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This is an English translation of the Japanese letter sent to Alphapolis – please see the disclaimer for details

Dear CEO Yusuke Kajimoto and Board of Directors

AlphaPolis Co., Ltd

March 1st, 2024

Proposal to Enhance AlphaPolis Corporate Value

Contents:

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We are Hibiki Path Advisors ("we" and "us"), an institutional investor based in Singapore, which holds shares of your company ("AlphaPolis Co. Ltd.") in our investment client account. As one of the minority shareholders, we are sending this letter to the Board of Directors as we have proposals to enhance your company's corporate value. We kindly request that all members of the Board, including external directors, review this letter and utilize it as a basis for your future initiatives.

Since we manage clients' capital based on our long-term investing philosophy, we evaluate various factors such as "undervaluation of stock price relative to the intrinsic value" and " the management's ability to engage in constructive dialogue and enhance value together with us." To ensure a comprehensive assessment, we conduct our investments with a mid-to-long term perspective, without being swayed by daily fluctuations or quarterly performances. We are often referred to as "activist investor," but in fact, we are an investor whose basic stance is constructive and only make shareholder proposals when we feel necessary to address to all shareholders.

Here is the structure of this letter that I would like to share in advance. First, we will briefly touch upon the background of our investment in AlphaPolis in Section 1. Following this, we will provide detailed explanations of the situation where the market is significantly undervaluing your company's stock in Sections 2 and 3. Additionally, we will discuss the guidelines recently issued by the Tokyo Stock Exchange (TSE) for listed companies in Section 4, and analyze the reasons for the low evaluation from the stock market in Section 5. Finally, Section 6 will present our proposals to help your company gain a better valuation and conclude the letter in Section 7.

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1. AlphaPolis Great Business Strength

Firstly, we believe that the intrinsic strength of your company lies in its unique business model. By making full use of the highly appealing website for creators, you meticulously select works with a high likelihood of success through your distinctive insight from the many pieces submitted voluntarily. Supported by talented editorial staff, these chosen works are then transformed into published books. This represents a strong differentiator for your company. The website "AlphaPolis" not only serves as a platform where aspiring authors and manga artists can freely submit their works but also provides users with the convenience of accessing for free without membership registration. This design, which effectively satisfies the needs of both creators and users, ensures the sustainability and reproducibility of the platform, thereby continuously securing a diverse user base and maintaining a high-quality customer segment. By enhancing the resolution of reader needs, selecting works and creative editing have successfully made a unique User Generated Contents (UGC) ecosystem. Furthermore, its distinctive process of book publication differs from traditional publishing models, which makes it accumulate user evaluations, ensuring that works become hits with a higher probability. The "Tsuki ga Michibiku Isekai Douchu Series," a blockbuster hit series that we have also had the opportunity to read, epitomizes the success of this approach.

Due to such a robust business model, Return on Invested Capital (ROIC)[1] stands at 109.8%, significantly surpassing the cost of capital (WACC) of 4.7%[2], thereby maintaining a substantial spread. Theoretically, this indicates your company's shareholder value has been steadily created.

[1] Return on Invested Capital (ROIC) is calculated by dividing NOPAT (Net Operating Profit After Tax) by NOA (Net Operating Assets). We exclude non-business related financial assets and liabilities in our NOA definition.
[2] WACC (Weighted Average Cost of Capital) is calculated with a market risk-free rate of 1.0%, beta sourced from Bloomberg, and a market risk premium of 6.0%)

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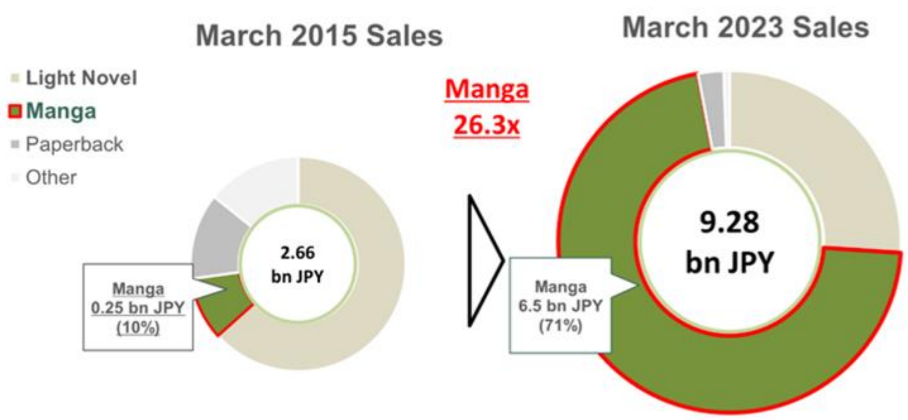
Figure 1: Comparison of Capital Efficiency among Manga and Anime Retail Peers

	Capital Efficiency		
Name	ROIC	WACC	Spread
AlphaPolis	109.8%	4.7%	105.1%
KADOKAWA	25.1%	8.1%	17.1%
Infocom	160.2%	5.9%	154.3%
Papyless	10.6%	7.0%	3.6%
Starts Publishing	211.2%	4.1%	207.0%
Comps Average	101.8%	6.3%	95.5%

(Source: Hibiki from Bloomberg and Shikiho Online)

Additionally, we would like to provide comments on the roadmap for business transformation and growth. For example, over the 9 years (FY 2015 to FY2023), total sales increased approximately 3.5 times (Figure 2), and operating profit similarly grew approximately 3 times. Behind this growth is the dramatic expansion of manga business sales from **less than 0.3 billion yen to 9.3 billion yen,** which replaced light novels and accounted for 63% of total sales in FY 2015. This impressive growth in the manga segment demonstrates CEO Kajimoto's keen business sense or foresight regarding manga market trends, which has led to significant company growth.

Figure 2: Changes in AlphaPolis Business Structure Since Listing



(Source: Hibiki from IR-related materials)

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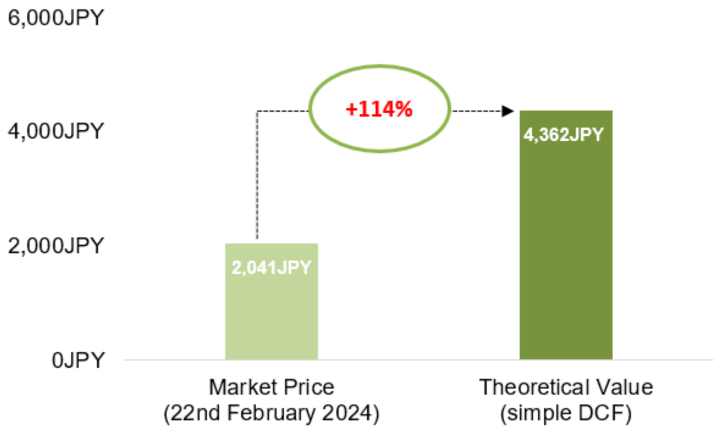
On the contrary, sadly, stock market became far less excited to AlphaPolis compared to the past. To be concise, while EPS (Earnings Per Share) has grown by 3.3 times from 2015 to 2023, market cap has only increased by 2.3 times. We believe that the stock market may be overlooking the superiority of your company's business model, its high capital efficiency, and its growth potential, **leading to an unjust evaluation.** In the following sections, we will discuss our view on AlphaPolis intrinsic value and also our thoughts on the reasons why it is receiving such low valuation in the stock market now.

2. Our View on AlphaPolis Intrinsic Value

Firstly, here is our view on your company's intrinsic value per share. Base on a simplified Discounted Cash Flow (DCF) calculation with unstretched assumptions, we expect the AlphaPolis intrinsic value to be around 4,300 yen per share which is 110% higher than a closing price of 2,041 yen on February 22nd, 2024.

Figure 3: Our Estimate on AlphaPolis Intrinsic Value per Share



(Source: Hibiki from Bloomberg)

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We calculate the value[3] by focusing solely on three variables: Free Cash Flow (FCF) that the company can naturally and stably generate, terminal growth rate, and WACC. We assumed 1.4 billion yen as FCF, with terminal growth rate of 0.5% and a WACC of 4.7%. As you realize, FCF of 1.4 billion yen is 15% smaller than the past 3 year average FCF of 1.6 billion yen. Although it is reasonable to assume higher earnings to start, especially with the growth of the e-comics field in Japan and overseas and the expansion of animation broadcasts of AlphaPolis IPs, we based those conservative assumptions.

Furthermore, considering the favorable tailwinds of your business model superiority and market expansion, a 0.5% terminal growth rate is an extremely conservative assumption. WACC of 4.7% (it's an area of debate among investors), we used a figure calculated based on common parameters across companies and your company's stock price beta, without any arbitrary adjustments (Please refer to Appendix 1 for the actual calculation formula.). Even compared to this intrinsic value calculated by our estimates based on extremely conservative assumptions, the current stock price is just around half, indicating a state where the market is not paying attention to the value of your company. In the next section, we analyze based on widely used valuation metrics both historically and comparatively.

3. AlphaPolis Current Stock Valuation

We have included the P/E historical series and the Tokyo Stock Price Index (Topix) over the past five years in Figures 4(a) and (b). During the three years from 2019 to 2021, AlphaPolis achieved significant profit growth, and so the market granted a premium valuation even to its robust profit momentum, resulting in an average P/E of 26.4x. This was considerably higher than the P/E of 17.7x for the Topix during the same period, positioning it as a growth stock.

However, following the increase in operating profit levels to the 2 billion yen range and the subsequent slowdown in growth post-2022, the average P/E dropped significantly to 17.0x (compared to the Topix P/E of 15.6x during the same period). This suggests that during the three years from 2019, your stock price was supported by "growth investors" who solely valued profit growth. Such investors may have lacked a strong interest in the intrinsic value. As profit growth slowed down, their investment interest

[3] We believe there is no reliability in predicting based on assumptions at a certain point in time, and we do not see the significance of creating detailed performance models for the next 3 to 5 years for corporate valuation.

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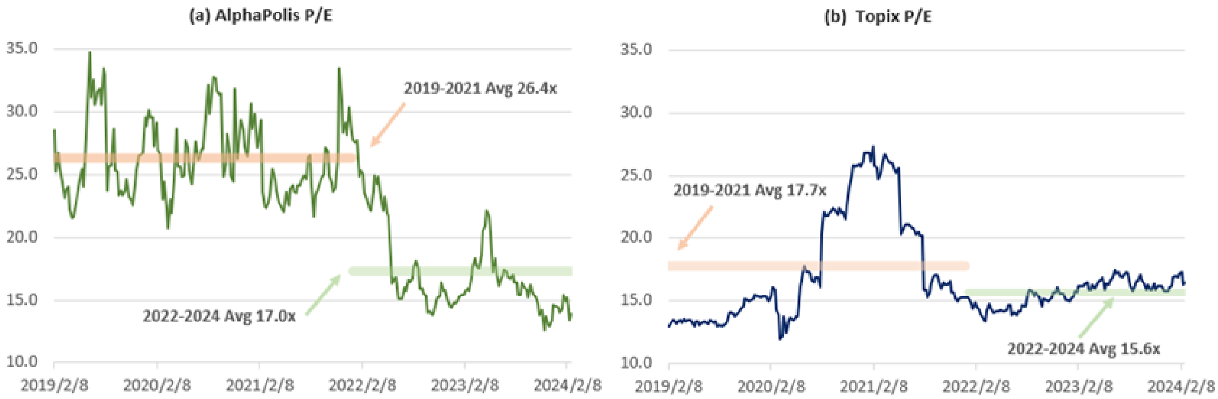
waned, potentially leading to selling pressure and a sharp decline in valuation. We feel that the extreme skew in your shareholder types and the lack of your proactive IR efforts aiming towards diversification of shareholder significantly contributed to this effect.

Figure 4: P/E Ratio Trends of AlphaPolis and Topix



(Source: Hibiki from Bloomberg)

Growth stocks, which stock valuation had been somewhat inflated during the pandemic around the world, generally collapsed since late 2021, after rise in interest rates led by FED and your stock also may have been affected by such macro move. However, for example, Lifenet Insurance, one of our other investee, saw its stock price fall from the 1,700 yen range in January 2021 to the 500 yen range by March 2022. Yet, due to the earnest consideration of our recommendations in our open letter dated April 22, 2022, they transformed the narrative in their investor relations materials from a focus solely on growth to one centered around "per-share business value." This shift attracted value investors like ourselves and stock price reversed back to the current 1,300 yen level, although growth has actually been slower.

Furthermore, in Figure 5, we have presented the P/E, EV/EBITDA, and P/B for AlphaPolis and peers based on the estimated earnings for the next fiscal year, showing it is apparent that AplphaPolis valuation is significantly undervalued.

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Figure 5: Valuation Comparison with Peers

Name	Valuation: Historical P/B	Valuation: FY2024 Forward P/E	Valuation: FY2024 Forward EV/EBITDA
AlphaPolis	1.7x	13.9x	4.7x
KADOKAWA	2.2x	38.8x	16.3x
Infocom	2.7x	19.6x	8.7x
Papyless	0.9x	22.4x	(1.9)x
Starts Publishing	1.9x	8.3x	3.6x
Comps Average	1.9x	27.0x	7.7x

＊"PAPYLESS" is a negative EV/EBITDA ratio due to negative enterprise value (EV).

(Source: Hibiki from Bloomberg and Shikiho Online)

Hence, it seems evident that your stock price is relatively undervalued, not only through our DCF analysis but also both compared to your past and to your peers. As mentioned earlier, we believe this is due to a lack of market recognition of your company's true value. If you continue with your "passive" stance towards IR and engaging with shareholders, there is a high risk of you, as a publicly listed company, being left behind in the wave of dynamic market changes. We would like to briefly highlight these dynamic changes that is currently happening in the market.

4. Tokyo Stock Exchange Policies and METI Guidelines

Tokyo Stock Exchange ("TSE") has already made its stance clear on the philosophical question of “whether management needs to be concerned of the stock price”. As you are aware, on March 31, 2023, the TSE published "Action to Implement Management that is Conscious of Cost of Capital and Stock Price" addressed to ALL listed companies in Japan. It emphasizes the necessity for companies to allocate management resources with full consideration of cost of capital and capital efficiency to meet the expectations of stakeholders including shareholders, and to achieve sustainable growth and long-term enhancement of enterprise value. Furthermore, TSE emphasizes the importance of engaging in dialogue with the market (shareholders).

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In our opinion, TSE has taken such a proactive approach as they are concerned about the overall Japanese market, which are relatively small[4] in size and predominantly consist of undervalued companies while there are so many listed companies. TSE is under competition between other global exchanges and its concern is relevant. TSE’s subliminal message to listed companies is in brief "If companies wish to maintain their listing, they are supposed to strive to meet shareholder expectations, pursue business growth, and reflect it in their stock prices." Conversely, (although the TSE does not explicitly state this), TSE makes it clear that when listed companies are unwilling to make such efforts, they are supposed to seriously consider exiting the market through MBOs or M&As[5]. As mentioned in the "Six Suggestions" we sent to all our investees last year, amidst the dissolution of cross-shareholdings between companies and the shrinking domestic pension funds, there is increasing competition among issuers for capital to maintain market capitalization (attracting new shareholders while the existing shareholder base diminishes), which is expected to intensify further. Particularly, for small-cap stocks with less than 100 billion yen, which may not attract much attention from foreign investors who are likely to play a key role in the Japanese market, strong business plans and strong appeal to investors are required in order to receive fair valuation from the market.

[4] Using conversion rate in yen as of August 2023, the average market capitalization per company was 225.2 billion yen in Japan, 1,174.4 billion yen in the United States, 440.3 billion yen in Europe, and 328.0 billion yen in China. This information is based on data compiled by Nomura Capital Market Research Institute, referencing materials published by the World Federation of Exchanges and various stock exchanges.

[5] This section is speculative on our part.

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In what appears to be a response to the Tokyo Stock Exchange's initiatives, the Ministry of Economy, Trade and Industry ("METI") announced the "Guidelines for Corporate Takeovers－Enhancing Corporate Value and Securing Shareholders’ Interests－" on August 31, 2023. These guidelines present best practices regarding the handling of M&A activities involving listed companies[6]. The most significant point, highlighted in these guidelines, is the requirement for boards of directors to "sincerely consider" proposals for feasible corporate acquisitions which allowed to potentially maximize corporate value. Previously, TOB without the consent of the target company board was often criticized as “hostile” takeovers (to the target company's board), and discreetly handled, with many cases being quietly swept under the rug. However, they are now referred to as "Unsolicited TOB" and are explicitly stated in these guidelines to be considered sincerely, emphasizing the importance of “corporate value and shareholder’s common interest”.

As it stands, TSE and METI are requesting listed companies with various recommendations and companies are getting cornered from both front and back to “do something rather than sit back and relax”. In extreme terms, when the board of directors lacks the determination to take full responsibility for maximizing corporate value, the stock price may stagnate, and it could potentially become a target for "Unsolicited TOB”. They need to be prepared for this happening if they lack the determination to maximize corporate value which is their duty as a listed entity. Managing a listed company with a vague sense of nostalgia for simply being listed has become increasingly difficult. In such a market environment, we have witnessed an increase in transactions involving the delisting of subsidiaries from the stock exchange in 2023, moreover, management-buy-out (MBO) transactions are exceeding one trillion yen[7], marking a record high. This indicates the fact that many executives are actively distancing themselves from the capital market.

Considering these shifts in the market and the fact that many executives of listed companies are grappling with their decisions, whether to continue listing, pursue complete subsidiary status (in cases

[6] The first case of utilizing these guidelines involved NIDEC, the world’s largest precision motor company, issuing a “acquisitions without consent TOB notice” to TAKISAWA, a small machinery manufacturer, offering a premium of 113% over its six-month average stock price. The proposed tender offer price exceeded TAKISAWA’s highest price over the past five years and granting consent requirements from the target’s management, the proposal offered 100% cash payment without prior due diligence. This proposal was highly reliable and attractive to TAKISAWA shareholders, and consequently, TAKISAWA’s board of directors had no choice but to express their support afterward.

[7] Please refer to Appendix 2 for a list of MBO transactions in 2023.

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of parent-subsidiary listings), or opt for MBOs, I have outlined these points as they may serve as insights for your company, which is also an owner-operated business as it stands.

5. Several Grounds on Why Market Evaluates AlphaPolis Poorly

We shared our perspective on the tumultuous trends in the capital market, and in this chapter we would like to discuss the reasons why your market valuation has declined. We have two points. While some parts may be unpleasant to your ears, we deliberately mention you to foster constructive dialogue, so we appreciate your understanding in advance.

(1) **Corporate Governance Soundness**
(2) **Shareholder Return Policy**

We will now provide explanations for each of these points.

(1) Corporate Governance Soundness

Corporate governance is an extremely abstract concept, however, as outlined in the TSE's Corporate Governance Code (CG Code)[8], the five principles serve as guidelines for the management of listed companies essentially to consider and implement as public entities.

Firstly, from the perspective of “Securing the Rights and Equal Treatment of Shareholders”, the shareholder structure of AlphaPolis would not secure shareholder equality. As you approach the significant milestone of nearly ten years being public, CEO Kajimoto's asset management company and family holdings still account for over 70% of the total outstanding shares. Such companies are, in Japanese tax systems, characterized as family-owned businesses and being subject to additional retained earnings tax, which is damaging to corporate value. Therefore, under normal circumstances, as market cap increases, companies make a concerted efforts to transform ownership structure by reducing owner holdings through additional offerings and/or strategic capital partnerships, thus ensuring broad ownership among many shareholders, and expanding as a public entity in both name and reality. In the case of AlphaPolis, however,it is still possible for the Kajimoto Family to pass a

[8] Please refer to the following link for the TSE's Corporate Governance Code.

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special resolution[9] at a general shareholder meeting after 10 years of listing today. As there were no resolutions at the shareholders' meeting in June 2023 and no interim reports were issued, we examined the interim report from June 2022. The exercise of voting rights was approximately 87% overall, which means that about 40%[10] of general shareholders have not exercised their voting rights. It is inevitable that certain amount of retail investors are not interested in voting. Still, fact that around 40% of the company's common shareholders are not interested in important decision-making for the company's future is a very embarrassing situation, isn't it?

Furthermore, regarding Principle 5 of the CG Code, "Dialogue with Shareholders," semi-annual analyst briefings are held with CEO Kajimoto attendance to provide explanations to shareholders and institutional investors. However, other individual IR activities are handled almost exclusively by Director Okubo not the CEO. From the perspective of institutional investors with a long-term focus on fundamentals and corporate growth, not being able to directly inquire about management strategies and thoughts from CEO Kajimoto who holds dominant power in all significant decisions of the company, can easily become a “no” signal for investing. You have ignored these serious issues since listing and it is a serious corporate governance problem.

As for director compensation and tenure, it is described as shown in the following figure 8 (Supplementary Principle 4-2 of the CG Code), which is pretty basic and it states that executive compensation should be linked to the evaluation of performance and corporate value.

Figure 8: Supplementary Principle 4-2 of the CG Code

Supplementary Principles

4.1.1 The board should clearly specify its own decisions as well as both the scope and content of the matters delegated to the management, and disclose a brief summary thereof.

(Source: TSE CG Code 2021)

[9] A special resolution requires the attendance of shareholders holding more than half of voting rights, and an approval from over two-thirds of the voting rights represented by attending shareholders.

[10] If we assume that the owner family, holding 70% of the shares, fully exercised all voting rights, the difference between the exercise rate of 87% and this 70% is 17%. Dividing this 17% by the remaining 30% held by minority shareholders gives us approximately 56%. Therefore, we calculate this as approximately 40% by subtracting 56% from 100%, which equals 44%.

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As you have not established a compensation system that links stock price performance to executive pay, their compensations currently are only based on fix salary. Additionally, average compensation for five external directors (and auditors) is 3.45 million yen[11], which is significantly lower than the average of over 6 million yen for listed companies. This level of compensation does not seem commensurate with the heavy responsibility of appropriately supervising the corporate value enhancement activities. Furthermore, there is no implementation of stock options for the management team or executives, which means there is no system in place to incentivize commitment to increasing performance or corporate value (equivalent to stock price increase) for non-owner executives and employees.

Regarding the tenure of directors, you still maintain a two-year term, while as of 2022, 79% of all listed companies have transitioned to a one-year term[12]. A two-year term is not inherently bad, but taking both "shareholder structure" and "management team incentive" into consideration, you will probably agree that there is a significant risk that your corporate governance practices may not meet the high standards mentioned in TSE guidelines.

Mr. Takuya Shiraishi, who assumed the position of independent external director from June 2021, seems to be a university classmate of President Kajimoto based on our research. We also acknowledge that Mr. Shiraishi has made numerous statements online as an expert in DX, and we view there is reasonable added value to AlphaPolis. However, one point of concern is that he has expressed a negative view towards the "management stance to achieve higher stock price" in certain subscription-based news media[13]. We feel that such remarks made by a current listed company independent director could be easily misunderstood while we cannot fully grasp his true intentions. <u>We sincerely request a thorough discussion involving all of your independent directors and independent audit members how AlphaPolis corporate governance is supposed to be and **we ask you for decisive action if necessary.**</u> We express our strong concern that your corporate governance protocol and management stance may not be relevant to the ideal as demanded by the CG code, looking back at worse stock price performance and the irrelevant management attitude towards shareholders. We

[11] Calculated the average value from page 33 of the 23rd period Securities Report (有価証券報告書).
[12] Estimated from https://www.jpx.co.jp/english/equities/listing/cg/tvdivq0000008jb0-att/uorii50000003gfb.pdf.
[13] Newspicks

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speculate that this is one of the significant factors contributing to discounted stock price performance over the years.

(2) Shareholder Return Policy

The second concern is regarding the "Zero Dividend Policy". Since going public, AlphaPolis has continued to have a zero dividend policy and has never paid dividends. You might have this policy because companies in the growth stage need to reinvest profits into their growth, which contributes more to enhancing corporate value than dividends since you publicly state in your document that "maximizing shareholder value" is an important management objective[14]. On the other hand, your peer companies, which are all "growing", have an average 34.2% dividend payout ratio for FY 2023 (Figure 12), and they disclose guidelines and policies for dividend payouts in their medium-term management plans and/or company briefing materials. Furthermore, these companies are also actively buy-backing their shares, indicating they care about not only the balance between corporate growth and shareholder returns but also the stock price performance. These efforts to enhance dividend predictability and execute share repurchases are now widely accepted by many companies as important means to maintain their cost of capital at a reasonable rate.

Figure 12: Comparison of Shareholder Returns with Peers[15]

Name	Shareholder Return			
	Dividend Yield (As of Feb. 2024)	Buy-Back Shares Since 2021	FY 2023 Actual Payout Ratio	FY 2024 Estimated Payout Ratio
AlphaPolis	**0.0%**	**0.0%**	**0.0%**	**- -**
KADOKAWA	1.0%	4.4%	33.0%	38.4%
Infocom	2.2%	0.0%	76.7%	38.5%
Papyless	1.1%	9.7%	14.0%	21.0%
Starts Publishing	1.5%	5.6%	13.0%	12.7%
Comps Average	**1.4%**	**4.9%**	**34.2%**	**27.7%**

(Source: Hibiki from IR materials and Bloomberg)

[14] 23rd Period Securities Report p.24.

[15] In calculating the proportion of shares buy-backed, we refer to press releases from each company issued since January 2021 and calculate them based on the total number of shares outstanding at the time of the announcement.

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Considering your company's stance on "non"-shareholder returns, we conducted a comparison analysis of Total Shareholder Return (TSR), which is an indicator measuring the overall return (capital gains+dividends) to shareholders in Figure 13. It is evident from the figures that your stock performance has realized an annualized return of -1.6% over the past five years and -13.5% over the past three years, meaning you have not only failed to generate returns but have actually incurred losses.

Figure 13: Annual TSR (with Dividend Reinvestment)[15] of Topix and Four Peers[16]

	5-year (annualized)	3-year (annualized)
AlphaPolis	-1.6%	-13.5%
TOPIX	11.7%	11.7%
Comps Avg	13.4%	5.5%

(Source: Hibiki from Bloomberg)

Now, let's shift our focus to the balance sheet of your company. Your company has steadily accumulated net cash since 2015 (Figure 14). As of December 2023, it holds approximately 8.7 billion yen in net cash, accounting for about 66% of total assets. The strength of AlphaPolis business model lies in its ability to generate strong cash flows through its ecosystem, combined with the minimal need for significant capital investment that is typically required in a manufacturing business. As a result, cash continues to accumulate over time. With such a robust business model leading to accumulating much cash on its balance sheet, it is difficult to have a rational ground of NOT returning profit to shareholders, and we believe this contributes to the current low valuation of your stock price

[16] For the past five years, we have calculated the period from December 31, 2018 to December 29, 2023. For the past three years, we have calculated the period from December 31, 2020 to December 29, 2023.

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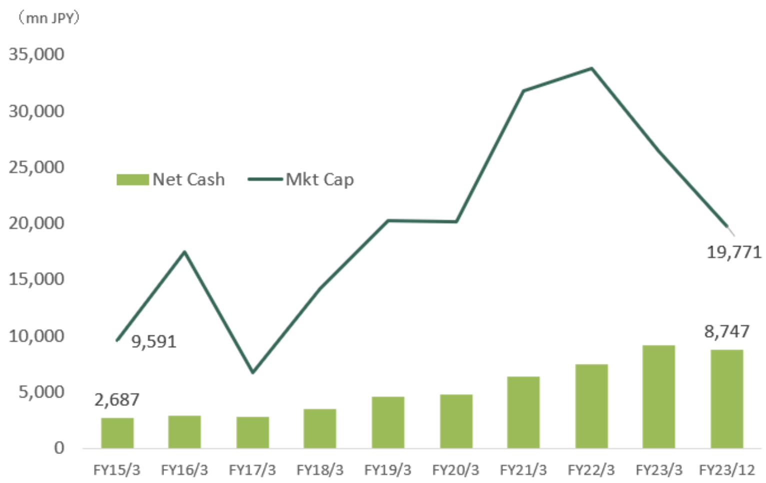
Figure 14: Transition of Net Cash[17] and Market Capitalization



(Source: Hibiki from IR materials and Bloomberg)

Furthermore, in our past discussions with some companies in our portfolios, some owner-type executive, who holds significant shares of the company, left comments that "I feel sorry for receiving substantial dividend payments as it would make the employees feel unfair". This statement shows their complete corporate governance failures characterized by inadequate ownership structure and disregard for minority shareholders. This comment is never supposed to be made to (minority) shareholders, and we won't forget it. We mentioned this just in case.

6. Our Proposals

This section is written on the premise that you are (going forward) determined to maximize shareholder value as a listed company. Having options like "going-private" by accepting management buyout (MBO) offers or acquisition proposals from others have become increasingly realistic means to maximize current shareholder value as we touched upon in the previous sections. We are fine to say that, under appropriate valuation and premium, such corporate control transfer deals would respectfully be accepted by shareholders as potentially the most effective scenario in maximizing the corporate value.

[17] Net cash is calculated as (cash and cash equivalents + marketable securities) − (short and long-term interest-bearing liabilities + refundable liabilities)

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With that said, we would like to make three recommendations as following:

(1) **Corporate Governance Reform with Ownership Structure Changes**
(2) **Fundamental Change in IR Stance**
(3) **Improved Shareholder Returns (10% Dividend on Equity)**

(1) Corporate Governance Reform with Ownership Structure Changes

As discussed in Section 5, minority shareholders are completely pushed out of being involved in any corporate decisions, which end up attracting "non-interested" shareholders. Consequently, the inherent growth potential and business advantages that your company possesses are not being adequately recognized, which can be considered one of the reasons for the low evaluation. In other words, it is important to clarify your stance as a listed company and address your stance to tackle this issue of ownership structure. We urge independent directors to take the lead in strengthening corporate governance, accelerate decision-making and then "execute". AlphaPolis Corporate Governance Report for 2023 states, "We are implementing all of the 'Basic Principles' of the Corporate Governance Code." The soundness of governance is an abstract concept, and its intrinsic value lies in whether each member of the board of directors, entrusted with responsibilities by all shareholders, takes seriously their duty to contribute to shareholder value enhancement while they are in the boardroom. In your case, the situation has raised doubts from shareholders like us about whether all the basic principles of the code are being implemented at "a high standard". Therefore, we urge you to promptly engage in discussions, possibly involving external consultants, to address issues as soon as possible. <u>As a listed company with multiple shareholders beyond the owner family, we hope for your swift response in striving for the best governance practices.</u>

(2) Fundamental Change in IR Stance

We have three specific IR strategies that we would like to request. (1) Increase opportunities for the CEO to discuss the strategy directly with institutional and individual investors. (2) Develop and Disclose a medium-term management plan. (3) Disclose IR information in English. Firstly, regarding (1), as mentioned, investors can directly inquire CEO about the strategy only during the semi-annual analyst briefings for institutional investors, however, nowadays many companies are increasingly leading individual or small-group IR meetings with CEOs presence and your company appears to be falling behind. If that attitude is rooted in the sense that there is no need to actively explain to other

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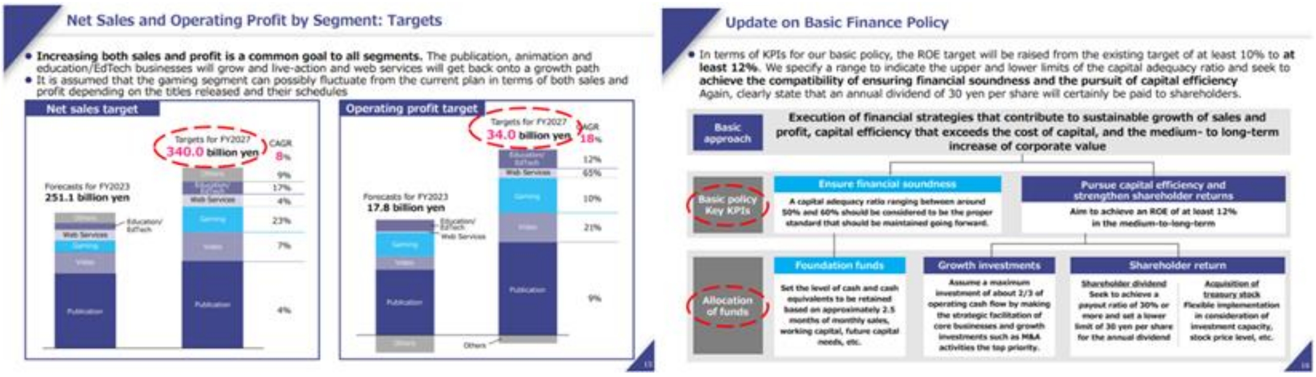
shareholders because the direction of the company is determined by the decisions of the CEO, then it is completely misguided. Pro-active IR efforts are even more important in your case, with overwhelming concentration of ownership, in order to attract more shareholders that would open up the leeway to more diversified ownership structure.

Next, concerning (2), we would like to request you to develop and disclose a medium-term management plan for at least the next three years, considering the company's cost of capital. This plan should include revenue and net profit projections, key performance indicators for balance sheet management, and capital allocation strategies. As an example, referring to the medium-term management plan of KADOKAWA (Figure 15), the two slides clearly outline how each business segment will drive revenue and operating profit growth from current levels to the targets, along with explicit goal setting for financial health such as equity ratio and capital efficiency (ROE). This disclosure of the investor-oriented information is highly effective in attracting a wider range of investors and has contributed to recent stable and high valuations of the stock.

Figure 15: An Example of Medium-Term Management Plans of Peer (KADOKAWA)



(Source: KADOKAWA Medium-Term Management Plan for FY 2024~ 2028, p.16)

AlphaPolis, on the other hand, have not disclosed any mid-term business plans after the initial m plan in 2015. Despite numerous inquiries seeking a rational explanation of not doing so, the responses received have been along the lines of "The medium-term plan acts as a mental shackle," and unfortunately, we have yet to receive a generally reasonable explanation generally expected from the management of a well run listed company.

Regarding (3), foreign investors are indispensable for any company in designing the strategic structure of its shareholder base to enhance its corporate value, as mentioned in Recommendation 5 (p.32) of the "Six Recommendations" letter addressed to our investment targets, which we introduced in the link on p.9 of Section 4. Naturally, attracting such foreign investors requires English disclosure. Moreover, the Tokyo Stock Exchange actively promotes proactive information disclosure and support activities for listed companies such as English disclosures[18], so there seems to be no reason not to utilize these resources.

(3) Improved Shareholder Returns (10% Dividend on Equity)

We have frequently mentioned the fact that your balance sheet continues to accumulate net cash. The current cash balance is approximately one year of revenue and about three years of net working capital, significantly exceeding the average by peers and the levels considered generally safe (Figure 16).

Figure 16: Financial Strength and Cash Management Comparisons with Peers

	Financial Health and Cash Management			
Name	Equity Ratio	Cash and Deposits / Total Assets	Cash and Deposits / Sales (months)	Net Cash / Net Working Capital (years)
AlphaPolis	82.7%	74.4%	12.0	2.7
KADOKAWA	58.3%	24.9%	4.5	0.6
Infocom	75.0%	58.7%	6.0	5.7
Papyless	70.4%	83.7%	7.2	0.1
Starts Publishing	77.2%	59.9%	9.1	2.7
Comps Average	67.9%	55.8%	5.9	2.1

(Source: Hibiki from Bloomberg)

Due to having an extremely efficient and excellent business model, the balance sheet is now overwhelmingly in an excess capital state (shareholders' equity ratio of 83%!), of course partly because of not paying them out. The balance sheet is dominated by low-yield (now even losing to inflation) cash assets, leading to a situation where a high ROIC does not contribute to high ROE.

[18] (Reference) https://www.jpx.co.jp/english/equities/follow-up/b5b4pj000004yqcc-att/u5j7e50000000l3i.pdf

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Therefore, we propose the introduction of a **10% dividend-on-equity (DOE)** to mitigate the risk of the balance sheet falling into further excess capital.

Your company has consistently exceeded a 15% average ROE over the past 5 years, which is a remarkable figure (indicating that BPS grows at an annual rate of 15%!), it gradually leads to worse capital profitability as the equity base increases (since your business does not require significant capital expenditure). The idea of introducing a 10% DOE means distributing two-thirds of the stable 15% ROE to shareholders, while the other one-third is retained as internal reserves, allowing for continued growth in net assets. <u>This proposed dividend policy will likely have a positive impact to your share price since dividends will become stable (and increase steadily as long as the company does not lose money), and with such floor dividend value stock price be well supported and lower the volatility and thus leading to lower cost of capital. With your intrinsic value being more well reflected to the stock price it will definitely allow increased strategic options for you to diversify your shareholder base.</u>

On a side note, we would like to address the issue of "potential psychological resistance" to the idea of distributing two-thirds of the profits in the proposed plan. Firstly, for a company with such a robust balance sheet, even distributing 100% of the profits would hardly have any adverse effects on its credit. Additionally, considering the substantial cash reserves of nearly 10 billion yen and also having a small amount of borrowings means that you have ongoing relationships with the lenders (and they are dying to lend to you based on your credit score), payout raises no doubt of potential business distress. In short, in a company like yours where there are no credit issues, <u>the primary focus should be on enhancing evaluation from the capital market, wouldn't you agree?</u>

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7. Conclusion

In this letter, we have outlined recommendations about improving AlphaPolis intrinsic value, the current trends in the capital market, and what is necessary for your company to be appreciated by the market. We have observed a significant shift in the overall market over the past 2-3 years, particularly in the mindset of executives. Previously, many executives used to regard the stock price as something out of their control and say, "We just simply focus on managing the business". However, it has become increasingly apparent that only showing your diligent back won't work in the current market environment, but you need to push hard to communicate your value to the market. The focus has shifted nowadays towards how to reduce excessively high (market priced) cost of capital to a reasonable level (higher PER and higher PBR).

More and more Executives have examined various scenarios to raise corporate value and, as a result, there has been a significant increase in making bold management decisions such as M&A for inorganic growth, and transactions such as LBOs and MBOs. As mentioned earlier, Japan has been entering an era of low growth, an aging population, and rapid labor shortage. In such circumstances, it can be said that considering inorganic growth opportunities by enhancing capital efficiency and increasing corporate value is an inevitable choice to gain a competitive advantage in the survival competition. Additionally, amidst the rising hurdles that listed companies are supposed to address such as the heightened requirements for information disclosure, the momentum of ESG, and engaging in dialogue with shareholders, it is a fact that we are already in the era where the challenges (for publicly listed companies) will continuously increase rather than decrease. You should scrutinize the pros and cons of being listed, as the cost-effectiveness of being listed will become even more challenging otherwise.

Unfortunately, your company is currently late to the trend, and we hope that sending this letter raises your awareness of this emergency and this is a constructive criticism based on our high expectations of your company. We, as minority shareholders, strongly believe that the potential of your company, which occupies a unique position in the globally acclaimed Japanese manga and anime industry, is truly immeasurable. In response to the expectations of such minority shareholders, we strongly urge the board of directors and management team to discuss governance measures including the ownership

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structure changes as well as policies regarding shareholder returns such as DOE, and to promptly enhance the corporate value.

Regarding the exchange of opinions, we would like to be open. For actual management policy decisions, we kindly request timely and fair disclosure to all shareholders through press releases.

EOD

1st March 2024.

9 Raffles Place, #26-01, Singapore 048619

Hibiki Path Advisors Pte. Ltd.

Yuya Shimizu

※ This copy may be published on our website in order to facilitate constructive

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Appendix 1.

AlphaPolis Corporate Value Assessment Assumptions (Hibiki's Internal Assumptions)

	WACC		
a	Risk-Free Rate		1.0%
b	Beta (Correlation to the Market for Individual Stocks)		0.61
c	Market Risk Premium		6.0%
d	Cost of Equity (COE)	=a+c*b	4.7%
e	Cost of Debt (COD) (assumed)		2.0%
f	Market Capitalization (mn JPY)		23,046
g	Net Cash (mn JPY) FY12/23 (Net of Refundable Debt)		8,747
h	Capital Ratio		100.0%
i	Tax Rate		30.0%
j	**WACC**	**=h*d+(1-h)*e*(1-i)**	**4.7%**

	Discounted Cash Flow Method		
k	Normalized Free Cash Flow (mn JPY)		1,400
j	WACC		4.7%
l	Tarminal Growth Rate		0.5%
m	Enterprise Value (mn JPY)	=k/(j-l)	33,509
n	Net Cash (mn JPY) FY12/23 (Net of Refundable Debt)		8,747
o	Equity Value (mn JPY)	=m+n	42,257
p	Number of Shares Outstanding (Excluding Treasury Stock) (mn Head) FY12/23		9.7
q	**Theoretical Value**	**o/p**	**4,362**

(Source: Hibiki from IR materials, Bloomberg)

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Appendix 2.

List of MBOs announced in 2023

Announced Date	Ticker	Target Name	Buyer Name	Mkt. Cap [1] (mn JPY)	Sales Value / EBITDA
27/01/2023	6067	Impact HD Inc.	Bain Cap / Owner Family	27,965	17.0x
07/02/2023	6924	IWASAKI ELECTRIC CO., LTD.	Carlyle / Owner Family	25,183	5.7x
09/02/2023	5999	IHARA SCIENCE CORPORATION	Owner Family Only	25,143	5.2x
14/02/2023	6172	Metaps Holdings, Inc.	Owner Family Only	5,902	1.6x
16/05/2023	7618	PC DEPOT CORPORATION	Owner Family Only	14,289	9.8x
14/06/2023	4355	LONGLIFE HOLDING Co.,Ltd.	PMI Japan / Owner Family / Others	8,192	13.5x
09/08/2023	4621	ROCK PAINT CO., LTD.	Owner Family Only	11,309	11.3x
28/09/2023	3677	SYSTEM INFORMATION CO.,LTD.	Bain Cap / Owner Family	14,634	9.5x
31/10/2023	4987	TERAOKA SEISAKUSHO CO.,LTD.	Owner Family Only	8,859	N/A
08/11/2023	2309	CMIC HOLDINGS Co., Ltd.	Owner Family Only	23,942	2.1x
10/11/2023	9783	Benesse Holdings, Inc.	EQT / Owner Family	192,585	5.9x
13/11/2023	4837	SHiDAX CORPORATION	Oisix / Owner Family	30,187	7.9x
13/11/2023	8854	The Japan Living Service Co., Ltd.	Owner Family Only	4,406	20.8x
14/11/2023	2453	Japan Best Rescue System Co., Ltd.	MBK / Owner Family	21,449	10.9x
15/11/2023	5212	FUJI GLASS CO.,LTD.	Owner Family Only	1,626	20.3x
27/11/2023	4581	TAISHO PHARMACEUTICAL HOLDINGS CO., LTD.	Owner Family Only	453,590	9.5x
08/12/2023	2427	OUTSOURCING Inc.	Bain Capital Private Equity, LP	364,438	9.3x
Total / Average				**869,261**	**10.1x**

(Source: Hibiki from IR materials and Bloomberg)