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20th May 2021

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To: SK Kaken Shareholders
藤井 實, Chairman
藤井 実広, President
Board of Directors, SK Kaken Co., Ltd

AVI submission of shareholder proposals and call for SK Kaken to stop neglecting minority shareholders

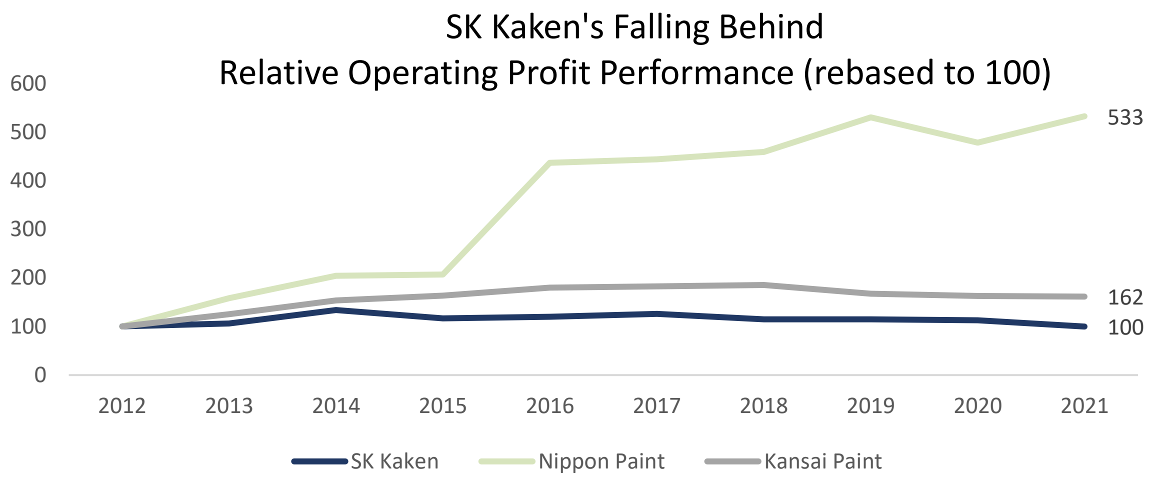
Asset Value Investors ("AVI"), on behalf of its managed funds AVI Japan Opportunity Trust and AVI Global Trust, currently hold 84,600 shares, or approximately 3.1%, of SK Kaken's ("the Company") outstanding voting shares. We have been a shareholder since November 2017.

While we highly appreciate that the Company has engaged in dialogue[1], a lack of action and proactivity has necessitated putting forward our arguments to a wider shareholder base.

SK Kaken has shown a lack of regard towards shareholders outside of the controlling Fuji family[2], negating its responsibilities as a publicly listed company. That SK Kaken's website does not have an IR section or any shareholder material beyond a business report published twice a year, shows how much consideration is given to minority shareholders.

While the Fuji family have successfully grown the business to be the dominate paint supplier in the domestic architectural paints market, the current conservative and sedentary approach has left SK Kaken falling behind.

[1] We have held nine face-to-face meetings and conference calls where travelling has been restricted
[2] Total family-related holdings 41.3%. Composed of, 30.8% Shikoku Kosan Y.K., 3.5% Fuji Kunihro, 3.5% Fuji Mitsuhiro and 3.5% Fuji Minoru. CapitalIQ 11th May 2021

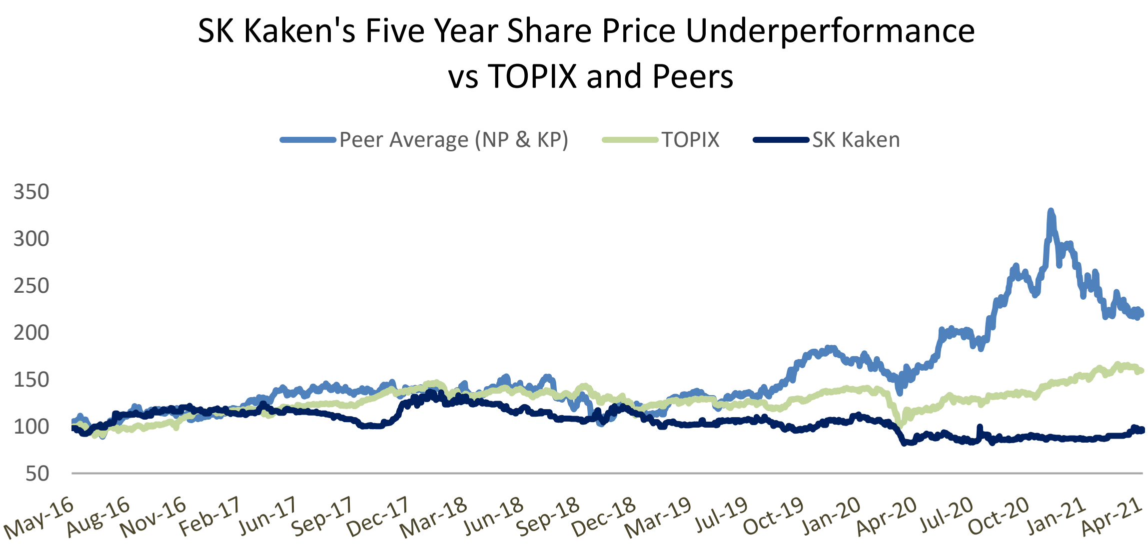


We are not the only shareholder disappointed with the Company's treatment of minority shareholders and its pedestrian attitude towards managing the Business, with only 76% of shareholders supporting the re-election of SK Kaken's Chairman in 2020, compared to 93% in 2016. It is time for SK Kaken to be managed in a way that considers the interests of all shareholder groups, not just one.

In this letter we show how SK Kaken shareholders are suffering, outline **seven** key failings that are contributing to this, and put forward modest shareholder proposals to address two failings.

<u>Shareholder suffering</u>

The result of decades of shareholder neglect is an underperforming share price and depressed valuation. While share prices can be volatile and erratic over short period, SK Kaken's share price has severely underperformed over one, three and five years. Furthermore, SK Kaken trades at a valuation that does not nearly reflect the quality of the underlying business and far below peers. The reasons for the underperformance and undervaluation are not due to technical factors outside of management's control, but from a myriad of issues that reflect a lack of urgency and weak management discipline typical of a family-controlled business.



Share Price Performance[3]	Average	TOPIX	SK Kaken
1 Year	30.7%	32.3%	-0.2%
3 Year	47.4%	14.6%	-25.3%
5 Year	113.9%	58.5%	-7.9%

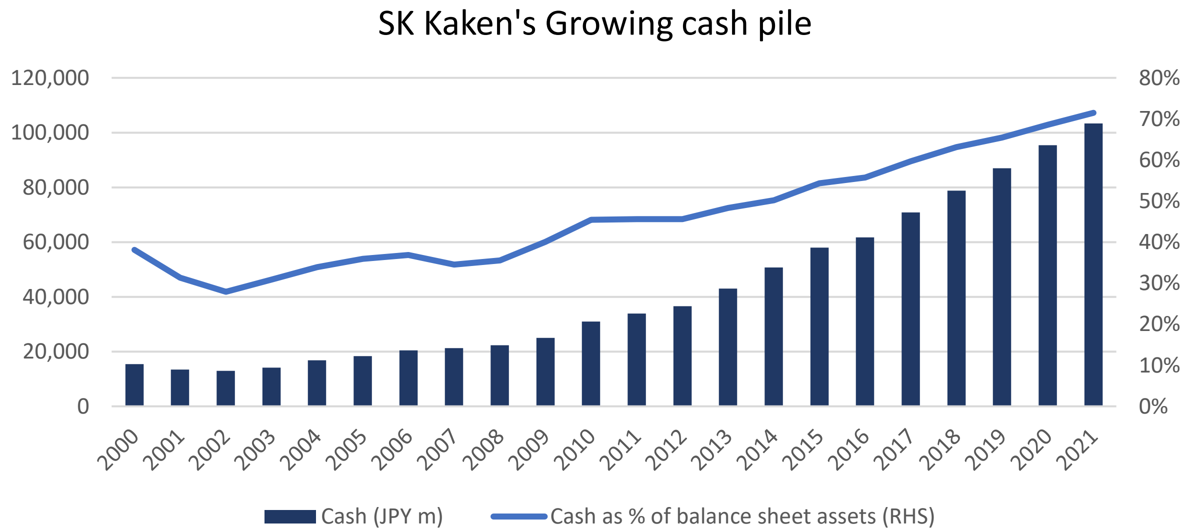
Relative Valuation to Peers[4]	Nippon Paint	Kansai Paint	SK Kaken
EV/Sales	5.2	2.1	0.1
EV/EBIT	46.9	24.1	0.7
P/E	77.6	45.1	19.5
P/B	4.4	2.6	0.9

Seven key failings

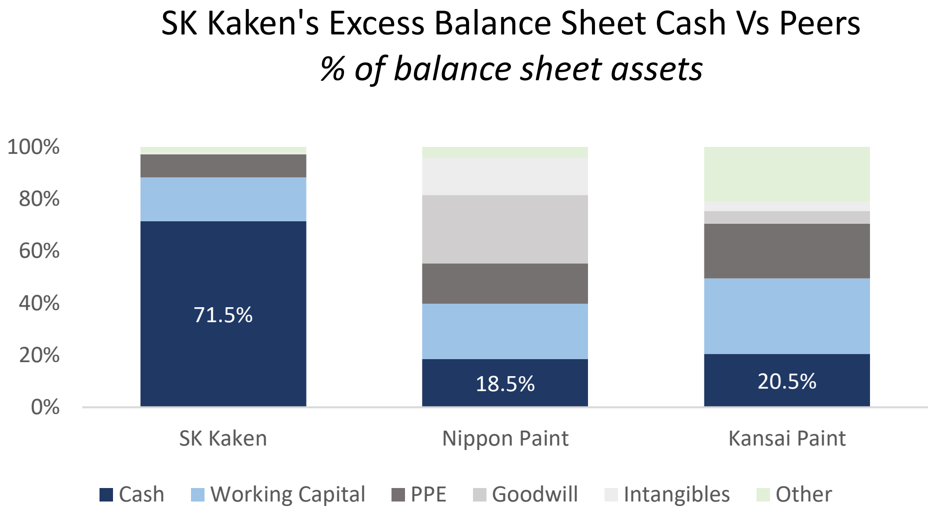
1. Inefficient allocation of capital

Every year since 2003 SK Kaken's pile of cash has grown, from a still large 28% of balance sheet assets to a senseless 71% of balance sheet assets as of 31st March 2021. This defies all sensible financial management and goes beyond what could be reasoned as a conservative planning.

The Corporate Governance Code outlines the importance of capital efficiency, stating that the board should appropriately fulfil its roles and responsibilities, "in order to promote sustainable corporate growth and the increase of corporate value over the mid to long-term and enhance earnings power and capital efficiency".



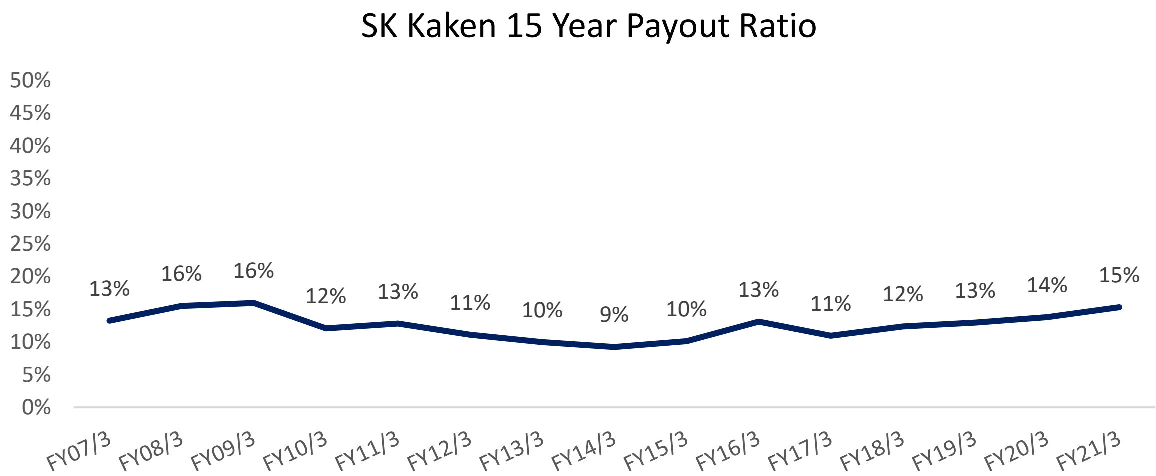
[3] CapitalIQ, total share price return to 30th April 2021
[4] As of 17th May 2021, CapitalIQ



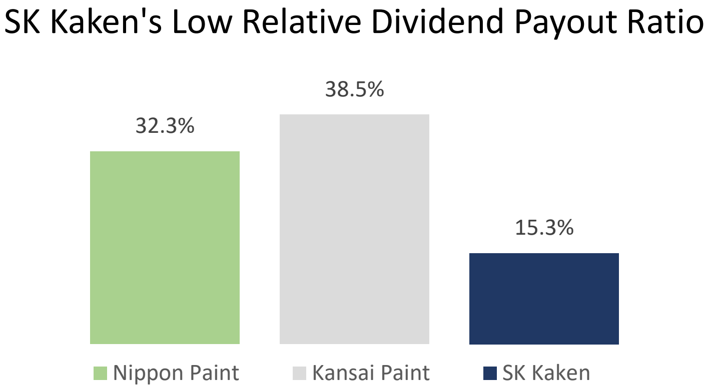
2. <u>Low shareholder return</u>

The cause for SK Kaken's excess cash is a dividend policy entirely out of keeping with acceptable standards of shareholder returns. SK Kaken has paid out an average 12%[5] of net profits as dividends over the past 10 years, with the most recent payout for the year ending FY3/21 of 15%. The average dividend payout ratio for companies in the MSCI Japan last year was 47%[6] while SK Kaken's peers' Nippon Paint and Kansai Paint paid out 32% and 39% respectively.

The low return of profits to shareholders shows how little importance SK Kaken places on its public shareholders.



[5] CapitalIQ, dividend payout ratio to normalised earnings per share
[6] Jefferies, Factset



3. Non-existent trading liquidity due to high minimum trading value

Despite SK Kaken's large market capitalisation, its trading liquidity on the stock exchange is very low. The daily traded value of SK Kaken's shares has averaged only JPY 23m[7] over the past six months and over the same period there have been 36 days (29% of the total) where no shares have traded at all.

The cause of SK Kaken's low trading liquidity is due to the large minimum trading value. The minimum number of shares that can be purchased due to Tokyo Stock Exchange rules is 100, and with SK Kaken's JPY 38,650[7] share price, that equates to a minimum trading value of JPY 3,865,000. This is the 6th highest trading value among companies listed on the Tokyo Stock Exchange[8], and 17x higher than the JPY 219,625 average.

Article 445 of the Securities Listing Regulation states that "an issuer of Japanese listed shares shall undertake the endeavour to make the minimum purchase price of such Japanese listed shares from JPY 50,000 to JPY 500,000 and keep such minimum price".

In addition, according to the Tokyo Stock Exchange, for 93% of listed companies the minimum purchase price is less than JPY 500,000 (as of the end of March of 2021).

SK Kaken's high minimum price limits the number of investors that can purchase shares in SK Kaken, which is a key factor to why SK Kaken only has 304 shareholders[9].

Rank of TSE listed companies	**Company**	**Minimum purchase price (JPY)**
1.	Fast Retailing	8,705,000
2.	SMC Corp	6,212,000
3.	Nintendo	6,171,000
4.	Keyence Corp	5,206,000
5.	Tokyo Electron	4,648,000
6.	**SK Kaken**	**3,865,000**
....		
Average		219,625

[7] As of 8th April 2021. Source, CapitalIQ
[8] The TSE operates five markets of the First Section, Second Section, Mothers, JASDAQ and TOKYO PRO Market. Source: JPX website
[9] SK Kaken, FY20/3 securities report as of 31st March 2020

4. Lack of board diversity and independence

Principle 2.4 of the Corporate Governance Code outlines that “companies should recognise that the existence of diverse perspectives and values reflecting a variety of experiences, skills and characterises is a strength that supports sustainable growth. As such, companies should promote diversity of personnel, including the active participation of women.”

Principle 4.11 expands on this point further, “The board…should be constituted in a manner to achieve both diversity, including gender and international experience”.

Of SK Kaken’s nine directors, only one is independent, that one independent director is barely independent having worked with SK Kaken for 13 years, the eight inside directors only have experience working for SK Kaken, Fuji family members control the Chairman and President positions, while all directors are male. Furthermore, the outside statutory auditors appointed to oversee the Board and protect shareholders, all reside from Resona Bank-related companies, which have historic business ties to SK Kaken.

SK Kaken’s board of directors is not composed in a way to create healthy debate nor to protect shareholders interests. It is structured to preserve the status quo and serve the interests of the Family.

5. Reduction in director terms from two to one year;

In a Tokyo Stock Exchange White Paper on Corporate Governance 2017, it states that “specifying the term of directorships as one year will enhance the authority of the board and work to the benefit of the company”. There is a trend for the reduction in two-year director terms with only 27% of Tokyo Stock Exchange first section companies having them, down from 37% four years ago.

The current two-year term of SK Kaken’s directors is not in the best interest of shareholders. Two-year directorships prevent shareholders from voicing their concerns at frequent intervals and only serve to entrench the incumbent directors.

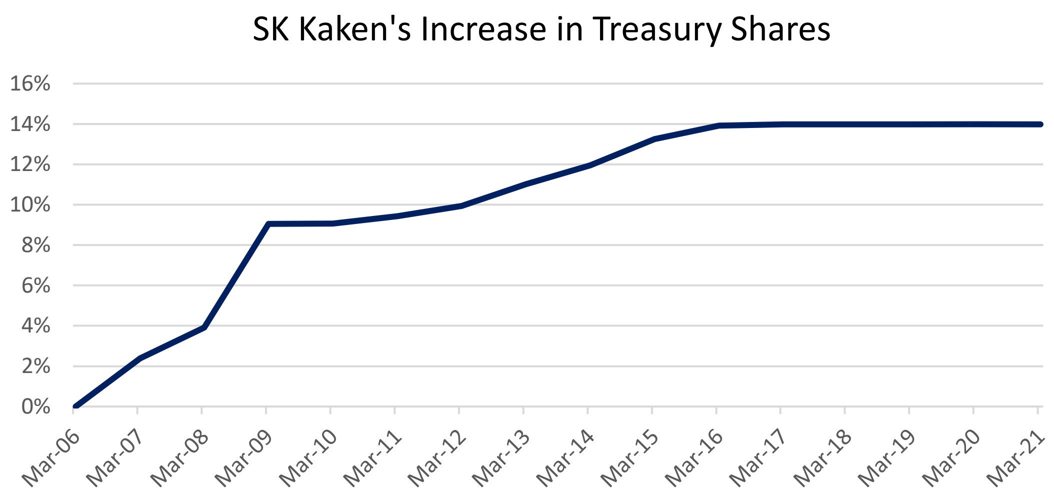
6. Poor shareholder communications

Ensuring appropriate information disclosure to shareholders is such an important matter that the Corporate Governance Code dedicates Principle 3 to it, stating that “the Board should recognise that disclosed information will serve as the basis for constructive dialogue with shareholders, and therefore, ensure that such information, particularly non-financial information, is accurate, clear and useful.”

SK Kaken has made no effort to share information with its shareholders. Beyond publishing a bi-annual business report (in Japanese only), no documents are published on its website and it does not have an IR section. Without the sharing of information, it is difficult for investors to make informed decisions and engage in constructive dialogue. Shareholders are left in the dark about SK Kaken’s strategy.

7. Excess of treasury shares

SK Kaken holds 14% of its shares outstanding in treasury, far higher than the 4% average amongst Tokyo Stock Exchange listed companies. SK Kaken has not implemented M&A nor announced the plan of M&A and has not adopted a stock-based compensation plan for directors either. Thus, there is no reason to hold such a large number of treasury shares. It only exposes shareholders of SK Kaken to the risk that these treasury shares are reissued to the market and the value of their shares is diluted.



Modest shareholder proposals to start improving shareholder value

To begin addressing the aforementioned issues we have put forward shareholder proposals aimed to rectify SK Kaken's low liquidity and excess treasury shares. The shareholder proposals are intentionally modest and should be uncontroversial. They address technical causes for SK Kaken's low stock price that can be resolved at no cost. That the Company has chosen to reject the shareholder proposals, when they could have been implemented without much effort, shows the Company's stubborn resistance towards creating a better Company.

Shareholder proposals:
(1) Amendment of the Articles of Incorporation (technical proposal related to stock split)
(2) Implement a ten for one share split
(3) Amendment of the Articles of Incorporation (technical proposal related to stock split)
(4) Amendment of the Articles of Incorporation (technical proposal related to cancellation of treasury shares)
(5) Cancellation of 394,605 treasury shares - 90% of treasury shares

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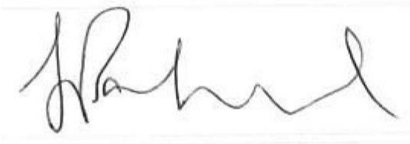
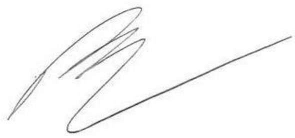
SK Kaken has a high-quality business with great products and strong customer loyalty. However, its share price and valuation paint a different picture. All shareholders are suffering from SK Kaken's persistent underperformance and decades of neglect.

We call on SK Kaken to listen to the views of minority shareholders and ask shareholders to vote in favour of our modest shareholder proposals. As long-term shareholders we wish the best for SK Kaken, and hope that the Company will recognise its responsibilities as a listed and address its current failings.

Yours sincerely,
Asset Value Investors



CEO & CIO
Joe Bauernfreund



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