OASIS

# Oasis Response to Alpine's Latest Misleading Statements about its Proposed Merger with Alps

***November 21, 2018, Hong Kong –*** Oasis Management Company Ltd. ("Oasis") is the manager to funds that beneficially own 9.9% of Alpine Electronics Inc. (TYO: 6816) ("Alpine" or the "Company"), making Oasis the Company's largest shareholder after Alpine's parent company and de facto controlling shareholder, Alps Electric Co., Ltd. (TYO: 6770) ("Alps").

On November 16, Alpine published "The Company's Views on the Business Integration between the Company and Alps Electric Co., Ltd." related to the share exchange agreed upon between Alps and Alpine (the "Share Exchange Agreement") in an apparent attempt to answer the numerous critical questions posed by Oasis and by other shareholders challenging the fairness of the proposed merger between Alpine and Alps and questioning the integrity and transparency of the process by Alpine.

The statements made by Alpine in its latest announcement are only the most recent in a long series of materially misleading public statements made by Alpine in an attempt to gain shareholder approval for a deal that in reality significantly harms minority investors by grossly understating the value of their Alpine stock.

Today, Oasis has released a full, detailed analysis and response to Alpine's misleading statements at www.protectalpine.com, including introducing a "Truth Meter" that evaluates each of Alpine's statements, and highlights the continuing significant corporate governance concerns. The materials exclusively represent the opinions, interpretations, and estimates of Oasis in relation to the Share Exchange Agreement and Alpine's latest public statement. Below is a summary of some of what we view as Alpine's most egregious misstatements:

**Misleading Statements related to Alpine's Valuation vs. the recent Clarion Valuation**

In its November 16 announcement, Alpine included a table purporting to compare Alpine's valuation with the recent sale of Clarion to Faurecia SA in an effort to suggest that the valuation proposed deal with Alps is not so different than the Clarion deal, which Oasis and others have argued is the most appropriate comparable public transaction and that demonstrates that the price Alps is proposing to pay for Alpine is far, far below Alpine's true value. This is among the most glaring of Alpine's continuing attempts to deceive its own shareholders. Please see Table 1:

| Metric | Alpine | Clarion |
|---|---|---|
| EV/EBITDA | 7.7x | 10.7x |
| PER | 188.2x | 82.9x |
| PBR | 1.0x | 3.1x |

Alpine's table is highly misleading. To be able to claim that the offer by Alps for Alpine shares is at 188.2x PER, Alpine needed to use the ¥11.60 per share earnings estimate that it had released on April 27, 2017. However, actual earnings for the year were in fact ¥135.27 per share, and 2018 earnings are expected to be more than ¥145 per share. Alpine's chart and numbers that it is using to justify accepting Alp's offer price used this extremely low company estimate of earnings in April 2017, when we (and they) now know that actual earnings were over 1,000% higher! This is extraordinarily misleading and it is baffling that Alpine would even attempt to rely on such a false and misleading analysis and seek to induce its own shareholders to act based on it.

For the actual 2017 numbers (and 2018 expected numbers), please see Table 2 that we created:

| Metric | Alpine True Multiple | Clarion | Discount to Clarion |
|---|---|---|---|
| EV/EBITDA | 1.2x | 10.7x | -89% |
| PE | 9.6x | 82.9x | -88% |
| PE adjusted for net non-operating assets (1) | 2.5x | 92.6x | -97% |
| Price to Book | 0.7x | 3.1x | -76% |
| **Note (1)** Calculation by Oasis | | | |

Today, all shareholders, as well as Alpine's Board of Directors, can easily look at what Alpine's actual earnings were from that period. The actual, reported numbers were much higher than the April 2017 estimates. But Alpine did not include the real numbers in their comparison table – only the very poor forecasts from April 2017, in what appears to be an effort to deliberately deceive investors.

For the actual EBITDA and net income numbers, please see Table 3 that we created:

| | EBITDA | Net Income |
|---|---|---|
| Forecast Alpine employed for Clarion Table | 12,917 | 800 |
| Actual result | 20,782 | 9,326 |
| **Difference** | **61%** | **1066%** |

Further, in its public statement, Alpine used the average one-month Alps share price of ¥3,212 from the month *prior* to the announcement of the merger; however, Alps' *current* share price is just ¥2,473, or 23% lower than the average used by Alpine.

It is also worth noting that Alpine did not deduct all of the non-operating assets from the EV/EBITDA calculation, which significantly overstates the multiple.

Adjusting Alpine's chosen metrics using the actual reported numbers provides a very different picture. Please see Table 4:

| Metric | Alpine | Clarion | Discount to Clarion |
|---|---|---|---|
| EV/EBITDA | 1.2x | 10.7x | -89% |
| PE | 9.6x | 82.9x | -88% |
| PE adjusted for non-operating assets | 2.5x | 82.9x | -97% |
| Price to Book | 0.7x | 3.1x | -76% |

For the complete table, please see Table 5:

| Metric | Alpine Claimed Multiple | Alpine True Multiple | Clarion |
|---|---|---|---|
| EV/EBITDA | 7.7x | 1.2x | 10.7x |
| PE | 188.2x | 9.6x | 82.9x |
| PE adjusted for net non-operating assets (1) | | 2.5x | 92.6x |
| Price to Book | 1.0x | 0.7x | 3.1x |
| **Note (1)** Calculation by Oasis | | | |

**Misleading Statements related to YCG's Wacky WACC**

Alpine has attempted to mislead shareholders further by claiming that a reason for the bizarre discount rate applied by Yamada Consulting Group ("YCG") – which used a lower rate for Alps than Alpine, even compared to that used by SMBC Nikko – is that YCG applied a size premium which SMBC did not apply. This size premium is said to have been taken from Ibbotson Associates Japan Inc. ("Ibbotson")

Based on the Ibbotson tables, the size premium would impact the spread by a maximum 0.6%, but YCG's discount rates imply that the size premium impacted the spread by well over 2.7%. It is very important to note that this is the *only* metric that YCG used in their valuation. (A more complete analysis of the issue is available on our website and in our Truth Meter).

YCG's analysis is irreconcilable with facts, and we demand that Alpine publish the full valuation. These flaws by YCG increase our suspicion that the process was manipulated to ensure that Alpine is sold at the cheapest price possible to Alps.

**Misleading Statements on the so-called "Premium"**

In the statement, Alpine claims that the "premium" being paid for the Business Integration is fair, as per the following comment in the release:

> *"…the Company **believes that the premium to the Share Exchange Ratio ranks considerably high** in comparison with the level of premiums offered in other companies' business combinations that are similar to the Share Exchange." (emphasis added)*

This is deeply misleading. At the current valuation of ¥1,680 per share, Alps is paying a *discount*, not a premium, to Alpine's stock price prior to the announcement of the integration, or ¥1,710 per share. We find it shocking that Alpine even mentions a premium. In an attempt to further insulate itself, Alpine makes additional comments that premiums should be disregarded anyway:

> *"…the Company does not believe that it is appropriate to discuss the appropriateness of the Share Exchange Ratio based only on the current share prices of the Companies..."*

There is in reality **no** premium being paid by Alps, so why is Alpine misleading shareholders into believing that they are being paid a high premium?

**Misleading Statements on the "Greatest Efforts Conceivable"**

In the November 16 release, Alpine states that their proposed ¥100 per share special dividend is evidence that they have made the "greatest efforts conceivable" to attain a fair price for minority shareholders. This, again, is deeply misleading.

Alps is paying just ¥1,680 per share for all of Alpine's assets, which are worth ¥2,300 per share – a difference of over ¥600 per share. At least ¥400 of cash per share will be transferred to Alps *for free* due to its misallocation as operating assets, and no value at all has been given to the business itself. Yet, Alpine claims to have made the "greatest efforts conceivable" because it is giving back ¥100 to minorities in return for ripping them off.

Minority shareholders must not allow this travesty of corporate governance to take place.

**Misleading Statements on Cash Needs**

In its rejection of Oasis' proposed ¥300 per share dividend, Alpine admits that this could be financed through loans, but claims that its customers demand that Alpine demonstrate its financial stability, and as such, it must retain its cash reserves. This is also misleading.

Most of Alpine's competitors have far more debt than cash. This has not impacted their businesses and would not impact Alpine's business either. Alpine is simply making an excuse so that Alps can get all the benefit of the cash without paying Alpine's minority shareholders for it. Here are just a few examples of competitors and other companies that operate with debt exceeding their cash reserves:

- Alps Electric Co. (Parent Co.)
- Clarion Co., Ltd.
- Pioneer Corp
- JVC Kenwood Corp
- Continental AG
- Delphi Technologies PLC
- Magna International Inc
- Faurecia SA

**Misleading Statement on Alpine Increasing Corporate Value as an Independent Listed Company**

Alpine claims that *"the Company does not believe it is a right view that the Company can expect more improvement in its corporate value if it remains listed rather than implementing the Business Integration."* Alpine also claims that it could struggle to obtain orders in the future, and even if it did obtain them, profitability will deteriorate.

This is nothing more than a misleading attempt to scare shareholders into accepting a deal that is well below both intrinsic value and liquidation value. Alpine agreed to the Business Integration without *any* exploration of alternative strategies. There are multiple options open to Alpine if it simply investigated these areas.

Alpine has substantial financial resources to successfully adapt to the changing environment and grow its corporate value long into the future. It should be buying in additional software capabilities aimed at entrenching it further with its existing customers and expanding its reach. Alpine should also look to increase its exposure in the emerging markets, where there is increasing demand for infotainment systems and these become standard in the low and medium-end markets.

**Misleading Statements on SMBC's Lack of Fairness Opinion**

Alpine claims that it did not obtain a fairness opinion from SMBC for the final valuation because it was important to obtain an alternative fairness opinion. Additionally, Alpine appears to justify the lack of fairness opinion from SMBC by stating that there was not significant discrepancy between SMBC's original and final DCF analyses. These claims are misleading.

Alpine still had SMBC conduct an updated valuation and presented it to shareholders, so there should have been no issue in asking SMBC to provide an updated fairness opinion for the updated valuation.

Alpine's argument that there are few discrepancies in the DCF valuations also does not hold water, as it is clearly stated that SMBC's new valuation is fair <u>only to the controlling shareholder</u>. As such, it is implied that the valuation is biased, and would understate the valuation in Alps' favor. It should therefore *absolutely not* be considered comparable with the original valuation, which Alpine and SMBC claim to be a fairness opinion. SMBC Nikko previously produced a fairness opinion, but that fairness opinion is clearly no longer valid.

We also note that Alpine omits the fact that, in the updated valuation, SMBC's valuation of comparable companies is different and far higher than in the original analysis: 0.53-0.72 compared with 0.46-0.62.

In its comments, SMBC was forced to move the goalposts by changing its earlier statement, from – "…*the Share Exchange Ratio <u>exceeds the respective upper limits of the range</u> of the share exchange ratio obtained by the comparable company analysis,"* to – "…*<u>exceeds the median value</u> of the range obtained by the comparable company analysis"*.

Alpine's omission of this fact is misleading to minority shareholders.

**Misleading Statements on Alternative Bidders**

Alpine claims in the statement that since the announcement of the Business Integration, they have not received any alternative proposals, but would sincerely consider any they received. This is misleading.

In the Investor Shareholder Services ("ISS") report on the Alpine transaction, it is reported that Alpine admitted that it had been approached by a potential merger partner, but Alpine concluded it was not as attractive compared to Alps' offer. Alpine's comments imply that they rejected the approach early before a formal offer could be made. It is highly unlikely that Alpine considered this approach sincerely or considered minority shareholder rights in its summary rejection of the approach.

Additionally, Oasis offered an alternative bid for Alpine at ¥2400 per share, but Alpine rejected our offer without any exploratory talks and refused to allow any access for due diligence purposes. Oasis also offered to work with Alpine to identify potential partners, and even engaged an investment bank to do so, but Alpine showed no interest. Their claims to sincerely consider any alternative proposal is false.

**Conclusion**

We are continually shocked by the corporate governance abuses that are being so obviously inflicted upon minority shareholders in this transaction.

This blatant attempt to mislead minority shareholders must be stopped. The valuation is so shockingly low that rejecting the merger is the only sensible option. To be clear, even if hypothetically Alpine were to go bankrupt tomorrow (which is not remotely likely), shareholders would make <u>more</u> money in that outcome than they will under this deal – that is how unfair this deal is for minority shareholders.

<u>**A vote against the merger is a …**</u>

Vote against manipulated valuations
Vote against extremely poor corporate governance
Vote against destruction of Alpine's corporate value
Vote against a deal that disregards minority shareholder rights
Vote against being given shares in Alps, which has a much more uncertain future than Alpine

<u>**Vote *Against* the Business Integration at the EGM on December 5**</u>

<u>**Vote *For* the ¥300 Dividend for All Shareholders**</u>

<u>**Vote AGAINST PROPOSAL 1 & 2**</u>

<u>**Vote FOR PROPOSAL 3**</u>

**Important Disclaimer**

The information contained in these materials and that may be presented in connection with it are intended to be a resource for shareholders of Alpine Electronics Inc. (“Alpine”). They are opinions. The information has been created by Oasis Management Company Ltd. ("Oasis"), the investment manager to the Oasis Investments II Master Fund Ltd. and Oasis Japan Strategic Fund Ltd. ("Oasis Funds"), related to the share exchange agreed upon between Alps Electric Co. Ltd. (“Alps”) and Alpine as announced by Alpine on July 27, 2017 (the “Share Exchange Agreement”).

The information includes Oasis's opinion that for the protection of their economic interests, shareholders of Alpine should reject the proposed Share Exchange Agreement of 0.68 Alps shares for every one (1) Alpine share by (a) expressing their dissenting view in response to the proposed Share Exchange Agreement, and (b) exercising their voting rights against the proposals at the EGM where Alpine management will seek special approval (no less than 2/3 of the voting shares at present) in the shareholders meeting for the Share Exchange Agreement.

Oasis encourages minority shareholders of Alpine to take these actions to protect their economic interests.

However, Oasis is by no means soliciting or requesting shareholders to jointly exercise their voting rights together with Oasis. Shareholders that have an agreement to jointly exercise their voting rights are regarded as Joint Holders under the Japanese large shareholding disclosure rules, and they must file notification of their aggregate share ownership with the relevant Japanese authority for public disclosure.

Oasis disclaims its intention to be treated as a Joint Holder with other shareholders under the Japanese Financial Instruments and Exchange Act (“FIEA) by virtue of its act to express its view or opinion or other activities to engage in dialogue with other shareholders in or through this website.

These materials exclusively represent the opinions, interpretations, and estimates of Oasis in relation to the Share Exchange Agreement. Oasis is expressing opinions solely in its capacity as an investment advisor to the Oasis Funds.