HIBIKI
PATH
ADVISORS

39 Temple Street, #02-01 Singapore 058584
Tel. +65-6931-3914; Fax +65-6931-3916
www.hibiki-path-advisors.com
Reg. 201541140R

[English translation of a letter sent by Hibiki Path Advisors to PARAMOUNT BED HOLDINGS CO., LTD.]

To:

Chairperson Kyosuke Kimura
President & CEO Tomohiko Kimura
2-14-5 Higashisuna, Koto-ku, Tokyo 136-8671
PARAMOUNT BED HOLDINGS CO., LTD.

We are Hibiki Path Advisors ("Hibiki"), a Singapore-based institutional investor. As a minority shareholder, we are writing to you to share the proposals which we would like the Board of Directors to consider. Hibiki, as a value investor, manages funds mainly for foreign and domestic corporate pension funds from a medium/long-term perspective. Our goal is to maximize corporate and shareholder value "together" with our portfolio companies through constructive dialogue. We would like to thank Mr. Kumagai for his sincere and detailed explanation of your business to us at IR interviews.

We have analyzed your company's past business activities and achievements from various angles and have decided to buy your company's shares because we came to the conclusion that it is possible to create value far above the current stock price by steadily implementing initiatives to enhance corporate value, although your company's stock price has been chronically at a very low level compared to its intrinsic value.

Your company has been by far the best player in the medical and nursing care bed industry for a long time with currently approximately 70% market share in Japan, 50% in Indonesia, and steady sales increase in China. We believe that your business is excellent in terms of its stability and competitive advantage. In addition, we highly evaluate your business because the population of elderly people is expected to increase in the countries where you are operating your business, which should lead to further growth in the future in combination with your company's high brand recognition, and also because beds are indispensable for people which secures the constant needs. Your company also introduced a dividend on equity (DOE) as part of its dividend policy from FY2020, which we recognize as an expression of management's strong intention not to reduce dividends even when profits decline temporarily, which we, as a long-term investor, appreciate and evaluate.

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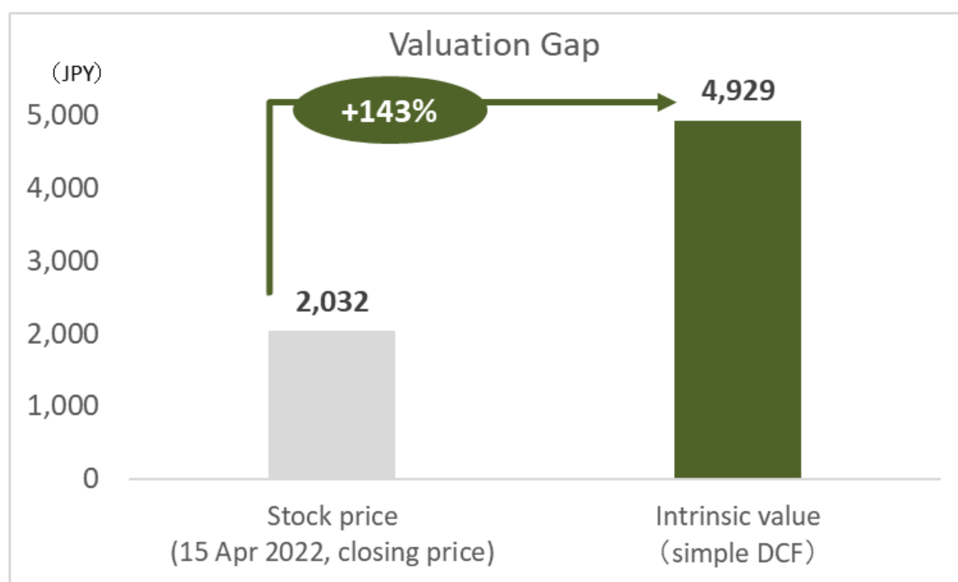
We do not place much importance on short-term business performance or short-term stock price fluctuation as we hold your company from a medium/long-term perspective. However, considering the level of your company's stock price, unfortunately, investors do not seem to apprehend the value of your company, and we believe that it is necessary for you to immediately and steadily implement various initiatives. We assume that your management must be disappointed at the current stock price, but a revaluation by the market requires both your company's efforts to create value and the shareholders' evaluation of those efforts as the two wheels of a car mutually interact. In this letter, we will first introduce our opinion of your company's corporate value (theoretical stock price) so that you are aware that your company should be much further highly evaluated, and then we will introduce some initiatives that your company should implement to create value.

Valuation of your company

First, we will explain our view of your company's shareholder value (stock value) by comparing the closing stock price of 2,032 yen on 15 Apr 2022, with our theoretical stock price.



(Source: Hibiki Path Advisors, based on your company's disclosed materials and Bloomberg)

In our valuation, **there is a discrepancy of approximately 140% (2.4 times) between the current stock price and your company's intrinsic theoretical stock price.** The theoretical stock price is calculated

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using the DCF method which is widely used in corporate valuation (please refer to the Appendix on the last page for detailed assumptions and formulas).

First, as you know, in DCF method corporate value is calculated by discounting the free cash flows ("FCFs") generated by the business in each period in the future and summing those discounted FCFs. FCFs for the next several years are normally estimated and the perpetual growth rate is applied to the FCF in the final year. However, in our DCF method, we only focus on the FCF which a company can "naturally and consistently generate", growth rate, and discount rate (WACC, weighted average cost of capital) to estimate corporate value in a simpler manner. The final year FCF assumed in this method is 12 billion yen, the perpetual growth rate is 0%, and the WACC is 5.4%. We will now explain each assumption below.

The FCF of 12 billion yen is a level that we believe your company can produce continuously in a natural way considering your company's FCFs in the past five years, and the perpetual growth rate of FCF is set at 0%. In other words, **it does not reflect the growth potential of your company's business at all and is a conservative assumption**.

Next, the WACC is calculated as the weighted average of the cost of debt financing (cost of debt: interest rate) and the cost of equity market financing (cost of equity: expected (required) returns from shareholders and investors). As your company has no debt and is in net cash position, your WACC is the same as your cost of equity. Your cost of equity is 5.4% calculated as 6% market risk premium times 0.73 your market beta, plus the risk-free interest rate (assumed to be 1%, please refer to the Appendix for our calculations).

Then, discounting the FCFs with the WACC, the corporate value is calculated to be approximately 223.5 billion yen, using【the formula : 12 billion yen / (5.4% - 0%)】. Adding the net cash on the latest balance sheet (approximately 63 billion yen) to the calculated corporate value and dividing it by the number of outstanding shares (excl. treasury shares), we reach the theoretical stock price of 4,929 yen which is surprisingly much higher than the stock price of 2,032 yen (as of 15 Apr 2022). In other words, even if your business does not grow at all, P/B ratio can be approximately 2.5x in theory while currently evaluated at 0.99x P/B ratio (as of 15 Apr 2022). Theoretically, it is said that the stock price will converge to the intrinsic value (theoretical stock price) in the medium to long term. Then, what would be the reasons why your company is evaluated much lower than its intrinsic value. We think that there are mainly three causes below.

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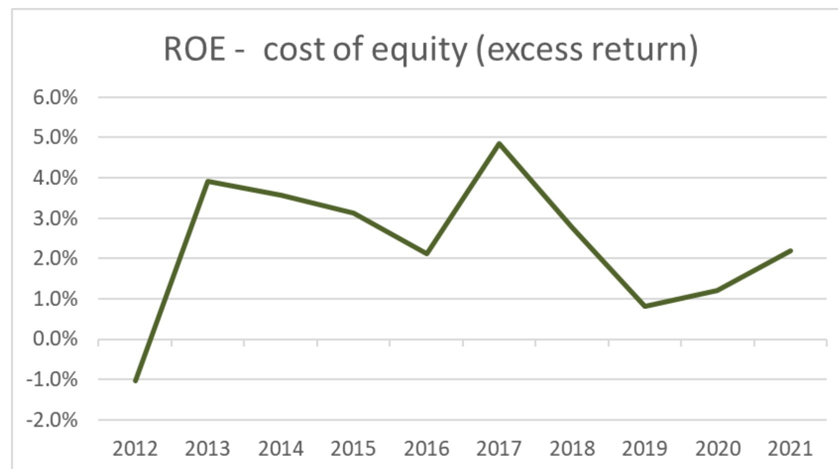
Causes for undervaluation

First is your company does not generate a return on equity (ROE) which largely exceeds the cost of shareholders' equity (≒ shareholders' required return), and investors are concerned that ROE will deteriorate in the future. Your company's P/B ratio is 0.99x (as of 15 Apr 2022) which is even less than its liquidation value. We invest in your company because we believe that the current valuation is not appropriately embracing your company's business, industry positioning, and future growth potential. However, theoretically, the current low P/B ratio may be justified as statistically if a company does not generate ROE higher than its cost of equity, its P/B ratio tends to fall below 1.0x. This implies that if a company cannot generate ROE higher than the return which shareholders demand, the capital market evaluate as if it is better to liquidate the company, pay off its debt, and return the excess assets to shareholders than to continue to operate the business.

Naturally, shareholders prefer a positive difference between ROE and cost of equity (ROE - cost of equity = excess return), and the larger this value is, the higher the company's valuation tends to be (there is a certain positive correlation between the level of excess return and P/B ratio). On the other hand, negative difference means that management is not making the return which shareholders require by utilizing the capital entrusted by shareholders, therefore the value of the company's assets is discounted, which results in a P/B ratio of less than 1.0x. We assume that your company's P/B ratio has been just over 1.0x for a long period and has recently fallen below 1.0x because your company has not been able to generate a large excess return and investors are concerned that it may not be able to generate even an excess return in the future.

The chart below shows your company's excess return over the past 10 years. As you can see, your company has generated almost no excess return in recent years (around 2% at best), and we assume that if your company's current level of shareholder distribution continues, retained earnings will accumulate more and more, which will impair ROE and result in a negative excess return.



※For simplicity, 5.4% cost of equity is used in the excess return estimation for the entire period

(Source: Hibiki Path Advisors from Bloomberg)

Second is the value of cash and cash equivalents that your company owns or will earn in the future is significantly discounted, meaning that the value of the approximately 70 billion yen (as of 31 Dec 2021) of cash and securities on the balance sheet and FCF which will be generated from your company's strong business in the future may be valued at a discount of, for example several tens of percent from its face value. It may be hard to believe that cash which is the result of the hard work of management and employees every day, is being valued at a discount. However, we believe this is the real situation, and in fact some study also shows that the value of cash and securities of Japanese companies is generally valued at a discount of approximately 50% (please refer to page 7 of the enclosed reference material).

We explain why this situation occurs with a simple example. Suppose a person has 10 million yen in a bank deposit. However, if the 10 million yen cannot be withdrawn semi-permanently, is it truly worth 10 million yen to that person? Most people would probably say "No" to this question. The same is true for shareholders who invest in a company. If cash, securities, and FCF to be earned in the future from the business, which should belong to the shareholders (as there is no debt in your case), are not sufficiently distributed to them, the value will inevitably be discounted. This is one of the reasons why many investors discount the value of a company's cash and securities. No matter how attractive and socially significant your company's business is, it will not be attractive to investors/shareholders and given a low valuation if there is no assurance that the cash generated by the business will be adequately shared with the ultimate beneficiaries, the shareholders.

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Third is your company's medium-term management plan and earnings forecasts are quite conservative. Considering your company's past business growth, current situation, explanations and Q&A sessions at earnings calls, and various other matters, we have to conclude that your company's earnings forecasts are considerably conservative. In fact, the forecast for the fiscal year ending 31 March 2022 is 11.8 billion yen in operating income while the current medium-term management plan's target is 12 billion yen for the fiscal year ending 31 March 2024. The target is expected to be almost achieved two years ahead of the plan.

We have mentioned three factors why your company's intrinsic value is not being appropriately evaluated, then what are the countermeasures? Considering your company's current situation and the nature of your business, we would like to propose three measures to improve your corporate valuation which we believe will be particularly effective. As a shareholder of your company, we hope that you will consider implementing these measures as soon as possible.

Measures for corporate valuation improvement

1. **Share buyback / Dividend increase**
2. **Disclosure of cash allocation policy**
3. **Upward revision of medium-term management plan and discontinuation of conservative announcement of earnings forecasts**

1. Share buyback / Dividend increase

Needless to say, the share buyback will improve ROE, resulting in a higher excess return mentioned in the first cause above, and your company's P/B ratio is expected to improve accordingly. In addition, purchasing own shares is essentially an important management measure which a company should consider when its stock price is undervalued. Since the current stock price of your company is extremely undervalued as described above, we believe that this is an excellent time for your company to purchase its own shares at a discount.

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If the management does not take any action to your company's stock price which is clearly undervalued at present, investors and shareholders may speculate that the management may recognize the current stock price as an appropriate level, leading your company's stock price remain sluggish in the future as your management team comprehends the best about your business, has an access to inside information which investors do not, and understands your intrinsic corporate value better than anyone else. If you do not implement any measure, investors and shareholders may be concerned that there may be negative inside information about your business that they are not aware of. To avoid such misconstrue, and if you believe that the value of your business should be evaluated more highly, we hope that you would execute share buybacks.

When conducting a share buyback, we would like to see it be done boldly and continuously considering the stock price level rather than on a small scale of a few percent in order to increase the effectiveness. It should be more effective in dissolving the valuation discrepancy, and we also believe that even share buybacks with total 50 billion yen which is calculated by subtracting approximately 20 billion yen (roughly three months of your company's sales for the fiscal year ended March 2021), which is considered equivalent to your working capital, from the total cash and securities on hand of approximately 70 billion yen, would not threaten your company's business continuity or financial soundness (we are not asking you to buy back 50 billion yen of shares, but this is just an example to describe your company's financial strength and capacity to return profits to shareholders.). As a share buyback is a tool for management to demonstrate to the capital markets the future growth potential and stability of the company's business, if your company conducts a small share buyback of only a few percent in such a financial situation, investors and shareholders may have concerns about your company's future business operations, such as "Doesn't your company have much confidence in its future business operations?" We hope that you will execute a bold and continuous share buyback program on a scale that will surprise investors and shareholders.

As for the second reason why your company is not being valued fairly, which is that cash and FCF are being valued at a discount, the solution is to conduct a share buyback or increase the dividend. As mentioned above, while we highly appreciate your company's implementation of DOE policy, we also believe that the level of dividends is not sufficient in light of the business model, positioning of your business, the current financial situation, and the FCF to be earned in the future. If the current dividend level continues and your company's business value (≒FCF) is not sufficiently shared with investors, we assume that many of them will have to evaluate your business at a discount, therefore we hope you would consider a further dividend

increase as well. Even if you set a DOE of around 4%, meaning a dividend target of approximately 80 yen per share (total dividend of approximately 4.5 billion yen), as this is only 40% of the 12 billion yen FCF that your company can naturally generate, which is the assumption used in the above estimation (in other words, with DOE of 4%, you can still continue to accumulate cash), we believe that you will be able to continue to operate your business in a very healthy financial position given your company's current financial and business situation while your company's valuation should improve.

2. Disclosure of cash allocation policy

We think that another reason why a company's cash and future FCF may be valued at a discount is that the policy of the future use of company's cash is unclear. Unclear cash allocation may make shareholders uncertain because they do not know how your company plans to use the precious capital they have entrusted to the management, then the cash will have to be valued at a discount under uncertain circumstance. We believe that investors and shareholders will be reassured, and your company's corporate value evaluation will improve if you disclose your comprehensive cash allocation policy with rational explanation of how much working capital, Capex, and shareholder distribution being planned. We would very much appreciate disclosure of your company's medium/long-term cash allocation policy. Please refer to page 5 of the enclosed presentation material which contains cash allocation policy disclosure examples which should be of interest to you.

3. Upward revision of medium-term management plan and discontinuation of conservative announcement of earnings forecasts

Firstly, regarding the current medium-term management plan, if you do not revise the plan upward even though its target is expected to be almost achieved, it may lead to speculation that 1) your company is neglecting dialogues with the capital market and is not interested in stock price valuation, and/or 2) the business environment is actually difficult, and therefore your company may not be able to revise its earnings estimate upward. We believe those concerns may make the valuation of your business continue to be sluggish. As for 1), as a listed company which is a public institution of society, the attitude should not be allowed, and as for 2), we do not think that there is such thing based on our research and IR interviews with your company, so please revise the current mid-term plan upward.

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Secondly, we would like to request that your company's earnings forecasts be disclosed in line with more actual conditions. We understand the difficulty in forecasting your business as your business is complicated to some extent with its business overseas and need to consider each subsidiary's figures. However, if so, we think it is important for you to express the key points of your thinking behind the earnings forecasts and nuances (conservative or not) in your materials. Otherwise, investors and shareholders are not able to understand the assumptions on which your earnings forecasts are based and whether the forecasts you provide are conservative or optimistic, then they might take your earnings forecasts at face value, which we believe is one of the reasons why your company's business is not appropriately valued in stock market. We would like to request that you further improve the way to express in your disclosure materials and earnings calls to mitigate information asymmetry between your company and investors/shareholders.

We have made three proposals above. We are an investor who does not hesitate to raise shareholder proposals, but we also believe there are other constructive ways. We make it clear that we are not planning to bring such proposals to the AGM this year. Instead, we ask that you seriously take into consideration the fact that the above have been proposed by a shareholder and have discussions at your board of directors and management committees as the proposals should benefit all shareholders including yourselves, employees, and business partners, and please disclose the progress in a timely manner.

25 Apr 2022

39 Temple Street #02-01, Singapore 058584
Hibiki Path Advisors Pte. Ltd.

※Note: This letter may be disclosed on our website and in press releases.

(Responsibility for wording of this letter：Naoya Kimura, Yuya Shimizu)

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Appendix :

Assumptions used in the valuation of your company's value (Hibiki's assumptions)

	Discount Rate Computation		
a	Risk-free rate		1.0%
b	Beta		0.73
c	Market risk premium		6.0%
d	Cost of Equity	=a+c*b	5.4%
e	Cost of Debt		2.0%
f	Market Cap (Mn Yen)		129,253
g	Net Cash (Mn Yen)		63,013
h	Equity portion		100%
i	Tax rate		32%
j	**WACC**	**=h*d+(1-h)*e*(1-i)**	**5.4%**

	DCF Valuation		
k	Normalized FCF (Mn Yen)		12,000
j	WACC		5.4%
l	Growth rate		0.0%
m	EV (Mn Yen)	=k/(j-l)	223,492
g	Net Cash (Mn Yen)		63,013
n	Equity Value (Mn Yen)	=m+g	286,505
o	Shares outstanding excluding treasury (mn)		58
p	**Value per share (Yen)**	**n/o**	**4,929**

(Source: Hibiki Path Advisors, based on your company's disclosed materials and Bloomberg)