FAQs

1. **What do the leading proxy advisors think about Palliser's AGM proposal following their independent assessments?**

   - The two leading international proxy advisors, Glass Lewis and Institutional Shareholder Services ("ISS") published reports on 7 June and 10 June 2024, respectively, unanimously and unequivocally supporting Palliser's proposal and recommending that shareholders vote in favour of the proposal despite opposition from the Keisei Board.
   - The proxy advisors recognised the compelling financial benefits for Keisei from right-sizing the OLC stake to below 15% and in ensuring management are more disciplined in their go-forward capital allocation decisions.
   - According to ISS:
     - *"…this proposal will remove an accounting 'overhang' that has long distorted Keisei's performance and valuation, forcing management to be more disciplined in its capital allocation decisions and accountable for the performance of Keisei's operating businesses."*
     - *"The success of OLC has for years obfuscated the company's poor operational performance and inefficient capital allocation practices. It has also led to an ever-widening discount to the value of its single largest investment to a point where the market seems to ascribe negative value to its core operations."*
     - *"Another issue is management's focus on investing in projects or businesses with little regard for profitability, which underscores a suboptimal capital allocation track record."*
   - And according to Glass Lewis:
     - *"Central to Palliser's position is the fact that the Company's legacy, non-core interest in OLC — the underlying value of which dwarfs Keisei's entire market cap — lacks substantive strategic value and represents an inefficient allocation of capital…"*
     - *"The incremental sale of Keisei's interest in OLC does not appear to be inconsistent with — and indeed would seem to support — key long-term strategic investments by the Company."*
     - *"…the noted deadline would provide Keisei with flexibility to pursue related divestitures over a period spanning nearly two full years, which… is not, in our view, overtly problematic…"*
   - The proxy advisors were also critical of the steps taken by Keisei's Board to avoid shareholder accountability, including:
     - Failing to provide any substantiated rationale for maintaining the OLC stake at its current level;
     - Attempting to placate long-held shareholder concerns with short-term shareholder returns; and
     - Refusing the opportunity for shareholders to vote on a non-binding advisory proposal initially submitted by Palliser without any justification.

2. **The proposal seems reasonable, which raises the question why Keisei has not yet undertaken the measures called for. Why might that be?**

   - By focusing on capital allocation optimization at Keisei and preserving management flexibility and discretion, our proposal is straightforward, measured and obviously reasonable in our assessment.
   - This does understandably beg the question why Keisei has not taken steps already to reduce the size of the OLC stake and achieve the outcomes we are calling for. The answer seems clear. By eliminating the accounting distortion when the stake is at its current size:

1. Management are then unable to hide behind a significant proportion of OLC's accounting income which is currently included in Keisei's financial statements.
2. It would become obvious that the OLC stake – a non-synergistic investment – accounts for a staggering 80% of Keisei's intrinsic value.
3. It would reveal that PBR is grossly inflated currently. Keisei's true PBR is in fact 0.7x, materially below peers and the TSE 1x threshold.

- These are uncomfortable facts for Management.

3. It seems like Keisei has some governance issues – why didn't Palliser consider other proposals like nominating a director?

- We agree that there are some governance issues that need to be resolved at Keisei. However, in our view, right-sizing the OLC stake and addressing the c. US$3bn Value Gap is the most pressing matter and a crucial first step in solving key issues at Keisei for all stakeholders.
- As part of our discussions with the current Board/Management team, we had suggested the possibility of adding a director to the Keisei Board, but it was clear that this was not something they were receptive to at the time.
- Depending on the outcome of the AGM and the Board's/Management's response, we will consider whether further action may be warranted on this topic.

4. What alternative proposals did Palliser discuss with Management?

- Prior to submitting the AGM proposal, we raised the possibility of an additional director being added to the Board (as highlighted in Question 3 above). We also repeatedly proposed a working group collaboration between Palliser and Keisei Management to facilitate the development of an action plan to resolve Keisei's Value Gap and provide feedback to Management on broader stakeholder sentiment. Despite Palliser offering to enter into appropriate trading and confidentiality arrangements, this proposal was rejected by Management and the Board without reason.
- Subsequently, Palliser proposed that, rather than an amendment to the Articles of Incorporation, the Board voluntarily include a non-binding advisory resolution on right-sizing the OLC stake and improving capital allocation at the AGM in order to solicit direct shareholder feedback (an approach adopted by leading Japanese issuers previously). When Keisei rejected this proposal without justification, Palliser submitted a formal request for the inclusion of an advisory resolution at the AGM. Again, the board rejected this request without reason and deliberately deprived shareholders a voice on key fundamental capital allocation issues.
- Over the past 3 years of patient and respectful engagement with the company, Palliser has continued to seek genuine willingness for progress from Management, but all of our constructive proposals to encourage concrete action have been dismissed or ignored without reason.
- As such, we were left with no choice but to submit the current AGM proposal for a new addition to the Articles.

5. Why didn't Palliser submit proposals to change Management?

- We believe it is ultimately down to the Board to determine the appropriate Management team to lead Keisei and, for the time being, we have focused on the pressing capital allocation and OLC stake issues, which depress Keisei's value and inhibit the company from achieving its potential.

- Our priority at this stage has been to take steps to ensure shareholders are given an opportunity to have their say on these pressing issues, and we currently believe Management are sufficiently capable of managing and operating the railway and other core businesses.
- However, Management's failure to address the outsized US$6.8bn stake in OLC (a question of asset management as opposed to railway operation) has led to one of the biggest valuation anomalies in corporate Japan. Once that is resolved by executing Palliser's proposal, the current Management team can focus on where we expect their strengths to lie: on developing and growing the company's core *operating* businesses to enhance Keisei's corporate value over the medium- to long-term.
- We have no wish to negatively impact or interfere in the operations of Keisei's core businesses, but instead encourage Management to adopt measures aligned to TSE reforms and initiatives by undertaking steps we believe are in the best interests of all stakeholders and could unlock c. US$3bn of intrinsic value.

6. Won't an amendment of Keisei's Articles of Incorporation impact the way in which the company operates?

- No, the proposed amendment to Keisei's Articles will have no impact on the operation of Keisei's core businesses, other than ensuring that capital is deployed appropriately.
- As a public infrastructure company, Keisei should already have a comprehensive capital allocation policy in place. Palliser has not prescribed in our proposal what that policy should be, just that one needs to be implemented.
- A reduction in the size of the OLC stake will similarly not impact Keisei's operations. The legacy holding in OLC is a passive, non-synergistic investment in a company whose business is fundamentally unrelated to Keisei's core businesses. Keisei Management does not participate in the operations of OLC and, moreover, Keisei itself – in the company's Yuho and Corporate Governance Report – describes the relationship with OLC now as "negligible".
- In addition, the single new article proposed by Palliser is intentionally formulated to be non-prescriptive in order to preserve full management discretion and flexibility.

7. Why did you set the timeline to sell down part of the OLC stake to just under two years?

- We wanted to ensure that there was a timeline for Management to work towards, while retaining full discretion as to how and when best to do so with no market impact. With over 4 million OLC shares traded daily, disposal of only 6% of OLC shares over the period would account for less than 3% of the total OLC daily trade volume, achieving the intended flexibility without impacting the OLC share price.
- In addition, we have invested in and engaged with Keisei for the past 3 years, so there has been more than enough time for the Board and Management team to consider appropriate steps to resolve the outsized nature of the OLC stake. This has been recognised by both ISS and Glass Lewis – the latter stating that the timeline *"would provide Keisei with flexibility to pursue related divestitures over a period spanning nearly two full years, which… is not, in our view, overtly problematic…"*

8. In your presentation, you list a variety of investment opportunities that are available from the latent capital released from right-sizing the OLC stake – are you suggesting Keisei does all of these?

- Our presentation shows just a very small snapshot of a 200-page presentation that we developed with professional consultants and industry experts for Management outlining the investment opportunities that would be available to the company to enhance its growth and future prospects while also serving the broader interests of the community and Keisei customers.
- We believe that Management is best placed to decide the optimal means to deploy any unlocked capital to enhance the company's corporate value over the medium- to long-term and in line with the TSE's recommendations.

- We are not suggesting that Keisei should undertake all of the investments outlined in our presentation; we are simply highlighting the wide variety of investment opportunities that exist and could be unlocked with a partial reduction in the OLC stake.
- What we are asking is that the company uses a properly considered capital allocation policy/framework in assessing different investment opportunities, which takes into account the best uses of Keisei's available capital for the future of the company whilst also factoring in the impact to the broader community given Keisei's role in public infrastructure.

9. A 6% reduction in the OLC stake equates to more than 10 years of Keisei's typical annual capex spend – wouldn't Management need more time to consider how to use the proceeds?

- For the reasons mentioned above, we think Management have (and have had) ample time to consider how best to use the proceeds. In addition, we believe one of the reasons Keisei's annual capex spend has been so low – impeding the growth and development of the company's core businesses – is because 80% of its value is trapped in OLC shares.
- The last time Keisei sold OLC shares for strategic purposes was in 1998, as cited by the Board themselves. Management have shown that they are reluctant to take the long-term focused steps needed by appropriately reducing the size of the stake (perhaps because managing stock investments is not where their skillset lies, understandably), and without stipulating a reasonable timeframe for the reduction, we believe Management may continuously delay actioning the necessary right-sizing.

10. You mention that shareholder returns factor into capital allocation. If Keisei cannot otherwise deploy the proceeds from selling a part of the OLC stake, are you recommending that the proceeds are just returned to shareholders?

- In our view, selling down just a fraction of the OLC stake to below 15% will ensure that the accounting distortion and resulting c. US$3bn Value Gap between Keisei's current intrinsic value and market value is resolved.
- As for the use of the unlocked proceeds, it will be for Management to establish an appropriate capital allocation policy and determine the best use of capital unlocked from the residual OLC stake.
- This will fully align with the TSE's position that: "*the management team is expected to take the lead in appropriately allocating resources with sufficient consideration of cost of capital and profitability*".
- While we believe there are a number of attractive investment opportunities available to Management, as highlighted in our presentation and explained further in Question 8, it may be that Management will decide to return some of the proceeds to shareholders as part of ensuring a balanced return. This was the path chosen by Management at the time of their recent 1% OLC stake disposal. However, what we are asking for is that such any such Management decisions are made pursuant to a carefully calibrated capital allocation framework.

11. Why are you not asking Keisei to sell the entire OLC stake?

- Reducing the size of the OLC stake to below 15% and no longer accounting for it on a proportionate net income basis, unlocks significant trapped capital for Keisei and brings all of the significant benefits we have discussed. This and the implementation of a suitable capital allocation plan are the immediate priorities.
- Since the OLC stake is non-synergistic, it is likely that further reductions in size will be appropriate – but when and how will need to be reviewed by Management in due course in light of Keisei's capital allocation plan and the interests of all stakeholders. Our proposal at this juncture is a measured, but truly important, first step.

12. **Do you want the OLC stake to be 0% eventually?**

- Once the accounting distortion is resolved by right-sizing the OLC stake to just under 15%, it will still account for over 50% of Keisei's intrinsic value.
- We believe it should be left to Management to assess the benefits of retaining the remaining c.15% OLC stake provided that Management's assessment is undertaken in accordance with a properly structured capital allocation policy which assesses retaining OLC shares against alternative uses of the capital that would be unlocked, and allocates capital in a way that will achieve sustainable growth and increase corporate value.
- Ultimately, all we are calling for with the proposal is for Management to adhere to the TSE's request that "*management of the company carry out their management duties with more consideration of cost of capital and profitability based on the balance sheet, rather than just sales and profit levels on the income statement, in order to achieve sustainable growth and increase corporate value over the mid- to long-term*".

13. **Could you please explain the business relationship between Keisei and OLC? How did Keisei come to own the OLC stake?**

- Keisei played a significant role establishing OLC in 1960 and was involved in the foundation of Tokyo Disneyland several years later (the park ultimately opened in April 1983).
- Given the wholly non-synergistic nature of OLC's business, Keisei's stake in OLC is the definition of a legacy investment that exists by virtue only of Keisei's historic relationship with OLC – which bears negligible importance to Keisei's core business today. Mitsui Fudosan (a company with a market cap 5x that of Keisei), another OLC founding company, has re-categorised its stake in OLC as a pure investment and looks to be nearing an exit of its much smaller stake in OLC, which does not come with the same damaging accounting distortion suffered by Keisei. Mitsui Fudosan owns c.6% vs. Keisei's 21% of OLC.
- The business relationship between Keisei and OLC is extremely limited. The services Keisei does provide to OLC account for a minute proportion of Keisei's overall business activities and could just as easily be provided after Keisei has right-sized the stake to below 15% (at which size Keisei would continue to remain OLC's largest shareholder) or with a much smaller and arguably more appropriate shareholding in OLC. The Board and Management team themselves described the trading relationship as "negligible" in their filings.

14. **What level of support from shareholders at the AGM is needed to secure the change to Keisei's Articles of Incorporation? Does Palliser believe this level of support will be achieved and what does Palliser plan to do if the vote does not pass?**

- To be adopted, thereby securing the new addition to Keisei's Articles on capital management, at least two-thirds of shareholders in attendance at the AGM (in person and by proxy) need to vote in favour of it.
- While this is a high threshold, Palliser believes that the tremendous benefits that would be secured for all stakeholders by such a straightforward change to Keisei's Articles makes success achievable.
- That said, as Palliser has stated repeatedly, our primary motivation has always been to facilitate a platform to enable shareholders to express their views on the importance of comprehensive improvements at Keisei. This is why we recently urged Management in private to give shareholders a non-binding advisory vote – only when that suggestion was dismissed without explanation did we advance our binding proposal.

15. **Japanese railway companies such as Keisei are largely owned by retail shareholders who, as members of the community, often live in the area and use the railway. Have you approached these shareholders?**

- We approached a significant number of customers as part of a commissioned survey to better understand the views of those who use Keisei railway services regularly. It was abundantly clear from this exercise that a significant majority of customers believe it is more important for Keisei to improve its core businesses than remain the largest shareholder of OLC. Nearly 80% of over 2,000 regular Keisei railway users support a monetization of at least a part of the OLC stake so that unlocked capital can be used for core business-relevant investments.
- The compelling nature of our proposal stems from the benefits it would deliver for all Keisei stakeholders, including key groups such as retail shareholders, customers, and the community at large.
- Many aspects of our engagement with the company to date have centred around the interests of these stakeholder groups, including the growth and community-oriented investment proposals we shared with Management which explained how these groups would benefit.