AVI
Asset Value Investors

AVI Demands Fujitec Adopt Fundamental Reforms to Address Persistent Underperformance

Calls for a comprehensive strategic review to identify Fujitec's failings and outline a transformation plan

Urges adoption of a disciplined and transparent capital policy, starting with divestment of "strategic shares"

Requests that Fujitec adopt a three-committee style board structure with an independent nomination and compensation committee to improve governance practices

LONDON, May 12, 2020 --Asset Value Investors ("AVI") today launches a new campaign calling for Fujitec (TSE 6406), the world's eighth-largest elevator and escalator ("E&E") manufacturer by revenues, to adopt fundamental reforms after years of poor performance. AVI through managed funds is a 3.4% shareholder of Fujitec.

A detailed presentation has been published on its dedicated website www.takingfujitectothenextlevel.com and analyses three interconnected areas that require fundamental reform: **operational inefficiencies from years of bad strategy, undisciplined capital policy, and weak governance.**

Joe Bauernfreund, CEO of AVI, introduced the new initiative, stating, "*We want to support Fujitec in becoming a best-in-class E&E company focused on Asia, after-sales services and technology.*"

"But the reality today is that Fujitec lags behind its global competitors in all relevant performance metrics; operating margins, ROE and stock valuation. Trading for a mere 6x EV/EBIT vs 19x for its listed global peers is just one symptom of underlying issues that need to be urgently addressed."

AVI is proposing an integrated set of measures to solve Fujitec's problems. The recommended solutions are not narrowly focused on balance sheet improvements, but also address strategy and governance.

- Fujitec should perform a fundamental strategic review with the help of outside professionals to identify areas for improvement and outline a transformation plan. The review should focus on utilising outsourced manufacturing, growing after-sales services, and include the exploration of merger options with competitors.

- Capital efficiency. As the first step toward greater capital efficiency, Fujitec should commit to divesting its "strategic holdings" in other listed companies. Along with its new transformation plan, Fujitec should establish a clearly defined and transparent capital policy that sets clear investment hurdle rates for future capital expenditures.

- To improve governance and bring vigour into the company, Fujitec should adopt a three-committee style board structure, establishing a Nominating and Compensation Committee to recruit additional experienced independent directors, including a Chairman. Independent directors should be given broad authority to supervise management's execution of the transformation plan.

Given Fujitec's severe undervaluation and the huge opportunity to expand margins, adopting these measures should lead to substantial upside for shareholders.

AVI has in the past submitted formal shareholder proposals to Japanese companies such as Tokyo Broadcasting System Holdings (TBS)(2018) and Teikoku Sen-i (2020). The publication of its presentation reflects awareness that formal shareholder proposals are legally limited to a short list of matters that are subject to a shareholder's vote under the Companies Act.

"We are offering a detailed library of competitive challenges at Fujitec that require solutions that go beyond formal shareholders proposals", stated CEO Joe Bauernfreund. *"However, this does not preclude us from submitting proposals in the future should satisfactory actions not be taken".*

AVI has sent Fujitec's board a series of letters, starting in October 2018, identifying issues, and offering suggestions for improvement. Despite an attempt at constructive dialogue Fujitec's management seem ambivalent towards its underperformance, seeking entrenchment over shareholder value by renewing Fujitec's anti-takeover measure and releasing a lacklustre and vague mid-term plan. So far, management have not formally responded to any of the letters.

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Notes to editors

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Full details of AVI's proposals and a presentation can be found on AVI's dedicated website www.TransformingTeikoku.com.

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Asset Value Investors (AVI) is a specialised investment manager in London that has been investing in Japan for over two decades. AVI was founded in 1985 and has been investing in high quality companies that are under-valued by the stock market for over three decades. AVI's investment team engages with managements and boards of companies to improve long-term corporate value.

Constructive Activism

Asset Value Investors (AVI) has a long history of engagement with investee companies in Europe and Asia, where we often interact with the Board and management to unlock shareholder value and promote high standards of corporate governance.

AVI's interactions usually take the form of behind-closed-doors communication (private meetings and letters) with boards and management, wherein we discuss the various avenues available for improving corporate value. Our discussions include advocating for, inter alia: increasing dividends; buying back shares; selling or reducing non-core assets; winding up investment vehicles without a viable future; or reducing the complexity of holding companies through simplifying the corporate structure.

AVI has been investing in Japanese equities for two decades, observing the slow development of the corporate governance agenda – which has now reached a critical mass.

Starting with the introduction of the Stewardship Code in February 2014, a host of private and governmental bodies – including Japan's FSA, the Ministry of Economy, Trade & Industry, the Government Pension Investment Fund, ISS, and Panasonic – has initiated efforts and reforms which are slowly pushing Japanese companies towards improving their corporate governance and balance sheet efficiency.

While change will not happen overnight in Japan, there is nonetheless growing evidence that the tide of public and private opinion in Japan has changed; the ripples from this seismic shift will spread slowly, but should have broad and deep effects on how Japanese companies operate – for the benefit of all stakeholders involved.