

Explanatory Material Regarding Our  
Board of Directors' Opinion on the  
Shareholder Proposal

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AIN HOLDINGS INC.

June 26, 2024

# Executive Summary

The Board of Directors **oppose** all of the Shareholder Proposals from Oasis\*.

## Shareholder Proposal

Proposal	Content	Board of Directors opinion
Agenda 1 Dismissal of two (2) Directors	1 Mr. Shigeru Yamazoe 2 Mr. Junro Ito	<b>Against</b>
Agenda 2 Appointment of four (4) Directors	1 Mr. Hajime Yoshitake 2 Mr. Shogo Maeda 3 Mr. Alexander Dmitrenko 4 Mr. Kenji Shinmori	<b>Against</b>
Agenda 3 Determination of the fixed remuneration amount paid to each Outside Director	10,000,000 JPY as the fixed compensation amount paid for each business year	<b>Against</b>
Agenda 4 Determination of Remuneration for Granting Restriction Shares to Outside Directors	Introduction of restricted share remuneration for outside directors, the remuneration to be paid for the grant of which shall be monetary claims, and the total amount of such claims shall be within 50 million JPY per year	<b>Against</b>

\* Oasis: OASIS INVESTMENTS II MASTER FUND LTD. and OASIS JAPAN STRATEGIC FUND LTD.

# Agenda 1: Dismissal of two (2) Directors

## Summary of the reasons for the Board's opinion (Against)

- Neither Director violates the standards of the Tokyo Stock Exchange, the Company's Independence Standards, or the Company's immateriality criteria, and the Company has **designated both Directors as independent officers**
- Both Directors sufficiently perform the functions of supervising and checking the execution of the Company's business and act from a standpoint that is independent of management.
- The shareholder proposal cites the occurrence of the Case\* as one of the reasons for requesting for the dismissal of both Directors. However, both Directors fulfilled their duties appropriately in accordance with their respective knowledge and skills, and it is not appropriate to make claims suggesting that the independence of both Directors was the cause of the Case. **There is a leap in the logic of the shareholder making the proposal, which has unilaterally decided there are doubts about the independence of the Company's Outside Directors, then linked these problems related to independence to the occurrence of the Case, and these are not grounds for dismissing both Directors.**
- At the conclusion of this General Meeting of Shareholders, both Directors are scheduled to retire due to the expiration of their terms of office, and therefore the Company also does not recognize the substantial significance of their dismissal.

\* The Case: Former officers of the Group were arrested on suspicion of obstructing bids in a public contract auction, etc., in connection with the solicitation of bids for a planning competition held by KKR Sapporo Medical Center in November 2020 for an operating company to develop and operate a pharmacy on its premises, and the officers were convicted in a first instance judgment

## Agenda 2: Appointment of four (4) Directors

### Summary of the reasons for the Board's opinion (Against)

- **The Board of Directors, which is composed of candidates for Directors proposed by the Board of Directors of the Company, is not only equipped with the skills and experience required for the Board of Directors of the Company and balanced in terms of the skills matrix, but also has sufficient independence, and is of an appropriate size to conduct substantive and active discussions.**
- **On the other hand, none of the four candidates in the shareholder proposal have experience as Outside Directors of listed companies, and they also all lack knowledge of the Company and its industry to which the Company belongs. Accordingly, the Company has no choice but to judge that they do not satisfy the preconditions for acting as Outside Directors of the Company.**
- Taking into consideration the fact that if these candidates for Director become Outside Directors of the Company, there will be an overlap in candidates for Directors who have the knowledge and experience deemed necessary by the Board of Directors of the Company, the fact that if the candidates proposed by the shareholder are elected as Outside Directors, there will be a deviation from the size of the Board of Directors considered appropriate by the Board of Directors of the Company, etc., as well as the individual circumstances of each candidate, the Company has determined that it is not desirable for the Company for these candidates to be elected as Outside Directors of the Company.

\* Please refer to "Views of the Board of Directors of the Company on candidates in the shareholder proposal" on page 4 and "The Company's new corporate governance – Skill matrix" on page 9

# Views of the Board of Directors of the Company on candidates in the shareholder proposal

## Concerns if the candidates in the shareholder proposal are elected as Outside Directors of the Company

- 1 The candidates all lack knowledge of the Company and the industry to which the Company belongs
- 2 There will be an overlap in candidates for Directors who have the knowledge and experience deemed necessary by the Board of Directors of the Company
- 3 Concerns that there would be a lack of balance compared with the skills matrix when only the candidates proposed by the Board of Directors of the Company are Outside Directors, and concerns that there would be a deviation from the size of the Board of Directors considered appropriate by the Board of Directors of the Company
- 4 In interviews by the Company's Nomination and Remuneration Committee with each candidate, it was not confirmed that they would be capable of exercising their abilities to enhance the Company's corporate value

### Mr. Hajime Yoshitake

- The candidates for Directors proposed by the Company include multiple optimal candidates who already possess knowledge of compliance and internal audits, which is the specialty of this candidate (Ms. Mariko Watahiki, who has many years of experience as a judge, Mr. Shigeki Kimura, who has experience as a Director and General Manager of the Administrative Division of a major retailer, etc.). Accordingly, the election of this candidate would result in the overlapping of Director candidates.

### Mr. Shogo Maeda

- This candidate's experience is centered on asset management within the financial industry, and he has no specific knowledge of finance in general, such as investment activities, including M&A.
- In order to strengthen skills in specific financial strategies such as investment decision-making, including M&A, which is an urgent priority, the Company plans to propose Mr. Nobumichi Hattori, who has sufficient knowledge of capital markets as well as knowledge of investments such as M&A, and extensive experience as an Outside Director of listed companies, as a candidate. Accordingly, the election of this candidate would result in the overlapping of Director candidates.

### Mr. Alexander Dmitrenko

- This candidate is purely a legal expert, and is not in a position of having business experience or direct involvement in the execution of corporate business operations.
- When appointing an Outside Director, rather than a legal advisor (for the global expansion of its business), the Company should seek human resources with knowledge and experience related to legal compliance with Japanese laws and regulations, etc., with the Case in mind.
- The candidates for Directors proposed by the Company include the optimal candidates who already have the same knowledge (Ms. Mariko Watahiki, who has many years of experience as a judge, etc.). Accordingly, the election of this candidate would result in the overlapping of Director candidates.

### Mr. Kenji Shinmori

- The drugstore business that this candidate oversaw at his former employer and the dispensing pharmacy business and cosmetic and drug store business that the Company operates are formats that are positioned completely differently in terms of business strategy, and his experience and knowledge are not related to a business that operates stores throughout Japan like the Group.
- The Company intends to propose Mr. Shigeki Kimura, who not only has a wealth of management experience as a Director of a listed company engaged in a major retail business operating nationwide, but also has knowledge of the Company's businesses, as a candidate. Accordingly, the election of this candidate would result in the overlapping of Director candidates.

**It is not necessary to accept any candidate in the shareholder proposal as an Outside Director in place of the candidates for Director in the Company's proposal**

# Agenda 3: Determination of the fixed remuneration amount paid to each Outside Director

## Summary of the reasons for the Board's opinion (Against)

- The amount of remuneration for individual directors, including Outside Directors, is determined with the involvement of the Nomination and Remuneration Committee, whose independence has been ensured. It is determined by a process for which independence from the Board of Directors, which is the decision-making body for business execution, has been ensured.
- **If the amount of individual remuneration for Outside Directors is resolved in advance at a General Meeting of Shareholders, it will be difficult to design flexible remuneration that takes into consideration factors such as changes in the external and market environments**, meaning that flexibility in accordance with the roles, responsibilities, etc., required of Outside Directors will be hindered and the Company will be unable to determine appropriate remuneration, which may make it difficult to acquire excellent individuals.
- At present, the Company's Outside Directors are extremely capable individuals, and the proposing shareholder's claim that "it is difficult to secure excellent human resources" with the current remuneration for Outside Directors of the Company is based on a false premise.
- There are some examples of the proposing shareholder submitting similar shareholder proposals to other companies. It cannot be ruled out that this may be one manifestation of the fact that the proposing shareholder aims to elect the Outside Directors they propose, and is motivating these Outside Directors to act in accordance with the will of the proposing shareholder by, for example, offering certain conditions and assurances when approaching candidates regarding remuneration in the event that the election of the Outside Director is successful.

# Agenda 4: Determination of Remuneration for Granting Restriction Shares to Outside Directors

## Summary of the reasons for the Board's opinion (Against)

- The Company recognizes that there is significant debate, even on a global basis, about the merits of granting restricted stock remuneration to Outside Directors, and the Company thus believes that it is necessary to examine whether it is appropriate in the first place.
- In fact, at the current stage, the voting standards of many institutional investors in Japan are to oppose such share-based remuneration proposals in principle.
- There are some examples of the proposing shareholder submitting similar shareholder proposals to other companies. It cannot be ruled out that this may be one manifestation of the fact that the proposing shareholder aims to elect the Outside Directors they propose, and is motivating these Outside Directors to act in accordance with the will of the proposing shareholder by, for example, offering certain conditions and assurances when approaching candidates regarding remuneration in the event that the election of the Outside Director is successful.
- It is appropriate to focus on debate concerning the design of remuneration in the future, particularly at meetings of the Nomination and Remuneration Committee, and the Company does not recognize the necessity of implementing such remuneration at the present time.
- The Company has confirmed that the candidates for Outside Director proposed by the Company do not intend to receive restricted stock remuneration, even if the proposal for their own election and Agenda 4 are both passed.

# Explanation concerning claims by Oasis

## 1 Claim that the Company did not announce the fact that the Investigation Team was established for six months or more

- The Case was a criminal case involving individuals, and the Company was careful to ensure that the results of the Company's investigation would not affect the trial

## 2 It was not a third-party committee, and the objectivity, neutrality, and expertise of the investigation were not ensured

- In fact, the External Investigation Team\* for the Case complied with guidelines of the Japan Federation of Bar Associations concerning third-party committees in practice
- The Company was considerate of the effect on the trial for a criminal case involving individuals, and the timing of the announcement of the results of the trial could not be clearly stated. For this reason, it merely did not adopt the "formality" of complying with the guidelines concerning third-party committees

## 3 In the investigation report, problematic sales methods were pointed out, and there were also two similar cases

- Measures to prevent recurrence based on the recommendations in the investigation report have already been/are being implemented (each measure will continue to be implemented)

## 4 The Board of Directors failed to create corporate governance

- The corporate governance of the Company functions effectively (in fact, if any circumstances like the Case occur, the Company quickly identifies and assesses them, then formulates, executes, and considers measures to prevent recurrence)
- Even in this investigation, the Company has received no indications that internal controls are not functioning properly, etc., with regard to compliance issues

## 5 Strengthening governance by outside officers was indicated as a measure to prevent recurrence, and it is clear that governance by Outside Directors was insufficient

- After carefully considering the composition of the Board of Directors of the Company in light of the recommendations in the investigation report, candidates for election as Directors and Corporate Auditors proposed by the Company are voted on at the General Meeting of Shareholders

\* External Investigation Team: Investigation team consisting only of external lawyers, not including any officers or employees of the Group



# The Company's new corporate governance – Candidates for Director

The members have the skills and experience required to serve as Directors of the Company, and the number of members is appropriate for holding substantive and active discussions.

## Inside Directors



Reelection

President and Representative Director

Kiichi Ohtani

### Main skills

Management experience, Finance, Sustainability, Dispensing pharmacy business, and Cosmetic and drug store business



Reelection

Representative Senior Managing Director

Shoichi Shudo

### Main skills

Management experience, Finance, Sustainability, Dispensing pharmacy business



Reelection

Representative Senior Managing Director

Toshihide Mizushima

### Main skills

Management experience, Finance, Sustainability, Dispensing pharmacy business, and Cosmetic and drug store business



Reelection

Representative Senior Managing Director

Miya Oishi

### Main skills

Management experience, Sustainability, Dispensing pharmacy business, and Cosmetic and drug store business



Reelection

Rieko Kimeji

### Main skills

Management experience, Sustainability, Cosmetic and drug store business



Reelection

Nobuyuki Takakura

### Main skills

Legal affair and compliance, Sustainability

Independent outside directors **5** (Ratio of the Board of Directors **45.5** %)  
Female directors **4** (Ratio of the Board of Directors **36.4** %)

## Outside Directors



Reelection

Outside

Independent

Noriko Endo

### Main skills

Finance, Legal affair and compliance, Sustainability



Reelection

Outside

Independent

Hideki Kuriyama

### Main skills

Sustainability



New election

Outside

Independent

Mariko Watahiki

### Main skills

Legal affair and compliance



New election

Outside

Independent

Nobumichi Hattori

### Main skills

Finance



New election

Outside

Independent

Shigeki Kimura

### Main skills

Management experience, Finance, Legal affair and compliance, Cosmetic and drug store business

# The Company's new corporate governance – Skill matrix

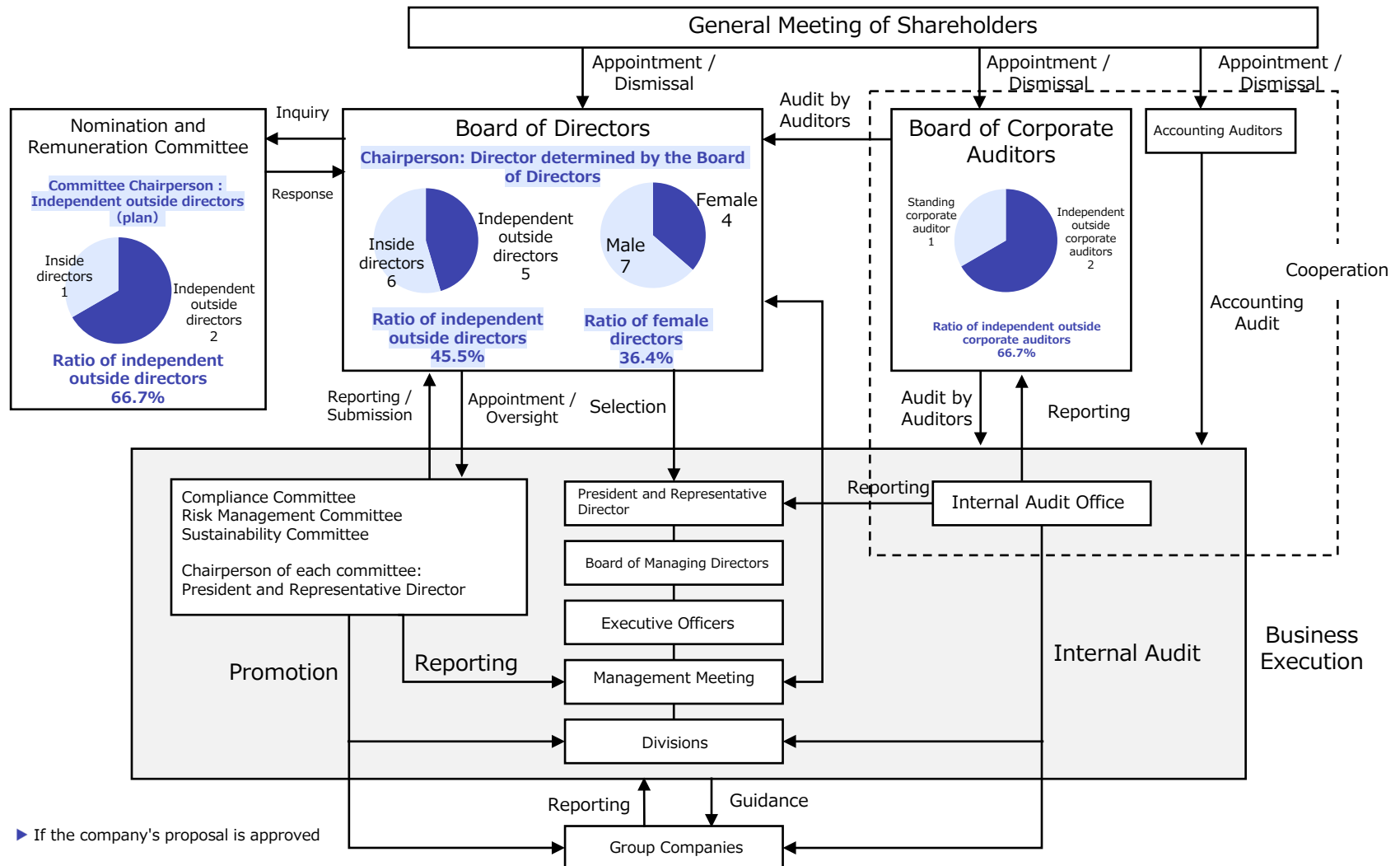
The new Board of Directors of the Company consists of Directors with diverse skills and sufficient independence, including "legal and compliance" in light of this matter as well. The optimal structure has been ensured for the Board of Directors of the Company to continue to execute the business operations of the Company and supervise senior management.

	Name	Position	Tenure	Gender	Management experience	Finance	Legal affair and compliance	Sustainable management	Dispensing pharmacy business	Cosmetic and drug store business
<b>Board of Directors</b>	1	Kiichi Ohtani	President and Representative Director	44	Male	●	●	●	●	●
	2	Shoichi Shudo	Representative Senior Managing Director	24	Male	●	●		●	
	3	Toshihide Mizushima	Representative Senior Managing Director	24	Male	●	●	●	●	●
	4	Miya Oishi	Representative Senior Managing Director	12	Female	●		●	●	●
	5	Rieko Kimei	Director	10	Female	●		●		●
	6	Nobuyuki Takakura	Director	1	Male			●	●	
	7	Noriko Endo	Independent Outside Director	6	Female		●	●	●	
	8	Hideki Kuriyama	Independent Outside Director	2	Male				●	
	9	Mariko Watahiki	Independent Outside Director	Newly appointed	Female			●		
	10	Nobumichi Hattori	Independent Outside Director	Newly appointed	Male		●			
	11	Shigeki Kimura	Independent Outside Director	Newly appointed	Male	●	●	●		●
<b>Board of Corporate Auditors</b>	1	Koichi Kawamura	Standing Corporate Auditor	12	Male		●	●		
	2	Ayako Sano	Independent Outside Corporate Auditor	Newly appointed	Female		●	●		
	3	Minako Mizutani	Independent Outside Corporate Auditor	Newly appointed	Female		●			

Furthermore, based on the increased importance of strengthening compliance given recent circumstances affecting the Company, the skills matrix has been partially revised, to change "legal affairs and risk management" into "legal affairs and compliance."

# The Company's new corporate governance - Overview

- Ensuring **diversity in the Board of Directors** (36.4% female Directors)
- Increase the number of **independent Outside Directors** from four to five (36.4% to 45.5%)
- Change the **Chairperson of the Board of Directors** from the "President" to a "Director determined by the Board of Directors" (Outside Directors are also possible)
- Plan to change the **Nomination and Remuneration Committee Chairperson** from the "President" to an "Outside Director"



▶ If the company's proposal is approved

# Summary of the Case

On August 31, 2023, two former Officers of the Group Company were arrested by the Hokkaido Prefectural Police on suspicion of Obstruction of Auctions Related to Public Contracts (Penal Code Article 96-6 (1) and Article 60), and were prosecuted by the Sapporo District Public Prosecutors Office.

In the on-site pharmacy development project conducted by the general hospital KKR Sapporo Medical Center (Sapporo, Hokkaido) (hereinafter "the Center"), two individuals are suspected of colluding with the Center's former administrative director. On April 18, 2024, the two persons were convicted with a suspended sentence in Sapporo District Court.

The Company applied for a public proposal for the project which had publicized November 2020 by the Center, and was selected as the company with preferential negotiation rights. Then both party reached a final agreement and concluded a contract. We opened a dispensing pharmacy on the Center's premises on December 1, 2021 and have continued to operate.

## ■ Occurrences and action items

- |                    |   |
|--------------------|---|
| November 11, 2020  | The Center announces "development and operation project"  |
| December 28, 2020  | As a result of the proposal competition (public offering), the Company is selected as the preferred negotiation right holder          |
| December 1, 2021   | A national health insurance scheme dispensing pharmacy is opened on the premises (currently in operation)                             |
| August 31, 2023    | Former Directors of the Group Company were arrested on suspicion of obstruction of bidding in an auction related to a public contract |
| September 21, 2023 | The Sapporo District Public Prosecutors Office institutes prosecution   |
| October 5, 2023    | The Company sets up an investigation team consisting of external experts  |
| November 1, 2023   | The two former Officers resign Officers   |
| April 18, 2024     | The Sapporo District Court convicts the two persons with a suspended sentence   |
| May 9, 2024        | The Company received the Investigation Report by the External Investigation Team and disclosed it.                                    |
| May 10, 2024       | Opened special website (overview of the investigation report, initiatives and policy to the investigation report)                     |

# Initiatives to prevent recurrence

The Company takes the arrest of former officers of the Company and Group companies seriously, and has focused on investigating the facts, determining the cause, and formulating measures to prevent recurrence. On May 10, 2024, the Company disclosed a summary of specific measures to prevent recurrence and future initiatives, based on an investigation report and recommendations on measures to prevent recurrence from the External Investigation Team. The Company will continue making efforts to restore the trust of stakeholders as soon as possible through focusing as a whole on measures to prevent recurrence.

## ■ Main initiatives to date

- Strict implementation of specific business improvement measures for officers and employees engaged in the on-site pharmacy business to ensure that a similar situation does not happen again, under the direction of the President and Representative Director, Kiichi Otani (revision of flow and establishment of prohibitions when making proposals for projects open to proposals)
- Amendments to rules, enhancement of the auditing structure (in particular, the establishment of direct reporting lines from internal audit departments to the Board of Corporate Auditors, etc.), and revisions to internal rules at each company, including the Compliance Committee Convention and the Risk Management Regulations, as necessary to ensure the appropriate fulfillment of the roles and responsibilities of the Compliance Committee, whose objective is to work toward the establishment, permeation, and entrenchment of the compliance promotion structure
- Enhancement of the Risk Management Regulations as necessary to strengthen risk management
- Creation and distribution of practical manuals for sales representatives (pocket manuals that contain information about working with public medical institutions, etc., during sales activities)
- Holding of in-house study sessions, including legal considerations in sales activities, etc., for officers and employees of the Group

## ■ Initiatives planned for the fiscal year ending April 2025

- Consideration and submission of candidates for new appointment to the Board of Directors so that it has a skills matrix able to demonstrate each skill to the full, including legal compliance
- Preparation of internal regulations regarding matters such as fair competition, prohibition of acts that may impede the fairness of auctions, bidding, etc
- Establishment of work flow in business (clarification of whereabouts of responsibility)
- Enhancement of the internal audit system
- Enhancement of the anti-bribery and corruption policy by providing a manual and FAQ on the concept of civil servant and quasi-civil servant with concrete examples, etc.
- Reinforcement of risk management by management divisions based on regulations on compliance and risk management, etc.
- Building of opportunities for the management team to exchange opinions and information with outside officers and external experts
- Notifications and training for officers and employees (officer and employee education with external experts invited as lecturers, e-learning, training and study meetings, etc.)

# Activities for improving corporate value

## Expansion of top-line

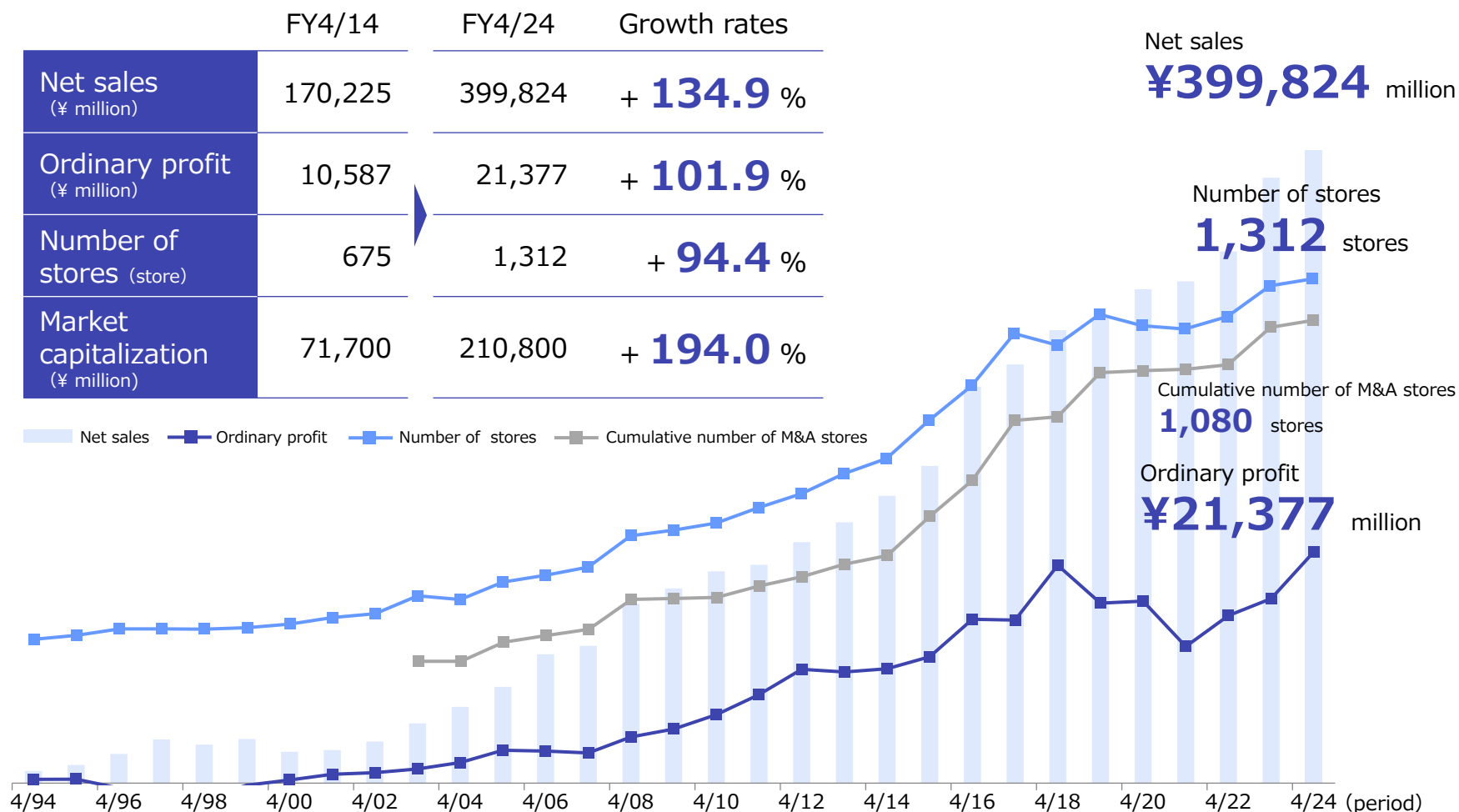
- Dispensing Pharmacy business strategy
  - Organic store openings and utilization of M&A
  - Further strengthening specialist skills of pharmacists and providing patients-centered pharmacy services
- Cosmetic and drug store business strategy
  - Organic store openings and utilization of M&A
  - Creating product lineups and sales displays specialize in cosmetics

## Reinforcing the Group's business base

- Human capital
- Digital transformation investment
- Sustainability management
- Capital / Financial capital

# Continuous growth

As the environment and values surrounding people's health and beauty continue to change with the times, the company continues to grow steadily, such as expanding its top line, strengthening its management base, and reached the highest profits in FY4/24.



# Reinforcing the Group's business base

Aggressive investments in human capital and digital transformation, promotion of sustainability management, and capital and financial strategies have led to a strong management base foundation.

## 1 Human capital Expansion of top-line by hiring new graduate actively

- Every year, we hire more than 500 pharmacists. As of April 30, 2024 we hired 1,276 new graduates on a company-wide basis

## 2 Digital transformation investment Aggressive investment to improve store operating efficiency and provide added value

- Respond to deregulation (Respond to digital prescriptions at more than 1,000 pharmacies, online pharmaceutical guidance at all pharmacies, etc.)
- Provide added value (Official app Anytime AIN Pharmacy, linkage of AINZ & TULPE real stores and E-commerce channels, etc.)

## 3 Sustainability management Sustainable growth of the company and creating social, environmental and economic value.

- Obtained many external evaluations



Certified  
Eruboshi



Certified  
Platinum Kurumin



Certified Health  
Outstanding Organizations  
Recognition Program for  
2024 (White 500)



Climate change  
Received  
a B score



Received  
an "A" rating  
in ESG Ratings

## 4 Capital / Financial capital Pursue further capital efficiency and shareholder returns

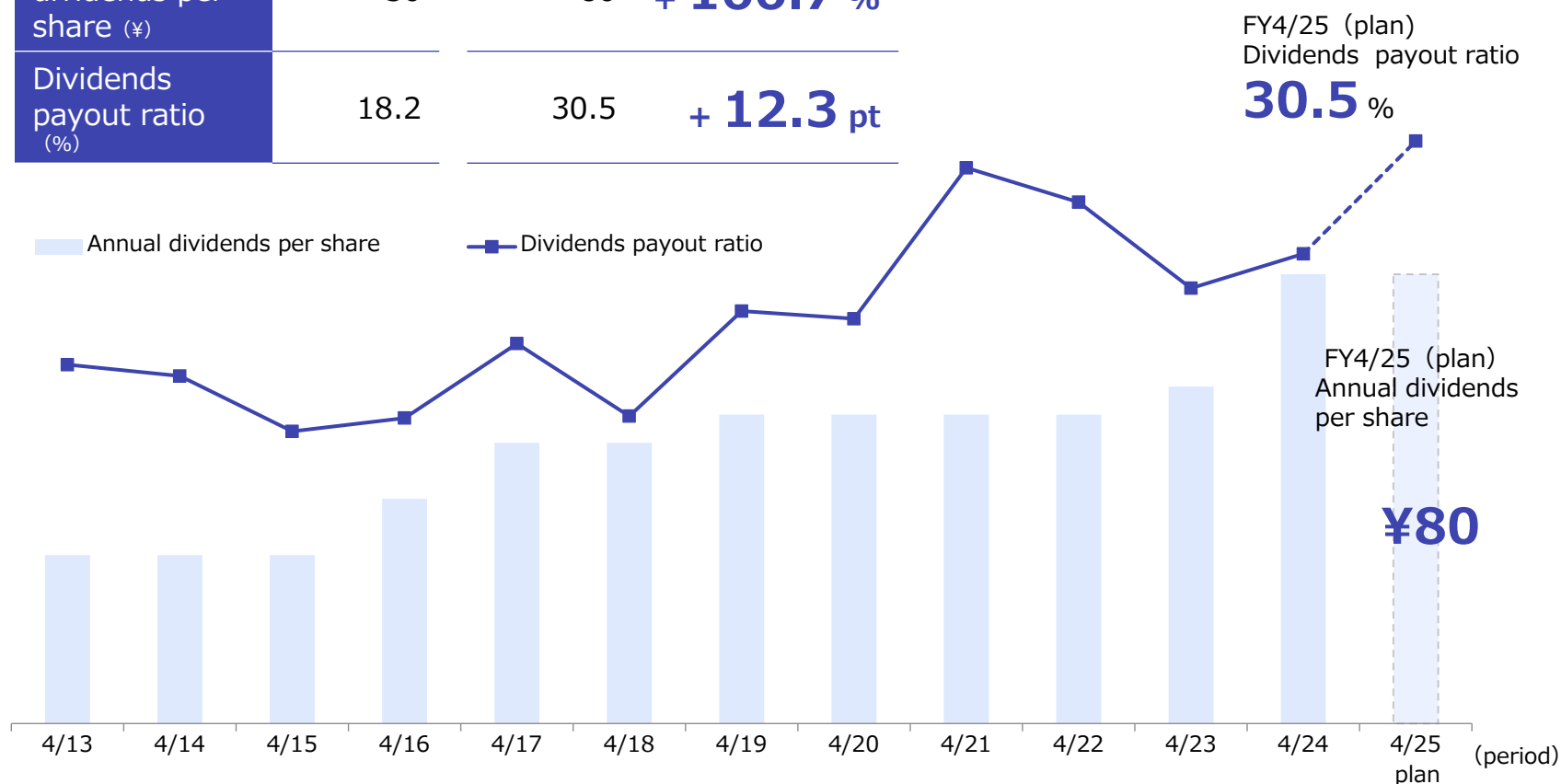
- Set a long-term ROE target of 15%, Dividend payout ratio of 30.5% planned for FY4/25



# Shareholder returns

The company aims for aggressive shareholder returns while maintaining investment in growth such as expansion of top-line and reinforcing the management base, etc.

	FY4/14	FY4/25 (plan)	Growth rates
Annual dividends per share (¥)	30	80	+ <b>166.7 %</b>
Dividends payout ratio (%)	18.2	30.5	+ <b>12.3 pt</b>



▶ 2-for-1 stock split of common stock was conducted in October 2014. In FY4/13 and FY4/14, Stated as post-split dividend amount

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