

Outline of Shareholder Proposals (presentation) to TOKYO RADIATOR MFG. Co. Ltd. (TSE2: Code 7235)

Asset Value Investors



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Outline of Shareholder Proposals to Tokyo Radiator



- Asset Value Investors Limited (“AVI”, “we”) has been a shareholder of Tokyo Radiator Mfg. Co. Ltd. (“Tokyo Radiator”) for nearly four years. We have been in communication with Tokyo Radiator to increase its corporate value, especially to resolve conflicts of interests between controlling shareholder Marelli Corporation (“Marelli”) owned by KKR Japan (“KKR”) and the Company’s minority shareholders resulting from its “listed subsidiary” structure.
- Unfortunately, improvements to protect minority shareholders’ interests have been insufficient. KKR is fully aware of issues around poor corporate governance in general and understands the conflicts of interest from maintaining listed-sub subsidiary status in particular, as well as the undervaluation is the result.
- The President of Tokyo Radiator has been assigned from KKR-owned Marelli, raising questions about whose interests are more important for Tokyo Radiator – those of its controlling shareholder or those of its general shareholders.
- Tokyo Radiator has idle cash of Y9.9n, which exceeds its market capitalisation. Over half of the Y9.9bn is inappropriately deposited with its controlling shareholder, Marelli.
- AVI Japan Opportunity Trust, a fund managed by AVI, submitted shareholder proposals to Tokyo Radiator for the 117th Ordinary General Meeting of Shareholders in June 2021, which are summarized below:

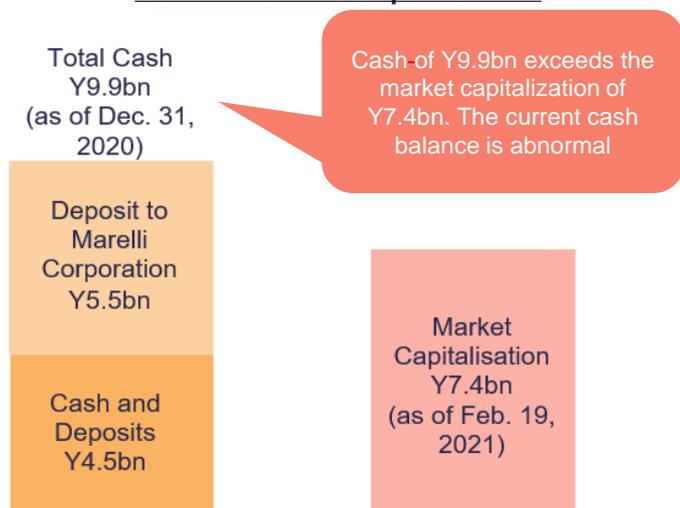
Shareholder Proposal 1	Cancellation of Y5.5bn Cash Held as Deposit with Parent Company Marelli, and Distribute it to Shareholders as Special Dividends
Shareholder Proposal 2	Transition to a Company with an Audit and Supervisory Committee to Strengthen the Supervisory Functions of the Board of Directors
Shareholder Proposal 3	Establishment of a Nomination Committee and a Compensation Committee, the Majority of which be Comprised of Outside Directors
Shareholder Proposal 4	Introduction of Restricted Stock-based Compensation System for Directors (Excluding Outside Directors)

Shareholder Proposal 1

Cancellation of Y5.5bn Cash Held as Deposit to Parent Company Marelli, and Return it to Shareholders as Special Dividends

- Tokyo Radiator has cash of Y9.9bn¹, which exceeds its market capitalisation. Despite this abnormal cash balance, the consolidated dividend payout ratio over the past 10 years has averaged at less than 10%² and the shareholder return has been poor.
- Of the cash, Y5.5bn is deposited with its controlling shareholder Marelli, which has preferential access to the cash in relation to other shareholders. Given the conflicts of interest between Marelli and other shareholders, the deposit should be returned and distributed to shareholders on an equal basis.
- Therefore, AVI proposed that Tokyo Radiator take back the deposit and distribute an equivalent amount equivalent to shareholders as a special dividend of Y370 per share.

Cash and Market Capitalisation³



Consolidated Dividend Payout Ratio



Source: FY3/2021 3Q Financial Report, FY3/2021 3Q Tanshin, FY3/2020 Full-year Financial Report, FY3/2015 Full-year Financial Report, Capital IQ

Note: If the special dividends of Y370 per share is paid, the total special dividends will be Y5.32bn. (The total amount of the special dividends is calculated by multiplying the special dividends of Y370 per share by the number of shares outstanding (excluding treasury shares) of 14,387,917 shares at the end of FY3/2021 3Q stated in FY3/2021 3Q Tanshin).

¹ Cash as of 31 December 2020. ² The consolidated dividend payout ratio for FY3/2020 is n.a. as Tokyo Radiator recognised very small net income. The consolidated dividend payout ratio for FY3/2020 is not included in the average consolidated dividend payout ratio for the past 10 years. ³ Market capitalisation as of 19 February 2021.

Shareholder Proposal 2

Transition to a Company with an Audit and Supervisory Committee to Strengthen the Supervisory Function of the Board of Directors

- Tokyo Radiator currently has in place a statutory auditor system (a company with board of auditors).
- As a listed subsidiary¹ Tokyo Radiator must ensure that minority shareholders are treated fairly, in relation to Marelli. However, Mr Hisao Ochiai, President, is from Marelli, making it difficult to ensure Tokyo Radiator's independence. Therefore, the supervisory function of the board of directors should be strengthened.
- Therefore, AVI proposes that Tokyo Radiator should transition to a company with an audit and supervisory committee. Under the current statutory auditor system, auditors cannot exercise their voting rights at board meetings. The establishment of an audit and supervisory committee will ensure the effectiveness of the supervisory function of the board of directors, as the audit and supervisory committee members will be able to become members of the board of directors and exercise their voting rights.

Members of the Board of Directors and the Board of Auditors² (Announced May 13, 2021)

	Position	Name	Background
Board of Directors	President	Mr Hisao Ochiai	Marelli (former Senior Vice President)
	Director	Mr Koji Hirukawa	Isuzu Motors Ltd.
	Director	Mr Kenji Mimura	Tokyo Radiator
	Outside Director	Mr Yoichi Taguchi	Mitsubishi Metal Mining Company Ltd. (current Mitsubishi Materials Corporation), etc.
	Outside Director	Mr Fujitoshi Takamura	Komatsu Ltd.
Board of Auditors	Full-time Statutory Auditor	Mr Ryoichi Matsumoto	Tokyo Radiator
	Full-time Statutory Auditor	Mr Akira Tanaka	Tokyo Radiator
	Outside Statutory Auditor	Mr Takaharu Ito	Citibank, N.A., etc.
	Outside Statutory Auditor	Mr Yosuke Kasue	Nissan Motor Co., Ltd.

* The changes to the board membership were announced on 13 May, following the submission of shareholder proposals by AVI.

Source: FY3/2021 2Q Financial Report, FY3/2020 Full-year Financial Report, Press Release as of 13 May 2021

¹ As of 30 September 2020, Marelli held 40.10% of the number of shares outstanding (excluding treasury shares) in Tokyo Radiator.

² The appointments will be made at the Ordinary General Meeting of Shareholders on 25 June 2021 and the Board of Directors thereafter.

Shareholder Proposal 3

Establishment of a Nomination Committee and a Compensation Committee, the Majority of which be Composed by Outside Directors

- At present, Mr Hisao Ochiai, President, is entrusted with the selection of candidates for directors and the determination of directors' compensation. The governance committee advises on the basic compensation for directors and the selection of candidates for the board of directors. However, since Mr Ochiai attends the governance committee the advice from the committee cannot be deemed impartial or independent.
- Important decisions, such as the selection of candidates for the board of directors and the determination of directors' compensation, should be made in a rational manner, taking into account the knowledge and views of outside directors, to promote the interests of all stakeholders, and for this reason the decision-making process should be clarified by an independent advisory body.
- Therefore, AVI proposes to establish a Nomination Committee and a Compensation Committee, the majority of which will be composed of outside directors.

Members of the Board of Directors and the Board of Auditors¹

(Announced May 13, 2021)

	Position	Name	Governance Committee Member (✓)
Board of Directors	President	Mr Hisao Ochiai	✓
	Director	Mr Koji Hirukawa	
	Director	Mr Kenji Mimura	
	Outside Director	Mr Yoichi Taguchi	✓
	Outside Director	Mr Fujitoshi Takamura	✓
Board of Auditors	Full-time Statutory Auditor	Mr Ryoichi Matsumoto	
	Full-time Statutory Auditor	Mr Akira Tanaka	
	Outside Statutory Auditor	Mr Takaharu Ito	✓
	Outside Statutory Auditor	Mr Yosuke Kasue	✓

* The changes to the board membership were announced on 13 May, following the submission of shareholder proposals by AVI.

Source: FY3/2020 Full-year Financial Report, Press Release as of 13 May 2021

¹ The appointments will be made at the Ordinary General Meeting of Shareholders on 25 June 2021 and the Board of Directors thereafter.

Shareholder Proposal 4

Introduction of Restricted Stock-based Compensation System for Directors (Excluding Outside Directors)

- All of the directors' compensation for FY3/2020 was paid as fixed compensation. The fixed compensation system was designed to reflect the responsibilities of the position and is based only on performance over one-year. On 23 March 2021, Tokyo Radiator announced the introduction of performance-linked compensation, which reflects the performance of consolidated sales and profits for the previous year, as well as the percentage of individual and departmental performance targets achieved, but there does not appear to be any difference between the new system and the former fixed compensation system.
- Accordingly, AVI proposes to introduce a restricted stock compensation plan for directors (excluding outside directors) with an annual limit of Y13mm. The restricted stock compensation plan will increase the linkage of compensation to medium- to long-term performance and provide a sound incentive for directors to sustainably enhance corporate value and promote further value sharing with shareholders. Furthermore, the adoption of the restricted stock compensation plan will improve the transparency of the compensation decision-making process.

The Corporate Governance Code requests for management compensation to reflect medium- to long-term company performance and be incentivised, and design transparent procedures.

[Principle 4-2: Roles and Responsibilities of the Board of Directors (2)]... (Omitted)...Management compensation should reflect the company's performance and potential risks over the medium to long term, and should be incentivised in a way that contributes to the exercise of sound entrepreneurial spirit. This should be done in such a way as to reflect the company's performance and potential risks and to incentivise the exercise of a sound entrepreneurial spirit.

[Supplementary Principle 4-2 (1)] The Board of Directors should design the compensation system and determine the specific amount of compensation in accordance with objective and transparent procedures to ensure that management compensation functions as a sound incentive for sustainable growth. In doing so, the proportion of compensation linked to medium- to long-term performance and the ratio between cash compensation and compensation in the form of company shares should be set appropriately.

[Ref.] Record of the Dialogue between AVI and Tokyo Radiator



- Over the past few years, we have been continuously sending letters to Tokyo Radiator on ways in which to improve corporate value. As Tokyo Radiator is a listed subsidiary, we have also sent letters to Marelli and KKR (owner of Marelli) to share our concerns.
- We have had several meetings with Tokyo Radiator, holding constructive dialogue about the letters. We would like to express our gratitude to Tokyo Radiator for meeting with us several times. However, the contents of our letters are not sufficiently reflected by Tokyo Radiator’s management, and we have decided to submit the shareholder proposals.
- Despite numerous efforts by AVI to hold constructive dialogue, Marelli and KKR have declined to discuss Tokyo Radiator issues.

Record of the dialogue between AVI and Tokyo Radiator

Date Time	Contents
November 2018	Meeting (1)
March 2019	Meeting (2)
April 2019	AVI sent a letter to Tokyo Radiator. The same letter is also sent to Marelli and KKR
May 2019	Meeting (3)
November 2019	AVI sent a letter to Tokyo Radiator.
November 2019	Meeting (4)
March 2020	Meeting (5)
November 2020	Meeting (6)
December 2020	Meeting (7)
Mid-February 2021	AVI sent a letter to Tokyo Radiator. The same letter is also sent to Marelli and KKR
Mid-February 2021	Meeting (8)
Mid-March 2021	AVI sent the draft of shareholder proposals to Tokyo Radiator. The same letter is also sent to Marelli and KKR
15 April 2021	Tokyo Radiator sent a letter on opposition to the draft shareholder proposals to AVI. Meeting (9) held on the same day
19 April 2021	AVI sent the shareholder proposals to Tokyo Radiator

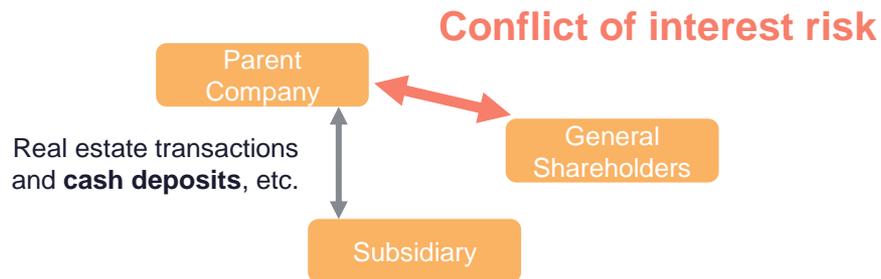
Note: Interviews include F2F meetings, online meetings using ZOOM and conference calls.

[Ref.] Problems of listed subsidiary structure such as Tokyo Radiator

- Tokyo Radiator is a listed subsidiary of Marelli.
- The Ministry of Economy, Trade and Industry’s “the Practical Guidelines for Group Governance Systems” points out the risk of conflicts of interest that may exist between the parent company, which is the controlling shareholder, and the ordinary shareholders of the listed subsidiary.
- In particular, direct transactions, such as cash deposits, are introduced as “specific situations where conflicts of interest may arise in listed subsidiaries,” and it is mentioned that “as the interests of general shareholders may be harmed, it is necessary to give due consideration to general shareholders through the establishment of practical governance systems in listed subsidiaries.”
- Tokyo Radiator has deposited cash (¥5.5bn¹) with Marelli, which is equivalent to 56% of the total cash. Marelli is using Tokyo Radiator as a convenient source of cheap cash for itself at the expense of minority shareholders. In addition, the President of Tokyo Radiator is assigned from Marelli management.
- KKR, an advocate of corporate governance reform, would normally criticize a listed subsidiary parking cash with its controlling shareholder, and we believe KKR should practice what it preaches.

Specific Situations where Conflicts of Interest May Arise in Listed Subsidiaries

(Quoted from “the Practical Guidelines for Group Governance Systems,” The Ministry of Economy, Trade and Industry)



(Conflicts of Interest: Cash Deposits)

- The parent company wants to utilise its subsidiaries’ cash at the lowest possible interest rate.
- The subsidiary wants to use the cash for its own investments, unless interest is paid to cover the cost of capital.

Source: FY3/2020 Full-year Financial Report, The Ministry of Economy, Trade and Industry, “the Practical Guidelines for Group Governance Systems”

Note: AVI estimates that the interest rate on Tokyo Radiator’s deposit is approximately 0.4%. The estimate is based on the interest income (¥0.2bn) and the deposit (¥5.3bn) as stated in the transactions with Marelli in FY3/2020 Full-year Financial Report.

¹ The deposit is as of 31 December 2020.