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Kawai Musical Instruments Manufacturing Co., Ltd.

Dear Board of Directors

May 8th, 2023

Proposal to Enhance Kawai's Corporate Value

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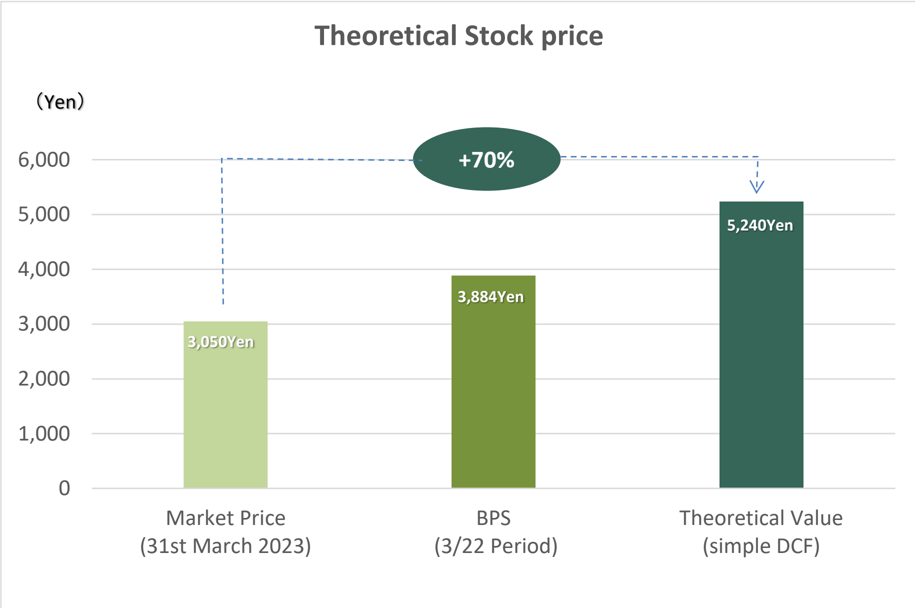
1. Our View on Kawai's Intrinsic Value

We will first explain what we consider to be the intrinsic value of your stock price. A simple DCF calculation based on simple assumptions shows us that your intrinsic value per share is easily more than 5,200 yen which is around 70% higher than your current stock price.

Figure 1: Our Estimate on Kawai's Intrinsic Value per Share



(Source: Hibiki from Bloomberg - See Appendix. for details)

We use simplified DCF as the base scenario for calculation that focuses only on steady-state free cash flow (FCF) which a company can "naturally and stably generate" to estimate corporate value, with our terminal growth rate, and discount rate (WACC) assumptions. We have assumed a steady state FCF of ¥2.4 billion, a terminal growth rate of 0%, and a WACC of 6.6%[1]. We would like to ask your honest impression on this "¥2.4 billion FCF" because this is actually just the simple average of FCF over the past 10 years! In fact, this is very small compared to the 5.7 billion yen of FCF for FY22/3, when your business performed extremely well during covid-time. The reason for using this conservative figure of 2.4 billion yen is based on your 7th Medium Term Plan (English) where you mention to double your annualized capital

[1] See Appendix for detailed formulas

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expenditure until the fiscal year ending 31 March 2025 to total 7 billion yen in three years. Still, we view it as a fairly conservative assumption.

Only God knows what the future holds, so we have deliberately set the terminal growth rate at 0% but we believe this also to be conservative, given the fact that your business IS growing, and your next mid-term plan looks credible in the step to celebrate the 100th anniversary of Kawai. The WACC is usually a controversial topic amongst investors, however, we did not make any adjustments and used the figures directly calculated from stock beta etc. using the plain vanilla Capital Asset Pricing Model (CAPM) theory, which derived 6.6%. We like to keep things simple. As you may have guessed, this is calculated based on simple math and does not consider qualitative factors such as your "brand value" and steady improvement in Kawai's global recognition. It simply does not sufficiently reflect your company's corporate value at all.

The current stock price as of March 2023 is at 3,050 yen, which is significantly lower than the intrinsic value share price of your company based on our assumptions above. This is a fascinating opportunity for value investors such as ourselves but we also feel that it is a shame to have your corporate value remain so deeply hidden. We hope you understand that we are sending this letter because we are willing to work together with you to unlock the potential value of your company and help your company obtain the appropriate recognition.

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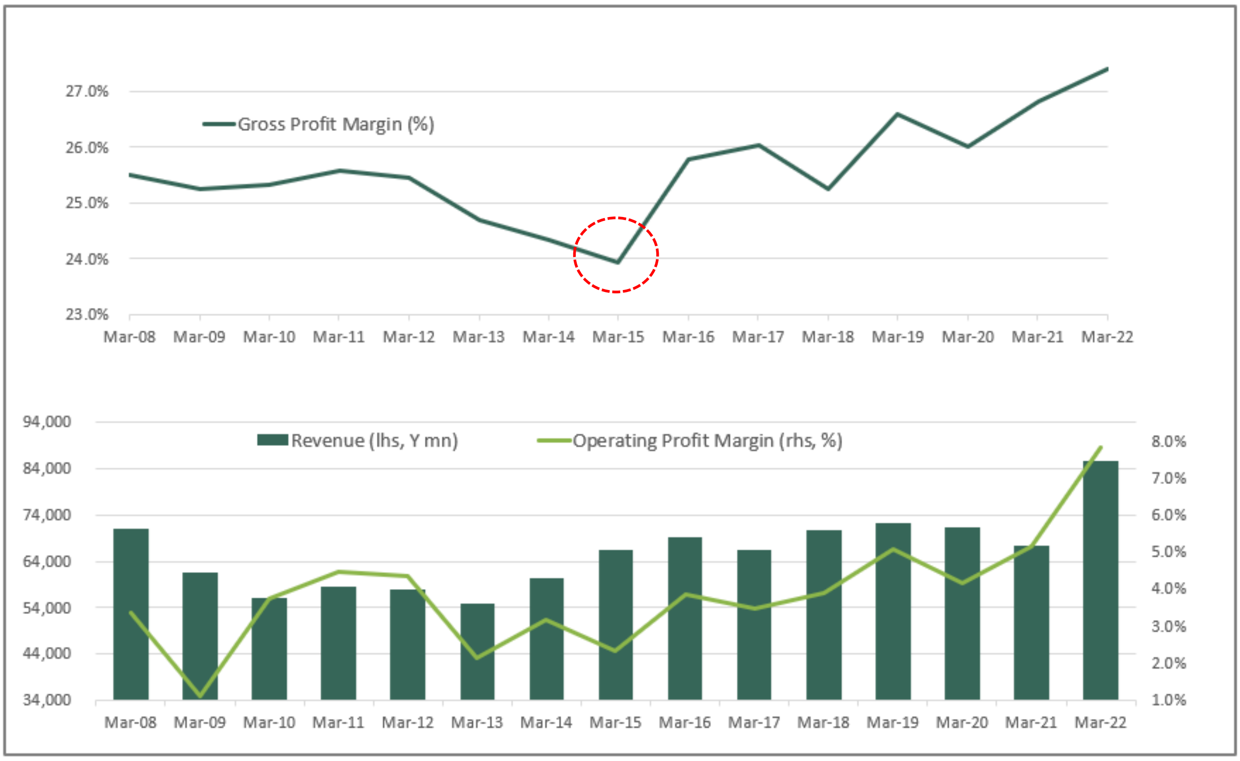
2. Your Historic Business Performance

Looking at your company's past profit structure, the gross margin has been improving ever since it bottomed out in FY3/15. Correspondingly, the operating profit margin has also been on an upward trend.

Figure 2: Gross Margin, Sales, and Operating Margin Performance



(Source: Hibiki from Bloomberg)

With the lens of an outsider, we believe that there are two reasons for this. First, is the contribution from your Precision Metal segment among your two main segments[2], with the other main segment being the musical instrument and education segment. Sales for the material processing segment totaled 11.4 billion yen for FY3/22 and is 1/6 of the musical instrument segment. The operating profit margin has been improving almost continuously for the past 10 years, with the operating margin nearly doubling from FY3/16 to 15.5% in FY3/22, confirming that it is an excellent business with moat. The rolling and coating technologies based on your organ and piano manufacturing technologies have been well received in the

[2] In addition to these two main segments, the other segment is about 4% of Sales

semiconductor and automotive fields, and this is a classic case of original business evolving into something different.

The second is the Musical Instrument and Education Segment ("MI&E"). This segment has struggled to improve profitability in the past due to its artisanal assembly process and the ongoing marketing costs to enhance the brand value but is finally in a recovery trend after bottoming out during the FY3/15 - FY3/17 periods. The operating profit margin on the five-year average till FY3/22 was 4.3%, which was an improvement of about 1.7ppt compared to the five-year average up to FY3/17. Moreover, the operating profit margin of this segment in FY3/22 was particularly strong at 7.0% largely due to the global Covid-19 home nesting impact.

In this MI&E segment[3], it is estimated that the sub-segment of the Education Business is currently plateauing due to the declining birthrate and aging population. Since it is difficult to make major improvements in such a situation, we believe that cost improvements in the Musical Instrument manufacturing process contributed and the increase in overseas sales overlapped with the improved cost base. Since the disclosure of your Overseas Piano Sales are in yen basis, we took the liberty of converting them to the US dollar[4] (Figure 3). Comparing the periods between FY3/15 and FY3/22, we can see an increase of over 90%. We believe that this is due not only to the demand for Covid-19 home nesting but also due to the news impact from the fact that three out of the twelve finalists of the 18th Chopin Piano Competition (October 2021), have chosen the state-of-the-art ***Shigeru Kawai*** piano.

[3] The Musical Instrument Segment and the Education Segment have been integrated since the FY3/18 period
[4] We have converted our sales to US dollars in Europe and other regions based on the rate you disclosed.

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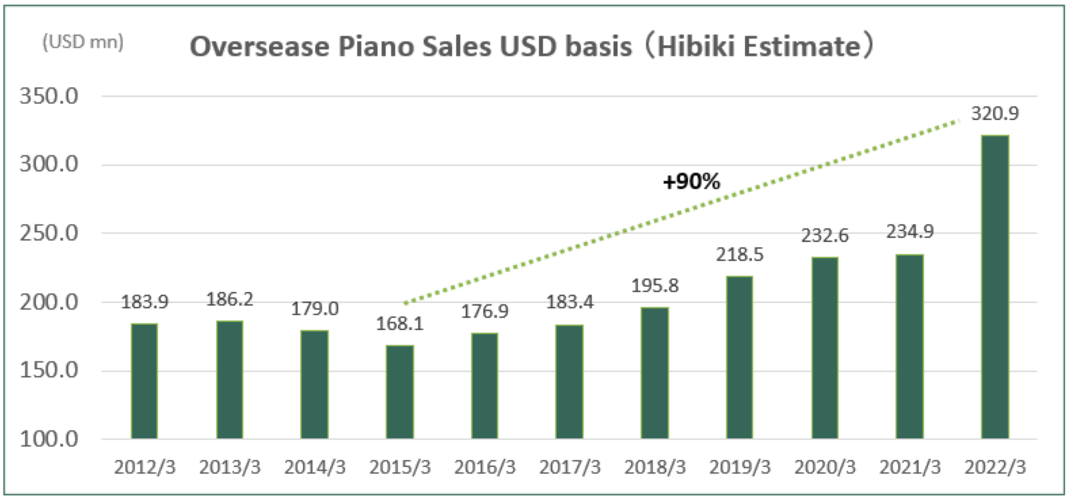
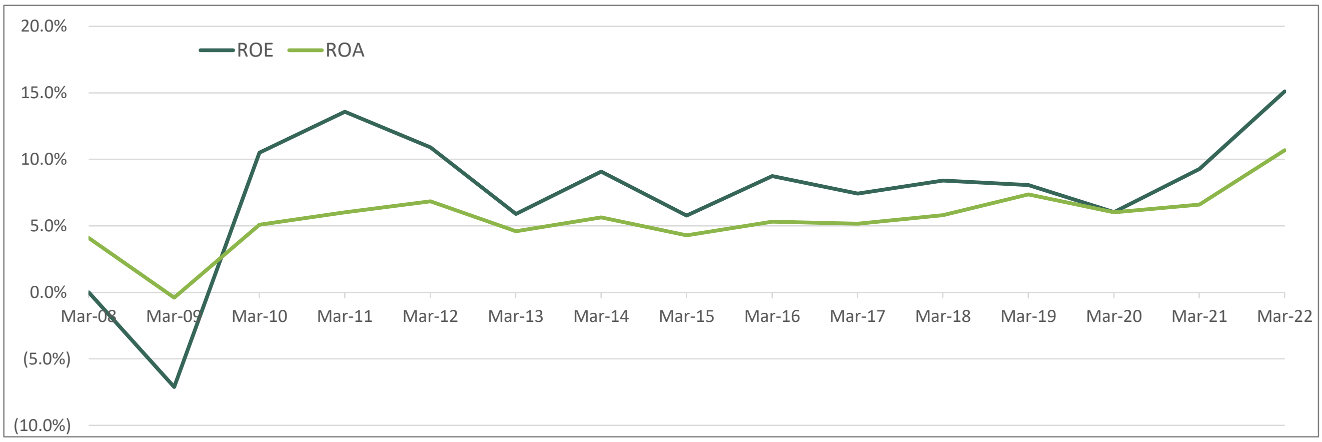
Figure 3: Kawai's Overseas Piano/Keyboard Sales in USD basis (our estimate)



(Source: Hibiki estimate)

ROA and ROE (Fig.4) are partly linked to profitability and ROE has averaged 8.4% over the past 10 years, exceeding the cost of capital of 6.6% (our estimate), indicating that the company has created value over the years. In the current medium-term management plan, you have called for an ROE of 10% or more in the final year (FY3/25) but considering that the current P/B ratio of the company is still underperforming below 1x, we feel that 10% is the bare minimum and the company should aim for greater heights. We would like to touch on this financial strategy in detail in section 6.

Figure 4: Your ROE and ROA



(Source: Hibiki from Bloomberg)

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3. Kawai's "Brand Value"

As mentioned above, we have explained our view on Kawai's intrinsic stock value just based on numbers. However, there is an aspect that has not yet been priced in and fully evaluated in terms of the intrinsic value of your company. That aspect is "brand value". We believe that the brand value of *Shigeru Kawai*, which bears the name of former president Mr. Shigeru Kawai, who built the foundation of Kawai, is not well appreciated in the capital market.

After many years of R&D, the *Shigeru Kawai* series of top-quality grand pianos was finally launched in 1999. In a short span of 20 years after its launch, the *Shigeru Kawai* series has already earned a reputation as one of the world's finest pianos. As you are aware, the list of pianos used and the ranking of 12 finalists in the 2021 Chopin Competition is as follows:

Figure 5: List of finalists for the 18th International Chopin Piano Competition

18th International Chopin Piano Competition (2021) - Finalists

Position	Name	Country	Piano Selection
1	Bruce Liu	Canada	Fazioli
2	Alexander Gadjiev	Italy/Slovenia	Shigeru Kawai
2	Kyohei Sorita	Japan	Steinway
3	Martin Garcia Garcia	Spain	Fazioli
4	Jakub Kuszlik	Poland	Steinway
4	Aimi Kobayashi	Japan	Steinway
5	Leonora Armellini	Italy	Fazioli
6	JJ Jun Li Bui	Canada	Shigeru Kawai
--	Eva Gevorgyan	Russia/Armenia	Steinway
--	Kamil Pacholec	Poland	Steinway
--	Hao Rao	China	Steinway
--	Hyuk Lee	Korea	Shigeru Kawai

(Source: Hibiki)

The final round of such prominent competition is usually judged through a Concerto piece accompanying the full orchestra, so the popular pick of the contestants is usually Steinway, which contains a wide dynamic range and brilliance in its sounds. However, the fact that 3 of the final contestants picked a piano from *Shigeru Kawai* for their performance surprised the world, which is solid evidence of the quality of the tone of *Shigeru Kawai* grand pianos. The whole competition was broadcasted on the web globally due to the covid-19 pandemic, allowing viewers to feel the heated and tense atmosphere. The wonderful news that Japan's up-and-coming pianist Kyohei Sorita won second place and Aimi Kobayashi won fourth place was widely reported with enthusiasm in Japan.

However, a major prize for Kawai was that Alexander Gadijev, who won the 9th Hamamatsu International Piano Competition in 2015 using *Shigeru Kawai*, continued to use it in this Chopin Competition and won second prize at the same level as Mr. Sorita. The goodness of *Shigeru Kawai*'s unique soft and moist tone was able to be fully utilized by Mr. Gadijev and expressed a different charm from Mr. Sorita. This was a moment where not only his fame but also the quality of your pianos was made known to the world once again.

It all started back in 2012 when world-renowned Russian pianist and conductor, Mikhail Pletnev, played the *Shigeru Kawai* at your Ryuyo factory, and was so impressed by the sound texture that he said: "I would like to start performing piano again." In 2013, after a hiatus, he resumed his piano concert tours with the *Shigeru Kawai* in tow, and at the same time, he introduced *Shigeru Kawai* to many of his colleagues and students, making significant contributions to your brand value. In recent years, as you can see on your website (VOICES | Shigeru Kawai - Grand Piano), many world-class professional players prefer the *Shigeru Kawai* as their preferred instrument of choice for various occasions – an indicator that your company has a great deal of brand value and increased potential profitability. However, as far as we have been able to ascertain from interviews with other institutional investors, the level of recognition of this aspect of your brand in the capital markets is, unfortunately, almost non-existent.

We believe that the "Brand Value" that your company has developed over the years is almost priceless and we feel that this is one of the reasons behind the increase in overseas sales from around 2015. In addition, with the increased popularity of *Shigeru Kawai* in the Chopin Competition in 2021, we believe that the brand value will continue to increase and award you with better strategic freedom in marketing and pricing across your lineup of pianos. We know that it takes time for brand value to translate into actual cash flow, but we believe that the stage is finally set and ready for you to further build on your strength and optimize sales and pricing

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strategies as one of the world's top piano manufacturers. We believe that we are not the only ones who feel this way. The idea of manufacturing "quality products" is a long-standing virtue of Japanese craftsmanship, and we believe that the development of a brand-push strategy to "gain recognition around the world" will become an extremely important management issue for your company in the future, both for feeling the sense of achievements for your employees and for the further increase in your corporate value.

Let us bring up an interesting example of a case regarding the value of a brand. Steinway, THE most respected piano brand in the world, was acquired by a hedge fund, Paulson & Co. in 2013 and taken private. The acquisition price of $40 per share (Market Capitalization of $512m), and P/S, P/E, EV/EBITDA (all based on FY2012 actual figure) are shown in Figure 6. Similar metrics based on Kawai's current stock price is shown on the right, and you can see that the evaluation is worlds apart. Although we cannot make a direct apple-to-apple comparison due to the difference in time, it is difficult to rationalize your valuation being only 1/5 of Steinway's in all of those metrics. According to an April 2022 article by Crystal Tse of Bloomberg, it was reported that a Chinese state-owned company made a $1 billion takeover offer for Steinway to Paulson & Co. in 2018, almost double the purchase price according to unofficial information. We will return to this later in our analysis of Steinway in section 5 of the letter.

Figure 6: Valuation of Steinway's 2013 take-over and Kawai's current valuation

Steinway - Year 2013 TOB Price $40 ($512mn Value)	
Price to Sales	1.5x
EV/EBITDA	14.5x
Price to Earnings	35.4x
*all versus FY2012 figure	

Kawai - now 3/23 Stock Price 3,050（Yen 262mn Mkt Cap）	
Price to Sales	0.3x
EV/EBITDA	2.7x
Price to Earnings	8.2x
*all versus FY2022 Co estimate	

(Source: Hibiki based on respective company financials)

In the next section, we will analyze Kawai's "market valuation".

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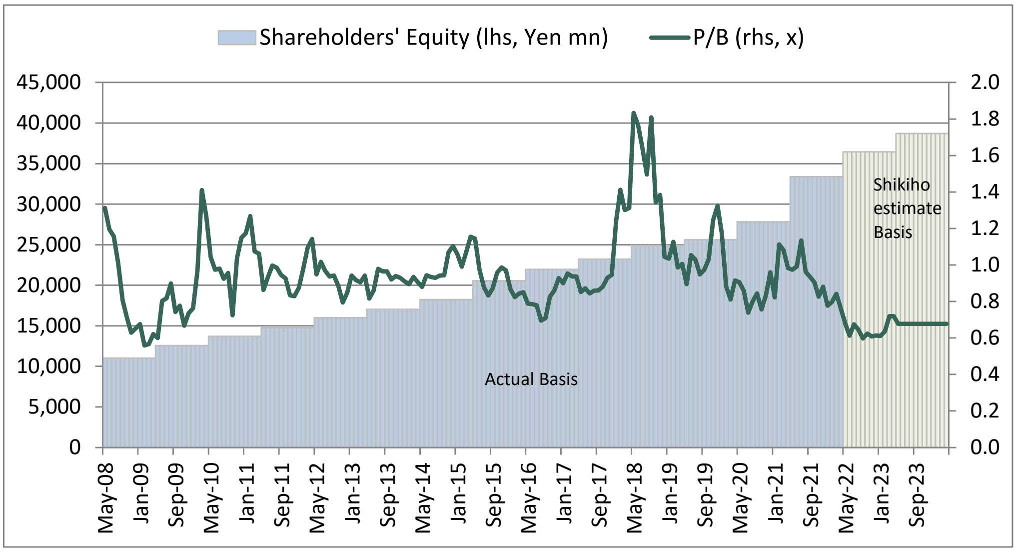
4. Kawai's Current Stock Valuation

Your company achieved record profits in FY3/22, partly due to the Covid demand for home nests. Although profits are expected to decrease for FY3/23, brand value, and the overall business activity is headed in the right direction, and we are reasonably confident that the targets mentioned in the mid-term plan such as 90 billion yen in sales, 6.8 billion yen in operating profits, 4.4 billion yen in net profits, and minimum 10%+ in ROE for the final year of the plan are achievable.

However, it is surprising that your current stock valuation is at its lowest level in the past 15 years. Figure 7-1 and 7-2 shows the history of the shareholders' equity vs P/B, and EBITDA vs EV/EBITDA.

Figure 7-1: Historical Shareholders' Equity and P/B



(Source: Hibiki from Shikiho and Bloomberg)

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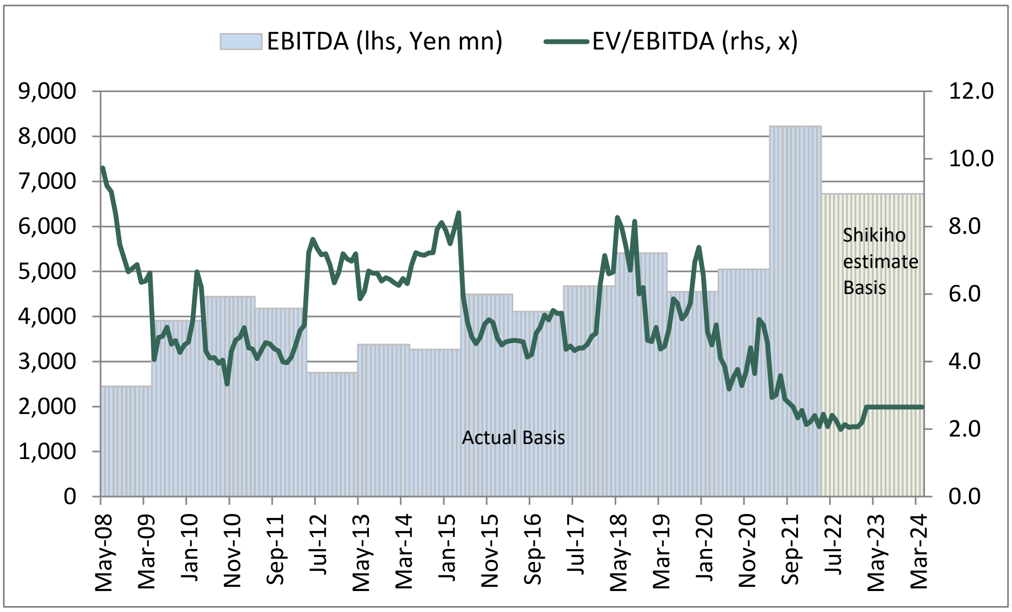
Figure 7-2: Historical EBITDA and EV/EBITDA



(Source: Hibiki from Shikiho and Bloomberg)

Additionally, the current P/E ratio (based on 3/23 Co. Est) is 7.3x (as of end March stock price) while the average P/E ratio over the past 10 years is 12x. Based on this P/E multiple, Cost of Equity is 13.7% (1÷7.3 = 0.137), which is a simple backward calculation from the current P/E forecast. The calculation shows a large deviation from the "theoretical" cost of equity of 6.6% as calculated by us. In other words, the market indicative perpetual growth rate is (6.6%-13.7%) = -7.7%!

We believe that this extravagant disconnect between the theoretical intrinsic value and the actual market valuation should not be overlooked. In our view, your business has a bright outlook and a strong and growing brand value, and we sincerely suggest that you must send a strong message to the market to change the perception of your company and the valuation of your stock price.

The following is a list of factors that, in our opinion, is causing this disconnect.

(1) **Your Investor Relations (IR) strategy being outdated and does not convey the greatness of your company.**
(2) **Low total payout compared to peers in the same industry despite excessively capitalized Balance Sheet.**
(3) **Continuation of anti-takeover measures**

As a humble but constructive minority shareholder, we would like to discuss possible solutions to these three issues in section 6. "Our three proposals." But prior to that it would be more interesting to discuss about your strong competitor Steinway.

5. About Steinway

Before we move on to our proposals, we would like to share with you our analysis of Steinway. We believe that some of the points may sound obvious but at the same time, we believe there are interesting insights to be gained.

Steinway has been a long-time leader in the piano industry, but since going private in 2013, the company's true prowess and identity have been shrouded in secrecy. However, in 2022, it has been reported that the company is prepared to go public again and its financial documents[5] have been released. This document contains extremely thought-provoking information. We will share our own analysis on three key areas.

（１） Profitability

As a first step in exploring the secrets of Steinway's strength, we first compared the profitability of publicly listed music manufacturers around the world, whose main business is in piano, with the last five years of available data.

Figure 8: Comparison of Gross Profit and EBITDA margin

Gross Profit Margin	2017	2018	2019	2020	2021	5 year average	5 year Sales CAGR
Steinway	**36.1%**	**40.2%**	**40.1%**	**38.2%**	**41.8%**	**39.3%**	6.9%
Kawai	25.2%	26.6%	26.0%	26.8%	27.4%	26.4%	5.2%
Yamaha	40.3%	41.2%	40.6%	38.4%	37.9%	39.7%	0.0%
Pearl River (China)	32.8%	31.3%	30.4%	26.1%	25.4%	29.2%	5.2%

EBITDA Margin	2017	2018	2019	2020	2021	5 year average
Steinway	**16.3%**	**19.6%**	**19.3%**	**18.5%**	**21.7%**	**19.1%**
Kawai	6.6%	7.5%	6.4%	7.5%	9.6%	7.5%
Yamaha	13.8%	16.0%	14.6%	14.0%	16.3%	14.9%
Pearl River (China)	7.5%	12.2%	14.4%	14.9%	14.1%	12.6%

(note 1) fiscal year basis (i.e. Japan cos 3/22 versus US and China 12/21 for FY2021)
(note 2) Sales CAGR is based on whole company basis

(Source: Bloomberg and Company financials)

[5] https://www.sec.gov/Archives/edgar/data/1897640/000119312522104954/d212165ds1.htm

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As you can see, Steinway has been consistently maintaining high gross margins and EBITDA margins while simultaneously growing its business. We believe there are two reasons for this. Firstly, we believe that the highest-end brand has the ability to determine the price of the entire industry, and Steinway has that ability. The following is a price comparison between China and the U.S. as of April 2023, based on a website comparison survey of the highest price range of each company we carried out (converted in yen for your easy view).

Figure 9: Price Comparison of the Highest Brand Pianos – Web Research

Comparison	Shigeru Kawai	Steinway & Sons	Yamaha
Top of the line Brand – Concert Piano	SK-EX	Model D	CFX
Price	**34m JPY**	**37m JPY**	**30m JPY**
Finalists at the 18th Int'l Chopin Piano Competition (CPP)	Alexander Gadijev (2nd) | JJ Jun Li Bui (6th) | Hyuk Lee	Kyohei Sorita (2nd) | Jakub Kuszlik (4th) | Aimi Kobayashi (4th) | Eva Gevorgyan | Kamil Pacholec | Hao Rao	Nil
No. of users in the first round	6	64	9

Prices: Kawai SK-EX (link) | Steinway model d (link) | Yamaha cfx (link)
Average 2022 exchange rate used for USD/JPY: 131.5, CNY/JPY: 19.9 from bloomberg
18th International Chopin Piano Competition

Secondly, in terms of manufacturing excellence, we can see that over a long period of time, key strategic M&As have been made, bringing in crucial key components in-house, achieving vertical integration while maintaining a sound quality that can be said to be the peak culmination of craftsmanship. In 1999, Steinway acquired O.S. Kelly, the largest manufacturer of piano plates in the United States, which happened to be in financial difficulty at the time. In the same year, Steinway also acquired Kluge GmBh, a long-established German meister company that manufactures piano keys. In 2019, Steinway acquired Louis Renner, an established manufacturer of piano action parts such as hammers, further developing the manufacturing process, integrating its value-chain, and enhancing its ability to conduct consistent research in the best environment, integrating the excellence of each manufacturing process to achieve the optimal sound when assembled.

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Then, finally, the most important strategic component for maintaining excellence and pricing power in the market is to maintain “Brand Value”. In this regard, we can also see the ingenuity of Steinway in the following sub-section.

（2） Brand Value

We understand that Steinway's brand strategy can be divided into two aspects. (a) traditional and (b) digital.

The (a) traditional strategy, which requires little explanation since you are doing the same, is basically to promote the Steinway Artist Program for famous concert artists who already own and use Steinway instruments. The program was said to have been launched with the 19th Century legendary pianist Anton Rubinstein, and up to now, over 1600 musicians, including Lang Lang of China and Billy Joel of the U.S., have[6] participated in this program and have essentially served as ambassadors to enhance the brand value of Steinway.

The (b) digital strategy that was launched in 2015, is a high-value-added digital synchronization strategy that brings a high-quality automatic performance function called Spirio[7] to the piano itself that enables all Spirio pianos around the world to reproduce the performance of professional players in the Steinway Artist Program. When you buy a grand piano with Spirio, you can replicate the performances of world-class pianists such as Lang Lang or Yuja Wang via an iPad to reproduce the actual performance on the piano keys in front of you as they move in sync reproducing the perfect tone and touch by those prominent pianists. This Spirio-powered option costs an additional $29,000 minimum, but this strategy has contributed greatly to the high price and brand retention.

[6] It is said that no contractual monetary reward has occurred between the player and Steinway, but we have not confirmed this information.
[7] Steinway has expanded Spirio to Spirio | r, and Spiriocast to upgrade the network into user/player community

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In fact, Spirio-equipped piano sales have grown at an astounding 38% annual compounding rate since 2015, reaching a total $145 million in 2022, almost half of Steinway's brand piano segment sales. What surprises us here is that 67% of all customers who purchased the Spirio-equipped piano around the world between 2015 and 2022 are beginners who do not play the piano, that is, they purchase it to "listen for comfort".

Even through just one branding strategy, it is creating new demand and increasing brand value while providing new value propositions through innovation.

These comprehensive measures have been implemented successfully, and both the brand value and the performance have grown steadily since 2015, and as mentioned earlier on p.9, there was reported an informal takeover offer of $1 billion in 2018. This was 14.7x Steinway's actual EBITDA of $68 million in fiscal 2017 and 38.5x P/E for adjusted net income of $26 million.

In fact, even though the acquisition offer was almost double of Paulson's original 2013 acquisition price, the fact that the company's revenue itself had grown significantly by 2018 shows that valuation metrics such as EV/EBITDA and P/E multiples has changed little since the 2013 valuation. We do not know the background of the negotiation, but in a sense, it is understandable that the deal did not go through. If I were in Paulson's shoes, I would definitely ask for more.

（3）About China Business

Finally, we would like to discuss the Steinway's business situation in China, which we feel is of great interest to you. China is a populous company, and according to Steinway's data, about 40 million people (more than 6 times the 6 million in America) are learning the piano in some form. Steinway also appears to be aggressively approaching this market, having supplied to all 11 national conservatories in China. However, when we converted the sales amounts in China and the United States in FY2021 into yen, and compared them with yours (Figure 10), we found that you sold more in China than Steinway. Yamaha's sales is huge in China with 67.8

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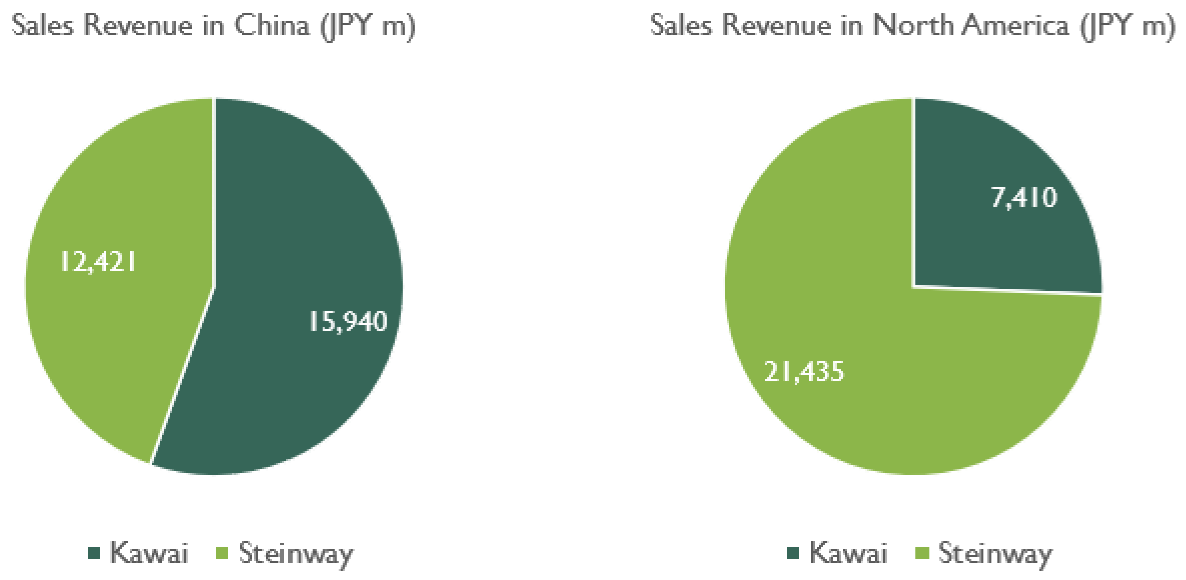
billion yen, but since it includes sales of various electronic musical instruments and other services such as music schools, it is difficult to make an apple-to-apple comparison and thus is not included here.

Figure 10: Sales comparison in China and US – Steinway versus Kawai



(Source: Bloomberg and Company financials)

One candid question to be asked here is why Steinway's sales in China is so small relatively when considering the many prominent Chinese players participating in the Steinway Artist Program. Steinway's piano segment sales in China is 29% of total Piano segment sales which is not a small amount of contribution but is smaller compared to Kawai, where 35% of your piano sales are coming from China in FY3/22.

Unfortunately, we have not been able to find credible evidence that would lead us to a reliable conclusion regarding this market share. Steinway may not be focusing much on China because they can secure sufficient profitability and sales in the US, or US Sino trade disputes that started since former President Trump took office may be having an impact on their business. Whatever the cause may be, we believe that further analysis of your brand, sales strategy, and competitive environment in China will give you hints on how to further increase your brand value and sales

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in the Chinese market. Looking around the world, it is no doubt that Steinway is the absolute No.1 in terms of brand value, but looking at the "Piano market – both acoustic and digital" alone, we feel that if you can further develop your marketing and branding strategy on top of your manufacturing quality, it is more than possible for you to solidify your position as a strong No.2 brand.

6. Our Three Proposals

Here, we would like to present our views and proposals on the following points regarding the lack of market appreciation of your business value.

(1) Your Investor Relations (IR) strategy being outdated and does not convey the greatness of your company.
(2) Low total payout compared to peers in the same industry despite excessively capitalized Balance Sheet.
(3) Continuation of anti-takeover measures

Proposal #1: Brush up IR measures by seamless actions with PR

First, we would like to share with you what we believe is the key to good IR. The three key objectives of a company's IR for investors are (1) accurately communicate the company's KPI that is essential to predicting the company's future; (2) Helping investors gain an understanding of your company's future vision (That is in essence, the strategy of your company); and (3) disclosing past, present and future information equally and widely to various shareholders.

Shareholders are owners of the company's assets and are looking to benefit from the growth of business value in the future. The lack of information and bad communication is directly linked to an investor's anxiety, and the anxiety and distrust of shareholders are directly related to a decline in the corporate value of a company through rising risk factors and cost of capital.

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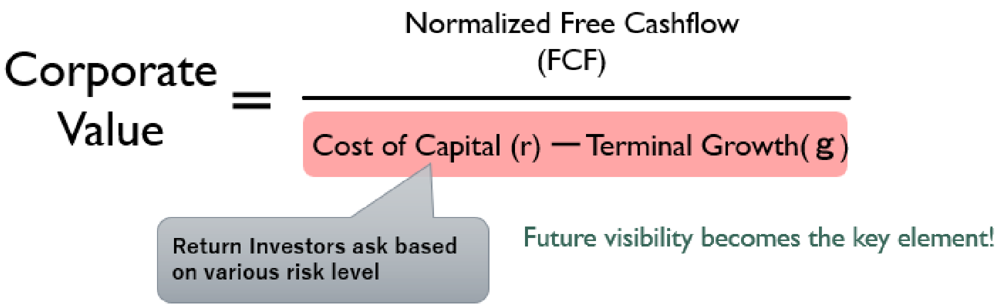
As shown in the formula below (Figure 11), the theoretical corporate value is the division of cash flow and discount rate, and the denominator of this formula changes greatly depending on the IR method. As we tell all the companies: Change of 1% in cost of capital is easier than change of 1% in Operating margins.

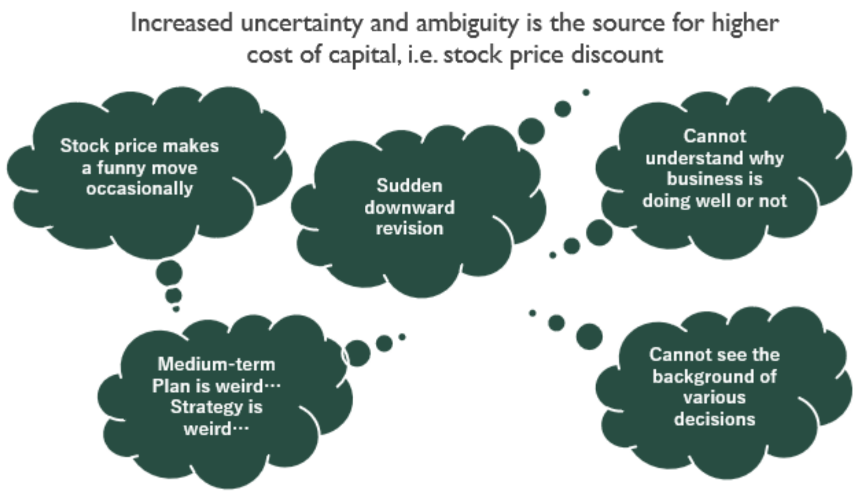
Figure 11: Formula for Corporate Value



(Source: Hibiki)

Various external factors may have contributed to the extremely high cost of capital of 13.7%, but it is also undeniable that your company's lack of communication has contributed to this high cost of capital. For your reference, the following slide is a chart detailing some of the common concerns that investors have.

Figure 12: Common concerns of Investors



(Source: Hibiki)

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Eliminating such anxiety and distrust is an extremely important role played by IR. Trust takes a long time to build, and it must be steadily built up through the preparation of materials, information meetings, individual interviews, etc. The means and methods of the IR function vary greatly depending on the level of market capitalization, liquidity of the stock, and current composition of shareholders. As Japan's total population and domestic pension funds are destined to decline in the future, dialogue with foreign investors is extremely important when considering capital and shareholder policies as a listed company over the long term. Even with Large Cap companies, there is a high risk of having their shareholder base shrink over the medium to long term if they do not have a strategy to attract foreign investors.

Your current market cap (28 billion yen) and liquidity (less than 100 million yen per day) is a big hurdle for large institutional investors to buy your shares. Therefore, in your company's case, we believe that the FIRST strategic priority is to approach domestic and foreign retail investors more proactively, taking into consideration that the brand is KAWAI and it is well known throughout the world. The FIRST step would be to pursue synergies between IR and PR by breaking the wall between the two.

In this context, you have a brand site of Shigeru Kawai, which is very impressive and not only expresses the values of your brand well but is also viewable in English. However, at the same time, there is also another brand site in English called https://shigerukawai.com/ which also looks nice. However, in this situation, PV (Page View) analysis cannot be efficiently performed, and it is difficult to maintain consistency in subsequent branding strategy. Furthermore, from an investor's point of view, your company's IR information site has no link to the brand site and only provides (1) figures, (2) financial statements, and (3) stock information. We feel that the structure is very poor in conveying the essential value of your company. One good point is that the major briefings, presentation materials, and mid-term management plans are translated into English, however, they are just "placed" down beneath in the Japanese site, and it is extremely unlikely that any foreign investor will find their way to this point while exploring the website.

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In our July 2022 open letter sent to the Tokyo Stock Exchange, we stated the following (excerpt from p.10).

> Shareholders are "participants" in a stock company, just like the management, employees, and related business partners of a listed company, and they participate with various desires, but in essence, they are a fan club (and the management is the chairman of the management committee of that fan club). Unfortunately, the fan clubs of today's society seem to have a boundless appetite for diverse "something new," and the relative pie of the stock market (especially the Japanese market) is on the decline. Without investors from around the world, including foreigners, buying stocks, the pond will dry up, so measures to increase the number of fans, including foreigners are crucial.

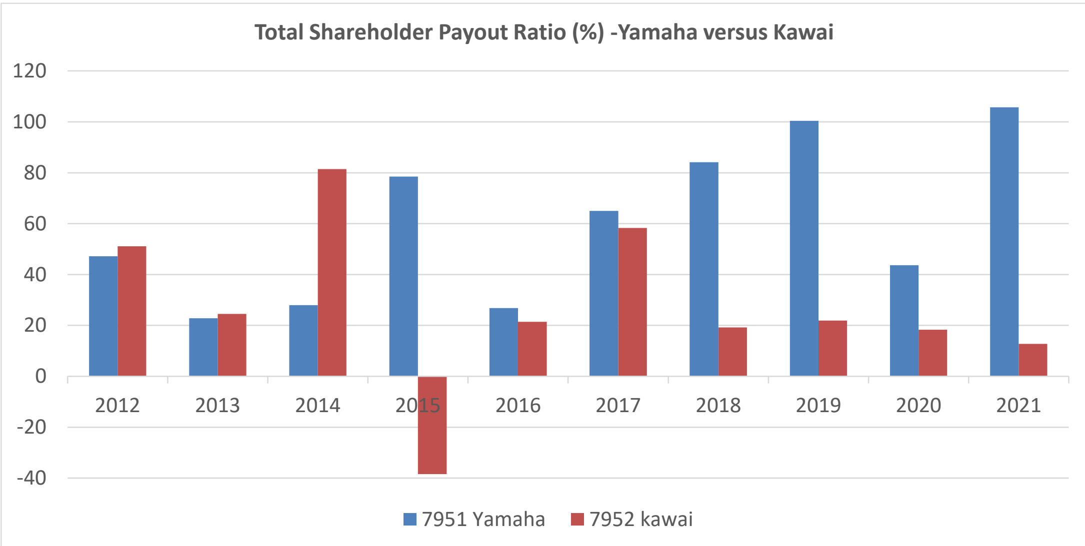
Your company already has many fans globally through your Piano. You also have a strong brand value that can be your trump card to further increase your fan base. We believe this can be a point used to coordinate IR and PR, and to launch a strong campaign in Japanese, English, Chinese and other languages simultaneously, regardless of whether the investor is a consumer, individual investor, institutional investor, or foreign investor. In this age of social web communications, the way investors (or consumers) collect information is highly diversified and we want to see your company strive to increase the number of shareholders by utilizing unique means that would not have been used in the past, such as push-marketing approach that enables users/investors to view information sent to SNS and YouTube on your IR website. As an engagement investor who wants to support our investee companies, we have met and exchanged information with a variety of IR consultant companies, and we can introduce you to a consulting company that may be the best fit for you. We would appreciate it if you could consider our suggestion.

Proposal #2: Change in Shareholder Payout Policy and Disclose them

In the current medium-term management plan, your company only states that it will conduct "flexible shareholder returns aimed at improving capital efficiency while maintaining stable dividends," and in hindsight, we believe that your dividend payout ratio has maintained at least 20-30% and you are looking to continue on that path.

In contrast, your competitor Yamaha, has set a specific target for the dividend payout ratio of 30% and a total shareholder payout ratio (including the buy-back) of 50%. In fact, Total Shareholder Payout often exceeded these targets, indicating a strong awareness of shareholder returns. Figure 14 shows the 5 year average P/B, P/E, and EV/EBITDA multiple. The size and direction of the business between Kawai and Yamaha is so different, but as a brand your company should not lose out at all, and we cannot help but feel that there is a large gap in terms of your stock price valuation. As a minority shareholder who has realized the true appeal of your company, we cannot overlook the fact that there is a large gap in the valuation of your stock price potentially due to this conservative financial policy.

Figure 13: Total Shareholder Payout Ratio – Yamaha and Kawai



(Source: Bloomberg data)

Figure 14: Average Stock Price Valuation for the Past 5 Years

	Kawai	Yamaha
P/E	10.8	27.4
P/B	1.0	2.5
EV/EBITDA	4.1	12.2
ROE(%)	9.4%	10.3%

(note 1) Used Shikiho estimate for 3/23 figure and stock price to March 2023

(note 2) Used Anuual basis ROE for 5 years to 3/22

(Source: Bloomberg data)

Yamaha's business structure used to be overly diversified and incurred divestiture losses of 23 billion yen over the past ten years due to restructuring. At the same time, Yamaha made an excellent strategic business decision by steering its music business to digitalization at an early stage, turning it into an electronic musical instrument company. We feel that as a large music company, it was a natural course of action to grow, and they also implemented a strong capital policy and we feel that your company can also do the same to win over more shareholders by being "more aggressive" and exhibiting your financial strength.

Looking at the latest financial results for the 3rd quarter of FY3/23, the balance of cash and marketable securities minus long- and short-term borrowings and retirement benefit obligations, shows an excess cash position of approximately 5.1 billion yen, which is sufficient to handle the annual working capital requirements of 12 billion yen and with room for improvement in inventory management and productivity. We would be delighted if we could discuss with your company on further financial measures and shareholder return policies to win market recognition. We believe such discussion should be forward-looking and not based on "what was the case in the past" as the world is changing so fast all around us.

Proposal #3: Abolition of Anti-takeover Measures and Rise in Stock Price

We urge that your company abolish your anti-takeover measures immediately. According to our research, around FY3/15, a South Korean music company called Samick Musical Instruments suddenly became your major shareholder with more than 10% of shares and sold it in 2018 when the share price soared. We understand, also, that following this, a custody account at HSBC Hong Kong became a major shareholder in FY3/15 and then you subsequently entered into a capital and business alliance with Parsons (Hong Kong), your distributor for China in 2017 – indicating it may have been the same owner although not confirmed. As an outsider, we can only imagine the actual discussions and negotiations that took place between these shareholders and you. However, we also understand that Parsons has in fact played a very important role in expanding your business in China and that you still have a good relationship with them today.

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Just as a side note, as far as we understand, Samick Musical Instruments has acquired over 30% of the shares of Steinway's parent company, and Parsons acquired a long-established German piano manufacturing company in 2013 and 2015, both acting relatively aggressively in global markets. We understand that these experiences may have had an impact on your mindset.

From such an experience, we can say that on one hand, the anti-takeover measures seem like a viable means for your company in order to avoid any sudden disruption in your management continuity. On the other hand, from the perspective of participants in the capital market, the existence of such measures can be seen as a barrier to maximizing corporate value. That is why Chairman and President Mr. Hirotaka Kawai, who succeeded his predecessor Shigeru Kawai and had led and realized substantial corporate and brand value improvements for many years, had a less than 70% approval rate at the 6/22 Annual General Meeting. Acknowledging the massive contribution of Mr. Hirotaka Kawai to the brand value growth of the company, this should not at all be happening.

We sincerely hope that you will continue to grow by facing the capital markets head-on, dealing with the message stock price is sending, rather than hiding behind anti-takeover measures. It may go without saying, but in a capital market where everyone can sell or buy shares, we believe that the rise in corporate value (i.e. share price) is the most realistic, effective, and fundamental takeover defense measure.

We have made three proposals in response to the three issues that we consider to be the cause of your company's business value not being fully appreciated in the market. Although we are investors who will not hesitate to make shareholder proposals if we deem it necessary to call for action from all shareholders, we have a policy of not making proposals that would lead to barren disputes at the AGM, the center of capitalist corporate system. We would appreciate it if you could understand that this letter is a proposal from a shareholder whose desire is to support the growth of your company as a "public company", and we hope that you will accept such a proposal from one shareholder who is serious about your company. We ask that the Board of

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Directors and the Management Committee to consider the above proposal, which we believe will benefit all shareholders including management, employee shareholders, and business partners, and to disclose the progress of the proposal to all shareholders in a timely manner.

Given that market reforms by the Tokyo Stock Exchange have become increasingly intensified, we believe that listed companies will be required to spend a great deal of time and energy on dialog with the market, whether they like it or not. If you maintain a public status, you must face it head-on but simply blindly maintaining a listing is also not the only correct answer. In February this year, Ihara Science (5999 JT), another major investment of ours, decided to de-list by Management Buy-Out for the purpose of re-growth and to maintain and improve corporate value from the medium- to long-term perspective. We hope that this letter, like a whip of love, will be a good opportunity for you to consider what path is best for you to maximize brand value and corporate value.

EOD

8th May, 2023.

Hibiki Path Advisors Pte. Ltd.
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※ This copy may be published on our website in order to facilitate constructive engagement amongst all shareholders

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Appendix.

Your Corporate Value Assessment Assumptions (Hibiki internal assumptions)

Discount Rate Computation		WACC計算		
Risk Free (Rf)	a	市場無リスク金利		1.0%
Beta	b	ベータ値（個別株式の市場に対する相関）		0.93
Risk Premium (Rp)	c	市場リスクプレミアム		6.0%
Cost of Equity (CoE)	d	資本コスト (COE)	=a+c*b	6.6%
Cost of Debt (CoD)	e	借入コスト (COD)（仮定）		2.0%
Market Cap (Mn Yen)	f	時価総額（百万円）		23,637
Net Debt (Mn Yen)	g	ネットキャッシュ（百万円）22/3期実績（退職給付債務控除）		8,565
Equity portion	h	資本比率		100.0%
Tax Rate	i	税率		30.0%
WACC	**j**	**WACC**	**=h*d+(1-h)*e*(1-i)**	**6.6%**

DCF Valuation		ディスカウンテッド・キャッシュ・フロー法		
Normalized FCF (Mn Yen)	k	正常化FCF（百万円）		2,400
WACC for DCF method	j	WACC		6.6%
Growth	l	成長率（最終）		0.0%
EV (Mn Yen)	m	企業価値（百万円）	=k/(j-l)	36,474
Net Debt (Mn Yen)	n	ネットキャッシュ（百万円）22/3期実績（退職給付債務控除）		8,565
Equity Value (Mn Yen)	o	株式価値（百万円）	=m+n	45,039
Number of Shares (mn)	p	自己株控除後株式数（百万株） 22/3期実績		8.6
Value per share	**q**	**理論株価（円）**	**o/p**	**5,240**

(Source: Written by Hibiki from Bloomberg.)