Statement by Oasis Management Company Ltd. on Material Change to Alpine's Forecasts

*** October 30 upward revision is a "Material Change" to Alpine's forecasts**

***This upward revision increases Alpine's DCF Fair Value from ¥4,180 to ¥4,943**

***It's time for Alps to increase its offer price and offer a fair deal to Alpine's minority shareholders**

November 1, 2017, Hong Kong -- On October 30, 2017, Alpine Electronics Inc. ("Alpine" or "the Company") announced a material upward revision of 38.5% to their forecasts for the current fiscal year.

1. **<u>Material change should result in a revised higher price per the tender document</u>**

This significant upward revision constitutes a material change to the valuation, and, as per the tender document, should lead to a change in the Share Exchange Ratio:

*"In the case of any **material change** to the various conditions underlying the analysis or in other cases, the Share Exchange Ratio may be changed based on an agreement between the Companies pursuant to the Share Exchange Agreement."*[1]

We believe that the additional value expected from this upward revision is not simply bringing forward the anticipated growth in FY19 a year earlier, but is in fact in addition to that growth.

In its results for Q2 2018, Alpine revised upward its operating profit guidance by 38.5%. The revision came as a result of a reduction in research and development costs and fixed costs, a more favorable EUR/JPY rate, and an increase in sales. Additionally, Alpine's president mentioned that further upward revisions for FY19 and FY20 are likely if FX rates remain favorable.

In the tender document, Alpine stated that the 38.5% growth in operating profit for FY19 was due to an increase in net sales due to the number of orders for car navigation and automotive display products from automobile manufacturers and increased efficiency in the development investments[2]. Alpine has long visibility on sales and therefore we expect that the anticipated sales growth in FY19 to remain intact but with the additional positive FX impact. It is unclear whether the development efficiency savings expected in FY19 were brought forward as part of the R&D reduction in FY18, or whether there is more to come, however, based on Alpine's statements at their October 30 analyst briefing, we understand

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1 Tender offer announcement, 27 July 2017, p.11.

2 Ibid. p.12.

that these are likely unconnected and as such expect further development efficiencies in FY19 per the tender document.

In FY20, operating profit is expected to increase by 33.3% due to an increase in net sales from the number of orders of car navigation products from automobile manufacturers and from cost reductions[3]. We believe that neither of these are accounted for from the upward revision in FY18, and that these results will also benefit from the favorable FX impact.

We understand from Alpine's briefing on October 30 that it expects at least ¥4 billion of synergies just from procurement cost reductions at the first stage of consolidation with Alps. Based on this, we believe that it is highly likely that there will be significantly more synergies on full consolidation.

The additional growth announced in the Q2 2018 results and expected synergies materially increase Alpine's value, and its minority shareholders should be benefitting from this. However, neither this growth nor the synergies are included in Alpine's financial advisors' valuations of the Company when it determined that Alpine should accept the low offer from Alps Electric Co. Ltd ("Alps").

Alps and Alpine must therefore renegotiate the price, and ensure that Alpine's minority shareholders are paid the full true fair value of their shares.

The upward revision does not just reinforce our contention that Alps' offer significantly undervalues Alpine but further confirms the contention that the valuation methodologies employed to value Alpine were biased in favor of Alps, as we demonstrate below:

A. Market Price

The market price method employed by SMBC took the simple average of Alpine's closing price for one month, three months and six months prior to the announcement. Alpine's stock price was depressed during this period due to corporate governance concerns and generally low future earnings expectations. However, had shareholders and analysts been aware of the strong future growth expected and had the Q2 2018 upward revision taken place before the tender offer was announced, the stock price would have rallied significantly before the tender offer and Alps would have had to pay a higher and fairer price for Alpine. This upwards earnings revision proves that the market price valuation is unreliable and its use was biased towards Alps and against minority shareholders. We believe that is why they announced the merger ratio a full year and a half before the actual merger in January 2019.

B. Comparable Companies

We previously demonstrated that two out of the three comparable companies, Pioneer Corp and JVC Kenwood, used in SMBC's valuation undervalued Alpine due to negative perceptions of the companies, which had both been loss-making twice in the last four years and were exposed to more volatile businesses than Alpine. The upward revision in Alpine's earnings proves that even using Clarion as the only comparable would undervalue Alpine. Clarion underperformed its forecast and

[3] Ibid.

market expectations and its operating profit for the first half was down 16% on the prior year. On the other hand, Alpine's operating profit is expected to beat the prior year by over 60%. Based on this and the future anticipated growth, Alpine should have been valued at a premium to Clarion and not at a much lower blended multiple with Clarion, Pioneer and JVC. This metric also allowed Alps to buy Alpine at a price well below its fair value and as a result deprive Alpine's minority shareholders of what is rightfully theirs.

C. Discounted Cash Flow ("DCF")

This revision also proves that the Discounted Cash Flow method ("DCF") applied also understated the value of Alpine. In light of the upwards revision, minority shareholders should be receiving additional value from the DCF. The revision upward impacts every part of the DCF and would include significant additional growth in the first and final year of the DCF which would return a significantly higher price.

Even before this upward revision, the Share Exchange Ratio undervalued Alpine. This has now been exasperated by the better-than-anticipated earnings. This upward revision provides Alps and Alpine a perfect opportunity to remedy the corporate governance abuses and flaws in the previous process and valuation by renegotiating the tender price and paying Alpine's shareholders the true fair value of their Alpine shares.

2. <u>Alps revision and analyst briefing</u>

We note that Alps has also revised upward its earnings, but much of this is from Alpine's upward revaluation. Additionally, Alps' revision was far less material than that made by Alpine and is not an offset.

We understand that, according to analysts that attended Alps' analyst meeting, Alps is now proposing to employ the cash on Alpine's balance sheet to conduct a share buyback in order to reduce the dilution caused to its shareholders from the takeover. This appears nonsensical and further increase uncertainty for Alps shareholders. Alps should instead just makes a cash tender offer at true fair value for Alpine's shares.

Shareholders are encouraged to visit our website www.protectalpine.com for more information including how to sign up for updates.

Shareholders may also contact us at protectalpine@oasiscm.com, or contact our Japanese legal counsel Iwaida Partners at +81-3-5218-2084 or by email to Kawamura@iwaidalaw.com or Legal@protectalpine.com.

Media contact
Ashton Consulting
Dan Underwood
03 5425-7220
dhu@ashton.jp

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Oasis Management Company Ltd. ("Oasis") is the largest minority shareholder of Alpine Electronics Inc. (6816 JP) owning 9.24% of the company. Oasis manages private investment funds focused on opportunities in a wide array of asset classes across countries and sectors. Oasis was founded in 2002 by Seth H. Fischer, who leads the firm as its Chief Investment Officer. More information about Oasis is available at https://oasiscm.com. Oasis has adopted the Japan FSA's "Principles of Responsible Institutional Investors" (a/k/a Japan Stewardship Code) and in line with those principles, Oasis monitors and engages with our investee companies.