



KINDEN (1944) PROPOSAL FOR ENHANCING CORPORATE VALUE

14TH OCTOBER 2023



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Hibiki Path Advisors Pte. Ltd.

PURPOSE OF THIS PRESENTATION



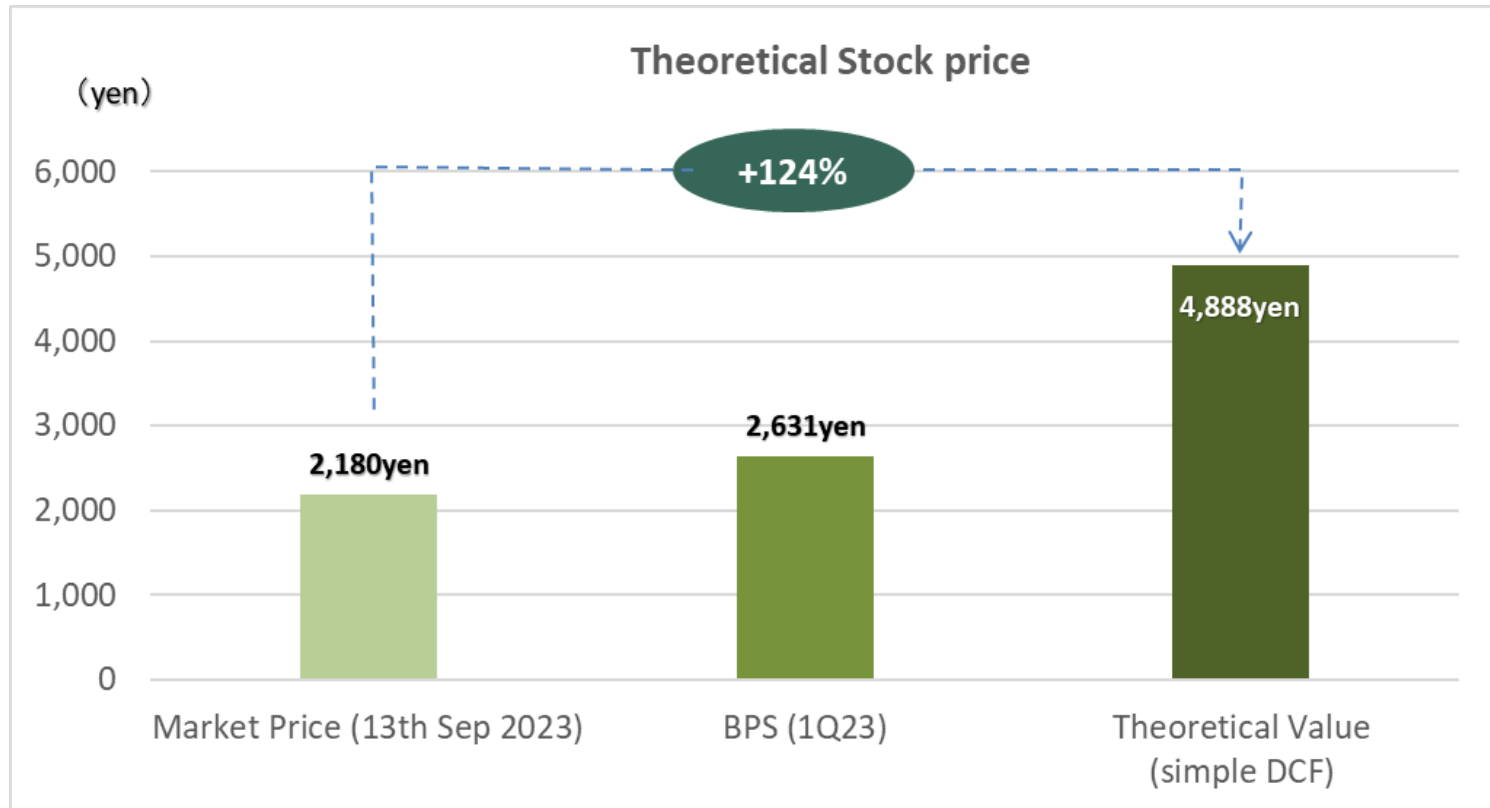
- To introduce to the market our recent value enhancement proposal to Kinden ("the Company") BOD sent on October 4, 2023.
- We will provide a concise explanation of our views on Kinden so that many shareholders can digest and act on it respectively.
- We believe that our proposal will lead to management's deeper dialogue with the capital market and we encourage management to implement a forward looking and constructive capital allocation policy.

KINDEN'S BUSINESS



- Engineering construction company specializing in electricity, air-conditioning, and telecommunication equipment, and is one of the top players in the industry along with Kandenko. Bing involved in mission critical infrastructure projects of Japan, Kinden is a professional group that is indispensable for redevelopment projects and renewable energy projects.
- Although it is still a 29% owned subsidiary of Kansai Electric Power, it has succeeded in diversifying its customers and regions, Kansai Electric only accounts for less than 20% of its sales.
- Stable cashflow with no negative earnings in the past 20 years ⇒ Excess cash and securities are piling up on the Balance Sheet

OUR VIEW ON INTRINSIC VALUE



- Calculated using simple DCF: FCF 35 billion yen, WACC 5%, Eternal growth rate 0%
- Detailed parameters can be found in the file of proposal's Appendix I

KINDEN'S ISSUE



- Accumulated earnings from the past remain on the balance sheet without being sufficiently reinvested in the business or being sufficiently distributed to shareholders.
- Of the 740 billion yen in total assets in 3/2023, (1) cash equivalents 45 billion yen, (2) short-term securities and deposits 173 billion yen, and (3) investment securities 122 billion yen, totalling 340 billion yen, accounting for nearly half of total assets. Interest-bearing debt is a mere 15 billion yen.
- Shareholders' equity has expanded at a faster pace than its business, with shareholders' equity ratio currently at 71% of total assets. Past 5 year ROIC is at healthy 14%, but ROE only 6% over the same period and has never surpassed the 8% threshold mentioned in the famous "Ito report". Unsurprisingly, P/B has never reached 1x.

OUR TWO PROPOSAL IN THE LETTER



- **Proposal 1: Implement a M&A led Growth Strategy**
 - ✓ It should lead an industry-wide reorganization in this fragmented sector
 - ✓ Air conditioning, telecommunication equipment, and environmental maintenance business should also be targets
 - ✓ Unsolicited take-overs are going to be the norm in Japan
- **Proposal 2: Raise Total Payout Ratio to 150% for at least 10 years**
 - ✓ Commit to increase in ROE by reducing the equity
 - ✓ In our view, you will still be net cash in 10 years even with 150% total payout ratio
 - ✓ With this ROE will reach the 13% lever in 10 years time

For more details, please see the letter **Section 3. Proposal from Hibiki**

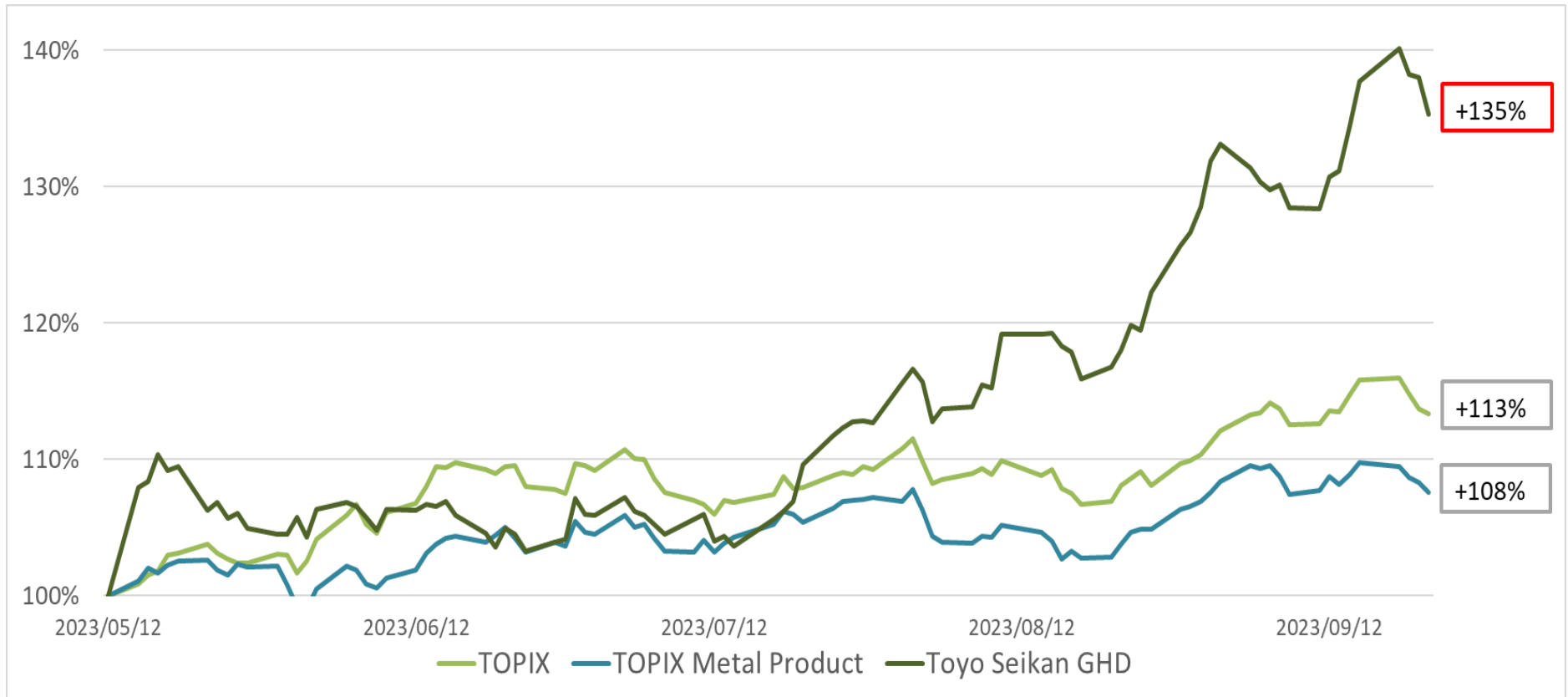
EXAMPLE - TOYO SEIKAN GROUP HLD



- Toyo Seikan GHLD is introduced in the letter as an excellent recent example
- https://ssl4.eir-parts.net/doc/5901/ir_material_for_fiscal_y6/135279/00.pdf (Link)



TOYO SEIKAN – STOCK PRICE FROM ANNOUNCEMENT *



*Until 2023/09/22

SUMMARY



- Kinden has demonstrated a continued success in business. However, it also continues to hold excess capital which is likely the cause of the discount → An industry leader, it should also become the first penguin to transform capital policy
- Tide has changed, and companies must abolish cross-shareholdings. We are assertively communicating to the entire market in our recent publication ([6 Recommendations - Hibiki-Path-Advisors](#))
- We will continue to engage with Kinden in order to realize Kinden's true intrinsic corporate value!

CONTACTS AND DISCLAIMER



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