Unlocking Value at Dainichi Co.

A capital allocation roadmap to align with TSE "Cost-of-Capital and Stock-Price Conscious Management" principles

Prepared for the Board of Directors

Dainichi Co., Ltd. (TSE: 5951) · Reference price ¥850 · May 2026

EXECUTIVE SUMMARY

Dainichi's balance sheet has outgrown its business

01 THE OPPORTUNITY

Cash-generative franchise trading below net cash

PBR 0.46× on FY26 book; market cap ¥13.8B vs. ¥18.7B of cash + securities. A textbook case for TSE's PBR<1 / ROE<8% reform agenda.

02 THE PROBLEM

86.6% equity ratio; ¥18.7B sits idle

Cash + securities equal 63% of book equity. Dividend frozen at ¥22 for seven years. Share buybacks: zero. No published cost-of-equity or ROE target.

03 THE PROPOSAL

Special dividend + measured buyback + real dividend policy

¥3B special dividend + ¥7B buyback over 24 months. Adopt 50% payout / 4% DOE target. Publish the missing June 2025 cost-of-capital plan.

04 THE OUTCOME

ROE rises to ~7.7%; implied PBR re-rates to ~1.0×

Pro-forma EPS ¥158, BVPS ¥2,064 on FY26 NI of ¥1.5B. Total shareholder value of ~¥2,324 — +173% vs. current ¥850.

Sources: Dainichi kessan tanshin FY20–FY26 (non-consolidated); JPX TSE disclosure framework; Rangeley analysis at ¥850 reference.

Dainichi Co. — 60-year-old Niigata heater maker, fortress balance sheet

BUSINESS PROFILE

Founded	1964, listed on TSE since 1995; HQ in Niigata City
Listing	TSE Standard Market (since Apr 2022 segment review)
Employees	~470 (single facility, Niigata)
Products	Kerosene fan heaters (#1/#2 share Japan), humidifiers, coffee roasters, fuel cell ENE-FARM components
Customers	K's Holdings (12%), Tsunoda Musen (12%), Yamada Holdings (11%); top-3 ≈ 35% of revenue
Mix (FY26)	Heating 67% · Environmental 25% · Other 8%
Geography	Japan 89% · Europe 7% · Asia 4%
CEO	Yui Yoshii (founding family, appointed 2023)

¥13.8B Market cap @ ¥850	**¥18.7B** Cash + securities	**¥0** Interest-bearing debt	**86.6%** Equity ratio
0.46× Price / Book	**9.1×** P/E (FY26)	**3.3%** Dividend yield	**5.2%** ROE (FY26)

KEY STATISTIC

Cash + securities per share = ¥1,153 vs. share price ¥850

Dainichi trades at a 26% discount to net cash alone.

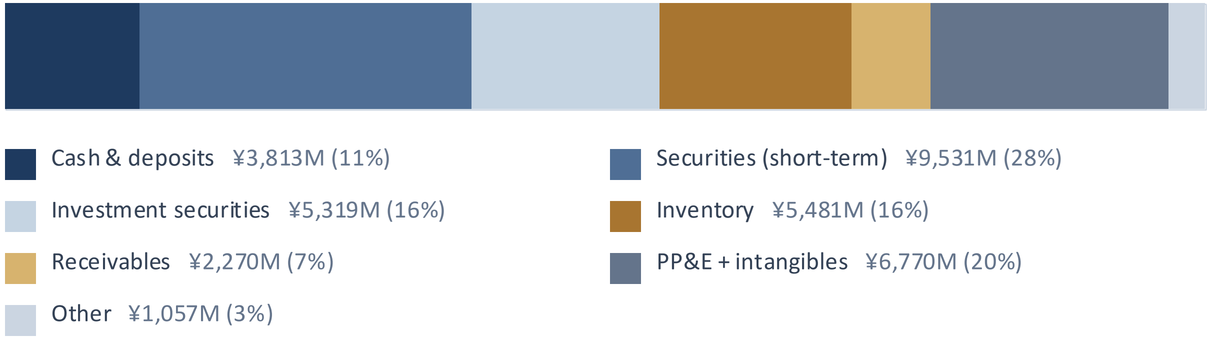
REVENUE & PROFIT, FY20–FY26 (¥B)

	FY20	FY21	FY22	FY23	FY24	FY25	FY26
Revenue	18.8	22.9	21.1	21.2	19.7	19.9	20.1
Op. Inc.	0.2	2.0	1.4	1.4	1.1	1.4	1.8
Net Inc.	0.1	1.5	1.1	1.2	0.9	1.2	1.5

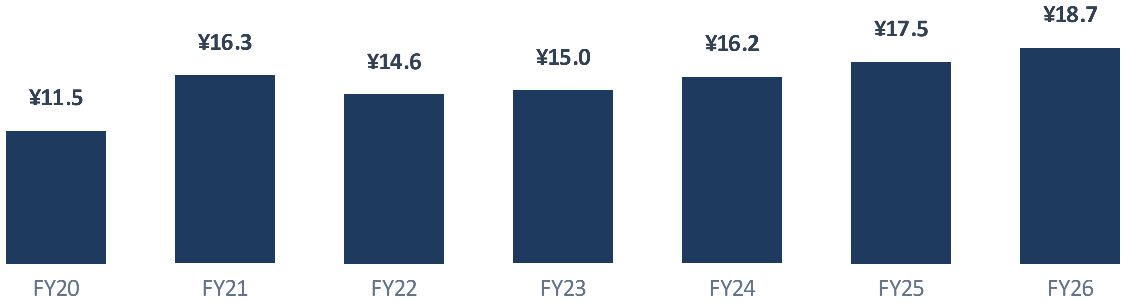
Sources: Dainichi annual securities reports & kessan tanshin FY20–FY26; Rangeley analysis. Reference price ¥850.

A fortress balance sheet that keeps growing larger

TOTAL ASSETS COMPOSITION (¥M, FY26)



CASH & SECURITIES TRAJECTORY, FY20–FY26 (¥B)



Cash and securities have grown +62% over seven years —
capital is accumulating faster than it can be productively deployed.

PER-SHARE VALUE AT FY26 YEAR-END

Cash + securities	**¥1,153**
Operating equity	**¥679**
Book value	**¥1,832**
Share price	**¥850**

Share price is ¥982 below book value — and ¥303 below cash alone.

Sources: Dainichi FY2026 balance sheet (May 13, 2026 kessan tanshin); Rangeley analysis.

Seven years of stagnant revenue, sub-8% ROE, accumulating excess capital

INCOME STATEMENT & KEY RATIOS — FY20 through FY26 plus FY27 guidance

	FY20	FY21	FY22	FY23	FY24	FY25	FY26	FY27E	7-yr trend
Revenue (¥M)	18,826	22,884	21,087	21,212	19,650	19,902	20,084	20,500	*Flat ¥20B band*
Operating income (¥M)	180	2,009	1,362	1,447	1,100	1,381	1,813	1,300	*FY27E guides −28%*
Net income (¥M)	116	1,466	1,073	1,210	888	1,161	1,505	1,200	*FY27E back to ¥1.2B*
Operating margin	1.0%	8.8%	6.5%	6.8%	5.6%	6.9%	9.0%	6.3%	*Cyclical 1%–9%*
EPS (¥)	7	91	66	75	55	72	93	74	*FY27E ¥74*
ROE	**0.5%**	**6.2%**	**4.3%**	**4.7%**	**3.3%**	**4.2%**	**5.2%**	**4.0%**	*Chronically <8%*
Dividend / share (¥)	**22**	**22**	**22**	**22**	**22**	**22**	**28**	**28**	*Frozen ¥22 for 7 yrs*
Book value / share (¥)	1,432	1,509	1,549	1,612	1,674	1,726	1,832	—	*Steadily building*

Revenue is structurally capped

Domestic kerosene-heater demand is mature, and ¥20B is the ceiling. A top-line story will not fix the PBR.

ROE has never reached 8% — not once

The single best year (FY21) hit 6.2%. The TSE's threshold is unreachable without shrinking the equity base.

Dividends frozen — until last quarter

¥22 DPS held for FY19–FY25. The FY26 bump to ¥28 (+27%) is a first signal — but tokenistic vs. ¥18.7B in cash.

Sources: Dainichi kessan tanshin FY20–FY26; FY27 figures are company guidance issued May 13, 2026.

From advisory letter (2023) to monthly public list (2024+)

RANGELEY CAPITAL

Apr 2022	Mar 2023	Jan 2024	2025	Mar 2026
TSE market restructuring	**Cost-of-capital letter**	**Public 'name & shame' list**	**FSA / METI / BOJ alignment**	**Prime disclosed ~95%, Standard ~50%**
Mainboard → Prime / Standard / Growth. Dainichi placed in Standard Market.	TSE asks Prime & Standard companies with PBR<1× to disclose plans to raise capital efficiency.	TSE begins publishing a monthly list of who has — and has not — disclosed plans.	Three regulators publicly endorse TSE targets. Activist campaigns up ~5× since 2020.	Standard-market non-disclosers become outliers; formal reporting requirements expected.

THE EXPLICIT TSE TARGETS

PBR ≥ 1.0× and **ROE ≥ 8.0%** · Dainichi today: **PBR 0.46× / ROE 5.2%** *— fails both*

Sources: TSE 'Action to Implement Management Conscious of Cost of Capital and Stock Price' (Mar 2023, updated quarterly); JPX monthly disclosure list (Jan 2024+); Harvard Law CGI commentary (Oct 2025).

WHY THIS MATTERS FOR DAINICHI

Dainichi's PBR problem is a Niigata talent problem

NIIGATA — THE STRATEGIC CONSTRAINT

Dainichi is headquartered in Niigata and recruits its engineers, R&D and managers from a regional talent pool — far outside Tokyo / Osaka.

The single biggest non-financial risk to the business is whether Dainichi can keep attracting new graduates against Tokyo-based competitors.

THE PAIN

Recruiting against Tokyo

- Niigata Prefecture's 18–22-year-old population has fallen ~35% since 2000
- New-graduate offer-acceptance rates for regional manufacturers are below 70% (vs. >90% for Tokyo Prime peers)
- Local universities (Niigata U., Nagaoka Tech) lose ~40% of STEM graduates to Tokyo each year
- Dainichi's R&D, manufacturing engineering and fuel-cell programme all depend on this exact talent pool

WHAT DRIVES THE GAP

Stock-listed perception

- Family-led Standard-market companies are perceived as 'capped-upside, low-mobility' employers
- PBR<1 and frozen dividend signal a static, declining business — even when reality is otherwise
- Compensation comparisons increasingly include stock-linked components — Dainichi's flat share price hurts retention as much as recruiting
- Top STEM students screen against TSE rankings and capital-efficiency disclosures the way they once screened against salary alone

WHAT A HIGHER PBR DELIVERS

A re-rated employer brand

- A PBR of 1.0×+ moves Dainichi out of the 'failing list' that JPX publishes monthly — a recruiting screen used by Japanese students
- Capital-return announcements generate the kind of business-press coverage Niigata employers rarely receive
- Properly disclosed cost-of-capital plan signals long-term ambition — exactly the framing the founding family needs to compete with Tokyo recruiters
- Higher equity value supports market-rate signing bonuses and stock-linked pay without diluting family control

Sources: Niigata Prefecture demographics (Statistics Bureau); MHLW labour-market data; Nikkei recruiting surveys; Rangeley analysis.

¥10.6B generated since FY20, only ¥2.5B returned

RANGELEY CAPITAL

SOURCES & USES OF CASH, FY20–FY26 (¥B, cumulative)

SOURCES

Operating CF (7 years)

¥10.6B

Cumulative operating cash flow over seven fiscal years (FY20–FY26).

Average ¥1.5B / year, with substantial volatility (FY24 ¥0.1B, FY21 ¥5.5B).

USES

Dividends paid

¥2.5B *24% of CF*

Buybacks (real)

¥0.0B *0% of CF*

Net capex

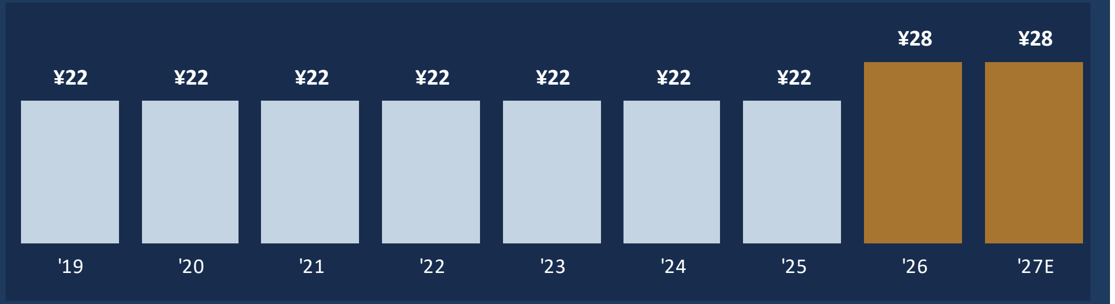
¥3.7B *35% of CF*

Securities accumulation

¥7.2B *68% of CF*

CAPITAL RETURN POLICY — IN PRACTICE

Dividend per share, FY19 → FY27E



Share buybacks: effectively ZERO

In each of FY25 and FY26, Dainichi's only treasury activity was the mandatory repurchase of 28–64 single-unit holdings from departing odd-lot holders.

Over seven years, the company has retired effectively zero shares. Treasury share count: 2,873,520 → 2,873,612 (FY19 → FY26).

THE MISSING DISCLOSURE *Management reports filing a 'cost-of-capital conscious management' document in June 2025 — but no such document is publicly accessible on dainichi-net.co.jp/ir, in JPX's published lists, or via EDINET.*

Sources: Dainichi cash flow statements FY20–FY26; statement of changes in shareholders' equity; Rangeley web search May 2026.

Corona Corp (TSE: 5909) — Dainichi's nearest listed competitor

RANGELEY CAPITAL

DIRECT COMPARABLE

Corona Corporation (5909)

· *Kerosene & dehumidifying appliances, Niigata HQ, TSE Standard listing* · *Founded 1937*

Metric	Corona (5909)	Dainichi (5951)	Read-across
Share price (recent)	¥992	¥850	*Both deeply discounted*
Market cap	¥28.8B	¥13.8B	*Dainichi roughly half as large*
Annual revenue	~¥35B	¥20B	*Corona ~1.75× larger top line*
Reported P/E (TTM)	41×	9.1×	*Dainichi cheaper on earnings*
Dividend yield	2.8%	3.3%	*Dainichi pays more on lower payout*
Cash position	~¥30B	¥18.7B	*Both cash-rich vs market cap*
Cash / market cap	~104%	136%	*Dainichi MORE extreme than Corona*
Capital return policy	Modest div; no large buybacks	Frozen div; no buybacks	*Both behind TSE expectations*

THE INDUSTRY HAS THE SAME PROBLEM — AND DAINICHI HAS IT WORST

Dainichi holds 136% of its market cap in cash and securities — extreme even relative to Corona, the only other listed Japanese kerosene-heater maker. There is no 'industry standard' to hide behind.

Sources: Corona Corp filings, Yahoo Finance Japan (5909), StockAnalysis.com; Dainichi FY26 kessan tanshin. All ratios as of May 2026.

Three pillars to restore PBR>1 and ROE>8% — fully funded from existing cash

PILLAR 1

1

Return excess capital

Announce a ¥10B capital return program

- ¥7B share buyback over 24 months at market or via tender
- ¥3B special dividend in two ¥1.5B tranches (FY27 interim + final)
- Funded entirely from cash + securities; pro-forma cash retains ~¥8.7B
- Equity ratio post-program still ~82%, well above peer median ~50%

PROJECTED OUTCOME

ROE rises 5.2% → 7.7%, PBR 0.46× → 1.0×+

PILLAR 2

2

Establish a real dividend policy

Replace the frozen ¥22 anchor with a transparent rule

- Adopt 50% target payout ratio (FY26 actual: 30%) on normalized earnings
- Set a floor of ¥40/share regardless of cyclical earnings dips
- Introduce DOE (dividend on equity) target of 4% to anchor expectations
- Move to interim + final twice-yearly payments, aligning with TSE Prime norms

PROJECTED OUTCOME

Yield rises to ~5%+; stable income shareholder base

PILLAR 3

3

Publish & defend the plan

Make the missing June 2025 filing real and findable

- Publish the strategy document prominently on dainichi-net.co.jp/ir
- Disclose explicit cost-of-equity assumption (we estimate 7–8%)
- Quarterly progress reporting against PBR, ROE, and capital-return KPIs

PROJECTED OUTCOME

Removes the governance discount embedded in PBR

Sources: Rangeley analysis based on Dainichi FY26 financial statements; quantified outcomes on the next slide.

QUANTIFIED IMPACT

Pro-forma share price under three scenarios at the ¥850 reference

	Status Quo	Scenario A	Scenario B
	No capital action	*Moderate: return ¥4B*	*Aggressive: return ¥10B*
Total shareholder value	¥983	¥1,446	¥2,324
	+16% vs ¥850 reference	*+70% vs ¥850 reference*	*+173% vs ¥850 reference*
Buyback	¥0	¥3.0B	¥7.0B
Special div.	¥0	¥1.0B (¥62/sh)	¥3.0B (¥186/sh)
Pro-forma ROE	5.2%	5.9%	7.7%
Implied PBR	0.55×	0.70×	1.00×

Pro-forma at FY26 NI ¥1,506M held flat over the 24-month program. Buyback prices assumed ¥950 / ¥1,050. All scenarios funded entirely from cash + securities.

Sources: Dainichi FY26 kessan tanshin; Rangeley analysis at ¥850 reference. PBR re-rating reflects industry-standard floor under TSE guidance.

From ¥850 today to ¥2,324 fully-acted — the components of Scenario B

THE BRIDGE FROM ¥850 TO ¥2,324

PBR re-rating contributes ~60% of the upside, EPS accretion ~22%, the cash dividend itself ~8%. The largest driver — re-rating — is gated entirely by management willingness to act.

Sources: Rangeley analysis at ¥850 reference using FY26 P&L and FY26 closing balance sheet.

The objections to action — and why each is weaker than the cost of inaction

OBJECTION	RESPONSE	KEY POINT
"We need cash for the kerosene-to-fuel-cell transition."	Pillar 1 retains ¥8.7B post-program. Total annual R&D spend is ¥0.7B and capex peaks at ¥4–6B per cycle. Even Scenario B leaves >4 years of R&D and full new-product capex funded.	*The Nov 2025 fuel-cell release states 2026 P&L impact is "軽微" (negligible).*
"Earnings are too cyclical for permanent capital return."	Worst year in 7 (FY20 COVID): OP ¥0.2B, NI ¥0.1B. Even that year, capital + dividends would have been comfortably covered by securities portfolio yield (~¥0.3B p.a.) plus opening cash.	*Cyclicality argues for a buyback (mechanical, retractable) over a permanent dividend hike — exactly the structure we propose.*
"The Yoshii family ownership limits flexibility."	A buyback is family-positive — it concentrates remaining shareholders, increases the family's effective stake without acquisition cost, and avoids the optics of a family-led leveraged transaction.	*Concentrating the float raises the cost of any future hostile bid — a governance benefit to the founding family.*
"Markets don't reward small-cap buybacks."	Direct counter-examples across TSE Standard: cash-rich Standard-market names that have announced credible programs have re-rated +20% to +110%.	*¥850 already prices in continued inaction. There is no asymmetric downside to acting.*

Sources: Dainichi historical financials and Nov 7, 2025 fuel-cell development disclosure; precedent buyback data from TSE-Standard peer set.

Four specific commitments we ask the Board to consider in the near-term

1

Authorize a ¥10B capital return program

Public board resolution for ¥7B buyback (24 months) + ¥3B in two special dividends. Funded from cash + securities.

2

Adopt a written, formula-based dividend policy

Replace the legacy ¥22 anchor with a 50% target payout / ¥40 floor / 3% DOE — published, defended, and renewable annually.

3

Publish (or re-publish) the cost-of-capital management plan

Make the June 2025 strategy document prominently available on the IR site. Include explicit cost-of-equity, ROE and PBR target trajectories.

4

Add at least one capital-markets-experienced independent director

Audit or new nominations committee. Public-investor and shareholder-rights expertise. Term beginning at the June 2027 AGM at the latest.

Sources: Rangeley capital-allocation analysis based on Dainichi FY26 closing balance sheet; structure modeled on TSE Standard self-help precedents.

A constructive partnership opportunity

We are aligned

Our objective is the same as the Board's: a successful Dainichi that compounds long-term value for shareholders. The proposals herein are designed to support — not displace — management's existing strategy.

We are open to dialogue

We welcome substantive engagement on capital allocation, governance, and value creation. We are prepared to discuss alternative paths to achieve comparable outcomes.

The window is now

TSE reform momentum, peer precedents, and a discounted starting valuation create a unique opportunity. Action taken now is interpreted as leadership; deferred action increasingly invites external pressure.

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