Protecting Alpine's Minority Shareholders

October 2017

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Protecting Minority Shareholder Rights

- Corporate Governance Code – General Principle 1

“Securing the Rights and Equal Treatment of Shareholders

…companies should secure effective equal treatment of shareholders.

Given their particular sensitivities, adequate consideration should be given to the issues and concerns of minority shareholders and foreign shareholders for the effective exercise of shareholder rights and effective **equal treatment** of shareholders.”

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Undervaluation

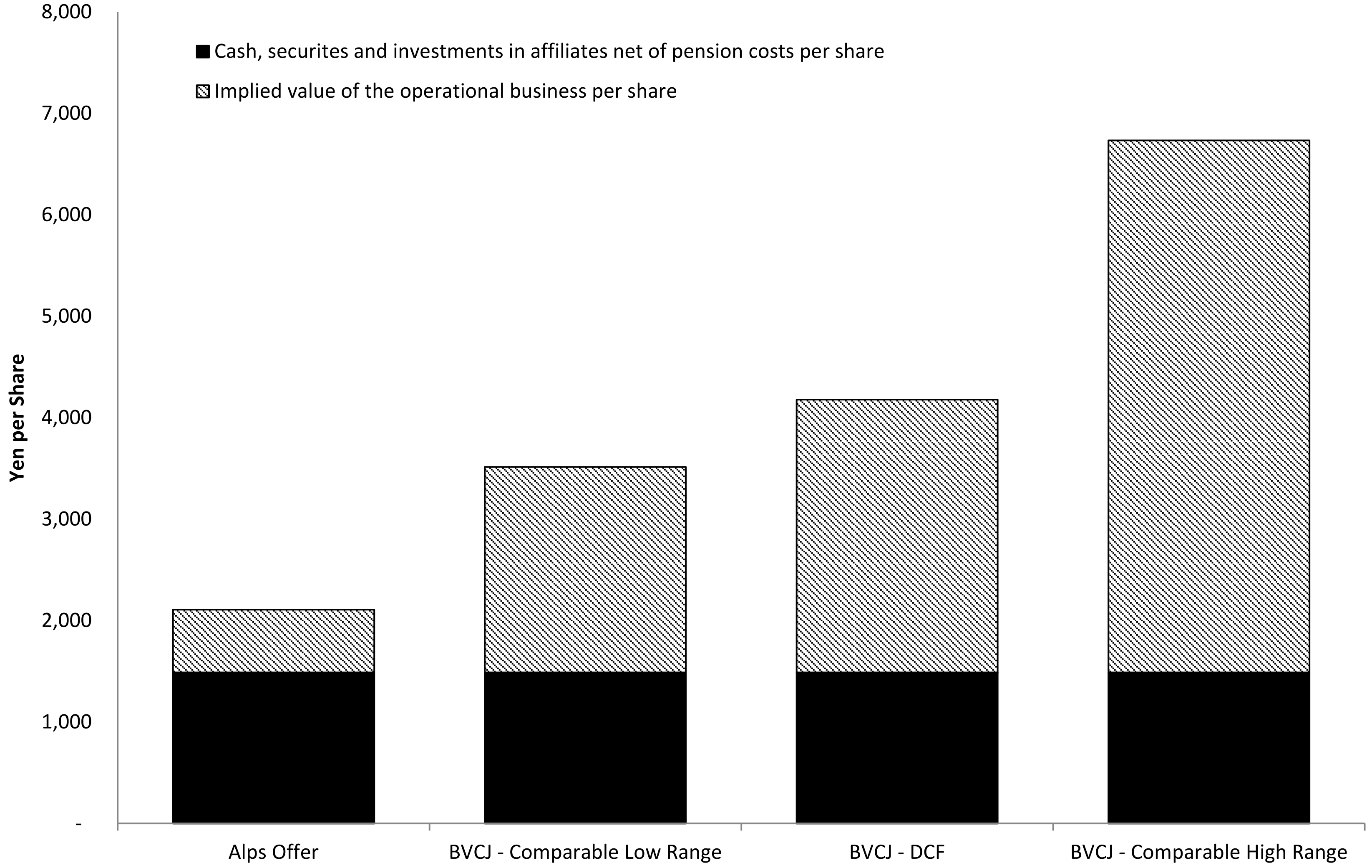
- Alpine Electronics (“Alpine”) and Alps Electric (“Alps”) agreed a Share Exchange Ratio (“SER”) of 0.68 Alps shares for every (one) 1 Alpine share which valued Alpine’s shares at ¥2,108 per share after the announcement

- The goal of the Corporate Governance Code is “**Substance over Form**” – the principles should apply not just in form but also in substance. The proposed ratio, and the mechanisms to arrive at that ratio, reflects “form over substance” as the ratio only suits Alps’ needs and fails to protect minority shareholders

- This presentation demonstrates that the valuation metrics employed are biased against Alpine’s shareholders by substantially undervaluing the company

- Assuming no change to the takeover ratio, Oasis has received an independent valuation from BVCJ that values Alpine at ¥4,180 on a DCF method, a premium of 98%, and between ¥3,516 and ¥6,734 on comparable companies basis, a premium between 67% and 219% to the value on the day after the announcement

Alps Offer Implies Minimal Value for Operational Business



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Flaws in the Process

Significant Flaws in the Process (1)

- **Acquiring Alpine cheaply before its stock price goes up.** The acquisition will only be completed in 2019 making this the longest lead time of any merger in Japan in the past 30 years. We believe that Alps is doing this in order to secure Alpine at a cheap price well before the stock rerates from expected record operating profit in 2019 and 2020 which were detailed in the tender document. Alps knows Alpine's operating business and future opportunities better than anyone else and we strongly suspect that they are using this distinct advantage to buy Alpine at the lowest price and well below the fair value.

- **No Control Premium.** Alps owns less than 50% of Alpine, and although it consolidates Alpine, we believe that there is stronger reason for Alps to have paid a control premium over a comparative-company neutral valuation of Alpine.

- **No "Go Shop".** To protect minority shareholder interests, and conduct real price inquiry as to what the market would pay for the shares of Alpine and the control of the company, the board of directors should have approached other investors to determine what they would have paid for Alpine. Shopping the deal is the only true test of fair value and the best deal for minority shareholders.

Significant Flaws in the Process (2)

- **Seemingly Under-qualified Third-party Committee.** We believe the independent committee members do not have the experience, background or stature to successfully protect the minority shareholders.
  - Hideo Kojima, the outside director, has a long history with Alpine, having been a member of Alpine's Audit & Supervisory Committee since 2011. During this time, Alpine has hoarded cash and securities and not invested the assets to grow corporate value to benefit all shareholders.
  - Shunsuke Teragaki is a lawyer for a very small law firm. We understand that he focuses on labor law and this raises additional questions over his suitability for the independent committee in this case.
  - Toshikazu Nakazawa runs a very small accounting practice from what appears to be an apartment building in a small neighborhood of Kanagawa. We find it peculiar that an expert from a recognized financial institution was not chosen for the independent committee.

Significant Flaws in the Process (3)

- **Alpine's "protection" of minority rights is misleading.** A condition for the Third-party Committee's approval was a counterproposal that Alpine presented to protect the interests of the minority shareholders and conducted multiple rounds of substantive negotiations in a bid to raise the exchange ratio. This was not the case, in fact, Alpine's counterproposal calculated a lower price than presented by Nomura on behalf of Alps! As per the table below, Nomura had calculated a higher share exchange ratio for the low and high ranges of all the metrics except the DCF high range. The average of all of Nomura's ranges was 0.61 compared to SMBC's 0.58. We do not believe that the minority shareholders were protected by Alpine presenting a counterproposal with lower share exchange ratios than those proposed by the buyer.

	Nomura (Alps)			SMBC (Alpine)		
	Low	High	Average	Low	High	Average
Market Price	0.51	0.54	0.53	0.51	0.53	0.52
Comparables	0.59	0.66	0.63	0.46	0.62	0.54
DCF	0.55	0.78	0.67	0.50	0.85	0.68
Total Average			**0.61**			**0.58**

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Significant Flaws in the Process (4)

- **Third-party Committee did not question the valuation.** Disclosure in the tender document implies that the Third-party Committee accepted the SMBC calculation as it was without challenging the assumptions and as a result did not look to protect minority shareholders, as quoted below:

"Given that (i) the financial analysis report on the share exchange ratio that Alpine obtained from SMBC Nikko, a third-party financial advisor, on July 26, 2017, states that the Share Exchange Ratio exceeds the respective upper limits of the range of the share exchange ratio obtained by the comparable company analysis and the market share price analysis while being close to the median value of the range obtained by the DCF Analysis, and, furthermore, Alpine has obtained an opinion (fairness opinion) from SMBC Nikko as independent third-party financial advisor to the effect that the share exchange ratio for the Share Exchange is fair to shareholders of Alpine Common Shares, excluding the Controlling Shareholder and Others, from a financial point of view"

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Significant Flaws in the Process (5)

- **Acquisition was a foregone conclusion.** Even prior to the conclusion of the negotiations, Alpine had announced, on May 23, 2017, of its intention to move the remainder of its headquarters staff to Alp's headquarters. With most of its staff already located at Alps, we believe that Alps had increased its control over Alpine even further and as such there is no opportunity for Alpine to try and achieve the best price possible for its minority shareholders.

- **Negotiations were performed by the banks and not the directors.** We require further disclosure of the negotiation process. We understood from our meeting that Nomura and SMBC negotiated the price and the directors were not directly involved. We question whether SMBC negotiated strongly enough on behalf of Alpine as the only beneficiaries of a higher price are the minority shareholders. We are obliged also to enquire what incentive SMBC had to exact the best price possible for minority shareholders. We note that SMBC is not required under the Corporate Governance Code to act on behalf of Alpine's shareholders, and it is not clear the directors made any great effort to question the financial terms proposed or negotiated by SMBC.

Significant Flaws in the Process (6)

- **SMBC does not appear strictly independent.** It is stated at the end of the tender document that SMBC receives compensation for work done for Alps. We believe that this impacts their independence and therefore their valuation cannot be relied upon. Additionally we note that SMBC is the main commercial bank for both Alps and Alpine and this again raises questions over their interest in protecting minority shareholders over their close relationship with Alps and Alpine. The following is the statement they made in the tender document:

"In the two year period prior to the date of the SMBC Nikko Analysis and the SMBC Nikko Fairness Opinion, SMBC Nikko and its affiliates have provided certain investment banking business, securities/financial instruments-related business, and commercial banking business to Alpine, Alps Electric, and affiliates of either of them unrelated to the Share Exchange, for which SMBC Nikko and its affiliates received compensation."

- Alps is the larger (Parent) entity. SMBC is at worst conflicted, at best incentivized to please Alps.

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Significant Flaws in the Process (7)

- **Where is the common sense?** A clear procedural flaw is the lack of adherence to the minimum standards of valuation…common sense. Alpine is being acquired at 1x its book value which means that Alps is not ascribing any value to the brand value of Alpine or to Alpine's future cash earnings. The fair corporate value should include all these elements in the valuation e.g., book value of non-operating assets + the value of the discounted cash flows from the operating businesses.

- **Alps should be paying for the synergies.** As reported in the Nikkei, Alps' president commented that Alps' earnings could overshoot forecasts due to several billions of yen in costs cuts and input procurement savings arising from the synergies resulting from the Alpine acquisition. This is a significant benefit to Alps that is conferred by Alpine shareholders without fair compensation. Because Alps gets the most benefit, they should pay MORE not LESS than an open market "Fair Price". They are doing neither. They are buying Alpine for lower than a Fair Price to the determent of minority shareholders.

Flaws in the Valuation

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Breaking Down the Takeover Ratio

- Proposed Share Exchange Ratio ("SER") 0.68 Alps for 1 Alpine
- They justify the SER on the following analysis:
  - Market Price Analysis range 0.51-0.53
  - Comparable Companies Analysis range 0.46-0.62
  - DCF Analysis range 0.50-0.85

Market Price Analysis ("MPA")

- Long lead time – buying it cheap
  - The effective date is January 2019, one of the longest lead times for at least the last 17 years
  - They may have done this to take advantage of acquiring Alpine before its stock rerated on future operating income growth (38.5% in FY19 and 33.3% in FY20)

- Rewarding poor corporate governance
  - Alpine has traded at a significant discount to its fair value because the Company accumulated cash and securities on the balance sheet instead of reinvesting the cash to grow the business or increase shareholder returns

- Alps' large stake impacts the market price
  - Alps' large stake has caused lower volumes of Alpine to be traded
  - Had there been a larger float then Alpine would have traded closer to its fair value

The Market Price Analysis undervalues Alpine and rewards poor corporate governance

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Comparable Companies Analysis ("CCA")

- Even with the tender offer, Alpine's EV/EBITDA is lower than all the comparable companies that SMBC employed

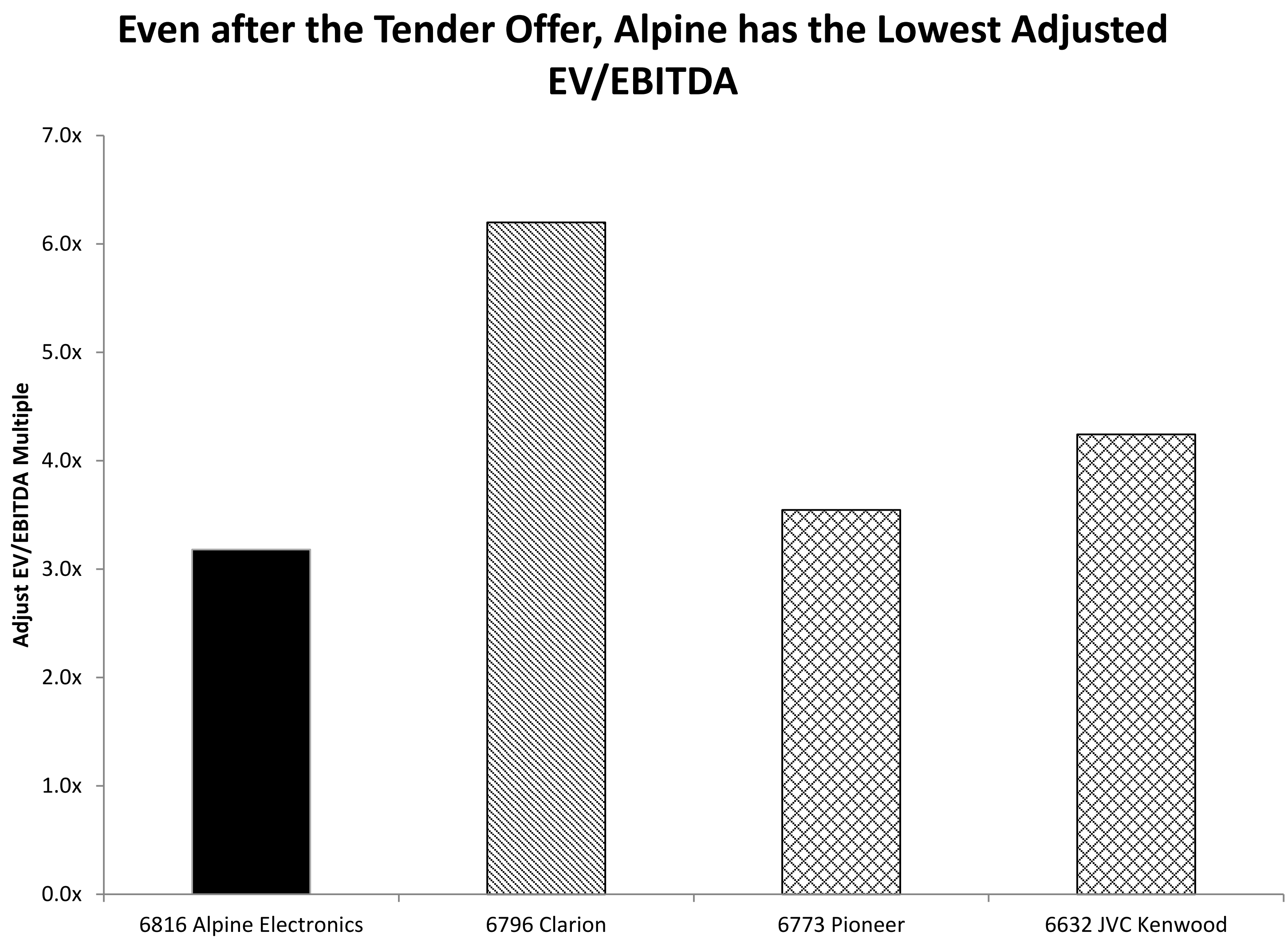
- It is further undervalued because two of the three comparable companies, Pioneer and JVC trade at very cheap valuations due to fundamental issues

- 6773 Pioneer
  - Has recorded net income losses in the most recent year and twice in the last four fiscal years
  - Large pension deficit which amounts to 41% of Market Capitalization
  - Large exposure to volatile after-market sales in Russia and Brazil

- 6632 JVC Kenwood
  - Has recorded net income losses in the most recent year and twice in the last four fiscal years
  - Large pension deficit which amounts to 29% of Market Capitalization
  - Less than 38% of operating income is from autos with a smaller proportion from the OEM business

6796 Clarion is the only appropriate comparable company!

Adjusted EV/FY18E EBITDA – Alpine is Lowest



Note: EV adjusted for after-tax securities, investments in affiliates and net pension costs

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Discounted Cash Flow Analysis ("DCF") – Highly Questionable

- The Proposed Takeover DCF SER range was 0.50 to 0.85 which, at today's price values each Alpine share between ¥1,525 and ¥2,593.
- We could not replicate these valuations without excluding all the cash and securities that Alpine owns. Alps seems to be getting ¥101 billion of non-operational assets for free!
- Alpine has cash, securities and investments in affiliates net of pension costs of approximately ¥1,490 per share, which is 70% of the tender price.
- We could not replicate SMBC's estimation using the assumptions provided without substantial decrease in profitability or ignoring all the securities.
- The independent BVCJ report values Alpine at ¥4,180 on a DCF basis.

BVCJ Valuation

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Fair Valuation – Summary

BVCJ - Independent Valuation	Valuation ¥ per Share	Upside to Alps Offer
Comparable Companies Low Range	3,516	67%
DCF Method	4,180	98%
Comparable Companies High Range	6,734	219%

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Resolving the Valuation Flaws

- Comparable Companies
  - BVCJ applies Clarion as its only Comparable Company for the reasons stated earlier
  - Lower range is based on an EV/EBITDA multiple for FY2020 estimation to account for expected growth at Alpine with a 20% control premium
  - Higher range is based on a Price to Book with a 20% control premium

- DCF
  - Cash, securities and investments net of pensions amounting to ¥1,490 per share
  - Terminal growth rate of 1%
  - Discount rate of 6%

Thank you!

For more information please visit www.protectalpine.com

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