



May 9, 2024

Company Name: House Foods Group Inc.
Representative: Hiroshi Urakami, President
(Securities Code: 2810, TSE Prime Market)
Contact: Eiki Miyake, General Manager of Public &
Investor Relations Division
(Tel: +81-3-5211-6039)

Notice Regarding Opinions of House Foods Group’s Board of Directors on Shareholder Proposals

House Foods Group Inc. (hereinafter “the Group”) received a letter (hereinafter referred to as the “Shareholder Proposals Letter”) requesting the incorporation of shareholder proposals (hereinafter the “Shareholder Proposal(s)”) in the agenda of the 78th Annual General Meeting of Shareholders (hereinafter the “Annual General Meeting of Shareholders”) to be held on June 25, 2024. The Group announces that, at a meeting of the Board of Directors held today, it resolved to oppose the Shareholder Proposals as described below.

I. Proposing Shareholder

Name of shareholder: LONGCHAMP SICAV

II. Details of the Shareholder Proposals

1. Agenda

- (1) To purchase treasury shares
- (2) To partially amend the Articles of Incorporation in regard to the composition of Outside Directors

2. Details of proposals

As stated in the attached “Details of the Shareholder Proposals.”

The Attachment “Details of the Shareholder Proposals” is the original text of a part of the Shareholder Proposals Letter, which has been submitted by the Proposing Shareholder.

III. Opinions of the Group’s Board of Directors on the Shareholder Proposals

1. To purchase treasury shares

(1) Opinion of the Group’s Board of Directors

The Board of Directors opposes the Shareholder Proposal.

(2) Reason for the opposition

Regarding use of the Group’s management resources, the Group is working to improve corporate value by realizing the allocation of resources that strikes a balance between growth investment and shareholder returns in

accordance with its Medium-term Business Plan.

Under the Seventh Medium-term Business Plan, launched in April 2021, the Group invested a total of 54.6 billion yen over the course of three years, allocating its own funds to growing domains including M&A investment in Keystone Natural Holdings. The Group achieved its plan for the reduction of cross-shareholdings, reducing them by 24.4% against a planned reduction of 20%. It then used the cash raised through the reduction of cross-shareholdings to fund treasury share acquisitions of 12 billion yen alongside dividends. Furthermore, the Group plans to pay an annual dividend for FY2023 of 47 yen, which represents an increase of 1 yen.

In the Eighth Medium-Term Business Plan, the Group assumes that cash in will consist of cash flows from operating activities of 65 billion yen, external financing through interest-bearing debt using sustainable finance of 20 billion yen, and reduction of cross-shareholdings of 15 billion yen. Having clarified the adequate funding level, the Group states that following on from the Seventh Medium-term Business Plan, it will continue to prioritize the investment of resources in accelerating growth through the building of a global value chain and plans to allocate resources of 50 billion yen to growth investment and 20 billion yen to investment to strengthen foundations. The Group also considers shareholders returns to be an important management priority, and has adopted a new profit distribution policy from April 2024 of a total return ratio of 40% or higher and ongoing payment of annual dividends of at least 46 yen as stable dividends. In particular, during the period of the Eighth Medium-term Business Plan, the Group will pursue treasury share acquisitions of 15 billion yen funded by reductions in cross-shareholdings (reduction of 30% from the Seventh Medium-term Business Plan level), aiming to improve the total return ratio to at least 50% and reduce the net asset ratio to 10% or less. Furthermore, the Group plans to pay an annual dividend for FY2024 of 48 yen per share, up 1 yen from FY2023.

The Group is also committed to management that is conscious of the cost of capital and share price. Accordingly, under the Eighth Medium-term Business Plan, the Group will focus on developing a balance sheet mindset and improving management indicators by setting the cost of capital at 6% and introducing ROIC management. Under the Eighth Medium-term Business Plan, the Group will continue aggressively investing in growth and so improvements to business ROIC will be limited; however, the Group aims to achieve ROIC and ROE targets of 6.0% or higher and 7.0% respectively by reducing non-operating capital. It will then go on to increase business ROIC under the Ninth Medium-term Business Plan, aiming to achieve a ROIC target of 8.0% or higher.

In this way, the Group is steadily making forward-looking growth investment and returning profits to shareholders, based on clear financial and capital strategies. The treasury share purchases of 30 billion yen proposed in the Shareholder Proposal on the other hand are acquisitions that must be made within one year and would eat into funds for growth investment, potentially delaying sustainable improvement in the Group's corporate value in the medium and long term and, as a result, they are considered not to be in the interests of shareholders. House Foods Group believes it is appropriate to implement treasury share purchases based on comprehensive consideration of the Group's business performance, financial standing and share price, in accordance with the Medium-term Business Plan rather than based on the timing and amounts set out in the Shareholder Proposal.

Accordingly, the Board of Directors opposes the Shareholder Proposal.

2. To partially amend the Articles of Incorporation in regard to the composition of Outside Directors

(1) Opinion of the Group's Board of Directors

The Board of Directors opposes the Shareholder Proposal.

(2) Reason for the opposition

In June 2021, the Group established the Nomination Advisory Committee which is chaired by an Independent Outside Director and the majority of whose members are Independent Outside Directors to ensure objectivity and transparency in the procedure for selecting candidates for Director. The Nomination Advisory Committee proposes as candidates for Director individuals who will contribute to enhancement of corporate value in accordance with the Directors selection criteria and skills matrix disclosed in the Corporate Governance report and in light of the Group's management strategies.

As a holding company committed to accelerating transformation into a high quality company and taking on new challenges for growth, the Group also believes it is desirable for the Board of Directors to have both supervisory and executive functions. Fulfilling the executive function, the individuals in charge of each business concurrently serve as Directors and supervise Group business from a bird's eye view perspective. In addition, Audit & Supervisory Committee members with an audit function also sit on the Board.

In June 2021, the Group transitioned to a Company with an Audit & Supervisory Committee and all outside officers became Directors who are Audit & Supervisory Committee members in order to further strengthen the independent audit and supervisory functions. Under the organizational structure, the highly independent Audit & Supervisory Committee, four out of five members of which are Independent Outside Directors, has the internal audit department under its control and conducts systematic audits in cooperation with the auditors of each operating company. The Group attaches importance not only to legal compliance audits but also to the expression of opinions on business execution from an independent perspective, ensuring that Outside Directors/Audit & Supervisory Committee members have the opportunity to comment at every Board Meeting, for example, and opinions are expressed freely and frankly. Under the structure, such opinions are utilized in management to further strengthen corporate governance. The Group also attaches importance to evaluation of the effectiveness of the Board of Directors and is committed to making continuous improvements through recognition of issues that need to be addressed by the Board of Directors based on the results of evaluations by internal and external directors and discussion that leads to improvement.

Currently, four out of the total of 12 Directors that make up the Group's Board of Directors are Independent Outside Directors (including one woman), and the composition of the Group's Board is very diverse, including for instance individuals with experience in corporate management, as a lawyer, or working at government bodies.

Based on the above, the Group believes it has achieved Board diversity and independence and has put in place a system which will help strengthen corporate governance in the future.

In the Group's judgment, the incorporation of provisions like those proposed in the Shareholder Proposal into the Articles of Incorporation would stymie discussions on the desired composition of the Board and restrict scope for the selection of Director candidates, preventing the Board composition needed for flexible consideration based on management strategies on a moment-to-moment basis. Accordingly, the Board of Directors opposes the Shareholder Proposal.

(Attachment “Details of the Shareholder Proposals”)

* The original text of a part of the Shareholder Proposals Document, which has been submitted by the Proposing Shareholder

Part 1. The proposals

1. To purchase treasury shares
2. To partially amend the Articles of Incorporation in regard to the composition of Outside Directors

Part 2. Summaries of the proposals and the reasons for the proposals

1. To purchase treasury shares

(1) Summary of the proposal

The Group should purchase shares of its common stock, up to a total of 9,750,000 shares and a total acquisition price of 30,000,000,000 yen, within one year from the conclusion of this Annual General Meeting of Shareholders pursuant to Article 156, Paragraph 1 of the Companies Act.

(2) Reason for the proposal

In its domestic business operations, the Group is market leader for curry roux, stew roux and retort pouched products, has strong brand power and a competitive edge. The Group also has strong growth potential in the International Food Business, which consists of the tofu business in the United States, the curry business in China and the functional beverages business in ASEAN. In the financial and capital policy set out in the Eighth Medium-term Business Plan, the Group’s recognition of the current situation and direction of initiatives conscious of the costs of capital and share price, the introduction of ROIC management, the new profit distribution policy of a total return ratio of 50% or higher, and the disclosure of balance sheet improvements through the clarification of resource allocation are all commendable.

However, the Group’s net assets, which are its total assets (cash and deposits, securities, and investments securities) minus its debt, were calculated at 132 billion yen at the end of December 2023, exceeding 40% of the Group’s market capitalization at the end of December 2023. Under the Eighth Medium-Term Business Plan, the Group plans treasury share acquisitions of 15 billion yen over the three-year period from FY2024 to FY2026 funded by asset reduction of 15 billion yen; however, in view of the fact that the Group has net assets of 132 billion yen, asset reduction of no more than 15 billion yen will result in surplus funds significantly exceeding the adequate funding level of two months of monthly sales set by the Group, and we believe that the amount of treasury share acquisitions is insufficient. The excessive accumulation of cash assets will lead to decline in capital efficiency and will hurt corporate value. In fact, the Group’s 5-year average ROE is below 5% and the Group can hardly be said to be meeting the cost of capital requirement. In view of the Group’s ideal of ROE of 10%, we believe that the ROE and ROIC targets for FY2026, three years from now, under the Eighth Medium-term Business Plan of 7% and 6% or higher respectively do not go far enough and are too low. The Group should aim for improvement in ROE, further enhancing shareholder returns through treasury share acquisitions. In our view, the Group should,

therefore, adopt the measure of turning around 10% of total shares issued and outstanding (excluding treasury shares) into treasury shares and purchasing them, for the purpose of enhancing the Group’s shareholder returns and improving capital efficiency.

2. To partially amend the Articles of Incorporation in regard to the composition of Outside Directors

(1) Summary of the proposal

The Group should amend Article 18 of its Articles of Incorporation as follows to ensure the Board is made up of a majority of Outside Directors.

(Amendments are underlined)

Before change	After change
<p>(Number of Directors)</p> <p>Article 18. 1. The number of the Directors of the Group shall be no more than ten (10), excluding Directors who serve as Audit & Supervisory Committee members.</p> <p>2. The number of Directors of the Group who are Audit & Supervisory Committee members shall be no more than eight (8).</p> <p><u>3. (Newly established)</u></p>	<p>(Number of Directors)</p> <p>Article 18. 1. The number of the Directors of the Group shall be no more than ten (10), excluding Directors who serve as Audit & Supervisory Committee members.</p> <p>2. The number of Directors of the Group who are Audit & Supervisory Committee members shall be no more than eight (8).</p> <p><u>3. For as long as the Group remains a listed company, a majority of the Directors (includes Directors who are Audit & Supervisory Committee members) of the Group shall be Outside Directors as defined in Article 2, Paragraph 1, (xv) of the Companies Act.</u></p>

(2) Reason for the proposal

We believe that diversity and independence of the Board of Directors is essential for the management of a listed corporation these days. Board diversity means diversity in terms of skills, experience, age, nationality, gender and other characteristics, enabling management judgments from diverse perspectives. Board independence means a Board that it is comprised of, at least, a majority of independent Directors.

Principle 4-8 of the Corporate Governance Code stipulates that “Independent directors should fulfill their roles and responsibilities with the aim of contributing to sustainable growth of companies and increasing corporate value over the mid- to long-term. Companies listed on the Prime Market should therefore appoint at least one-third of their directors as independent directors (two directors if listed on other markets) that sufficiently have such qualities. Irrespective of the above, if a company listed on the Prime Market believes it needs to appoint the majority of directors—as independent directors based on a broad consideration of factors such as the industry, company size, business characteristics, organizational structure and circumstances surrounding the Group, it should appoint a sufficient number of independent directors.” Meanwhile, Principle 4-7 of the Corporate Governance Code lists “Appropriately representing the views of minority shareholders and other stakeholders in

the boardroom from a standpoint independent of the management and controlling shareholders” as one of the roles and responsibilities of Independent Directors.

With four Outside Directors out of a total of twelve Directors, your Company meets the requirements in the principles of the Corporate Governance; however, we believe that you should put in place a corporate governance framework for increasing capital efficiency, seeking to return profits to shareholders, and contributing to the Group’s sustainable growth and enhancement of its corporate value in the medium and long term by more proactively seeking a Board composed of a majority of Outside Directors.

Not only in terms of the number of Outside Directors but also in terms of the qualities of Outside Directors, we believe you need individuals who can contribute to the Group’s sustainable growth and enhancement of its corporate value in the medium and long term and, in this regard, we believe you need to consider appointing women and individuals with high levels of experience and skills as analysts.

As for the appointment of individuals with high levels of experience and skills as analysts, we believe this would be an effective way of bringing the perspective of outside investors and shareholders to bear on Board meetings and also contributing to enhancement of corporate value through healthy risk-taking. Whilst the Board of Directors of a listed company and investors and shareholders should share the same goal of long-term improvement in corporate value, unfortunately it is not unusual in Japan for antagonism to be seen between them. The participation of a director with the above experience and skills in the Board’s discussions and decision-making would surely ensure, through healthy risk-taking and capital allocation and good communication with the market, that the relationship between the Board and share market is the kind of constructive relationship it should be. Whilst a former banker or an accountant is sometimes said to be responsible for finance matters in the skills matrix, accounting or debt market expertise alone is insufficient from the viewpoint of encouraging healthy risk taking and we believe that an equity market expert would make sense.