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# Alpine/Alps take 'first step' in investor engagement, but deal will fail on current terms, says Oasis' chief

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Activist **Oasis Management** remains confident it will gain sufficient support to reject **Alpine Electronics**' [TYO:6816] proposed tie-up with parent **Alps Electric** [TYO:6770] at its upcoming EGM, Seth Fischer, Oasis's Chief Investment Officer, told this news service.

The comment comes after the automotive component manufacturing subsidiary came up with a plan last week to pay a JPY 100 per share special dividend if the proposed tie-up is approved at the meeting.

While he welcomed Alpine's response as "the first step in response to shareholder engagement to achieve a fair price", Fischer nevertheless said the JPY 100 per share special dividend still does not justify the vastly discounted price reflected in the current merger ratio.

"Alpine has reached out to us to continue the dialogue and we look forward to meeting with them again soon," Fischer said. He added that Oasis will continue to talk with Alpine investors about the future of Alpine. To this end, the Hong Kong-based activist, which holds a 9.9% stake in Alpine, will meet with Alpine shareholders at the fund's investor day on 7 November in Tokyo.

At the meeting, Oasis "will review the current valuation of Alpine (currently at 0.77 EV/EBITDA inclusive of all non-operating and net current assets), as well as the short, medium, and long-term outlook for the business, and discuss our views on the upcoming EGM," said Fischer.

Alpine announced last Thursday (27 September) that the automotive component manufacturing unit would submit a proposal to pay a JPY 100 per share special dividend to the EGM that is tentatively scheduled for mid-December. The special dividend would be conditional on the share exchange agreement being approved at the meeting.

At Alpine's AGM in June, the Hong Kong-based activist submitted a proposal calling for the year-end dividend of JPY 325 per share (JPY 310 if Alpine pays JPY 15 p/s year-end dividend) as part of efforts to ameliorate the damage it claims has been caused by the arbitrary allocation of JPY 30bn as working capital.

Oasis' proposal – in a sense a proxy for voting against the proposed merger – was rejected after receiving 28.57% of the votes, signaling that the proposed merger, at the current price, would not be approved by the requisite 66.67% of shareholders at the EGM in December.

Shinji Yamazaki, senior manager of Alpine's Finance and Public Relations Department, explained some background factors behind the special dividend decision: "Our final review [conducted from 27 July to 26 September] concluded a change of the current share exchange ratio [of 0.68 Alps share for each Alpine share] is not necessary. We nevertheless witnessed the approval vote ratio for the Oasis proposal at AGM was close to 30%. We, meanwhile, received various comments from other minority shareholders. We also needed to take share price movements into consideration."

On 27 July 2017, Alps Electric, an electronic component manufacturer that currently holds 40.43% of Alpine, said it would acquire the remaining publicly-held shares of the automotive component manufacturing subsidiary, effective 1 January 2019. The acquisition will be carried out via a share swap with Alpine shareholders receiving 0.68 Alps share for each Alpine share they own.

Last week, Alpine concluded following its final examination that the share exchange ratio is fair and it has no plan to change the share exchange ratio of 0.68 Alps share for each Alpine share.

In the final examination, which was concluded last week, Alpine added two new members -Toru Matsumoto, a certified public accountant, and Takashi Kokubo, an attorney-at-law, to its three-member third-party committee with a view to further increasing the independence of the third-party committee.

Oasis said, however, the fund was disappointed they did not constitute a new and truly independent committee.

Yamazaki said the third-party committee appointed **YAMADA Consulting Group** (YCG), separately from Alpine's third-party advisor **SMBC Nikko**, to examine the fairness of the share exchange ratio in a more multifaceted manner. YCG concluded, however, that the share exchange is not disadvantageous to the minority shareholders, he said.

As for necessary operating cash, Alpine argued that necessary operating cash was considered to be about JPY 34.4bn (USD 302m). YCG said it is common in theory and practice to treat cash necessary for business operations as operating cash and surplus cash as non-operating assets, and the level of operating cash varies among industries, companies, economic environments and other factors such that it is not possible to set a uniform standard for it.

Oasis, meanwhile, argued that they disagree with the level of operating cash and they do not believe the rest of analysis is accurate.

In an earlier statement, Oasis argued that Alpine skewed the merger valuation to achieve an unfairly discounted price, including its decision to allocate JPY 30bn as operating cash for working capital. By doing so, the activist claimed it has reduced Alpine's valuation by JPY 400 per share, essentially taking this money from minority shareholders and giving it to Alps.

The share price of Alpine closed 0.14% lower at JPY 2,150 in Tokyo on Wednesday, resulting in a negative 6.35% spread versus the implied offer price of JPY 2,013.48. Alps ended the day at JPY 2,961, unchanged from the previous day's close.

by Norie Hata in Tokyo

**Grade:** Confirmed

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**Value (GBP m):** 1020.2516

Market cap of Alpine

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## TARGETS

**Alpine Electronics, Inc.**

**Financial advisor**
Sumitomo Mitsui Financial Group, Inc.

**Lawyer**
TMI Associates

## BIDDERS

**Alps Electric Co., Ltd.**

**Lawyer**
Mori Hamada & Matsumoto

## VENDORS

**Elliott Management Corporation**

**Oasis Management (Hong Kong) LLC.**

## OTHERS

**Oasis Management (Hong Kong) LLC.**

Japan

Industrial: Electronics

**Topics:** Shareholder Activism, Mergers and Acquisitions

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