

Yakult Honsha Co., Ltd.
Mr. Hiroshi Narita – President and Representative Director
Board of Directors

10th March 2026

Dear Mr. Narita,

NO MORE CASTLES!

This is the first time I have written to you, so please allow me to express my best wishes to all your company's management and my hopes for an enjoyable spring blossom season.

I am the Chairman of Rising Sun Management Ltd ("RSM"). We are advisers to Nippon Active Value Fund Plc, ("NAVF") a closed-ended UK investment trust listed on the London Stock Exchange, and NAVF Select LLC ("Select"), a US investment fund incorporated in Delaware. RSM is also affiliated with Dalton Investments, Inc. ("Dalton"), a US investor specialising in Asian and other non-US equity markets. Both RSM and Dalton are majority-owned by Rosenwald Capital Management Inc., which is an investment vehicle controlled by James B. Rosenwald III. Under a series of agreements between these entities, NAVF, Select and Dalton often co-invest in specific Japanese companies' common stock. When doing so, they constitute a "concert party" by combining their shareholdings to engage more effectively with the managements of their mutual portfolio holdings. As of 9th March 2026, the concert party owned ●● shares in Yakult Honsha Co., Ltd. ("Yakult" or the Company), representing ●●% of the Company's outstanding equity. We may well continue to add to this position.

We have invested in the Company because we believe the capital markets materially undervalue its most important assets: the powerful brand built on its technological expertise and know-how in probiotic drinks, and the highly resilient home-delivery channel you have developed over decades. We were pleased to visit your offices on 19th February 2026, when our discussions reaffirmed our view that these business foundations remain highly competitive and strategically valuable. Thank you for your hospitality on that occasion.

While we remain enthusiastic believers in your core business, I regret we also came away with a profound concern as shareholders: there is little evidence that management is allocating resources with an appropriate awareness of the Company's cost of capital. Indeed, there is much to suggest you do not even know how to calculate this most fundamental metric.

A clear example is the investment in a new domestic manufacturing facility – an investment that could significantly shape the Company's future. When we asked about the expected return on this project, management initially failed to provide any guidance based on clear financial assumptions. We were ultimately told that the cost of this project is expected to be "recouped over 20 years." Put simply, this implies an annual return of roughly a mere 3.5%.

Pursuing an investment that likely generates returns far below Yakult's real cost of capital is deeply troubling. At best, it suggests a lack of capital allocation discipline; at worst, it raises serious questions about whether management is capable of applying even the most basic principles of value creation when deploying precious shareholder capital.

We have similar concerns regarding the Company's prime real estate holdings in Shinbashi, Tokyo. From the perspective of capital efficiency, we doubt management is approaching these assets with the rigour properly expected of a publicly listed company. During our meeting, you even suggested the possibility of constructing a new headquarters building in the Shinbashi area in the future. Given the likely scale of such an investment, it is hard to imagine how such a project would generate returns exceeding your cost of capital.

To be clear, the Company's business is not real estate development. The Shinbashi property should be subject to an immediate strategic review, including a potential sale. Even if there is a desire to return to the Shinbashi area in the future, real estate development should be entrusted to professional developers, using structures such as sale-and-leaseback, to provide a straightforward capital-efficient solution. Yakult is not the first Japanese company we have enjoined to follow a basic maxim: 'No more castles!' Put very simply, they do not constitute good business – especially for probiotics companies.

Importantly, given that the Company's shares currently trade at a substantial discount to intrinsic value, the proceeds from any real estate sale should be returned to shareholders through share repurchases. Buying back materially undervalued shares is one of the most effective capital allocation decisions any management can make. It enhances earnings per share, book value per share, and dividends per share over the long term. We see no credible justification for failing to pursue such an obvious opportunity to create shareholder value.

The same principle applies to the Company's approximately JPY 80 billion in cross-shareholdings. The current pace of unwinding these holdings is clearly inadequate and inconsistent with the regulators' guidelines. Accelerating the reduction of these positions is necessary; the Company should also take a more proactive approach. If counterparties express an intention to sell Yakult shares as part of the unwinding process, you should step in and repurchase them yourselves. Failing to do so, when the Company's shares are trading at a significant discount to intrinsic value, is very difficult to justify from any capital efficiency perspective.

We are bound to remember how, in the past, the Company suffered massive losses arising from weak financial oversight and egregious governance failures, which finally led to shareholder derivative litigation. With such a history, you should be especially sensitive to poor capital discipline and the resultant need for commitment to establish best-in-class governance. Sadly, our discussions suggest that management still has considerable distance to travel.

We are now calling on the Company to take three fundamental steps:

- 1) develop a clear and accurate understanding of its true cost of capital (which we estimate to be at least 8%)
- 2) implement disciplined capital allocation based on that understanding; and

- 3) make rational decisions free from attachment to past investments, eliminating any reliance on sunk-cost thinking

We recognize that management has taken certain steps in recent years to improve governance and capital allocation. Nevertheless, the pace and ambition of these efforts clearly remain insufficient. Shareholders reasonably expect far more urgency.

The Company's brand and business platform are impressive and capable of generating significant long-term value. It is also obvious that this value will not be realized if management continues to pursue investments without a clear understanding of the true cost of capital.

Let us, therefore, reiterate our core message:

Yakult must recognize its cost of capital and only allocate it to investments that exceed that threshold. Further, it must make rational decisions designed to achieve value for all shareholders rather than addressing past commitments or legacy assets. These are not controversial ideas - they constitute the most basic principles of responsible corporate stewardship. We urge the Board and management to confront these issues directly and take decisive action.

As you are aware, we have already copied to you a draft of our proposals to be submitted at your forthcoming Annual General Meeting. The three principal requests are:

- 1) The appointment of two outside directors from our group
- 2) Enhanced equity compensation for the Board/management via restricted stock
- 3) Delaying the effective date of AGM to allow the timely issuance of the Annual Report

We look forward to hearing from you.

Yours sincerely,



Paul ffolkes Davis
Chairman

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