



Kaname Capital

February 18, 2025

PROTO CORPORATION

To: MBO Special Committee and Board of Directors

Kaname Capital, L.P.

CIO - Toby Rodes

Head of Research – Nao Makino

Open Letter of Inquiry Regarding an Opportunistic MBO by Elderly Founder of Proto Corporation¹

Kaname Capital has been an investor in Proto Corporation since September 2022 and is currently the second largest shareholder with over 8% of total shares outstanding.² Our ownership level was driven by our strong conviction in the many competitive advantages your media and service platform had created in the domestic used car industry. Even after several years of materially poor capital management and value destroying M&A, the core business that gave dealerships and consumers access to high quality data and trusted car appraisals has been increasingly essential given the proliferation of fraud cases in the used car industry since 2023.

Since the start of our investment, we have deepened our understanding of your business through dialogue with your management team. However, it has been impossible to find synergies with your core high margin media business compared to the recently acquired Cosmic ticket and gift card business, owning a professional basketball team, expanding into tourism-related media properties, as well as almost inexplicable purchase of tomato farms and hamburger stores. The inability of the management team to give a cogent explanation of these purchases led us to believe that founder, Chairman Yokoyama, was funding his personal entrepreneurial pursuits with shareholder capital of a public company. Because of our concerns regarding this fundamental conflict of interest, we met a long-serving independent director that confessed a failure of the board to focus upon the correct performance metrics for value creation. Since that confession, we have sent four letters to your outside directors since last May seeking genuine dialog. While we waited, however, the board has repeatedly squandered management resources, including the acquisition of the strawberry farm "Yoshaa Komagane" (in July 2024). While we did have several constructive opportunities to meet with the outside directors, in the end, we were denied a meeting with Chairman Yokoyama despite a multitude of requests.

¹ The letter is written in both English and Japanese. In the event of discrepancies between the two versions, the Japanese language is considered authoritative.

² Based on the Annual Securities Report for the fiscal year ended March 31, 2024, and the reports of large shareholdings filed after that date.



Through these exchanges with independent directors, we have been calling for the establishment of a "Strategic Review Committee" to review your company's value destroying business portfolio and to strengthen investment and M&A discipline and company-wide governance. It was our genuine desire to put the company on the path of value creation as a listed company. While we were continuing to advocate for the implementation of a Strategic Review Committee, a decades-long string of fictitious transactions by a former employee was disclosed on October 18th of last year, exposing the weakness of your internal controls. The contents of the investigation were not released until December 12th and revealed it was not malicious action that enriched the employee, but, instead, the result of pressure to sell outdated products and a general lack of innovation. It has since been disclosed that the MBO was hurriedly initiated after the accounting scandal knocked 23% off the value of the company.

We would like to stress that Kaname Capital has taken our role of stewardship seriously and has only asked for actions to be taken that would lead to a better business structure and capital allocation process to serve all shareholders as a public company. In return, we have an unreasonable response, seemingly driven by Chairman Yokoyama, who cannot bear to have simple accountability applied to his value destroying pet projects via the Strategic Review Committee. After taking no responsibility for the accounting scandal, he instead uses the discounted share price to opportunistically launch an MBO. This is a very cynical act which forces us to question the rationality, fairness of the procedures, and appropriateness of the price.

In conclusion, we strongly believe the MBO was 1) the wrong conclusion facilitated by 2) a broken and conflicted process 3) implemented with the wrong price.

Below we will openly question the MBO Special Committee and the Board of Directors regarding these three failures and ask for a public response to our following eight questions.

Section 1: MBO is a Bad Conclusion; Yokoyama is Not the Best Owner

Proto Assertion: Chairman Yokoyama intends to conduct an MBO "to enhance its corporate value over the medium to long term" (page 7 of the Opinion Report).

Facts: How can a 75-year-old Chairman that has been the source of the problems possibly be a solution? It is the current management team and Chairman Yokoyama, who are responsible for the company's repeated M&As and business withdrawals over the years with poor strategy, multiple fraud cases, and as a result, the stock price has been remarkably low compared to the competition for many years.³ What new management techniques do they intend to implement as a private company that they could not implement as a public company? Is it not the real goal of the MBO to issue debt to buy the shares and put that immediately on company balance sheet

³ Both refer to our June 21, 2024 letter.



to reduce Yokoyama's tax liability? If this is the case, as we suspect, the entire effort of an MBO is to increase value for one shareholder, Chairman Yokoyama, at the expense of leaving employees with a highly indebted and poorly managed company. How can this be value-creation?

Question 1: Please answer why an MBO by an elderly founder who has failed to deliver business results and is likely seeking self-serving tax management is a rational decision for the future value creation potential of your company and empowers employees of an indebted company to deliver better results in a competitive IT and media industry?

Question 2: We believe that Chairman Yokoyama's choice of an MBO is to "escape" responsibility of his own management failures. If this is not the case, please explain why your company did not proceed with the establishment of the "Strategy Review Committee" as we requested and why you believe that implementing this MBO will lead to the improvement of your company's medium- to long-term corporate value?

Section 2: MBO procedure is Conflicted and Broken

Process is Conflicted:

Proto Assertion: Directors were appointed as a member of the Special Committee because they "have no interest in any party related to the tender offer" (page 18).

Facts: The statement that Special Committee Members has "no interest" is clearly false. Director Kajiura was a founding director of the Yokoyama International Scholarship Foundation, which is chaired by Chairman Yokoyama.⁴ We can also confirm that he is named as a member of the scholarship selection committee until FY2021.⁵

Question 3: Please answer how much Director Kajiura was compensated while serving on the Yokoyama International Scholarship Foundation and why it can be determined that he has no conflicts of interest with Chairman Yokoyama?

Process is Conflicted:

Proto Assertion: Members of the MBO Special Committee do not receive "separate remuneration or allowances" and "contingent fees contingent upon the announcement or consummation of the Transaction have not been adopted" (page 18).

⁴ From the interview article "How Venture Businesses Fight in International Business and Perceive 'Intellectual Property Rights': Professor Masayoshi Kajiura's Opinion" in the Biography section: <https://livika.jp/21439/>

⁵ From the Yokoyama Scholarship Foundation Web site: <https://www.yokoyama-shougakuzaidan.com/jigyo/saiyo/2021/index.html>



Facts: The annual fixed remuneration per outside director of your company is ¥3 million, which is significantly lower than the ¥6-8 million that is considered appropriate for listed companies in Japan. In this way, outside directors are paid insufficient remuneration to provide proper supervision. On the other hand, your company has a retirement bonus system for outside directors, which is unpopular with shareholders given the potential conflicts of interest by holding the bonus hostage until the board member has retired. This type of retirement bonus was largely repudiated with an extremely low approval rating of only 59.2% at last year's annual shareholders meeting.⁶ If the MBO is approved, your company will be delisted before this year's annual shareholders' meeting, and if similar retirement benefits are paid to outside directors, this will create an inducement for directors to approve the MBO.

Question 4: Please answer whether there is a plan to pay retirement benefits, and whether any additions will be made because of this MBO being approved?

Process is Broken - false premise of lack of market check:

Proto Assertion: There is no active market check because "the non-tendering shareholders have little intention of selling their shares to a third party" (p. 23).

Facts: Just because the founding family has no interest in selling does not mean there is not a better owner. Since the announcement of the MBO, we have received expressions of interest in the company, and we can think of many examples of operating companies or private equity firms that would be interested in acquiring a majority stake.⁷ Soliciting these competing proposals will contribute to the protection of minority shareholders' interests as they can expect to acquire the company at a higher price. In addition, there is a possibility of finding a better owner than Chairman Yokoyama.⁸ Just because Chairman does not want to tender his shares does not make him the best owner.

Question 5: Please answer why, despite potential expressions of interest from other potential majority owners, a market check was not conducted with a view to allowing a new majority owner to emerge even if the founding family was to remain a minority shareholder?

⁶ Furthermore, only 16% of the general shareholders, excluding the founding families, officers and employees, and policy-holding shareholders, are in favor of the proposal. See our August 15, 2024 letter.

⁷ In fact, there have been many cases where private equity has conducted a TOB and taken a company private on the assumption that the founding family would remain as a minority shareholder. For example, in the MBO of Benesse Holdings in January 2024, the founding family, which owned a total of 32.23% of the company, took the company private jointly with EQT, and a scheme was adopted in which EQT and the founders set the ownership ratio at 60:40 and the voting right ratio at 50:50 to continue operating the company after it went private. The company will continue to operate after going private.

⁸ For example, in the MBO cases of Teraoka Seisakusho in October 2023 and Japan Best Rescue System in November of the same year, active market checks were also conducted by contacting multiple funds to solicit proposals prior to the MBO decision.



Process is Broken - the “relatively long” tender period does not solve for lack of market check:

Proto Assertion: "By setting a relatively long Tender Offer Period, ... the Offeror intends to ensure that persons other than the Offeror will have opportunities to make competing offers for the Company's shares, thereby ensuring the appropriateness of the Tender Offer Price" (page 36).

Facts: A counteroffer is the most effective way to ensure the appropriateness of the Tender Offer Price. Counteroffers are best facilitated with a data room, allowing potential bidders to conduct real due diligence. The company actively prevented the dissemination of information, making any bid based solely upon public information, widely understood to be insufficient to bid for majority control of a company. It is not just the time window, but access to data and managerial financials that determines the sincerity of a market check.

Question 5: Please confirm whether your company intends to comply with the necessary due diligence process or request an extension of the Tender Offer period if you are contacted by a potential acquirer who is considering a counteroffer during the term of the Tender Offer?

Section 3: ¥2,100 is the wrong price

Opportunistic timing:

Proto Assertion: "The Company released "Notification on the establishment of a special investigation committee and the postponement of announcement of the financial results in the second quarter of the fiscal year ending March 2025" dated October 18, 2024 before the date on which the Company received a letter of intent (the "Letter of Intent") from Mugen (December 6, 2024), and it is not related to the Transaction." (Announcement of Implementation of MBO and Recommendation to Shareholders to Tender Shares (English Version) Page 8.

Facts: The assertion that the announcement on the Special Investigation Committee on accounting fraud is "not related to the (MBO) Transaction" is laughable and indefensible. How can any proper exploration of price not take into account the announcement of accounting fraud due to the fictitious transactions that led to a share price decline of 23.08% from ¥1,573 yen (October 7th, 2024), the high price just before the fictitious transactions were discovered, to ¥1,210 yen (on February 3rd 2025) just before the MBO was announced? Would it not strike any Special Committee as a conflict that Chairman Yokoyama could benefit from his own failures? In addition, the fact that he postponed the establishment of the "Strategic Review Committee," which we had repeatedly requested, also gives rise to concerns that he did not want to raise expectations for operational improvement which would have likely triggered a rise in the share



price. We note that bringing forward the ex-dividend announcement date to February 4th would be even more “fair.” Lastly, the hurried nature of the MBO reveals an intent to front-run Tokyo Stock Exchange’s revision to “best practices” guidelines regarding MBOs, that were set to be implemented as early as this spring⁹.

The timeline, as we understand it. Chairman Yokoyama and others selected Mitsubishi UFJ Morgan Stanley Securities as their outside financial advisor and TMI Associates as their outside legal advisor in "early December 2024," and submitted a letter of intent to you on December 6, 2024. Due diligence was then conducted, and discussions and deliberations regarding the purchase price were held from January 10, 2025, to February 3, 2025. The MBO announcement is believed to have been timed to coincide with the announcement of the third quarter financial results and the cancellation of the 2H dividend.

Question 7: Please answer whether there was any reason for Chairman Yokoyama and the Special Committee to rush the decision on the MBO, especially whether there were any circumstances that required a decision to be made by the time of the announcement of the third quarter financial results?

Self-serving Valuation:

Proto Assertion: The market price method and the DCF method are used to calculate the stock value (page 15).

Facts: The valuation section has many flaws. First, the DCF method appears to apply a discount rate and perpetual growth rate to the cash flows of the entire company, including the dilutive and value destroying businesses that our Strategic Review would have sought to divest. Also, the comparable companies’ method was not used.

Since Proto was actively turned into an awkward conglomerate with a highly profitable and stable growth platform business, hidden by a low-profit and high-volatility commerce business, and other businesses that have little relevance to your core business, it is necessary to perform a sum-of-the-parts analysis¹⁰ to properly value the equity.

As shown in Figure 1, we estimate the theoretical value to be ¥3,778, a 79.9% upside compared to the MBO price of ¥2,100, even assuming the current profitability¹¹. The valuation process accepted by the Special Committee underestimates the value of the platform business by burying it within the conglomerate. The EV/EBITDA multiple of the MBO price applied to the full

⁹ Nihon Keizai Shimbun, "TSE obliges companies to explain rationale to prevent unfairly low prices in MBO" (January 7, 2025)

¹⁰ For example, the DCF method was used in Blackstone's acquisition of Infocom, and the comparable company method was used in Hitachi High-Technologies' acquisition of Hitachi, Ltd.

¹¹ Our analysis is based on the company's forecasted operating income for the fiscal year ending March 31, 2025.

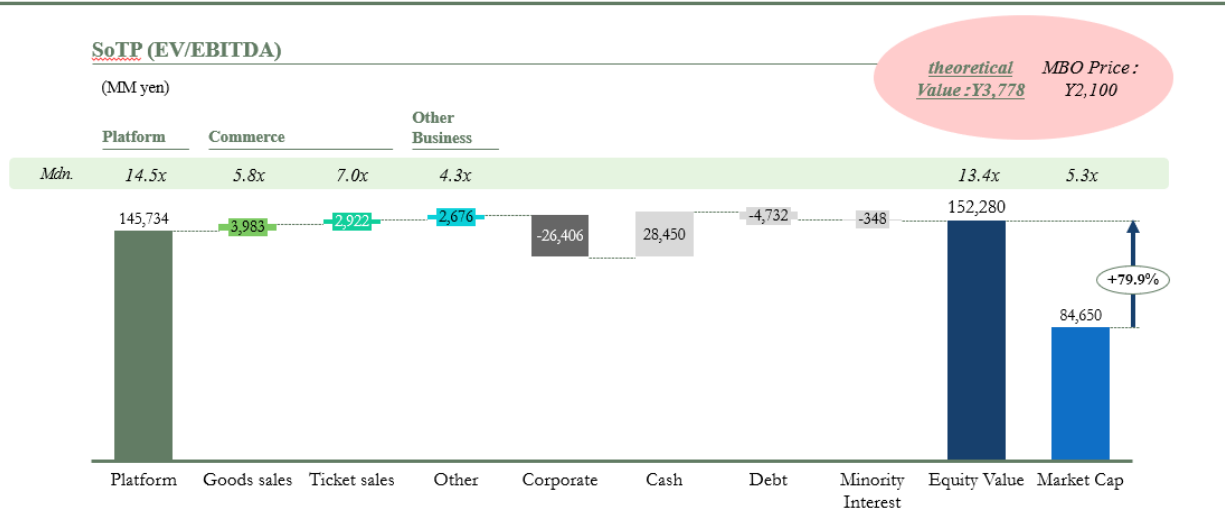


conglomerate is only 5.3x, which, as shown in Figure 2, is equivalent to that of a "car accessory store" (SPEEDA's industry classification). This is clearly too low a multiple for your platform business, which is asset-light and highly profitable.

Comparing the core platform business to similar companies yields a median EV/EBITDA multiple of 14.5x. If we refer to other companies in the same industry overseas, the median multiple is 16.0x (Figure 3). We have always believed Proto could realize similar valuations if properly managed. Rather than strive to create this value for all shareholders, after years of active mismanagement, Chairman Yokoyama is trying to buy up the stock from shareholders at an unfair price.

Question 8: Please explain whether a "sum-of-the-parts" analysis is used in the stock value calculation? If not, why is it appropriate for a conglomerate such as your company not to use such an analysis?

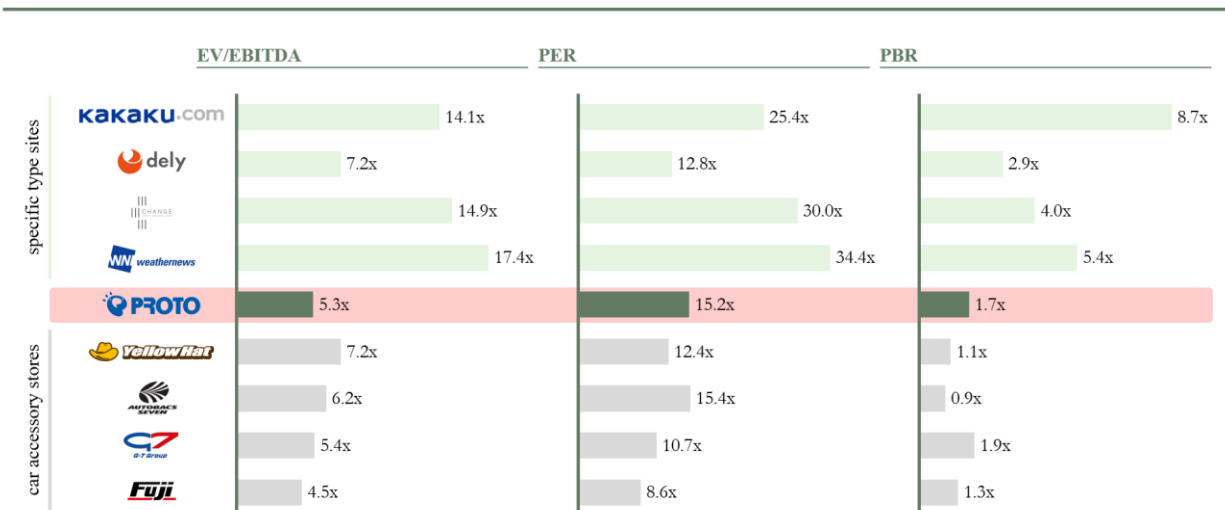
[Figure 1: Sum of the parts analysis]



(Source: Prepared by Kaname Capital from disclosed materials)

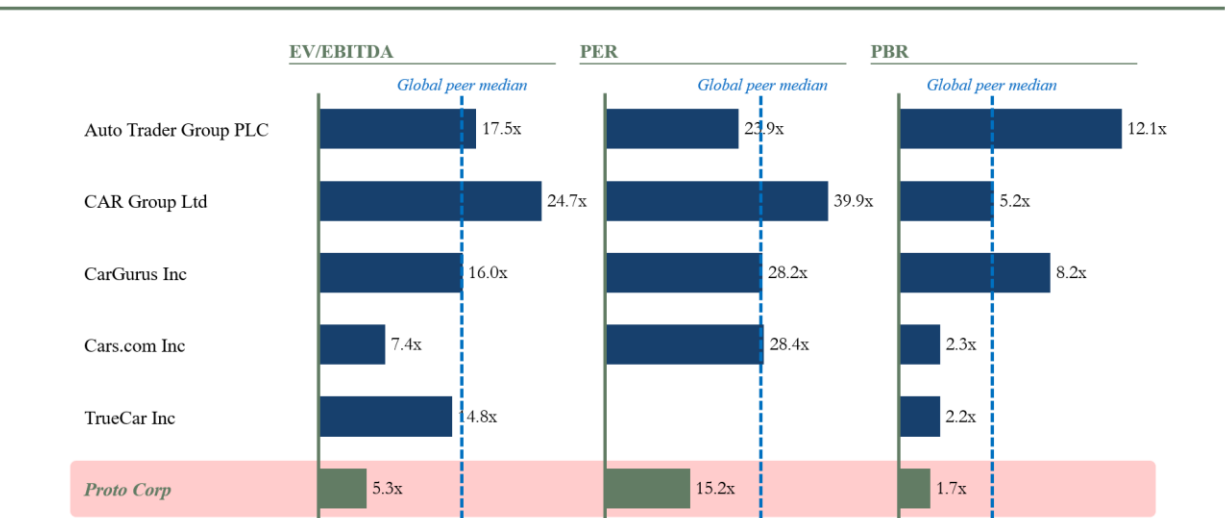


[Figure 2: Comparison of similar domestic companies for stock multiples]



(Source: Prepared by Kaname Capital from disclosed materials)

[Figure 3: Comparison of stock multiples with overseas peers]



(Source: Prepared by Kaname Capital from disclosed materials)

Conclusion: The Special Committee’s support for Chairman Yokoyama’s MBO is allowing the wrong person to buy the company for the wrong reasons with a conflicted process at the wrong price. From start to finish, it looks like a failure, especially for employees and other stakeholders.



At Kaname Capital, we believe in constructive risk taking. We find it ironic that the Special Committee finds justification for the MBO in Chairman Yokoyama's admission that there are value levers to pull, such as volume pricing in the present core business. We, along with other shareholders, have been pushing for these reforms for years. In fact, these are not his ideas at all and could have been more easily implemented under our Strategic Review framework while staying in the public market.

Conversely, minority interest investors have been openly questioning his expansion into unrelated businesses. After the MBO, who is going to question his rather late and poorly conceived strategy to turn a highly profitable BtoB platform into a sprawling mélange of subscale and unprofitable BtoC efforts? For example, we understand the key manager of the IT Solutions Division is also saddled with managerial oversight of the basketball team. This is an obvious distraction and waste of human resources. With his consolidated grip on the company, Chairman Yokoyama's bad capital allocation decisions will likely yield even worse examples of human resource allocation. Being a public company was likely the most important moderating force that prevented the full adoption of his value destroying tendencies.

If the Special Committee and the Board of Directors fail to answer our questions and decide to proceed with the MBO under the current conditions, we will not tender our shares and oppose the reverse stock split after the completion of the tender offer and then move forward with our right to initiate a court adjudicated appraisal rights process.

We do not take the step of appraisal rights lightly and point out that in court cases, it has been recognized that directors and corporate auditors have an obligation to ensure a fair transfer of corporate value in an MBO as part of their duty of care (Tokyo High Court ruling, April 17, 2013). If the directors violate this duty and the fair transfer of corporate value between shareholders is impaired, they may be held personally liable for damages.