

MARGIN OF SAFETY

BALANCE OF POWER


MANAGEMENT ANALYSIS



EXPLANATION ON SHAREHOLDER PROPOSALS TO JAPAN PURE CHEMICAL CO., LTD (4973)

3RD JUNE 2024





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Hibiki Path Advisors Pte. Ltd.

JAPAN PURE CHEMICAL (CODE 4973 JP)



- Founded 1971, MBOed in 1999, IPO in 2002, currently TSE Prime Section
- High precision plating chemical producer used for Semi-conductor packages and electronic parts
- High-technology with strong patents → but earnings flat past 10 years
- Past 10 years cumulative TSR※1 is 56%, less than half of Topix's 128%
- Market Cap USD131mn※2 while net cash on B/S is USD100mn※3 と which means only 31mn Enterprise Value (Assuming USDJPY150)

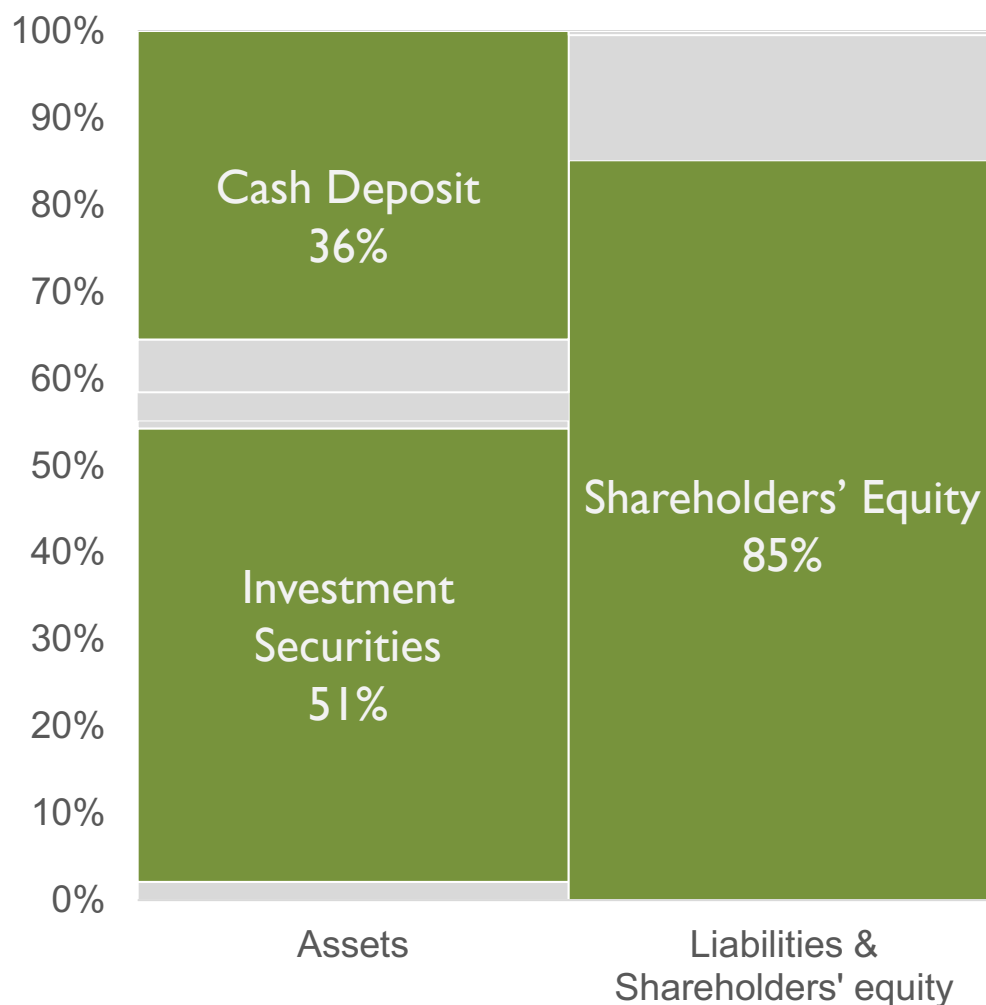
KEY POINTS TO BE DISCUSSED



- **Balanced Sheet Management and Current Status of Investment Securities Holdings**
- **Progress on its Capital Allocation Policy**
- **Summary of our Shareholder Proposal (Item #3 and Item #4)**
- **Our View to the Board's Opposition Stance to Our Proposal**

(note) We will call Japan Pure Chemical Co., Ltd "JPC" or "The company" in this presentation

MARCH 2024 BALANCE SHEET



Source : Hibiki calculation based on JPC 3/2024 4Q Summary of Financial Results

JPC'S INVESTMENT SECURITIES HOLDINGS



- In March 2023, Investment Securities (on B/S) amounted to 7.58 billion yen, but with the overall increase in the stock market, it increased to 8.79 billion yen in March 2024, accounting for 51% of the total assets and 61% of the net assets.
- Shares in JCU Corporation, a separate large plating company, represents 40.0% of JPC's total Investment Securities, with the top 10 companies accounting for 84% overall (Newest data 3/2023 - updated details not disclosed yet).
- JPC's JCU stake, as of March 2024, amounted to 3.40 billion yen (3.4%*), versus JCU's JPC stake of 120 million yen (0.7%* out of holdings). We cannot confirm any business synergies between the two with the earnings trend of JPC as well as the balance of this cross-held shares is extravagantly uneven.

* of outstanding shares assuming the use of the average issued shares excluding treasury stock, and no changes in ownership since the latest information from the company data in the Shikihō quarterly report as of September 2023.

JPC'S CAPITAL ALLOCATION POLICY

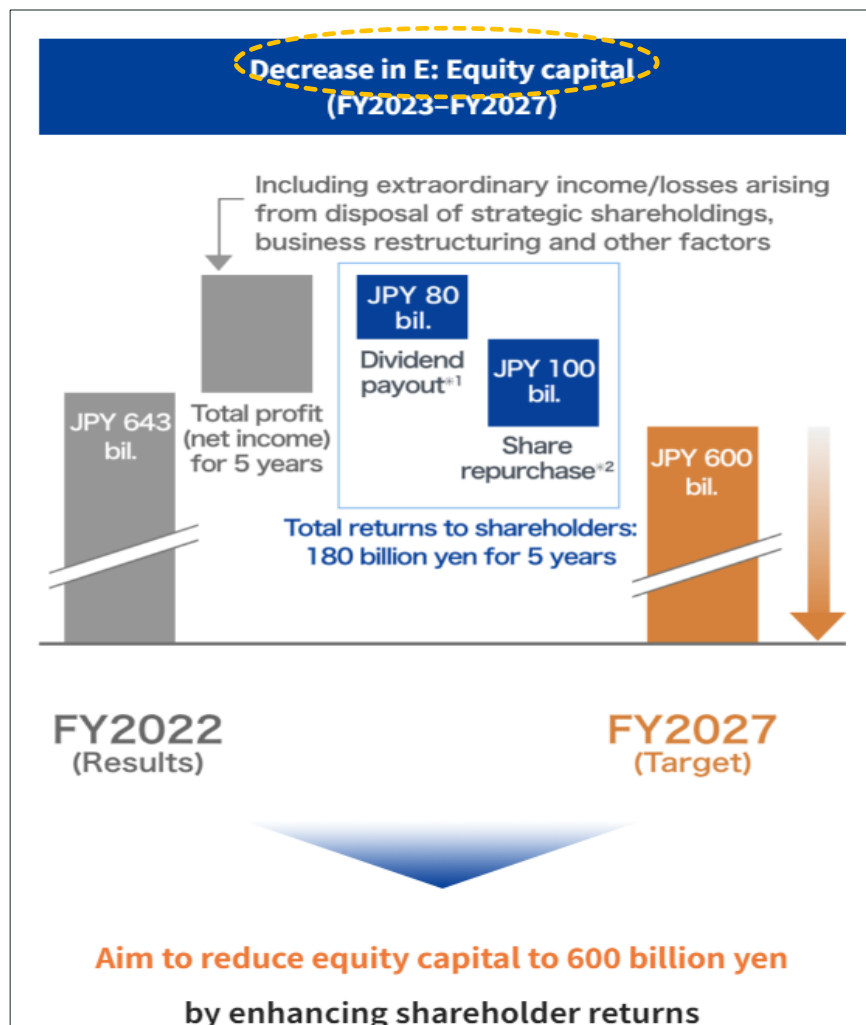


- The company aims for a **ROE of 10%** in its mid-to-long term plan
- Assuming a net profit of 1 billion yen, which is 10% above its historical high of 890 million yen from the 3/2011, the total net assets to achieve 10% ROE would be 10 billion yen.
- The current total net assets amount to 14.6 billion yen. ⇒ Requiring a significant reduction to 10 billion yen.



- As the company makes money, net assets will continue to increase. We are raising a question to the management and other shareholders whether there is any other practical way than to control its shareholders' equity to achieve ROE of 10%. Management has not answered this question but just opposed our proposal.

TOYO SEIKAN'S COMMITMENT



- Toyo Seikan clearly states their intention to aim for an **ROE 8%**, not only by improving R (profitability) but also by **compressing E (equity/net assets)**, as explicitly shown in the figure left.
- They have declared their intention to implement dividends and share buy-back totaling 180 billion yen in five years, exceeding the amount that would rise from profits during the period.
- Why does JPC's management lack such determination? Can it be said that they are fulfilling their duty to maximize corporate value in the current state?

SHAREHOLDER PROPOSAL ① - ITEM #3



Proposal ① : Partial Amendment to Articles of Incorporation (Decision-Making Body for Determination of Surplus Distribution, etc.)

Current Article 44

Company may determine matters related to the distribution of surplus funds as stipulated in each item of Article 459, Paragraph I of the Companies Act, without requiring resolution at the annual general meeting of shareholders, except where otherwise provided by law, through resolution of the Board of Directors.



Proposed Amendment

Company may determine matters related to the distribution of surplus funds as stipulated in each item of Article 459, Paragraph I of the Companies Act through resolution of the Board of Directors, except where otherwise provided by law.

- Reasons for the Proposals: To prevent the exclusion of irrational shareholder meeting authority
- ✓ Article 459, Paragraph I of the Companies Act stipulates matters concerning the distribution of surplus funds that should generally be resolved at the AGM while JPC has solely designated the authority of the Board of Directors to determine these matters.
- ✓ It should be noted that even in the proposed amendment, it still remains possible for the Board of Directors to decide on the distribution of surplus funds to be approved at the AGM.

SHAREHOLDER PROPOSAL ② - ITEM #4



Proposal ② : Shares Buy-Back

- ✓ Acquire up to 1.3 million shares of its common stock, with a total value of 4.8 billion yen, within a year from the conclusion of this AGM, in accordance with the provisions of Article 156, Paragraph 1 of the Companies Act.
- ✓ Provided, however, that if the total amount of permissible acquisition price (the "distributable amount" as defined in Article 461 of the Companies Act) permitted by the Companies Act is lower than this amount, the upper limit of the acquisition amount permitted by the Companies Act shall apply through payment of cash.
- ✓ Conditioned to approve proposal 1 for the amendment of a part of the articles of incorporation ("Regarding the Decision-Making Body for Determination of Surplus Distribution, etc").

- Reasons for the Proposals:
 - ✓ To steadily achieve JPC's announced "goal of 10% ROE", JPC should consider share-buybacks using at least 4.8 billion yen, equivalent to the "Valuation difference on available-for-sale securities". This is because JPC holds approximately 8.7 billion yen worth of investment securities, representing 61% of the net assets as of December 31st, 2023.
 - ✓ Considering that the legally retained earnings already exceed 7 billion yen, it is extremely unlikely to harm the financial soundness of the company.
 - ✓ The anticipated 'strong stock price' resulting from this capital policy can also be used as a resource for M&A through stock exchanges.

CLOSING NOTE



- Hibiki, as a major shareholder of JPC, highly values the company's technological edge and wholeheartedly supports its growth. However, regrettably, we feel that the management team and board of directors lack “the determination” to maximize its corporate value.
- We strongly hope for the establishment of a well-organized governance structure that does not restrict the authority of the AGM as defined by the Companies Act, particularly in crucial management decisions, including dividend policies.
- Furthermore, we recognize that in truthfully achieving the target of 10% ROE announced by JPC itself, it requires not only the introduction of DOE but also the large scale share buy-back funded by divestiture of its cross-held shares and other investment securities.
- We have not received compelling counterarguments from the board of directors regarding our proposal, and we kindly ask all shareholders to make fair judgments from the perspective of maximizing the corporate value.

OUR WEBSITE AND PRESS RELEASES



[Commentary on Shareholder Proposals in Hibiki Investment News \(Link\)](#)



← Accessible Here for Mobile Users

[Hibiki's Statement on the Board of Directors' Opposition \(Link\)](#)



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