



To: Ihara Science Co., Ltd.
Board of Directors
Chairman and Representative Director
Mr. Takuo Nakano
President and Representative Director
Mr. Satoshi Nagaoka

We, Hibiki Path Advisors, have been investing in Ihara Science (“Ihara”, or “your company”) stock since 2017 and we greatly appreciate the relationship we have built with you over the years. As you are aware, we have been constantly engaging with the management of our fellow investee companies about the meaning of being “a publicly listed company” in various letters¹.

For public companies, there is a global structural trend towards increased disclosure requirements related to ESG and non-financial corporate information and the Tokyo Stock Exchange’s (“TSE”) listing requirements has been tightened amid its structural reform in 2022. TSE is further accelerating its drive, as evidenced in a recent announcement² on January 25th, 2023, requesting further explanatory documents for ALL companies with a PBR of less than 1x listed in both Prime and Standard sections.

As we observe the situation from an investor’s standpoint, we feel that there is an irreversible trend of public companies being asked to do more and more things in order to maintain their public status which makes it essential for companies to compare the true costs and true benefits of being public as well as to constantly maximize the benefits itself rather than just to sit on it. That is why we have been asking our investee companies to think again.

In terms of your company, we express our utmost respect for Chairman Nakano's decisiveness, leadership, and courage to announce this Management Buy-out (“MBO”) plan, which is deeply rooted in his emotional attachment to Ihara Science, a company he rescued and recovered from near bankruptcy since he became the President in 1999. We believe this to be a true reflection of Chairman Nakano's unconventional approach and ability to make the right decision, without being obsessed with formalities such as whether a company should continue to be public or not.

As a long-term shareholder and self-admitting cheerleader of Ihara, we understand and embrace the underlying philosophy as well as the ambition behind your MBO decision. However, as an

¹ Examples [Hibiki new year message 2022 to companies \(Japanese only\)](#)
[Letter to Tokyo Stock Exchange July 2022 \(English translation\)](#)

² [English translation of TSE announcement 25th January 2023](#)

institutional investor with a heavy fiduciary duty to our clients, we feel compelled to inform the Board of Directors of our belief that the current Take-over-bid (“TOB”) price level does not adequately reflect your company's intrinsic value.

Since 2017, we have been supporting Ihara through constructive dialogue (see Figure 1) with the desire to run side-by-side to witness your phenomenal growth as well as to witness Ihara being properly acknowledged and appreciated by Capital Markets as the “World’s #1 precision piping specialist.” In particular, we cannot forget the moment in the Small Meeting we co-hosted with you in November 2021. In a passionate two-hour session, investors, including ourselves, were appalled by the strenuous efforts, the variety of ideas and innovations to enhance added value, and a series of initiatives to boost employee motivation that has been driven by both Chairman Nakano and President Nagaoka during the past 20 years. We are proud to have contributed to widening the investor base for you and the rise in share price thereafter with improved recognition by investors.

Figure 1: Our Engagement History with Ihara Science

Date	Content
Nov-17	Introduced Ihara in a Japan stock market-related article in the UK Financial Times
Jun-21	Introduced Ihara's business on our web media, Hibiki Investment News
Jun-21	Contributed our CIO comment to Ihara 80th-anniversary commemorative publication
Nov-21	Co-hosted a small investor meeting with Ihara management team inviting nearly ten institutional investors
Apr-22	Sent a comparative analysis of IR, finance, and capital policy between your company and Parker Hannifin
Jun-22	Attended Ihara's annual shareholder meeting and featured the Q&A content within Hibiki Investment News
Jun-22	Introduced a potential business partner candidate
Aug-22	Introduced various sponsored research companies, selected Eightfold Research, and issued a report
Aug-22	Proposed a drastic improvement to your company's IR material and submitted our improvement material

(Source: Hibiki)

Now, with all that being said, we would like to discuss the TOB price of 2,980 yen that you have proposed this time as we believe it is not adequate. While we praise the courage of Chairman Nakano, as a minority shareholder, we do need to make the following THREE points to the Board of Directors and Chairman Nakano.

The FIRST point is the valuation through the “comparable company method” that is used in the Tender-Offer document. Generally, when determining whether or not a comparable company is appropriate for the comparable company method, it is important that the growth potential and profitability of the companies be comparable to each other, not only in terms of the industry to which they belong but also with the nature of their business. This is because companies with higher growth potential, profit margins, and return on equity (ROE) generally have higher valuations. The four companies you have selected (KITZ Corporation, OKM Corporation,

TechnoFlex Corporation, and Yoshitake Co., Ltd.) are similar to your company in terms of pipes, valves, and fittings, but there is a clear difference in the quality of their business compared to yours. As shown in Figure 2 below, which compares (A) 5-year (i.e. 4-period) CAGR growth rate of sales, (B) 5-year average operating margin, and (C) 5-year average ROE, Ihara's level is outstanding in all indicators!

This is due to the fact that you do not sell those products just based on "catalog", but rather provide truly customized products with proposals on manufacturing designs, and your demanding clients duly appreciate the high added value of such an approach, which is your major strength. In other words, it is difficult to admit that these four companies are the appropriate comparable targets, and we believe that you should be compared more closely with companies highly involved in semiconductor production equipment parts and materials, for example, based on full cycle valuation.

Figure 2: The Figure of Companies in the comparable company comparison method

	Sales CAGR	OP Margin	ROE
Ihara Science	5.4%	19.0%	14.9%
KITZ	2.2%	6.6%	6.4%
OKM	-0.7%	11.2%	12.3%
Technoflex	1.2%	12.4%	8.8%
Yoshitake	1.1%	9.5%	6.4%

*1: Revenue CAGR is the growth rate over the past five fiscal years (four terms), and operating margin and ROE are the average values over the past five fiscal years. As the listing date for OKM is December 17, 2020, the data for the past four fiscal years (three fiscal years for CAGR calculation) for which data were available were used.

(Source: Calculated by Hibiki from each company's annual report)

However, even if we assume that the comparison with these four companies is correct, for example, Ihara's sales growth rate (CAGR), operating profit margin, and ROE are all 2-3 times higher than those of KITZ, which is the top general piping and valve manufacturer in Japan in terms of size. In other words, Ihara's valuation should be 2-3 higher than KITZ which should equate to a P/E ratio of 20x or more and a P/B ratio of 2x or more easily. However, the range of 2,462 yen to 2,959 yen calculated by the comparable companies method is 8.3x to 10.0x P/E, and 1.1x to 1.3x P/B, which is hardly a sufficient reflection of the comparative advantage of your precious business. Even when measured using the "enterprise value/EBITDA" method, which is for an unknown reason the only measurement standard used in the comparable company method, the Tender Offer Price of 2,980 yen is 5.2x, and the average of the four comparable companies is 4.8x (Hibiki calculation), which, again, does not reflect the fundamental difference between Ihara and others.

SECOND point, we would like to comment on the intrinsic value price level of 2,800 yen³ which we quoted on our portfolio company website⁴. This publication was in June 2021, when the global impact of Covid-19 was still strong, logistics networks were under stress, and commodities and goods inflation was a serious problem. We would like to convey to you that this was our view developed with a conservative approach at that time, when, as you well know, the global impact of Covid-19 was still strong and the problems of stress in logistics networks and material inflation were serious. Since we had to make a cautious calculation based on your forecast of 2.62 billion yen for the fiscal year ending March 31, 2021, and due to the landscape of everything, our forecast had to be modest. The initial operating profit forecast for March 2022, announced by Ihara in May 2021 was 3.4 billion yen (+29.8% YoY), but despite the Covid-19 disaster, it was revised upward twice, to 3.7 billion yen (+41.3% YoY) in November 2021 and to 4.0 billion yen (+52.7% YoY) in February 2022, and the final figure was even higher at 4.3 billion yen (+52.7% YoY). We can only say "it is jaw-dropping results" which we can only applaud, and which inevitably led us to significantly increase our internal evaluation of your company's intrinsic value.

LASTLY, we would like to make a point on Daiwa Securities' DCF method as stated on page 21 of the Tender-offer document. We do not discuss the discount rate here because there are different theoretical perspectives, and it is easy to become an endless argument, but we realize that the 2.2% CAGR for the five-year sales forecast that you provided to Daiwa Securities as a premise for this method. We are very uncomfortable with the fact that the CAGR is significantly lower than the past five years' trajectory of 5.4%. According to the Tender-offer document, it is an important time for you to make a structural change in your business, including a full-scale re-entry into the U.S. market, but it is difficult to imagine that your company's reputation among existing clients will suddenly decline due to such. In addition, although it is true that the semiconductor market over-swings in both direction, we believe that the demand for Ihara's competitiveness and mainstay business will continue to steadily increase regardless of the market cycle as more efficient and environmentally friendly designs are required in the manufacturing process. We believe that the demand for piping systems business, which is the essence of your competitiveness as the core business, will continue to grow steadily regardless of the market cycle, and therefore, we are concerned that you have not provided a detailed explanation of the basis for this "very modest" figure, of which you have made it an important criterion for calculating the TOB price.

³ <https://hibiki-investment-news.com/recommends/5999/>

⁴ <https://hibiki-investment-news.com>

~~~~~

This is just the opinion of one of the minority shareholders. However, we feel that there are many institutional and retail investors who, like us, have a deep understanding of your company's business and are fans of Ihara's management skills. They may have similar opinions to varying degrees. The share price has consistently exceeded the TOB price up to the closing price on February 15. If possible, we would recommend to you to directly check the opinions of major institutional and retail investors.

As we mentioned at the outset, we wholeheartedly agree with the philosophy behind the MBO and the determination you have shown in prioritizing long-term business prosperity over short-term capital market noise, and we are truly interested in looking forward to supporting your company's future. However, we sincerely ask that you reconsider the "price" for the TOB, taking into consideration the opinions of investors such as ourselves who have continued to support your company as a long-term shareholder, as well as the market price that is indicated in the price trends after the MBO was announced.

Best Regards,

16<sup>th</sup> February 2023

39 Temple Street #02-01, Singapore 058584

Hibiki Path Advisors Pte. Ltd.

representative director

Yuya Shimizu



The accuracy of the data and information collected in the preparation of this letter is taken with great care, but the accuracy is not guaranteed. In addition, this letter does not solicit applications for or recommend the purchase or sale of certain securities, or provide advice on investment, legal, tax, accounting, etc. This letter will be published on our website.