



May 14, 2024

Company name : Kumagai Gumi Co., Ltd.

Representative : Shin Ueda, President

(Code: 1861, Prime Market in the Tokyo Stock Exchange)

Notice Regarding the Receipt of a Shareholder Proposal and Opinion of Board of Directors of the Company

Kumagai Gumi Co., Ltd. (the "Company") has received a letter from the Company's shareholder relating to the shareholder proposal (the "Proposal") at the 87th Ordinary General Meeting of Shareholders (the "AGM") of the Company to be held in June 27, 2024.

The Company hereby announces that the Board of Directors, at its meeting held today, have resolved to oppose the Shareholder proposal as follows.

I. Proposing shareholder

OASIS INVESTMENTS II MASTER FUND LTD.

II. Proposal details

For the Proposal are described below as they appear in the original document.

I. AGENDA ITEM

Agenda Item: Appropriation of Surplus

II. SUMMARY OF THE AGENDA ITEM AND REASONS FOR THE PROPOSAL

1. Agenda Item : Appropriation of Surplus

(1) Summary of the Agenda Item

If the Company's Board of Directors propose dividends at the AGM, this proposal shall be proposed independently and additionally.

The surplus shall be distributed as follows.

(A) Dividend type

Cash

(B) Dividend amount per share

The amount obtained by deducting from JPY 160 per share the amount of dividends per share proposed by the Board of Directors and approved at the AGM (or the amount of JPY 160 if the Board of Directors does not submit a proposal concerning dividends at the AGM)

(C) Dividends and the total amount of dividends

Amount of dividends per share referred to in (B) above per share of common stock of the Company (the total dividend amount is the amount calculated by multiplying the amount of dividends per share by the total number of issued shares in the Company as of March 31, 2024 (excluding treasury stock))

(D) The date that the distribution of dividends becomes effective

The date of the AGM

(2) Reasons for the Proposal

The Company's new medium-term management plan¹ calls for ordinary income to double, from JPY 15.7 billion in the fiscal year ending in March 2024 to JPY 30 billion by the fiscal year ending in March 2027, while the Company reduced its ROE target from 12% to 10%. This mismatch of increasing ordinary income coupled with a decreasing ROE target indicates that the Company's management is not planning on improving capital efficiency. With the projected doubling of ordinary income and a capital adequacy ratio of more than 40%, which is on par with or better than its peers, the Company should have better capital efficiency.

Competitors formulated a dividend policy based on dividend on equity (DOE)² that allows for both stable dividends and capital efficiency as well as such policy to increase payout ratio.³ The Company should set its dividend to the higher of either payout ratio at 50% or more or DOE at 4% or more, and accordingly, the dividend per share should be JPY 160. The amount of dividend payment would be approximately JPY 6.9 billion on this basis, which is feasible based on net profits for the previous and current fiscal years and should be sustainable in the future. Additionally, if the Company maintains this dividend level over the long term, the share price may be expected to go well above JPY 5,200.

1 "Basic Policy for Formulation of the New Medium-Term Management Plan (FY2024-2026)" dated November 13, 2023: https://www.kumagaigumi.co.jp/news/item/ir_20231113_kihonhosin.pdf.

2 Obayashi Corporation's target DOE is 5% or more and Tokyu Construction's target DOE is 4% or more.

3 Nishimatsu Construction's target consolidated dividend payout ratio is 70% or more and Hazama Ando's target total dividend payout ratio is 70% or more.

(3) Opinion of Board of Directors of Company on Shareholder's Proposal

The Board of Directors of the Company opposes this shareholder's proposal due to the following reason.

[Reason]

The basic policy of the Company with regards to the distribution of profits is to return profits to our shareholders appropriately and steadily while enhancing retained earnings to strengthen the management foundation and expansion of business profit, by comprehensively taking into consideration the operating results for the latest business term, the outlook for the medium-to-long term performance as well as the management environment, etc. The Medium-term Management Plan (FY2021-2023) (the "Former Medium-term Plan") also set a dividend payout ratio of around 30% as one of the Company's dividend policy. Although the profit level in FY2022 was significantly lower than that of the previous fiscal year and the forecast at the beginning of the fiscal year, the Company made, as scheduled, the cash dividend payment of JPY 130 per share in respect of the common stock of the Company, which was the amount the Company had originally proposed, in line with the basic policy of "steady return of profits" and without reducing the dividend. Consequently, the dividend payout ratio was 72.4%, and the total return ratio after taking into account the acquisition and cancellation of its own shares was 121.6%, which was a high shareholder return rate.

With respect to the dividends for FY2023, it is regrettable that the results of operation reached neither the targets under the Former Medium-term Plan nor those set at the beginning of this fiscal year. However, the Company proposes to the AGM to pay, as planned at the beginning of this fiscal year, the dividends from surplus of JPY 130 per share in respect of the common stock of the Company, which is the same amount as that for FY2022. If the proposal is approved, it is expected that the dividend payout ratio for FY2023 will be approximately 68%, and that the total return ratio after taking into account the acquisition and cancellation of its own shares will be approximately 92%, which means that the shareholder return ratio will remain continuously high relative to the profit level.

In the Medium-Term Management Plan (FY2024-2026), which the Company announced recently, the Company has raised the dividend target to the dividend payout ratio of around 40%, and simultaneously sets the equity ratio of approximately 45% as the optimal capital structure from the viewpoint of balancing assurance of business continuity (financial soundness) with capital efficiency from a medium-to-long term perspective. However, owing to an increased amount of accounts receivable from completed construction contracts as a result of the increasing size of construction projects, etc., the amount of interest-bearing debt has increased, and the equity ratio was only 38.5% at the end of March 2024.

Because the Company was in a process of a full-fledged recovery in profits during FY2023, and the equity ratio has not reached what the Company considers as the necessary capital level as stated above, the Company believes that an increase in dividends to JPY 160 per share as requested by this shareholder's proposal would not be in line with the Company's basic policy of returning profits to our shareholders appropriately and steadily while striving to strengthen the management foundation, etc., and would not be appropriate from the viewpoint of enhancing corporate value over the medium-to-long term.

For the above reasons, the Board of Directors of the Company opposes this shareholder's proposal.