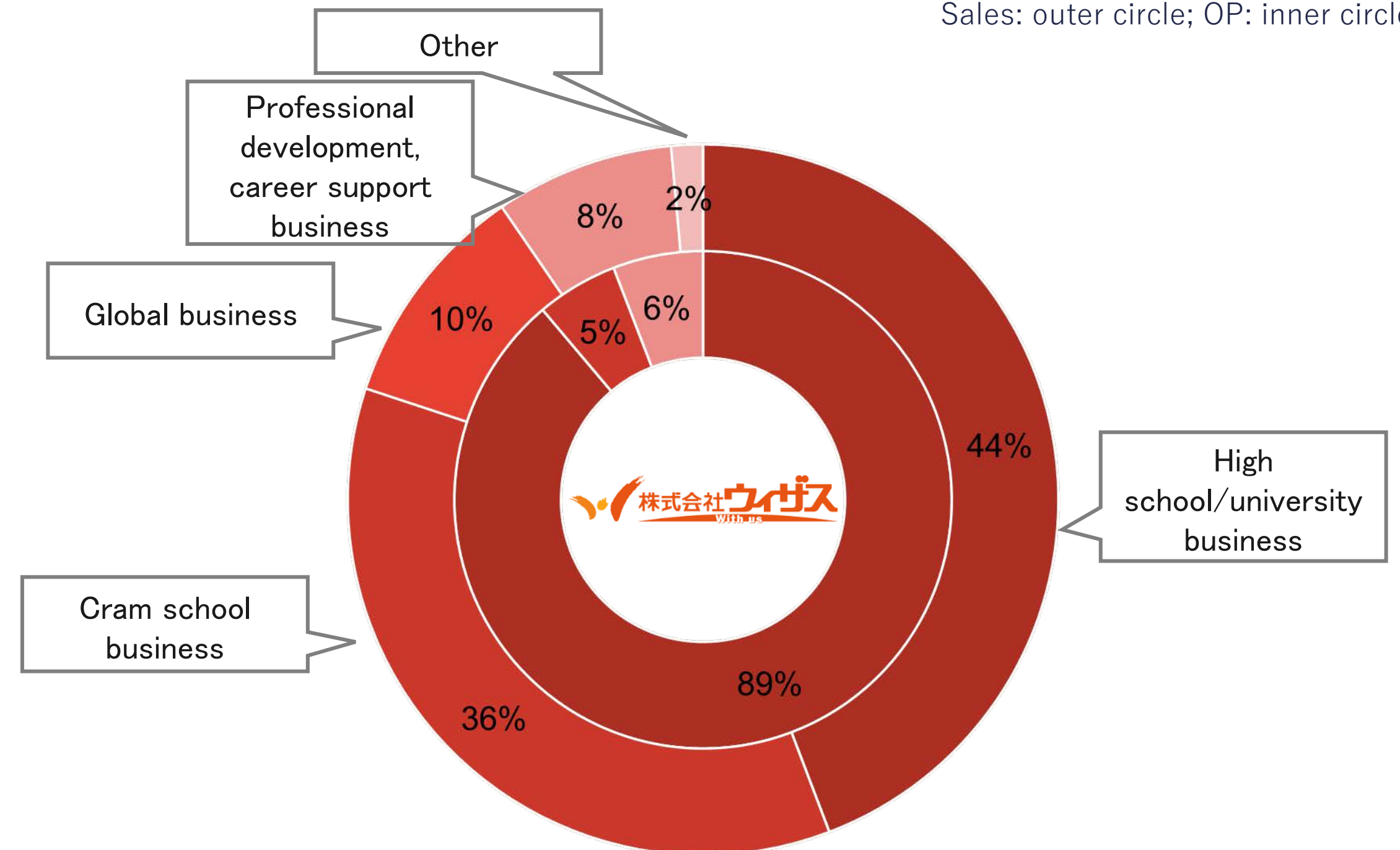


Cram school business:
185 mostly in Kansai

Source: With us Corporation FY3/24 results briefing material

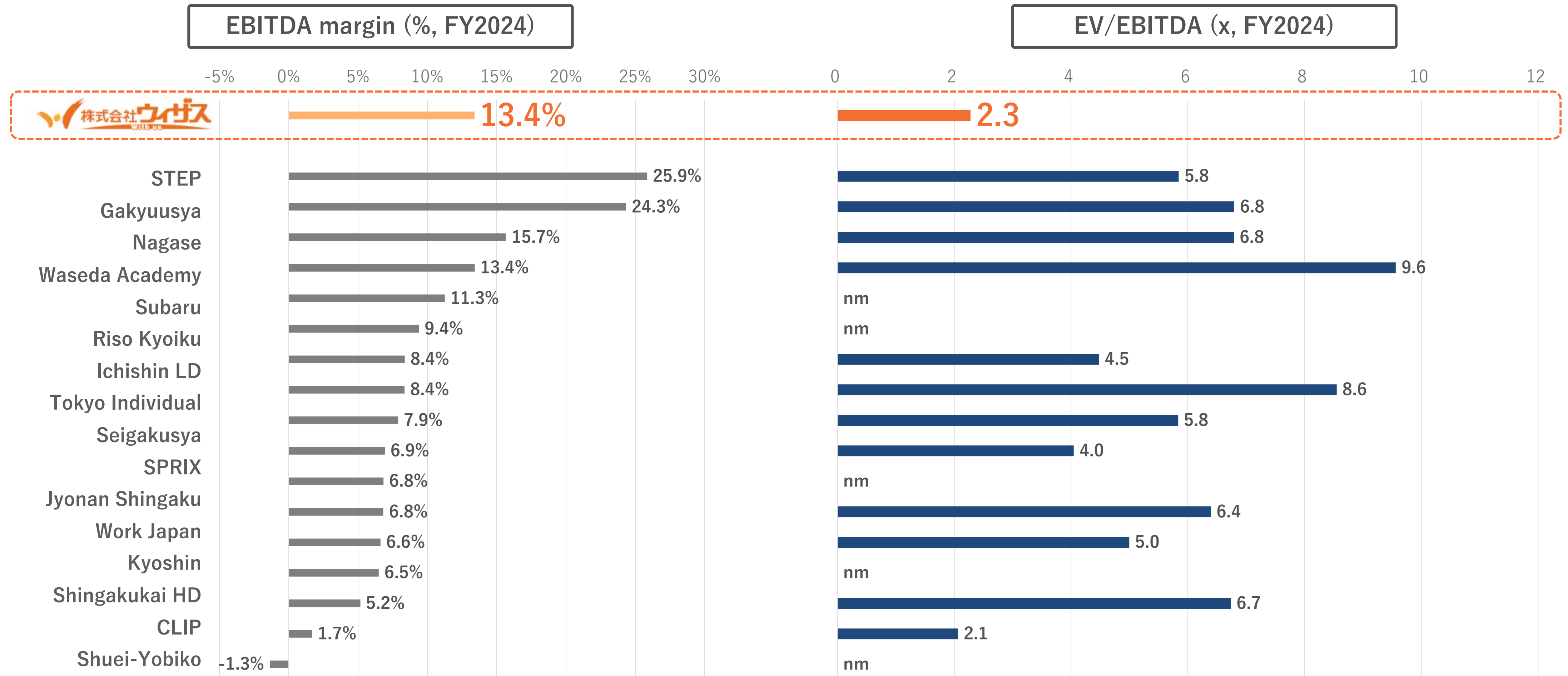
Sales and OP weightings (FY2023)

Sales: outer circle; OP: inner circle



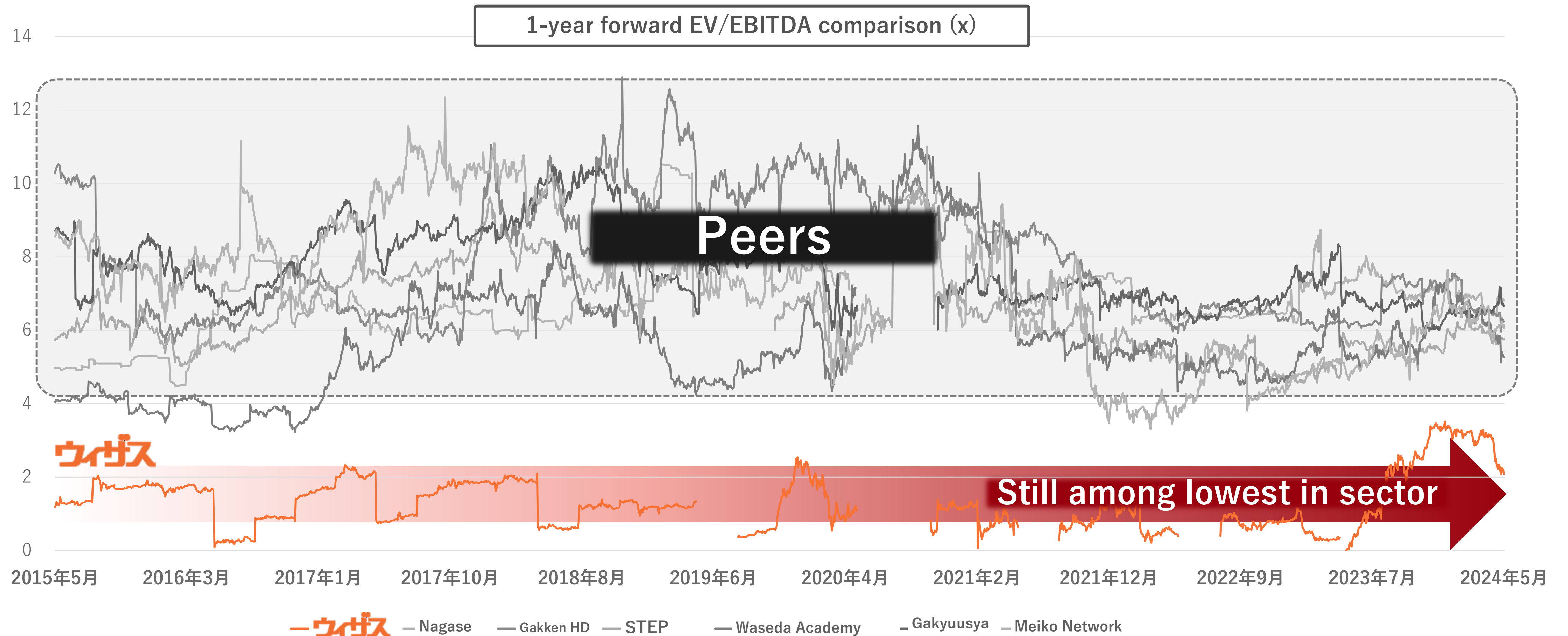
Share Price Valuations among Lowest in Sector

- EBITDA margin markedly above peers, but share price valuation remains low.



0-3 Share Price Valuations among Lowest in Sector

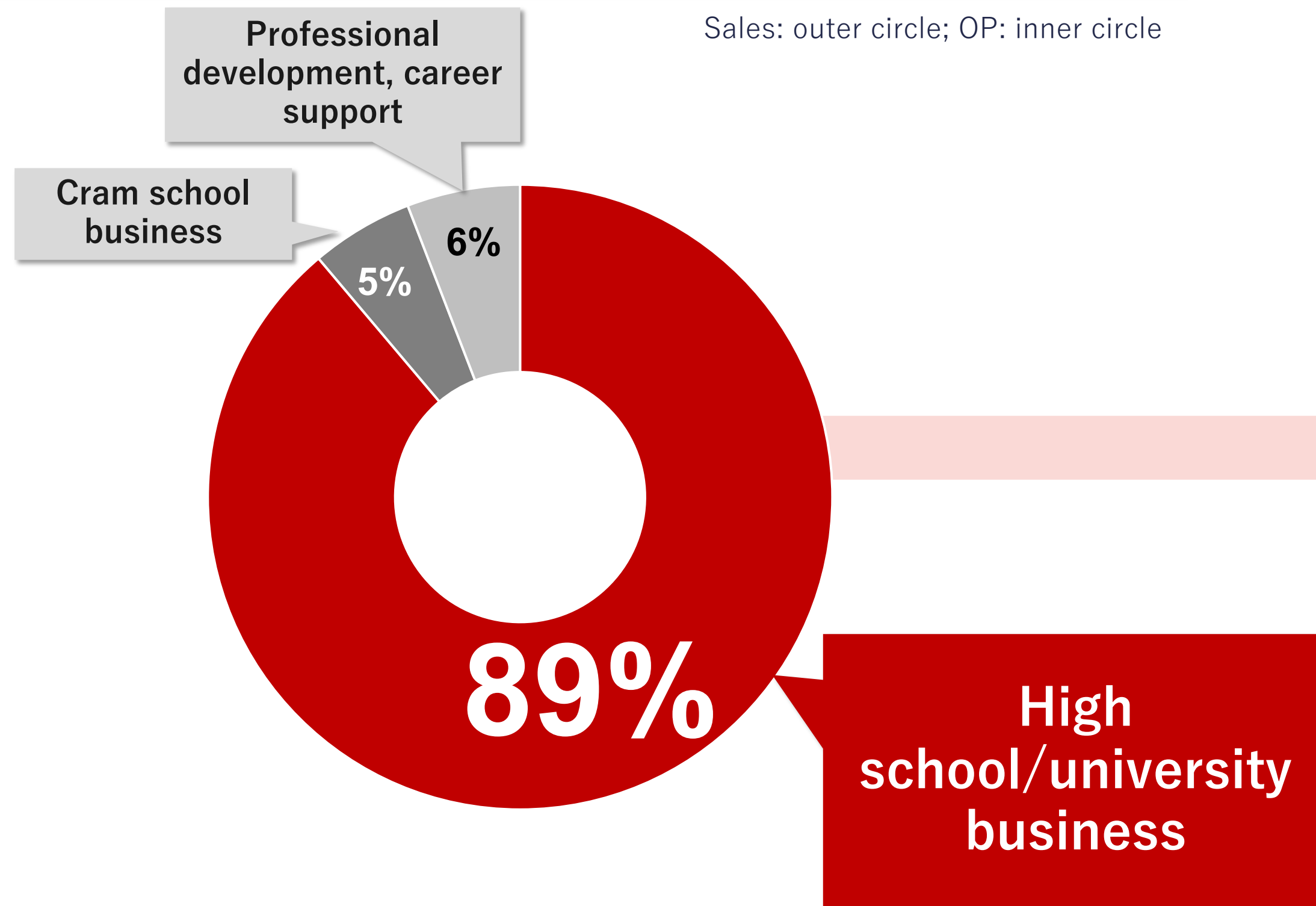
- Low sector-relative valuations (1-year forward EV/EBITDA) are not a recent development, but a long-lasting one that goes back many years.



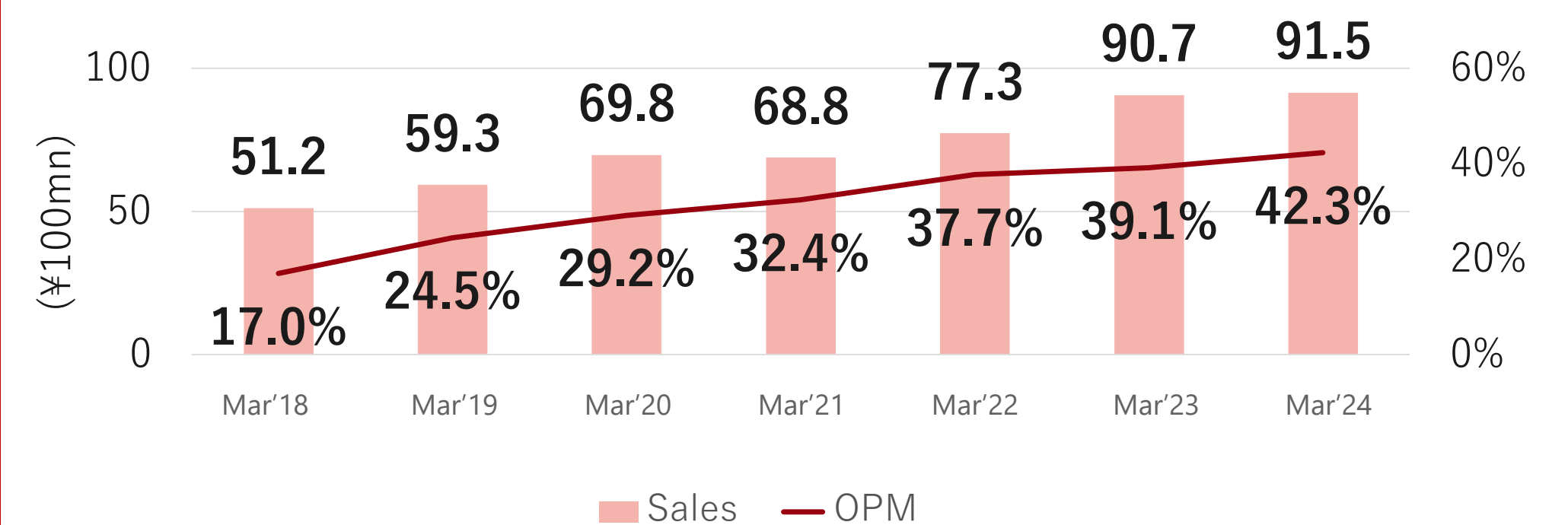
One of Few Education Providers with Steep Growth and High Profitability

- 89% of With us OP is generated through the high school/university business, with profit driven by Dai-ichi Gakuin a distance-learning high school run by a joint stock company. The business has achieved sharp growth and outstanding profitability, with a segment OPM of 42.3%.
- Share price valuations are lowest in sector despite being such a highly attractive business.

OP weighting (FY2023)



High school/university business is high-margin, high-growth

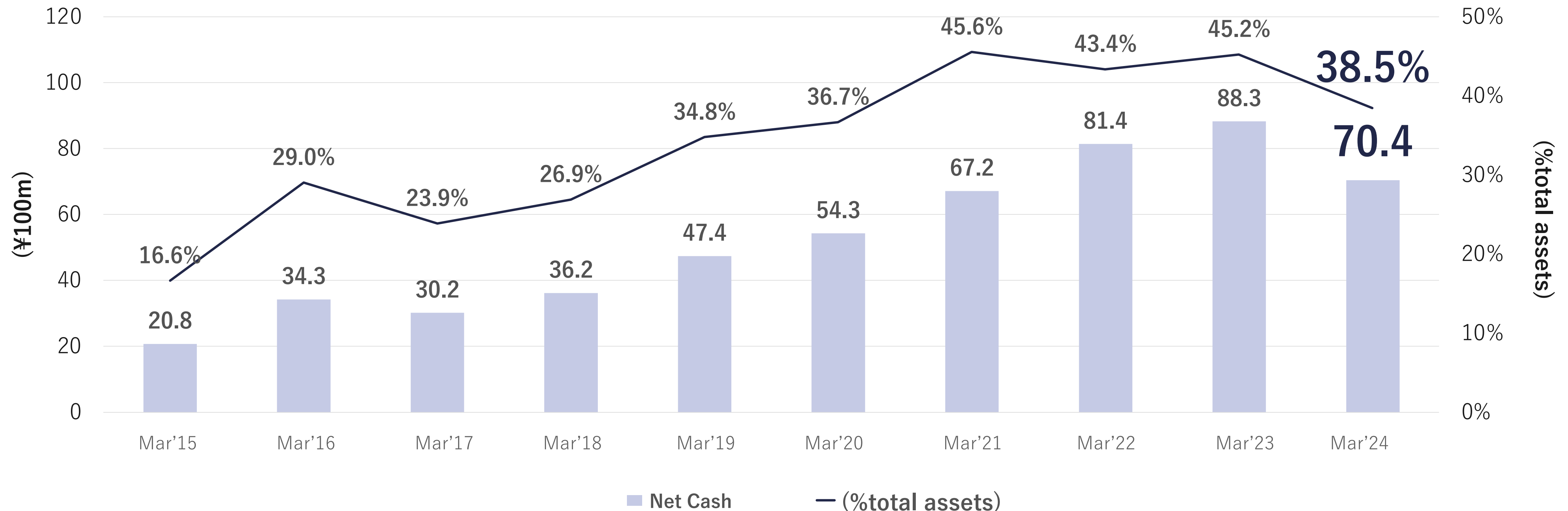


Pandemic drove steep growth in student enrollment



Net Cash Piling Up

- With us has built up excessive net cash over many years without appropriately deploying funds and capital to either shareholder returns or growth investment (human capital, capex, new business development, M&A).
- Excessive net cash is evidence of management that pays little attention to cost of capital or capital efficiency – one key reason behind the low share-price valuations.



- With us management's lack of concern about low valuations and the blind, ongoing build-up of retained earnings suggests that it is not pursuing improvement in corporate value.
- The likely cause is a company run in the favor of the founding family, not the shareholders.

1. Sector-low valuations despite high-margin, high-growth operations

2. Ongoing, complacent build-up of retained earnings

3. Uninterested in constructive dialogue with shareholders, rejecting individual meetings between shareholders and directors

4. Founder treats company as private property; management subservient to founding family

**Needs release from control by founding family,
which confounds public and private interest
Needs management policies that aim to genuinely boost corporate value,
common interests of shareholders**

1. Improve capital efficiency, enhance shareholder returns

Management completely ignores cost of capital & capital efficiency, share price valuations at sector bottom



Share Price Valuations among Lowest in Sector

- With us management's total disregard for cost of capital and capital efficiency has dragged share-price valuations to sector lows.
 - With us shares are trading at an EV/EBITDA of 2.8x FY2023 EBITDA forecasts, markedly lower than sector peers. One reason for this is the huge net cash position.
 - The company's net cash equates to 45% of market cap, or 56% when combined with investment securities.
 - In a sector with an average dividend payout ratio over 50%, topping 100% for some companies, With us has a dividend payout ratio (final dividend) that points to inadequate shareholder returns to date. Its new dividend policy only brings the company in line with peers and will result in net cash continuing to build.
 - Management nevertheless stresses its belief that current net cash and capital structures are optimal, while failing to provide a specific policy on how far to build up retained earnings or what kind of capital structure it aims for.
 - Current financial policy is devoid of direction and equates to management blatantly continuing to build up retained earnings. A corporate culture that permits such unnecessary cash build-up is contrary to the TSE's call for management to take "more consideration of cost of capital and profitability based on the balance sheet."

Improved capital efficiency, expanded shareholder returns needed to remedy this issue

Can Maintain Financial Health even with Dividend Payout Ratio of 150%

- Despite net cash at end-FY2023/2024 over ¥7bn, the upwardly revised full-year DPS is only ¥60 (total dividends around ¥540mn), meaning net cash will likely continue to build.
- Dividend payout ratio of 59.9% not within top of sector.
- Even three years of a 150% payout ratio would still leave ¥6.0bn in net cash at end-FY2025 and net cash/EBITDA of 2.19x.

	Company forecasts			Our proposal		
	FY2023	FY2024	FY2025	FY2023	FY2024	FY2025
DPS (¥)	60	60	60	183	200	200
Dividend payout ratio	59.9%	45.2%	45.2%	182.8%	150.6%	150.6%
Net cash (¥mn)	7,043	7,701	8,359	7,043	6,589	5,982
as % market cap	55.8%	61.1%	66.3%	55.9%	52.3%	47.4%
Net cash/equity	1.13	1.12	1.11	1.13	1.14	1.16
Net cash/EBITDA	2.71	2.82	3.07	2.71	2.42	2.19
Net asset ratio	32.8%	35.2%	38.6%	32.8%	29.5%	26.4%
Est. max borrowing (¥mn)	12,980	13,632	13,632	12,980	13,632	13,632
Borrowing capacity (¥mn)	20,023	21,333	21,991	20,023	20,222	19,614
vs. EBITDA	7.71	7.82	8.07	7.71	7.42	7.19

Notes: Sales, OP, NP assume FY2024 forecasts continue through FY2025. EBITDA calculated assuming depreciation/amortization unchanged from FY2023. Net cash and net assets for FY2024 onwards assume capex equals annual depreciation/amortization, and calculated by adding current-year NP less dividend to prior-year net assets. Estimated maximum borrowing assumed at 5x EBITDA. Market cap as of 17 May 2024 excluding treasury shares. GES estimated FY2023 dividend payout ratio applies DPS of ¥183 (150% dividend payout ratio) to NP forecast as of Feb. 2023.

1-3 Potential for Considerable Share Price Revaluation

- A public commitment to sustained, high dividends could trigger major revaluation of share price if With us is reappraised as a high-dividend stock.
- An FY2024 dividend payout ratio increase to 150% and a stock price that rises to where dividends yield 3% would hold promise for the shares climbing to ¥6,667.

		Dividend payout ratio			
		25%	50%	100%	150%
Dividend yield	7.5%	453	893	1,773	2,667
	7.0%	486	957	1,900	2,857
	6.5%	523	1,031	2,046	3,077
	6.0%	567	1,117	2,217	3,333
	5.5%	618	1,218	2,418	3,636
	5.0%	680	1,340	2,660	4,000
	4.5%	756	1,489	2,956	4,444
	4.0%	850	1,675	3,325	5,000
	3.5%	971	1,914	3,800	5,714
	3.0%	1,133	2,233	4,433	6,667
	2.5%	1,360	2,680	5,320	8,000
	2.0%	1,700	3,350	6,650	10,000
	1.5%	2,267	4,467	8,867	13,333
1.0%	3,400	6,700	13,300	20,000	

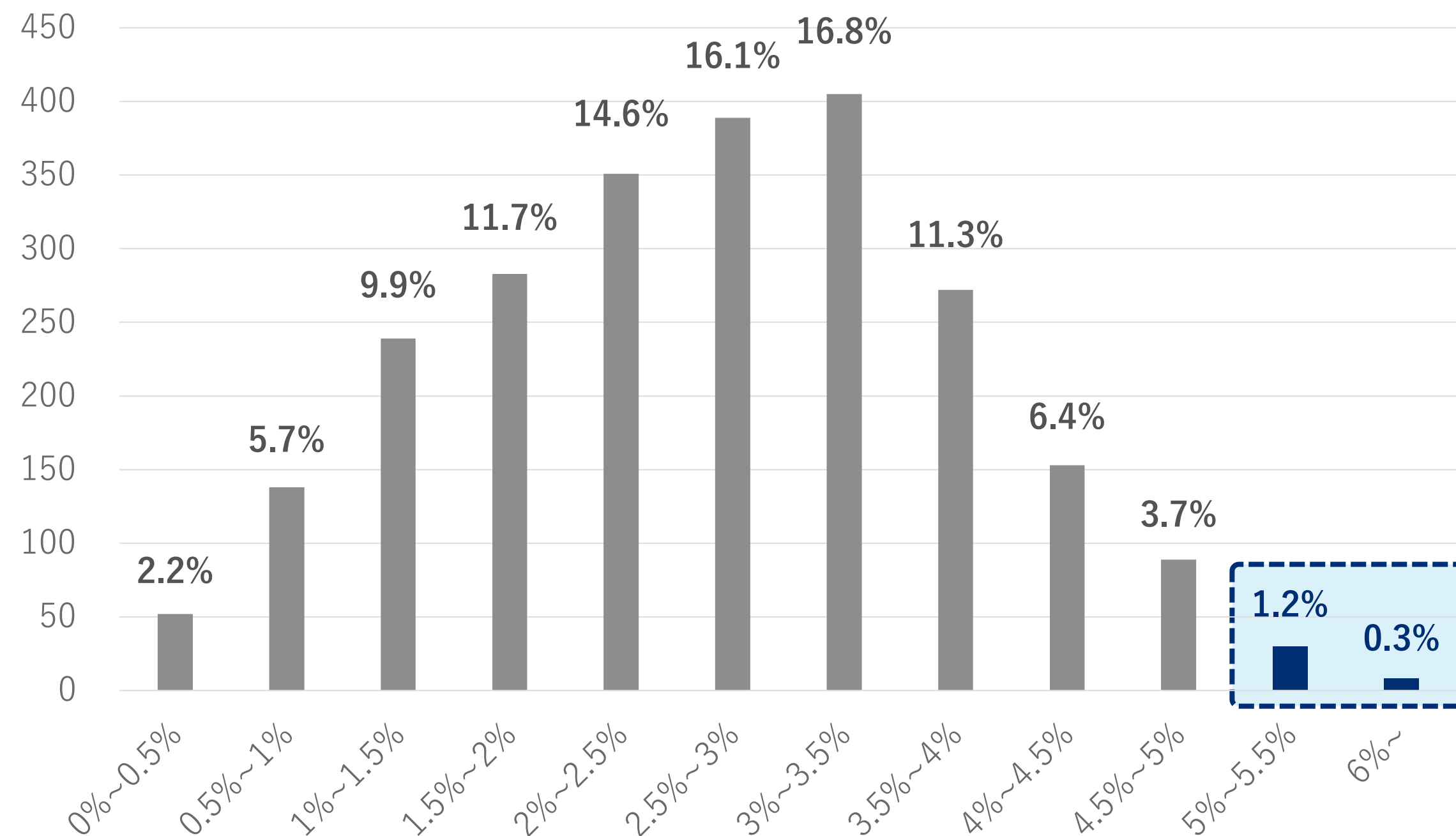
 Broadly around current share price

Expected share price level

Dividend Yield Distribution in Japanese Capital Markets

- Median distribution of dividend yield for Japanese listed companies is 2-3%; generally trade at ceiling of 6% excluding one-off circumstances
- If a company raises the dividend, after the temporarily yield spikes, the share price can be expected to rise at least to where the dividend yield comes to around 5-6%.

Dividend yield distribution for listed companies



Companies with dividend yield above 5.5%

Company	Industry	Expected div yield
SOMPO HD	P&C insurance	9.7%
Kyokuto Securities	Securities	7.1%
SK Electronics	Photomasks	6.0%
Shinka Industries	Steel pipe	6.0%
Meitec Group HD	Staffing (manufacturing, IT)	6.0%
Toyo Construction	Marine general contractor	5.9%
Tokai Leasing	Temp structure sales, leasing	5.9%
Mugen Estate	Renovation	5.8%
Mars Group HD	Amusement machines	5.8%
Yodogawa Steel Works	Steel plate	5.7%
Face Network	Real estate investment	5.7%
Arizawa Manufacturing	Electronic materials	5.6%
Tokyo Industries	Industrial machinery/wholesale	5.5%
Grandi House	Single-family home development	5.5%

Sources: Company materials (as of 16 May 2024)

The shareholder proposal must be passed if With us is to be freed from management that completely disregards cost of capital and capital efficiency

	Shareholder proposal	Description
<p>1. Management unmindful of capital efficiency & allocation, failing to meet obligation to shareholders</p>	Resolution 1	End Board's discretion over distribution from reserves; leave decision with meetings of shareholders
<p>2. Blindly building up cash prevents latent rise in share price</p>	Resolution 2	Appropriately dispose of reserves, bring shares to proper level through shareholder returns
	Resolution 3	Maintain appropriate dividend policy in FY2024 and FY2025

2. Governance reform to free With us from dominance of founding family

**With us founding family (Horikawa) seriously
confounding private and public interests**



Channeling excessive profits to the founding family hinders the growth expected of listed company, which prevents realization of the common interests of shareholders.

1. Privileged position & remuneration given to founding family
2. Family members in concurrent directorships with rival companies
3. Effective distribution of profit to founding family
4. Anti-takeover measures effectively protect founding family (see slide 34)

**Need to end control by founding family,
which conflates private & public interest**

How Founding Horikawa Family Treats With us as Personal Property

- Kazuaki Horikawa founded With us in 1976, served as president through 2009, then as chairman through 2015. He retains advisory role even after resigning his directorship.
- Kazuaki's eldest son Naoto Horikawa currently serves as executive officer of With us. His second son Akito serves as director of a With us subsidiary.
- Akito is responsible for strategic planning, directly under President Ikoma, in position created specifically for Akito separate from main strategy division

Voting rights held by founding family

20.02%



Kazuaki Horikawa

221,000 shares
(2.45% voting rights)



Hint and Hit Co., Ltd.
Rep. Director: Kazuaki Horikawa

653,000 shares
(7.23% voting rights)



Naoto Horikawa

468,200 shares
(5.18% voting rights)

Eldest son



Akito Horikawa

466,000 shares
(5.16% voting rights)

Second son

2-3 Privileged Position Given to Founding Family



Kazuaki Horikawa
 Founder Advisor

Tomio Ikoma
 President

Akito Horikawa
 Strategic planning for president's office

Naoto Horikawa
 Executive officer, Company head of cram school business

Cram school business
 (37.4% sales weighting)

Cram school business head office

進学塾 佑学社
 京大ゼミナール 久保塾 GAZ
 (GAZ) 個別指導 まなび
 (Blue Sky FC)

Global business
 (8.4% sales weighting)

Global business head office

KIKKO
 For Better Communication
 グローバルウイガス

Osamu Kashiki
 Company head, Professional development, career support

Professional development & career support business
 (9.3% sales weighting)

Naoto Horikawa
 Terrace 1 President
 SRJ President

Terrace 1

SRJ

Other
 (4.3% sales weighting)

株式会社ブリーズ
 (Ads business)

Naoto Horikawa effectively in charge of 46.7% of total sales

REVIC GLOBAL
 株式会社レビックグローバル
Osamu Kashiki
 Revic Global President

Source: Company materials, conversation with With us Corporation

2-4

Founding Family Treat Subsidiaries as Private Property

- President Ikoma defends Kazuaki and Naoto Horikawa’s long-standing appointments as subsidiary company presidents, saying they are the “right people for the right positions, and that proper appointment processes are followed every year”.
- However, earnings do not suggest that Kazuaki & Naoto Horikawa have improved subsidiary corporate value

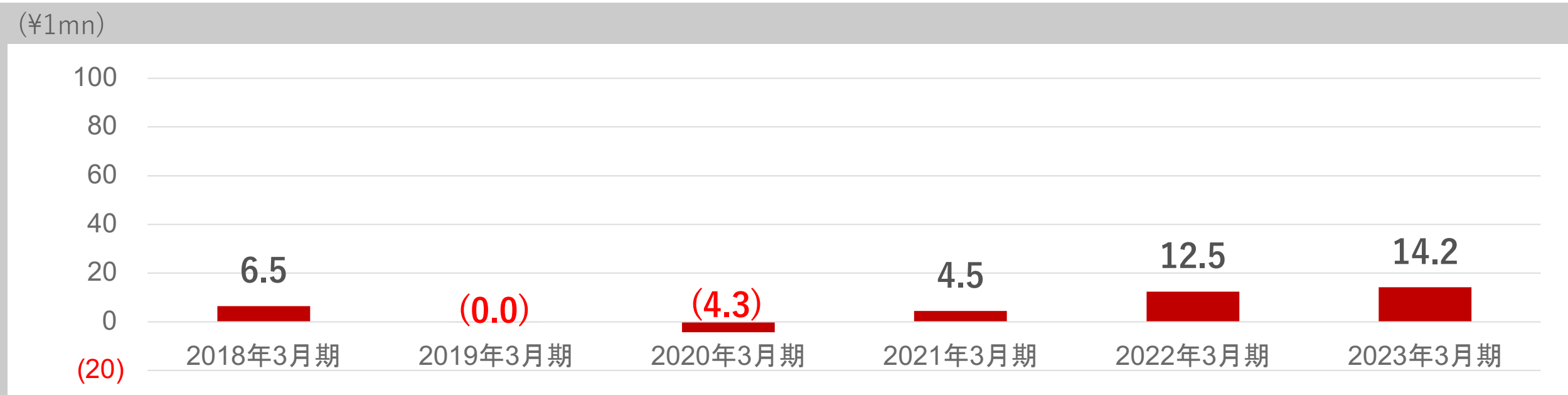


Kazuaki Horikawa



Period as President

31 years



■ Despite operating for 31 years, Breeze turns NP of only ¥14mn, hardly suggesting improvement in corporate value

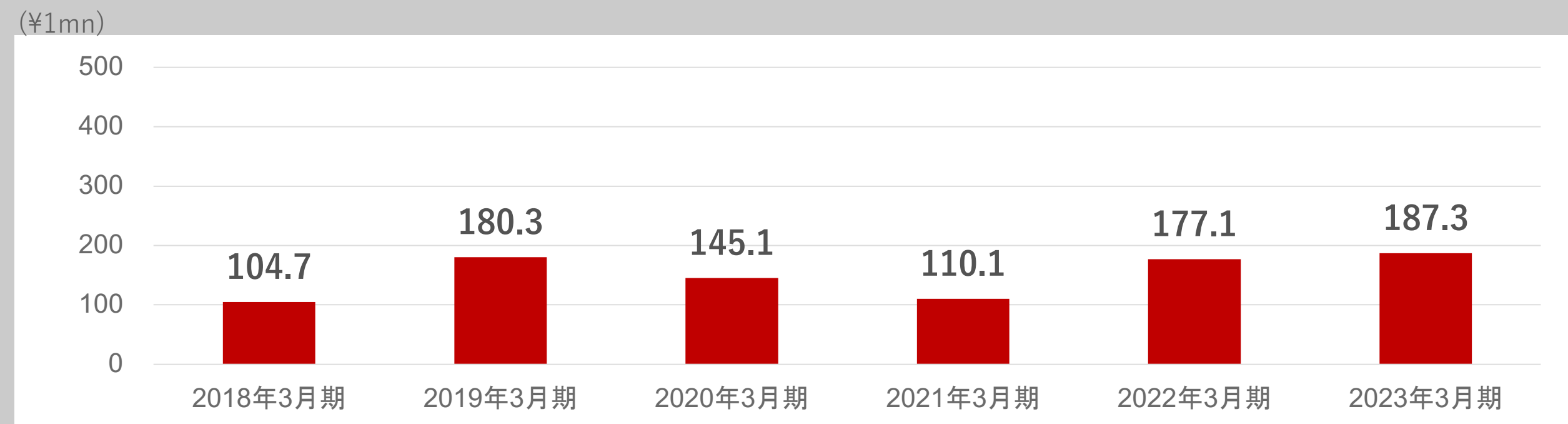


Naoto Horikawa



Period as President

16 years



■ SRJ NP has trended around ¥100-200mn over past 6 years. No evidence of sustained earnings growth, improved corporate value over past 16 years

2-5 Monopolizing Positions Because of Being the Family Member, Not Business Aptitude

- Naoto Horikawa appears keen to leverage his SRJ presidency in external activities, but his contribution to earnings is unclear, with no sustainable growth shown

教育アライアンスネットワーク新理事長にSRJ 堀川直人代表が就任

2022-09-01

5年目を迎えたNEAは、新体制で次のステージへ



「子どもたちの未来を輝かせる指導方策の拡充」と「民間教育展」のために活動を展開する、一般社団法人教育アライアンス下、NEA)。2022年6月10日、株式会社SRJ(本社・東京都)社長 堀川直人氏が新理事長に就任した。2018年の発足から5年目となるNEAが、会員同士の関係性をさ体制で次のステージを構築していく。今後の方向性や展望について伺った。

NEA 堀川直人 社長

「下屋裕前理事長から重責のバトンを引き継いだ」と堀川氏

株式会社 **ウイガス**

SRJ

堀川直人社長

YouTube初登場 17:22

オンラインセミナー StudyOne

学習塾の未来

—新たなフェーズへ—

セミナー開催日 全日程 11:00~12:00 [60分]

11/1(水) 11/2(木) 11/6(月) 11/7(火)

アーカイブ配信

株式会社SRJ 代表取締役 堀川直人

「月刊私塾界」発行人 兼 編集長 山田未知之

株式会社スタディラボ 取締役 横田保美

ICT化・DX化により、民間教育全体が互いに高め合い、教育資源・価値を分かち合えるボーダレス時代が到来!

ICT教育の現在地

「ICT教育の“中の人”」 堀川直人氏

株式会社SRJ V-Growth

NEA 一般社団法人 教育アライアンスネットワーク 後援: lacicu SRJ

やる気スイッチグループが目指す今後の教育業界進化

講演: 高橋直司様 としての進化

2023年 11/17(金) オンラインZoom 11:00~12:10

内容: 今後の展望および、大手メディアへのグループインによるシナジーについて

開会の挨拶



キムタツ×ひーぷーのオキナワ・ジモトーク

© 2023.10.03(火) 06:00

10月3日、火曜日は「キムタツ×ひーぷーのオキナワ・ジモトーク」放送日である。一昨年9月27日からスタートした同番組もいつまで続けさせてもらえるだろうと思っていたら先ごろ1周年を迎え、現在は来年1月までのゲストが決まっている状況である。今日のゲストは(株)SRJ社長の堀川直人さん。

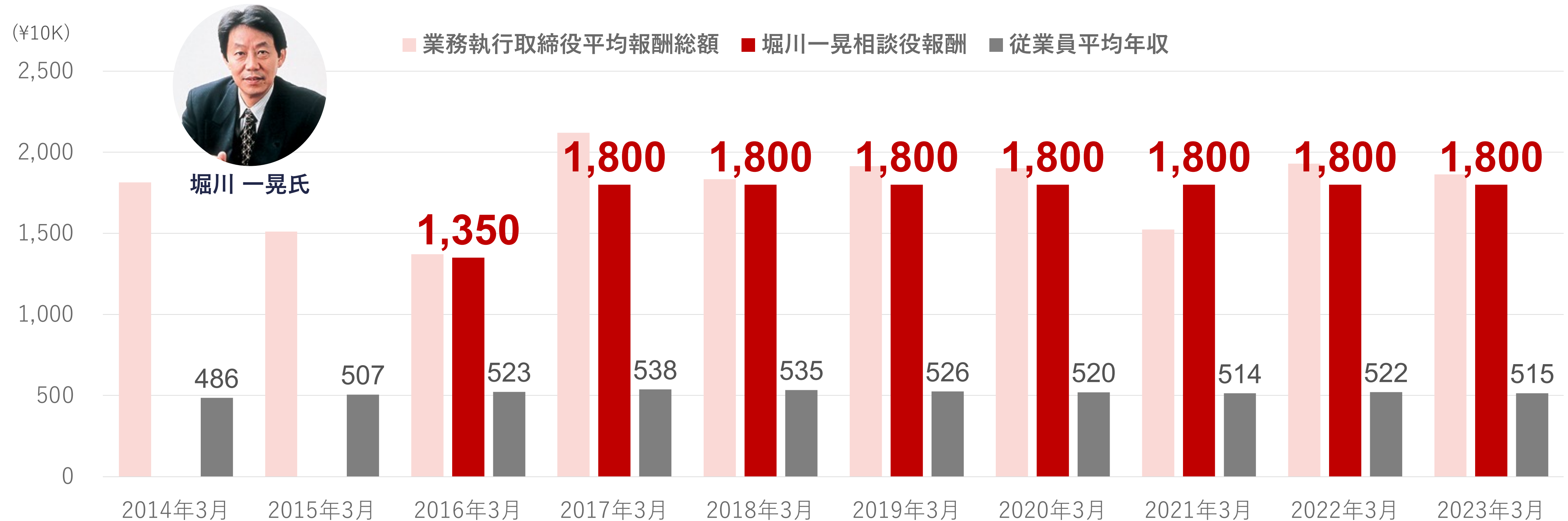
沖縄に縁とゆかりのある方をお迎えし、その方の人生を振り返りながら沖縄の今を見つめようというトーク番組である。いろいろな方々の過去を振り返ることで現在の沖縄の姿が見えてくるんじゃないかというコンセプトで

No sustainable growth for SRJ

Unclear earnings contribution from external activity

2-7 ¥1.5mn per Month Advisory Fees Over Past 9 Years

- Kazuaki Horikawa has been paid ¥1.5mn per month (¥18mn per year) in advisory fees over the nine years from the month since his resignation as director.
- This is essentially the same as the average salary of an executive officer.



Notes: ¥13.5mn advisory fee for FY3/16 is for nine months after resignation from July 2015 through March 2016 (¥1.5mn per month)

Sources: With us Corporation Securities Report

2-8

Founding Family in Concurrent Directorships with Rival Companies

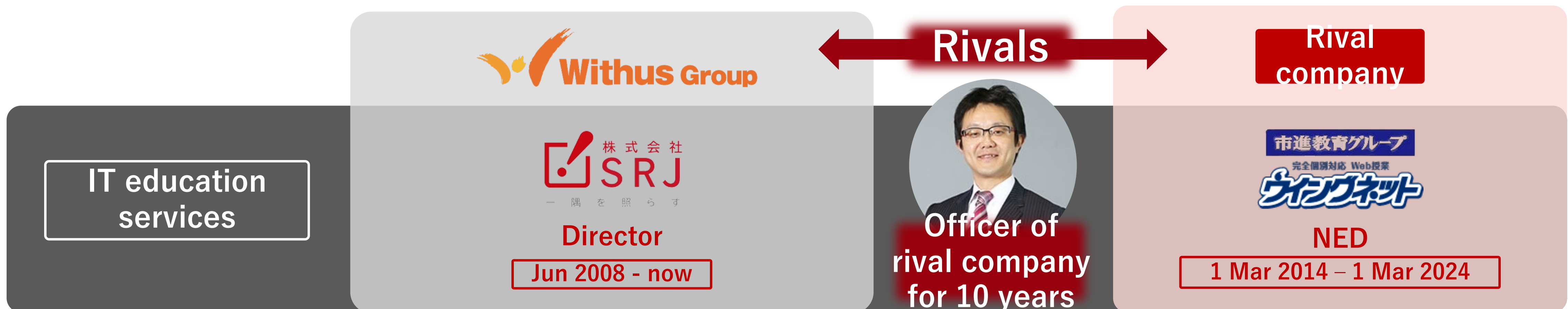
- Naoto Horikawa was appointed as an officer of a rival company after resigning from With us. He also served as an external director of a rival company while director of a With us subsidiary.
- Serving as director of two rival companies over a short term invites suspicion of the misuse of confidential information, ideas, or knowhow, even if unintended, and could create risk of litigation from parties related to both companies.
- Indeed, taking care to avoid the misuse of information or knowhow obtained in a prior position could create a hesitancy to execute optimal strategies at the current company.



2-8

Founding Family in Concurrent Directorships with Rival Companies

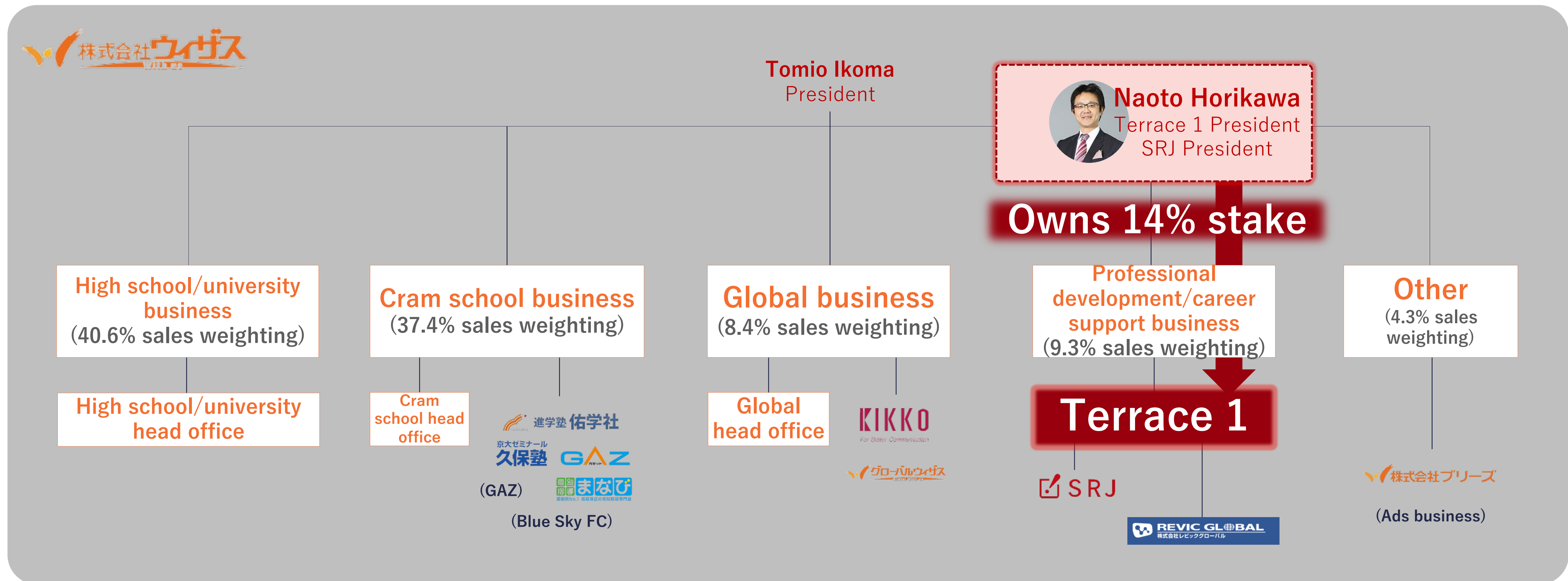
- Moreover, Naoto Horikawa has served for 16 years as president of a consolidated subsidiary SRJ, which offers IT-based education services, but until end-Feb. also served as NED of Wingnet, a consolidated subsidiary of rival Ichishin HD that offers IT-based education services.
- It is possible that Horikawa would hesitate to roll out optimal IT-based services at With us owing to the concurrent directorship of two companies that could launch rival services.



2-9

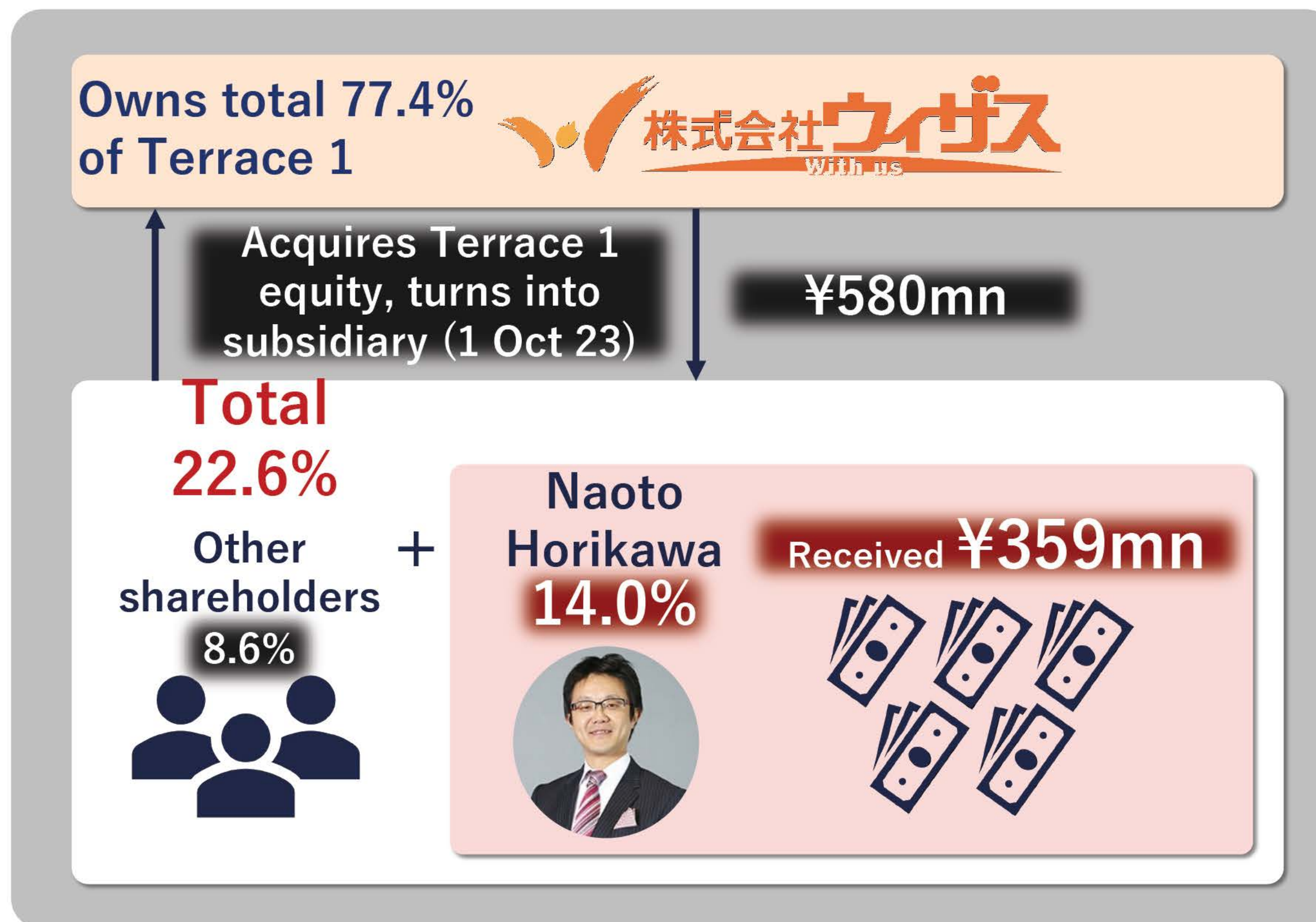
Effective Distribution of Profit to Founding Family

- Naoto Horikawa, eldest son of founder, held 14.0% stake in With us subsidiary Terrace 1.



2-9 Effective Distribution of Profit to Founding Family

- In Oct 2023, With us obtained remaining 22.6% of voting rights of Terrace 1 for ¥580mn, converting from 77.4%-owned subsidiary to wholly owned.
- In this way, ¥359mn of profit belonging to the Company ended up being paid directly to Naoto Horikawa.



- Terrace 1 was established in Dec 2019 as an interim holding company for SRJ (IT-based educational program development and supply) and Revic Global (corporate training).
- At establishment, main shareholders were With us, Naoto, Ichishin HD, and Z-Kai HD. On 1 Oct 2023, With us obtained all stock it did not yet hold and turned company into 100% subsidiary.

Such channeling of profit to individuals casts doubt on compliance with listing criteria

Effective Distribution of Profit to Founding Family

- In discussions with GES on 21 Mar 2024, With us President Ikoma refused to explain why Naoto Horikawa personally held the shares (President Ikoma knows the reason, but claimed shareholders do not need to know).

Our conversation with With us President Ikoma (21 Mar 2024)



GLOBAL ESG
STRATEGY

Why did Naoto Horikawa personally hold 14% of Terrace 1 stock?
Ordinarily the employees of a listed company would not hold shares in a consolidated subsidiary.

Terrace 1 is the interim holding company for SRJ and Revic Global.
The decision was taken, it's as simple as that and I see no need to keep going on about the reasons for it.

Of course I know (the reasons), as I was involved (in the decision). But I will refrain from comment as I have nothing to say about it.

The reason I have nothing to say is that I concluded it was appropriate.
The reason I concluded it was appropriate is because I thought it was appropriate.



ウイザス
President
Ikoma

The shareholder proposal must be passed to end control by the founding family, who conflate private and public interests.

	Shareholder proposal	Description
1. Special privilege & remuneration given to founding family	Resolution 4	Restrictions on appointments to subsidiary directorships
2. Founding family in concurrent directorships with rivals	Resolution 5	Restrictions on appointment to directorships/ management of rival companies
3. Effective distribution of profit to founding family	Resolution 6	Establishment of (internal) director appointment criteria

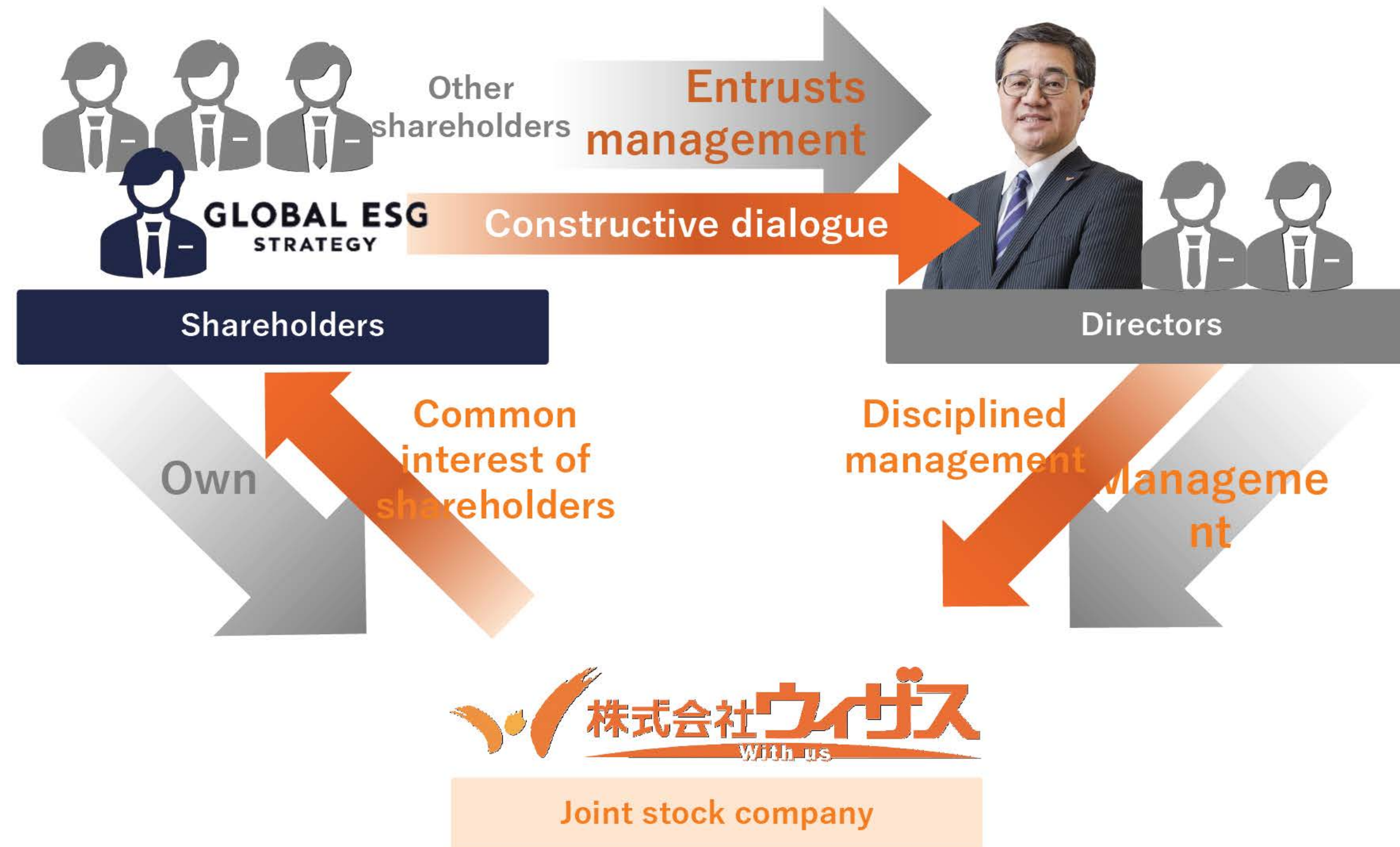
3. Promotion of constructive dialogue with shareholders

**Aiming to raise corporate value at With us
by promoting constructive dialogue with
shareholders**



3-1 Promoting Constructive Dialogue with Shareholders

- GES repeatedly requested meetings with With us directors, but was consistently rejected.
- Listed companies with dispersed ownership are at risk of sloppy management; it is in the common interest of all shareholders that larger holders represent multiple small shareholders in individual meetings with directors.



- Shareholders own the company, and through general meetings of shareholders appoint directors to whom they entrust the duties of management. Management may not necessarily be effective, so shareholders must be ready to promote discipline.
- For listed companies with dispersed ownership, it is not feasible for small shareholders to take the time and expense needed to promote managerial discipline, which can lead to lax management being left unchecked.
- In economics, the name given to ineffective management by those to whom shareholders have entrusted managerial responsibility is the “agency problem”. It can result in irresponsible management being left unchecked when ownership is dispersed.
- By standing in for small shareholders and taking the time and expense required to engage in constructive dialogue through private meetings, large shareholders can promote discipline and improve corporate value, which benefits all shareholders. Therefore, large shareholders taking the initiative to talk with management contributes to the common interests of shareholders.

The shareholder proposal must be passed to promote constructive dialogue with shareholders.

1. Promote constructive dialogue with shareholders



Shareholder
proposal

Resolution 7

Description

Ensure transparency of management through in-person discussion with shareholders

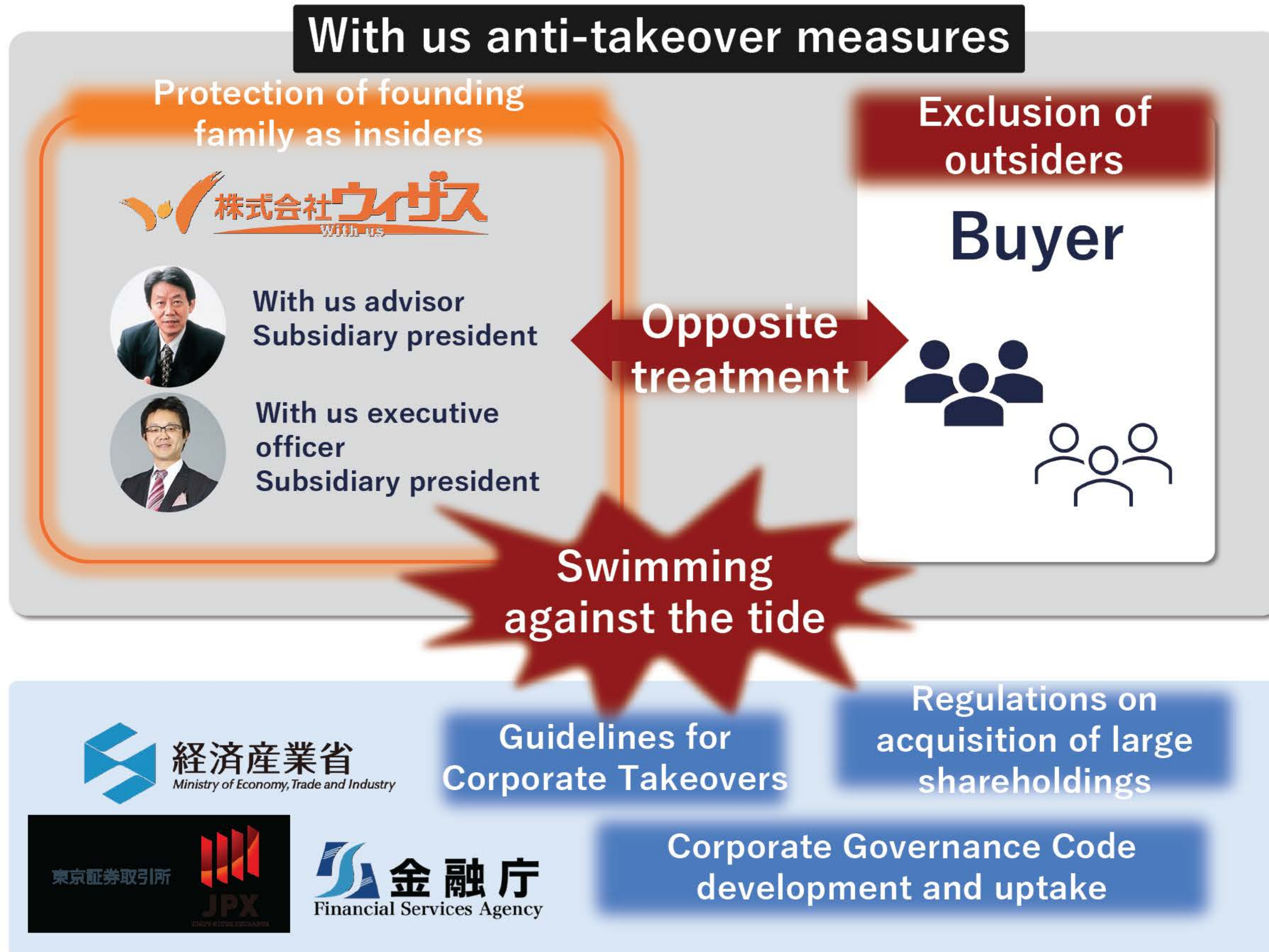
4. End anti-takeover measures designed to protect vested interests of founding family

The preference given the founder and associates and the consideration for the founding family underlying the anti-takeover measures lead to the conclusion that the company is treated as private property



Anti-Takeover Measures Effectively Protect Founding Family

- Even as anti-takeover measures lose their relevance, With us maintains such measures to protect the founding family.
- With us should explicitly abolish the measures, and demonstrate a genuine intent to fulfil its responsibility to provide a “public good”.



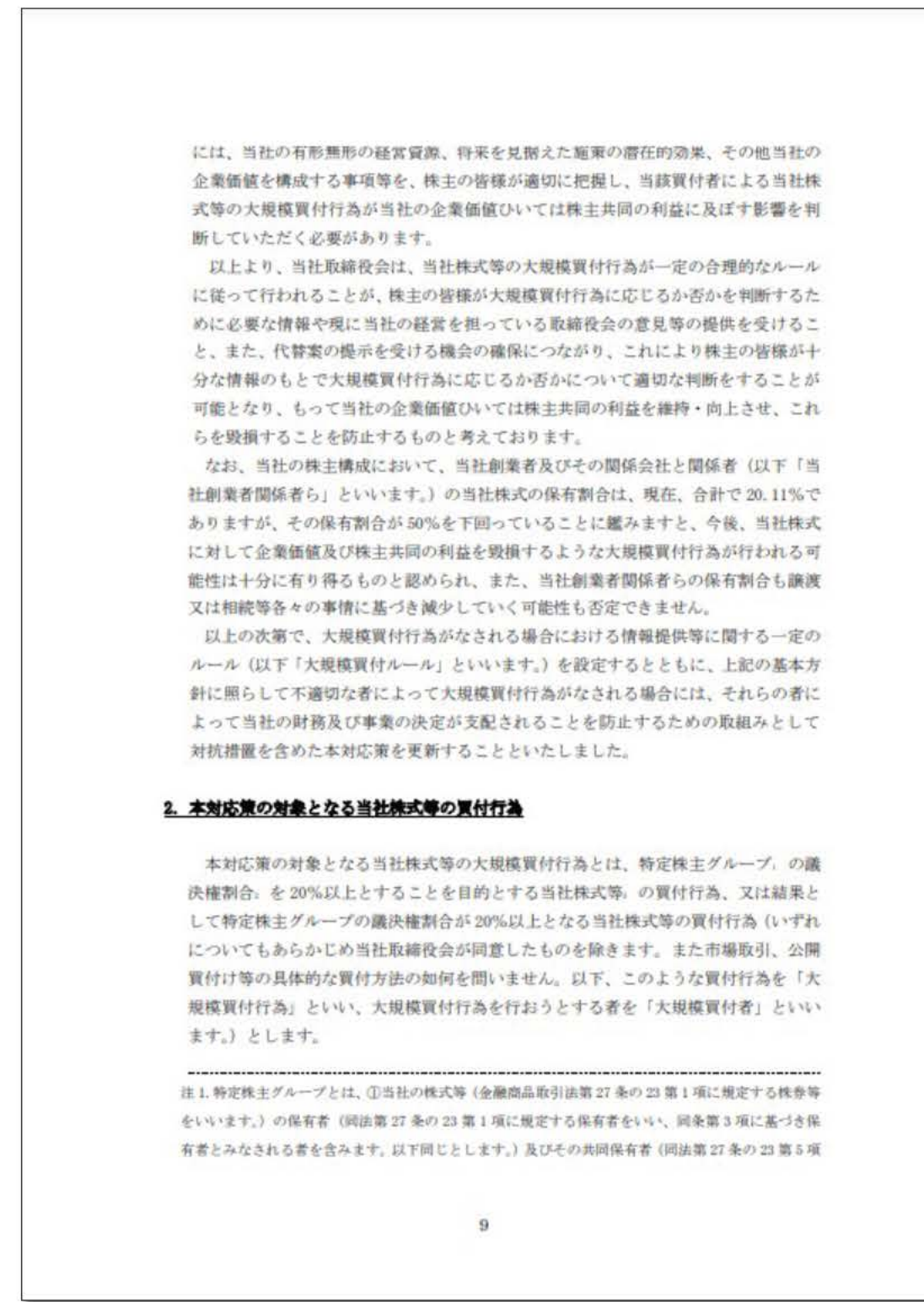
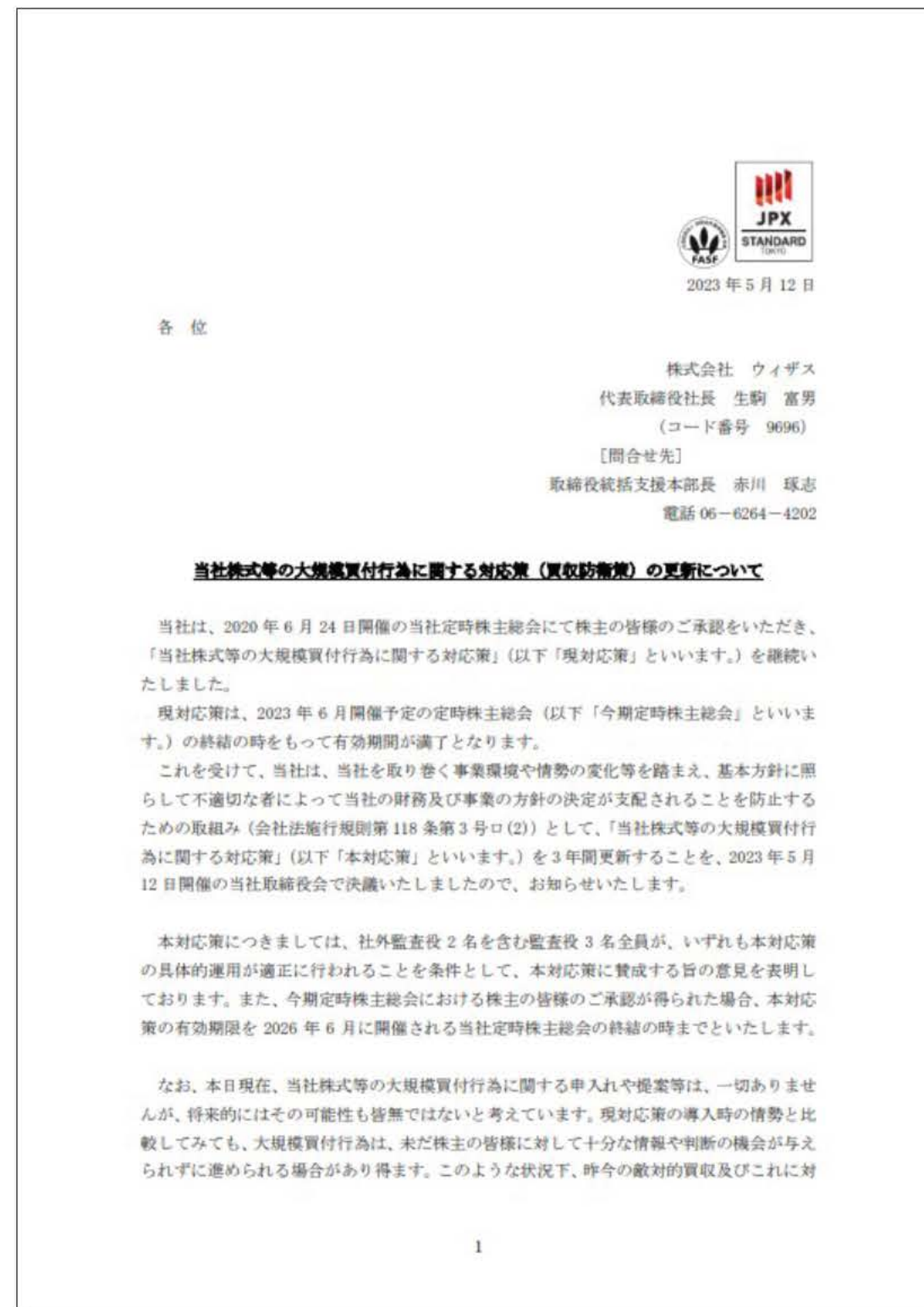
- Announced updated anti-takeover measures aimed at outside buyers
- Founding family, i.e., insiders with directorial positions, effectively excluded from scope of anti-takeover measures
- By excluding “external buyers” the scheme maintains the privileges of the founding family, including the preference and excess consideration given to the founder and associates

Preserves vested interests of directors and founding family

May undermine incentive to raise share price in order to prevent acquisition

Anti-Takeover Measures Effectively Protect Founding Family

- Context of statement issued when anti-takeover measures updated (below) shows that existence of measures is designed to protect vested interests of founder and associates.



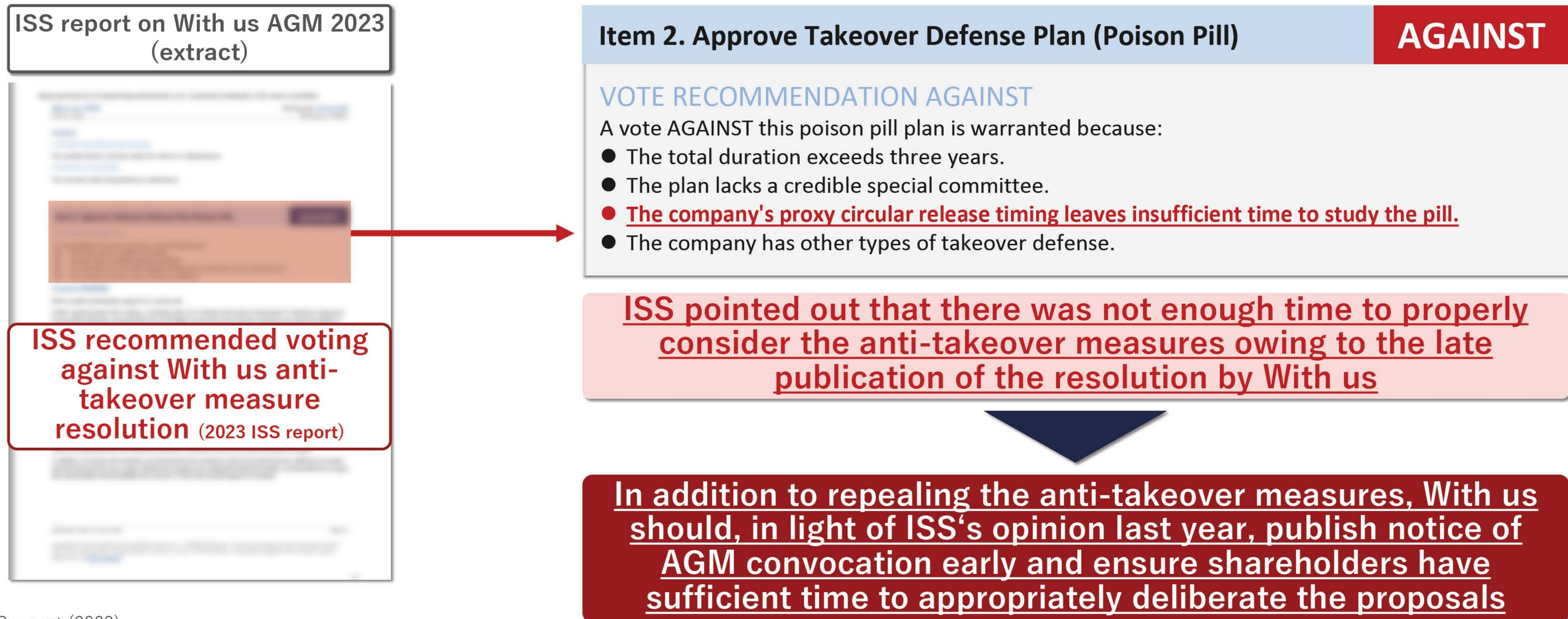
Extract from *Update of Measures to Prevent Large-scale Acquisition of Our Company Shares (Anti-takeover Measures)*

“The founder, related companies, and related persons (the founder and associates) together own 20.11% of the company shares. Considering that this is below 50%, there is a reasonable risk of large-scale buying activity that could negatively impact corporate value and the common interests of the shareholders. It is also possible that the cumulative holding of the founder and associates will fall further in the case of transfer, inheritance, or other eventualities.

Based on the above considerations, the company has decided to define rules (large-scale takeover rules) related to the provision of information in the event of large-scale buying activity. At the same time, in the event of large-scale buying activity by parties considered unsuitable based on the above basic policy, the anti-takeover measures will be updated to include countermeasures to prevent financial or operational control passing into the hands of the unsuitable parties.

4-3 ISS Pointed Out and Urged Shareholders to Vote Against Anti-Takeover Measures

- Poor management could be left unchecked if ownership is dispersed. The late publication of the updated anti-takeover measure in 2023 caused ISS to urge voting against it.
- Our proposal aims to contribute to the common interest of shareholders by regulating the Company to engage in personal meetings with large shareholders who stand in for many, smaller shareholders.



Shareholder proposal must be passed to end anti-takeover measures that protect the interests of the founding family.

1. Anti-takeover measures that effectively protect the founding family



Shareholder proposal	Description
Resolution 8	Abolish anti-takeover measures
Resolution 9	Delete article covering introduction of anti-takeover measures
Resolution 10	Apply anti-takeover measures to founder and associates

5. Shareholder Proposals

From subservience to the founding family to management oriented toward capital markets



Overview of the Shareholder Proposals

- The proposals consist of a total of 10 agenda items intended to achieve: **1) Large-scale shareholder returns to improve capital efficiency; 2) Governance reform to free the company from anachronistic management that favors the founding family; 3) The promotion of constructive dialogue with shareholders; and 4) The discontinuation of anti-takeover measures that protect the vested interests of the founder and associates.**
- GES aims to maximize the common interests of shareholders by resolving serious governance issues at With us and achieving management that truly pursues capital efficiency.

Purpose	Proposal No.	Proposal
Improving capital efficiency and expanding shareholder returns	1	Deletion of Article 38 of the Articles of Incorporation (decision-making body for dividends of surplus, etc.)
	2	Appropriation of surplus
	3	Partial amendment of the Articles of Incorporation (policy for dividends of surplus)
Governance reform to end domination by the founding family	4	Partial amendment of the Articles of Incorporation (restrictions on appointment of directors of consolidated subsidiaries)
	5	Partial amendment of the Articles of Incorporation (restrictions on appointment of former directors or officers of competitors to director or management roles)
	6	Partial amendment of the Articles of Incorporation (criteria for election of directors)
Promotion of dialogue with shareholders	7	Partial amendment of the Articles of Incorporation (meetings between directors and shareholders)
Abolishment of anti-takeover measures protecting vested interests of founder and associates	8	Abolition of anti-takeover measures
	9	Deletion of Article 18 of the Articles of Incorporation (deletion of provisions for the implementation of anti-takeover measures, etc.)
	10	Partial amendment of the Articles of Incorporation (application of anti-takeover measures to the founder and associates)

Deletion of Article 38 of the Articles of Incorporation (decision-making body for dividends of surplus, etc.)

Summary of the Proposal

Article 38 of the Articles of Incorporation shall be deleted. If it becomes necessary to make any formatting changes (including, but not limited to, correction of article numbers) to the provisions stated in this proposal as a result of the approval of other proposals (including those proposed by the Company) at this Ordinary General Meeting of Shareholders, the provisions pertaining to this proposal shall be read as the provisions so adjusted.

Reasons for Proposal

The Company's **EV/EBITDA multiple is 2.8x on an EBITDA basis, which is very low relative to industry peers**, primarily due to its significant net cash position.

The Company has not given any explanation to shareholders regarding its position on management policy or capital structure with respect to consecutive annual increases in retained earnings.

The Board of Directors of the Company independently determines the amount of dividends and manages retained earnings at its discretion, making it impossible for shareholders to verify the appropriateness of such decisions.

We believe that the Board's absolute discretion in determining the amount of dividends is **the root cause that enables the Company's extremely irresponsible management**, which proceeds without any awareness of capital efficiency or capital allocation, and without accountability to shareholders.

Therefore, we propose abolishing the current provision in the Articles of Incorporation that delegates decisions on dividends of surplus to the Board of Directors, and that the decisions be referred to the General Meeting of Shareholders, in order to **build a framework to encourage management that maximizes the Company's corporate value by making them conscious of scrutiny by shareholders**.

Appropriation of surplus

Summary of the Proposal

Subject to the approval of Proposal 1, an appropriation of surplus shall be conducted as follows

(a) Type of dividend property: Money

(b) Dividend per share: 183 yen per share of common stock of the Company

(c) Matters concerning the allotment of dividend property and total amount thereof

183 yen per share multiplied by the total number of issued shares of common stock of the Company (excluding treasury stock) as of March 31, 2024 (the end of the fiscal year under review)

(d) Effective date of the dividend of surplus: The date of this Ordinary General Meeting of Shareholders

Reasons for Proposal

The correspondence high school business has seen significant growth as an industry over the past several years, and the Company has experienced profits at a different level from few years ago. The average dividend payout ratio of its competitors is over 50%, with some companies even exceeding 100%, while the Company maintains its dividend payout ratio of around 25%. This level of shareholder return is extremely inadequate. The Company has explained to us that its business style requires no significant capital expenditure. Despite this, however, its corporate culture is one of excessive accumulation of cash. This attitude contravenes the call for “management with more consideration of cost of capital and profitability based on the balance sheet” promoted by the Tokyo Stock Exchange (“TSE”). Accumulated retained earnings should be actively utilized for new business investments, but since a sufficient and concrete investment plan has not been presented at this point, we propose to distribute dividends with a payout ratio of 150% as bold shareholder return measures. Based on the assumption of a dividend payout ratio of 150% and dividend yield of 3.0%, the stock price of the Company may be expected to rise to approximately 6,100 yen (3.8x the current stock price).

Partial amendment of the Articles of Incorporation (policy for dividends of surplus)

Summary of the Proposal

The following Article is newly established in “Chapter 6: Calculation” of the current Articles of Incorporation as Article 40, and the numbering of the articles in the current Articles of Incorporation is adjusted by one from Article 40 onward. If it becomes necessary to make any formatting changes (including, but not limited to, correction of article numbers) to the provisions stated in this proposal as a result of the approval of other proposals (including those proposed by the Company) at this Ordinary General Meeting of Shareholders, the provisions pertaining to this proposal shall be read as the provisions so adjusted.

(Policy on the Appropriation of Surplus)

Article 40 The Company adopts a dividend policy for the period from FY2024 to FY2025 which requires the annual dividend amount to meet 150% or higher dividend payout ratio (calculated by dividing the total amount of distributions by the net current profit (consolidated)), and to the extent permitted by law, determine the annual dividend amount in accordance with such dividend policy.

Reasons for Proposal

The Company’s consolidated net cash amounts to 45% of its market capitalization. In the past, the Company recognized its accumulated cash and deposits and stated that allocation of funds to investments and shareholder returns should be addressed. However, retained earnings have continued to accumulate, and the Company’s policy is to continue to increase retained earnings. In addition to the proposal for distributing 150% dividend payout for FY2023, we propose to maintain the same level of distribution for the period up to FY2025 as temporary measures for returning the accumulated retained earnings to the shareholders.

Partial amendment of the Articles of Incorporation (policy for dividends of surplus)

Reasons for Proposal

We believe that it is desirable at this time to include the dividend on equity ratio (DOE) as an element of the Company's dividend. We have rationally verified the financial impact of the proposed distribution policy based on conservative assumptions, such as that the sales/profit after FY2023 will remain at the same level, and that capital expenditures in the amount equal to depreciation and amortization expenses will be made. From this review, we understand that the Company will continue to maintain a significant net cash position (approximately 5.6 billion yen as of the end of FY2023, which is 1.9x the EBITDA). Accordingly, this distribution policy will not jeopardize the financial health of the Company.

Projected Change in Financial Indicators if the Proposed Dividend Policy is Adopted*	FY2023	FY2024	FY2025
Dividend per share (yen)	183	183	183
Dividend payout ratio	150.4%	150.4%	150.4%
Net cash (million yen)	6,743	6,188	5,634
<i>Ratio to market capitalization</i>	<i>46.2%</i>	<i>42.4%</i>	<i>38.6%</i>
Net D/E	(1.06)	(1.06)	(1.07)
Net debt/EBITDA	(2.32)	(2.13)	(1.94)
<i>Net asset ratio</i>	<i>33.3%</i>	<i>30.4%</i>	<i>27.5%</i>

Note: The table above is as of April 22, 2024, when the shareholder proposals were submitted. Net sales, business profit, and net income for the fiscal year are assumed to remain constant at the values projected by the Company for FY2024 through FY2025. EBITDA is estimated on the assumption that depreciation is the same as in the fiscal year ending March 31, 2023. Net cash and net assets for FY2024 and later fiscal years are estimated by adding net income minus dividends to net assets in the preceding fiscal year, assuming capital investments equal to depreciation in each year. The maximum notional borrowing amount is assumed to be five times EBITDA. Market capitalization is as of April 17, 2024, net of treasury stock.

Partial amendment of the Articles of Incorporation (restrictions on appointment of directors of consolidated subsidiaries)

Summary of the Proposal

The following Article is newly established in “Chapter 4: Directors and the Board of Directors” of the current Articles of Incorporation as Article 20, and the numbering of the articles in the current Articles of Incorporation is adjusted by one from Article 20 onward. If it becomes necessary to make any formatting changes (including, but not limited to, correction of article numbers) to the provisions stated in this proposal as a result of the approval of other proposals (including those proposed by the Company) at this Ordinary General Meeting of Shareholders, the provisions pertaining to this proposal shall be read as the provisions so adjusted.

(Restrictions on Appointment of Directors of Consolidated Subsidiaries)

Article 20 No director of a consolidated subsidiary, etc. of the Company may hold the office of Director for more than five years, consecutively or in aggregate.

Partial amendment of the Articles of Incorporation (restrictions on appointment of former directors or officers of competitors to director or management roles)

Summary of the Proposal

The following Article is newly established in “Chapter 4: Directors and the Board of Directors” of the current Articles of Incorporation as Article 20, and the numbering of the articles in the current Articles of Incorporation is adjusted by one from Article 20 onward. If it becomes necessary to make any formatting changes (including, but not limited to, correction of article numbers) to the provisions stated in this proposal as a result of the approval of other proposals (including those proposed by the Company) at this Ordinary General Meeting of Shareholders, the provisions pertaining to this proposal shall be read as the provisions so adjusted.

(Restrictions on Appointment of Former Directors or Officers of Competitors to Director or Management Roles)

Article 20 An individual who has served as a director or officer of another company engaged in businesses similar to the Company’s business purposes set out in items (1) through (10) of Article 2 shall not assume the office of director, executive officer, company head, general manager, or assistant general manager of the Company in charge of the same type of business as that in which they were involved at the other company for a period of one year after the end of their term of office at that other company.

Partial amendment of the Articles of Incorporation (criteria for election of directors)

Summary of the Proposal

The following Article is newly established in “Chapter 4: Directors and the Board of Directors” of the current Articles of Incorporation as Article 20, and the numbering of the articles in the current Articles of Incorporation is adjusted by one from Article 20 onward. If it becomes necessary to make any formatting changes (including, but not limited to, correction of article numbers) to the provisions stated in this proposal as a result of the approval of other proposals (including those proposed by the Company) at this Ordinary General Meeting of Shareholders, the provisions pertaining to this proposal shall be read as the provisions so adjusted.

(Criteria for Election of Directors)

Article 20 No person who falls under any of the following categories may become a director of the Company or any consolidated subsidiary, equity-method non-consolidated subsidiary, or affiliate of the Company:

- (1) Kazuaki Horikawa, the founder of the Company (the “Founder”);
- (2) any spouse, relative within the second degree of kinship, or cohabiting relative of the Founder;
- (3) any person who serves as a director, executive officer, manager, or other material employee of a company in which a spouse, relative within the second degree of kinship, or cohabiting relative of the Founder holds shares; or
- (4) any person who has within the past five years served as a director, executive officer, manager, or other material employee of a company in which a spouse, relative within the second degree of kinship, or cohabiting relative of the Founder holds shares.

Reasons for Proposals 4–6

Reasons for Proposals (Common to Proposals 4–6)

We are concerned about the effective control of the Company by the Company's founder and associates, who treat the Company and its consolidated subsidiaries and other related companies as their private property.

In order for the Company to escape the influence of the founding family and maximize corporate value and the interests of different stakeholders, we must set limits on the criteria for election of directors, including those of consolidated subsidiaries and other related companies.

Founder Kazuaki Horikawa has served as President and Representative Director of one of the Company's wholly owned subsidiaries, Breeze Inc., for over 31 years.

Naoto Horikawa, who is also an executive officer of the Company, is the representative director of the subsidiary Terrace 1 Co., Ltd., and has been the president and representative director of the wholly owned subsidiary SRJ Co., Ltd. for over 16 years.

For a particular individual to remain the representative of a company for such a long period is highly irregular and inappropriate from a governance perspective.

In light of the attributes of the founder and his relatives, we do not believe that the Company's management is able to fulfill its supervisory function with respect to the subsidiaries as officers of the parent company, and it is natural to suspect that they may be treating the subsidiaries as their own private property, using executive compensation and expenses to line their own pockets, and abusing their positions as officers of subsidiaries to build personal reputation and relationships at the expense of the subsidiaries' business value.

Therefore, it is important to set a limit on the reappointment of directors at consolidated subsidiaries to prevent these companies being treated as private property by directors who are the founder and associates, and to secure the opportunity to overhaul the corporate structure.

Note: In light of the possibility that your company's share handling rules limit the length of the reason for proposal for each agenda item to 400 characters in Japanese, we have kept the total combined length of the reasons for Proposals 4 through 6 to 1,200 characters or less.

Reasons for Proposals 4–6

Reasons for Proposals (Common to Proposals 4–6)

Within one year after stepping down from the Company's Board of Directors, Naoto Horikawa became a director of Gakken Juku Holdings Co., Ltd., and upon announcing his resignation from that position, he next became an executive officer of the Company. Ordinarily, directors are expected to do their utmost to serve the company at which they currently hold office. When a director moves rapidly between competing companies in a short period, one may suspect them of misappropriating know-how, confidential information, or ideas obtained at one company, even unintentionally. This leads to the risk of litigation from stakeholders of both companies.

In practice, directors may also hesitate to implement measures at their current company in an effort to avoid using confidential information and know-how gained in a previous role.

It is therefore necessary to place certain restrictions on the engagement of former directors or officers of competing companies in the same type of business at the Company.

In addition, although no associates of the founder are currently serving on the Board of Directors, they exercise significant influence on the Company as directors of major shareholders and consolidated subsidiaries.

Allowing greater influence to the founder and associates, who act as if the Company still belongs to the founder, hinders the enhancement of the Company's corporate value and the common interests of the shareholders.

Given the significant concerns that already exist, such as the treatment of subsidiaries as private property and the lack of awareness of non-competition obligations mentioned above, it will be difficult to escape this situation even with general restrictions. In order to drastically reform the Company's governance, we must uniformly prohibit the appointment of the founder and individuals who are his relatives as directors of the Company and its consolidated subsidiaries, equity-method non-consolidated subsidiaries, and affiliates.

Note: In light of the possibility that your company's share handling rules limit the length of the reason for proposal of one agenda item to 400 characters in Japanese, we have kept the total combined length of the reasons for Proposals 4 through 6 to 1,200 characters or less.

Partial amendment of the Articles of Incorporation (meetings between directors and shareholders)

Summary of the Proposal

The following Article is newly established in “Chapter 4: Directors and the Board of Directors” of the current Articles of Incorporation as Article 29, and the numbering of the articles in the current Articles of Incorporation is adjusted by one from Article 29 onward. If it becomes necessary to make any formatting changes (including, but not limited to, correction of article numbers) to the provisions stated in this proposal as a result of the approval of other proposals (including those proposed by the Company) at this Ordinary General Meeting of Shareholders, the provisions pertaining to this proposal shall be read as the provisions so adjusted.

(Meetings Between Directors and Shareholders)

Article 29 The Directors of the Company shall respond within 20 business days to any request for an individual meeting from a shareholder holding 3% or more of the voting rights of the Company or a person who has the necessary authority to invest in the shares of the Company held by such shareholder pursuant to a discretionary investment contract or other agreement or provisions of law (“Investment Manager”); provided, however, that if an individual meeting cannot be held within that period due to unavoidable reasons, the Company shall notify the shareholder or Investment Manager who requested the meeting to that effect within five business days and set a separate date and time at which an individual meeting can be accommodated. The number of meetings held upon request shall be at least once per shareholder or Investment Manager per quarter for full-time Directors and at least once per shareholder or Investment Manager per year for Outside Directors.

Reasons for Proposal

Despite our repeated requests to the Company to hold individual meetings with all Directors prior to this General Meeting of Shareholders, the Company has refused to organize individual meetings with the Directors. The Corporate Governance Code states that listed companies should engage in constructive dialogue with shareholders outside of the general meeting of shareholders in order to enhance corporate value. We believe that by providing in the Articles of Incorporation for an obligation of the Company’s management to engage with major shareholders through individual meetings will not only contribute to the enhancement of the Company’s corporate value, but will also be a watershed expression of transparency and openness on the part of the Company’s management, which will demonstrate to people both inside and outside the Company that the Company is a pioneer among other publicly listed companies.

Abolition of anti-takeover measures

Summary of the Proposal

In accordance with Article 18, Paragraph 2 of the Articles of Incorporation, the “Countermeasures Against Large-Scale Purchases of the Company’s Shares, etc.,” which the Board of Directors resolved to renew for a period of three years on May 12, 2023 and which were approved at the Ordinary General Meeting of Shareholders held on June 28, 2023, shall be abolished.

Deletion of Article 18 of the Articles of Incorporation (deletion of provisions for the implementation of anti-takeover measures, etc.)

Summary of the Proposal

Article 18 of the current Articles of Incorporation shall be deleted. If it becomes necessary to make any formatting changes (including, but not limited to, correction of article numbers) to the provisions stated in this proposal as a result of the approval of other proposals (including those proposed by the Company) at this Ordinary General Meeting of Shareholders, the provisions pertaining to this proposal shall be read as the provisions so adjusted.

Partial amendment of the Articles of Incorporation (application of anti-takeover measures to the founder and associates)

Summary of the Proposal

Subject to the rejection of Proposal 8, the current Articles of Incorporation shall be amended as follows. If it becomes necessary to make any formatting changes (including, but not limited to, correction of article numbers) to the provisions stated in this proposal as a result of the approval of other proposals (including those proposed by the Company) at this Ordinary General Meeting of Shareholders, the provisions pertaining to this proposal shall be read as the provisions so adjusted.

Current Articles of Incorporation (Implementation of Anti-Takeover Measures, etc.)

Article 18 The implementation, maintenance, and abolition of anti-takeover measures refers to the Company's provision for, and maintenance and abolition of, procedures to be complied with by persons who purchase the Company's shares and other rights issued by the Company, and countermeasures, etc. against persons who violate those procedures, in order to prevent decisions on the Company's financial and business policies from being controlled by persons who are inappropriate in light of the Company's basic policy on the nature of persons who control decisions on its financial and business policies.

2. The General Meeting of Shareholders is entitled to make resolutions regarding the implementation, maintenance, and abolition of anti-takeover measures, in addition to matters provided for in laws and regulations and matters separately provided for in the Articles of Incorporation.

3. In addition to a resolution of its board of directors, the Company may conduct a gratis allotment of stock acquisition rights by a resolution of its General Meeting of Shareholders or by a resolution of its board of directors based on delegation by a resolution of the General Meeting of Shareholders, in accordance with the procedures prescribed in the anti-takeover measures.

4. The resolution of the General Meeting of Shareholders provided for in the preceding paragraph shall be adopted by a majority of the voting rights of shareholders present at a meeting attended by shareholders holding at least one third of the voting rights of shareholders entitled to exercise voting rights.

Proposed Amendment (Implementation of Anti-Takeover Measures, etc.) Note: This new paragraph 5 is to be added to the above paragraphs 1 through 4 of Article 18.

Article 18

5. Anti-takeover measures shall also apply to any purchase of shares or other rights issued by the Company by the Company's founder and his affiliates and related parties (the Company's founder and associates).

Reasons for Proposals 8–10

Reasons for Proposals (Common to Proposals 8–10)

Anti-takeover measures are now largely losing their significance due to changing circumstances, such as regulations concerning large-scale acquisitions of shares, the development and adoption of the Corporate Governance Code, new guidelines for fair M&A practices, and the mainstream adoption of acquisitions oriented toward the post-acquisition development of companies.

In practice, the number of companies implementing anti-takeover measures has continued to decline.

Maintaining anti-takeover measures in such an environment is not only contrary to current trends, but is subject to criticism that it is a tool for the maintenance of vested interests and self-preservation by the Company's Board of Directors and founding family, and may even undermine incentives to increase the share price in order to prevent takeovers.

In the notice of convocation of the previous General Meeting of Shareholders, the percentage of shares held by the Company's founder and associates was stated as 20.11%, and the purpose of maintaining anti-takeover measures was stated to be the prevention of damage to corporate value and the common interests of shareholders due to purchase by a purchaser who is an "outsider." In this context, it is clear at first glance that the existence of the defensive measures is intended to maintain the vested interests of the founder and his family.

The Company emphasizes the public role it plays in society as the reason for the exclusion of "outsiders," but the actual intention of the anti-takeover measures is to prioritize the founder and associates and to give special consideration to the founder's family. This can be described as treating the company as their private property, which is the polar opposite of the "recognition of its public mission" that the Company purports to emphasize.

The ratio in favor of the anti-takeover measures at the previous General Meeting of Shareholders was 79.04%, which may appear to be close to 80%, but as mentioned above, in light of the fact that more than 20% of voting rights are held by the founder and associates, fewer than 60% of the shareholders other than the founder and associates approved.

Reasons for Proposals 8–10

Reasons for Proposals (Common to Proposals 8–10)

Although it was decided at the last Ordinary General Meeting of Shareholders that the Company's anti-takeover measures would be renewed until June 2026, we believe that the immediate abolition of these measures, without waiting for the expiration of the renewed period, would contribute to the enhancement of the Company's corporate value, including its "contribution to society," and ultimately to the common interests of the Company's shareholders.

The Company should not only abolish the current anti-takeover measures, but also explicitly abolish the mechanism for anti-takeover measures itself, which is no longer appropriate for the current market and social conditions, from its Articles of Incorporation, and declare this to the outside world, thereby demonstrating its truly open attitude as a company that plays a "public" role.

If the possibility of future introduction of new anti-takeover measures is to be retained, the Company should at least, as a precondition thereto, clearly state that the anti-takeover measures will apply equally to purchases by the founder and associates, thus confirming that the Company's anti-takeover measures are not aimed at being biased toward the founding family but are measures intended to ensure corporate value and shareholder interests.

For the above reasons, we propose, in the first instance, the abolition of the current anti-takeover measures and the elimination of the mechanism therefor, and failing that, the addition of language clearly stating the fair application of those measures in order to prevent anti-takeover measures from being used as a tool to benefit certain parties.

About Global ESG Strategy

Global ESG Strategy ("GES"), an investment fund that is managed by SAFS, makes medium- to long-term investments from an ESG (Environment, Social and Governance) perspective, and its policy is to promote improvements on enterprise value and shareholder value of investee companies through constructive dialogue with investee companies and other means.

About Swiss-Asia Financial Services Pte Ltd.

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