



SHAREHOLDER PROPOSAL TO JAPAN PURE CHEMICAL FOR JUNE 2023 AGM

19 MAY 2023

While every effort has been made to ensure the accuracy of the data and information contained in this material, the accuracy cannot be guaranteed. This material does not constitute a solicitation to subscribe for, or a recommendation to buy or sell, any particular security, nor does it constitute investment, legal, tax, accounting, or other advice.

INTRODUCTION OF HIBIKI



| | |
|---------------------|--|
| Company | Hibiki Path Advisors Pte. Ltd. |
| CIO | Yuya Shimizu |
| Established | November 2015 (Started Operation March 2016) |
| Shareholders | 100% internal |
| License | Monetary Authority of Singapore CMS (Reg.201541140R) |
| Clients | Domestic and Foreign Pensions, family offices and Individuals |
| Head Office | 39 Temple Street #02-01, Singapore 058584 |
| Own Media | Website http://www.hibiki-path-advisors.com Hibiki Investment News https://hibiki-investment-news.com Twitter https://twitter.com/news_hibiki Linkedin https://www.linkedin.com/company/hibiki-path-advisors/ |

Hibiki's Core Investment Philosophy

- We invest in small-to-mid Caps in Japan
- We invest in companies with value but for some reason stock market is not appreciating its value
- We would like to walk side by side with the management and engage with them
- We will invest in 3-5 years time frame

PURPOSE OF THIS PRESENTATION



- **Hibiki Path Value Fund and Hibiki Path Advisors (“we”) have sent a shareholder proposal to Japan Pure Chemicals Corporation (“the company”, or “JPC”), which was duly accepted by the board. We would like to explain the details of our shareholder proposal to all shareholders and seek their understanding.**
- **As a constructively engaging shareholder, we have made many efforts to understand JPC’s business and engaged and supported it in many ways for many years. We would like to continue to support them in improving the business and maximizing corporate value.**
- **However, very sadly, there are significant differences in opinion regarding Capital Payout Policy and Balance Sheet Management. We would like to make shareholder proposals to raise these issues to be discussed with all shareholders in full transparency. We would be grateful for your kind support!**

THREE OF OUR SHAREHOLDER PROPOSALS



Cross-held Shares: JPC must communicate their desire to sell its cross-held shares to its counterpart and disclose the reaction in the Corporate Governance Report at least once a year.

Dividend Policy: Adopt a dividend policy with a minimum DOE (Dividend-on-Equity) of 5% from FY2022 and determine the dividend amount based on this policy.

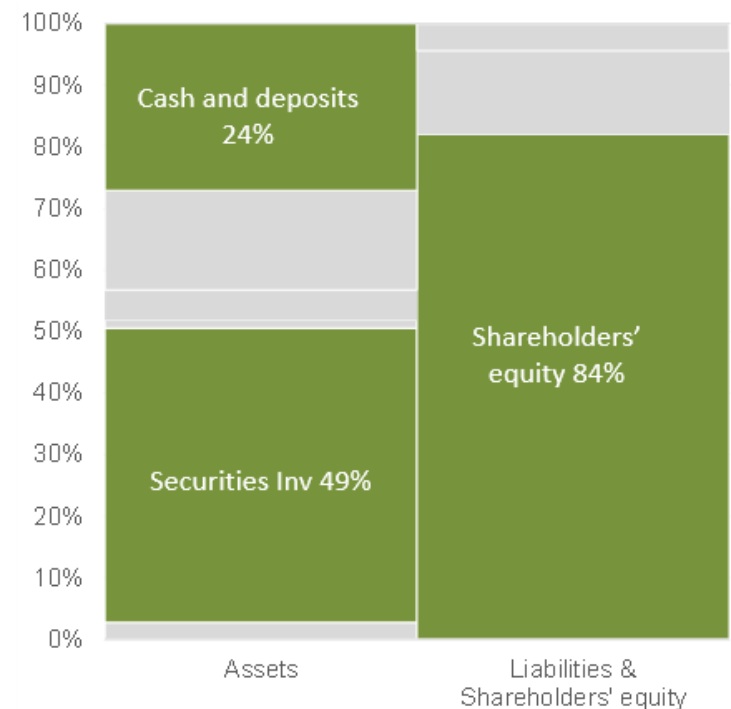
Disclosure of Cost of Capital: Disclose the company's cost of capital in the corporate governance report with the calculation of it.

The above are the three proposals for amendments to the Articles of Incorporation. We will now explain each of the three proposals in detail.

1. CROSS-HELD SHARES

- JPC has continued to hold a large amount of investment securities for many years (Figure 1). We have had ongoing discussions with them in this regard, and we recently made a [presentation \(link\)](#) to the management in February 2023 to point this out.
- All shareholders have entrusted their funds in the “future” of this company. However, as shown in the balance sheet for the fiscal year ended March 31, 2023*1, approximately half of Balance Sheet is invested in other companies, and the value of JPC’s business is greatly affected by fluctuations in their market value.
- We request that this situation be resolved, and we propose to Company’s management and shareholders for a review of its policy on this cross-held investment securities on a periodic basis.

Fig. 1 : Overview of company’s balance sheet for fiscal year ending 31 March 2022



Source : Company’s annual securities report for FY22/3

*1 Since the shareholder proposal was sent before the announcement of financial results for the fiscal year ended March 31, 2023 on April 25, we have used the figures for the fiscal year ended March 31, 2022 to avoid any discrepancy with the content of the proposal.

1. CROSS-HELD SHARES

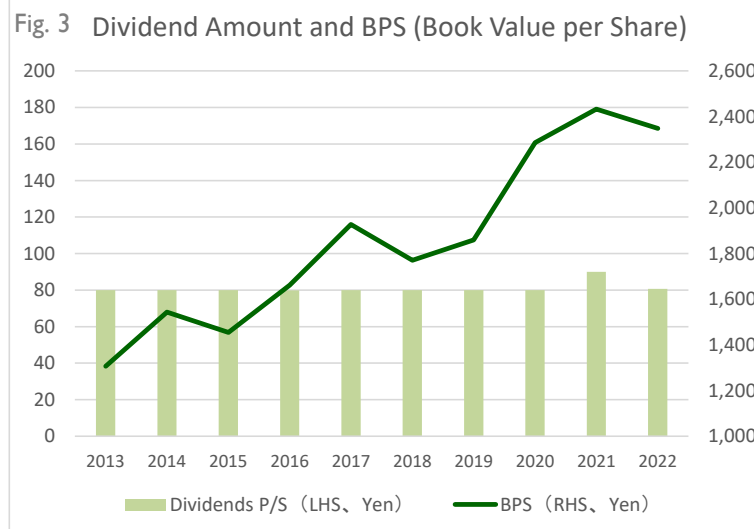
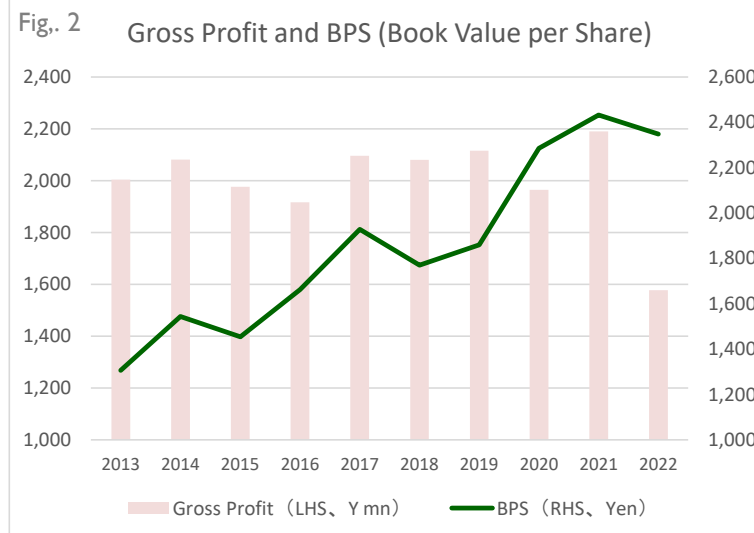
特定投資株式

| 銘柄 | 当事業年度 | 前事業年度 | 保有目的、定量的な保有効果 及び株式数が増加した理由 | 当社 株式の 保有 有無 |
|-------------|-------------------|-------------------|---|-----------------------|
| | 株式数 (株) | 株式数 (株) | | |
| | 貸借対照表 計上額 (千円) | 貸借対照表 計上額 (千円) | | |
| ㈱JCU | 880,000 | 880,000 | 当社の製品開発や問題解決に協力、フィードバックが期待できるため、継続して保有しています。 | 有 |
| | 3,652,000 | 3,669,600 | | |
| ㈱三井ハイテック | 53,900 | 53,900 | 当社めっき薬品の取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。 | 無 |
| | 671,055 | 249,557 | | |
| イビデン㈱ | 101,194 | 98,708 | 当社めっき薬品の取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。持株会に加入しており株式数の増加があります。 | 有 |
| | 612,224 | 502,426 | | |
| アルコニックス㈱ | 400,000 | 400,000 | 取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。 | 有 |
| | 559,600 | 661,600 | | |
| シチズン時計㈱ | 671,000 | 671,000 | ターゲットの販売等の取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。 | 有 |
| | 349,591 | 253,638 | | |
| 山一電機㈱ | 170,000 | 170,000 | 当社めっき薬品の取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。 | 無 |
| | 319,090 | 254,660 | | |
| メック㈱ | 85,000 | 85,000 | 当社の製品開発や問題解決に協力、フィードバックが期待できるため、継続して保有しています。 | 有 |
| | 286,875 | 204,765 | | |
| 住友金属鉱山㈱ | 40,500 | 40,500 | 当社めっき薬品の取引があり、同社との良好な関係の維持、強化を図るため、継続して保有しています。 | 有 |
| | 249,601 | 193,549 | | |
| 太陽ホールディングス㈱ | 65,200 | 32,600 | 当社の製品開発や問題解決に協力、フィードバックが期待できるため、継続して保有しています。 | 有 |
| | 211,900 | 196,578 | | |
| 四国化成工業㈱ | 155,000 | 155,000 | 当社の製品開発や問題解決に協力、フィードバックが期待できるため、継続して保有しています。 | 有 |
| | 207,700 | 196,075 | | |

- Total 8.34 billion yen as of 3/22
- JCU's shares account for 44%
- 6.38 billion yen invested in the top 10 companies (76%)

2. DIVIDEND POLICY

- In Figure 2, JPC's gross profit has remained steady over the past 10 years (although didn't grow) while book value per share (BPS) has steadily increased
- JPC's dividend policy calls for a payout ratio of 50% or more, and although it has conducted three share buybacks in the past 10 years, the dividend has remained flat at 80 yen, except in FY2021 when a commemorative dividend was paid. However, these actions are not linked to the increase in BPS, an important indicator of shareholder value (In figure 3)
- We propose a dividend on equity (DOE) of 5% as we would like the dividend amount to be linked to shareholder value. As shown in figure 1 previously, JPC has sufficient financial strength, and its average free cash flow over the past 10 years has been about 800million yen per year, which exceeds the dividend of 700 million yen calculated at a DOE of 5%, and thus enables the company to pay dividends using its annual cashflow.

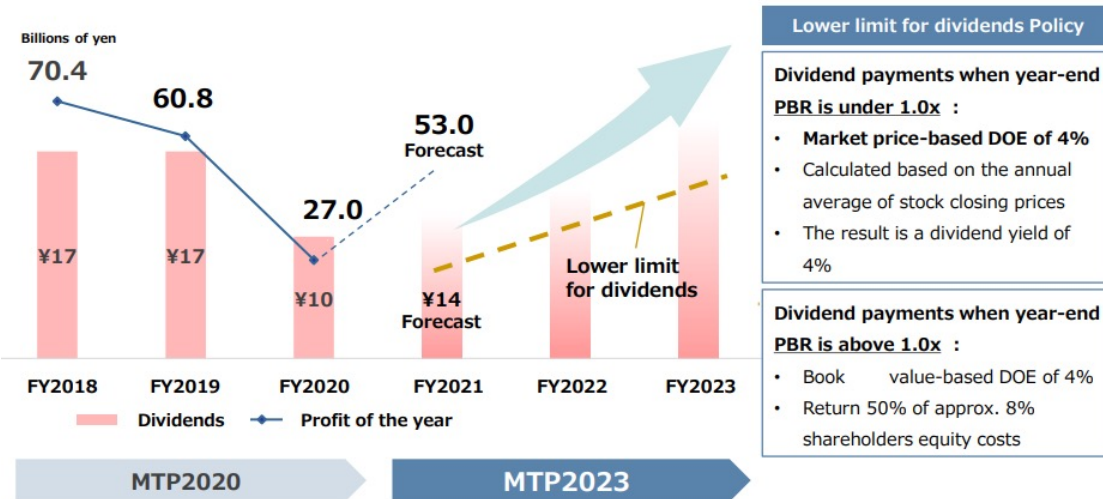


2. DIVIDEND POLICY (CASE STUDY: DOE)

In April 2021, Sojitz, one of our investees, introduced a DOE of 4% in its 2023 mid-term management plan that began in FY22/3. This was highly appreciated by the market as an indication of the company's commitment pay out a half of its cost of equity as cash returns to shareholders and is believed to have contributed to subsequent revaluation of the company stock.

MTP2023 - Dividend Policy

- Sojitz recognizes that paying stable, continuous dividends is a management priority, together with enhancing shareholder value and boosting competitiveness through the accumulation and effective use of retained earnings
- Our basic policy will be to target a consolidated payout ratio of about 30%
- Lower limit for dividends set as representing market price-based DOE of 4% until PBR reaches 1.0x and book value-based DOE of 4% after PBR reaches 1.0x



Hassojitz

Sojitz Stock Price and Topix (Jan 2020 =100)



(Note) There are many factors that contribute to the rise and fall of stock prices, and it cannot be said with certainty that the DOE announcement is the main cause

3 . DISCLOSURE OF COST OF CAPITAL

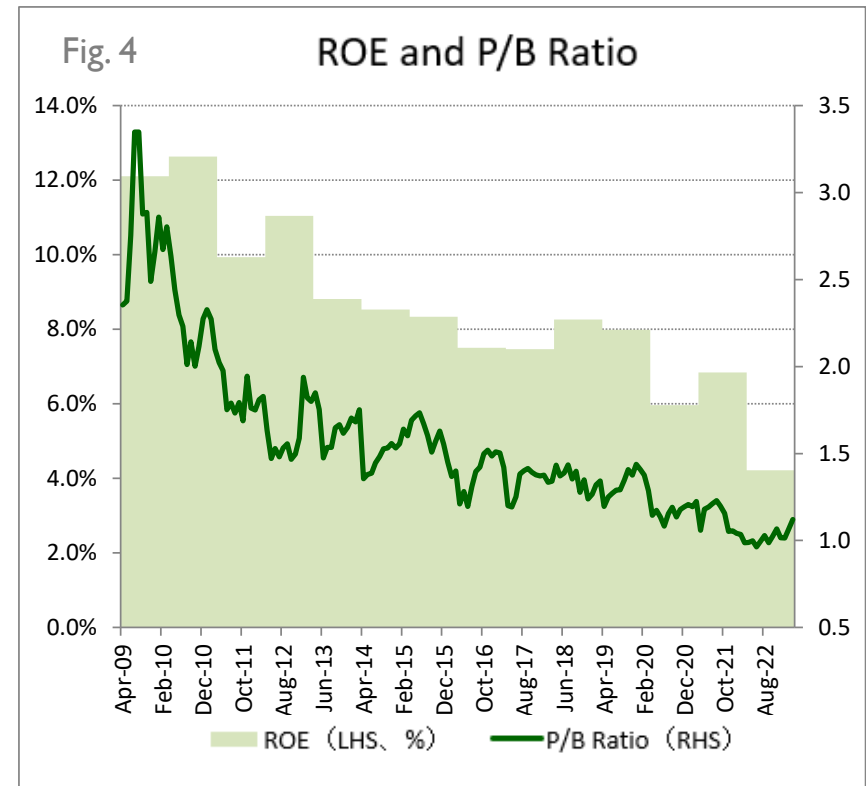


- On 30th January 2023, the Tokyo Stock Exchange released a document titled “Summary of Discussions on Measures to Improve the Effectiveness of the Market Restructuring” in which it stated “ Management is encouraged to accurately grasp their cost of capital and return on capital, return on capital, evaluate their situation and stock price and market capitalization and disclose their policies and specific initiatives for improvement” so that it can “promote dialogue and improve management’s literacy”.
- As previously shown in Figure 1, JPC’s balance sheet shows that shareholders’ equity accounts for over 80% of total assets . JPC’s dividend policy is based on a dividend payout ratio which is linked to P&L rather than Balance Sheet, making its cost of capital policy unclear.
- As a first step towards constructive dialogue between the management and shareholders to enhance corporate value, we would like to propose the following: **JPC to disclose the cost of capital, including the basis of its calculation.**

SHARE PRICE VALUATION



- As mentioned earlier, the company's performance has been relatively stable but in Figure 4, ROE has trended downwards consistently due to overcapitalization of its shareholders' equity. In conjunction with this, the P/B ratio which used to trade over 2x, has recently declined to just around 1x.
- JPC is a fabless R&D-oriented company, and it does not require much capital investment, and the ROIC (return on invested capital) of the entire business is extremely high, averaging 67% over the past five years, a stark contrast from its ROE level.
- We believe that balance sheet management is the cause of the low ROE despite the extremely high ROIC, and this forms the background of our proposal.



Source : Compiled by Hibiki from Bloomberg

MESSAGE TO ALL SHAREHOLDERS



To all shareholders, please allow us in causing some abrupt noise by our humble shareholder proposal to JPC. We have had constructive exchanges and engagement with JPC's management team for many years. Even now after making our shareholder proposal, we feel that JPC has exceptional technology that cannot be imitated by others which should be reflected in its corporate value and we are in full support to achieve this.

As you can see, the contents of this proposal does not discuss about the business side of things, which we are happy to delegate to the management team, but we are asking management to redesign its capital policy and balance sheet approach, which we believe to be the fundamental cause of this current stock price valuation, which, we believe, to be a massive discount to its intrinsic value. We truly believe that this is a constructive proposal to all JPC shareholders. We want JPC share price to perform well as much as all of you do!

We would like to ask for the support of all shareholders to encourage the management of JPC to aim to gain a proper appreciation from the capital market and we believe this shareholder proposal to be a catalyst for that.

Yuya Shimizu

Chief Investment Officer

Hibiki Path Advisors Pte. Ltd.

HIBIKI INVESTMENT NEWS INTRODUCTION



- For more information, please refer to [Shareholder proposal](#) for more details on the shareholder proposal as well as other news (Japanese Only).
- Hibiki Investment News provides an overview of our past and present portfolio companies and the various engagement activities that we have undertaken with them.
- We also announce new engagements via Twitter (twitter.com/news_hibiki)
- We are open in exchanging opinions with institutional, individual investors, corporations, and foreign market participants alike, on how to improve the value of publicly listed companies in Japan.

DISCLAIMER



Hibiki Path Advisors Pte. Ltd.

Tel: +65 6931 3914

Email: info@hibiki-path-advisors.com

Website: www.hibiki-path-advisors.com

Address: 39 Temple Street, #02-01 Singapore (058584)

Capital Market Services License (Singapore) – CMS100710-1

■ Important Information: This document is prepared and issued by Hibiki Path Advisors Pte. Ltd. (HPA) and has not been reviewed by any regulatory authority. This document does not constitute an offer, recommendation or solicitation to buy or sell any security or enter into any other transaction. Its content must not be reproduced, distributed or transmitted without the prior written consent of HPA. Past performance is not indicative of future performance or returns. HPA does not guarantee or make any representations or warranties that any performance or returns referred to in this document will be achieved by the investment. This document contains general information only. HPA does not purport to provide any investment, financial, legal or other expert advice or recommendation in this document. You must not rely on this document as any such advice or any offer, recommendation or solicitation to buy or sell any security or to implement any investment strategy.