TAKING FUJITEC TO THE NEXT LEVEL

Asset Value Investors

AVI

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Introduction to AVI

Specialised international equity boutique

- founded in London in 1985
- long-term shareholder working with management to improve corporate value in a sustainable manner

Experience in Japan

- investing in Japan for over two decades
- ¥54bn invested in Japanese companies
- public campaign www.improvingtbs.com conducted in 2018, drawing considerable attention to TBS's "strategic shareholdings", followed by a campaign at the start of 2020 www.transformingteikoku.com seeking to improve Teikoku Sen-i's inefficient balance sheet structure
- numerous engagements with Japanese management behind closed doors

Strategies	Approach	Current AUM
AVI Japan Opportunities Trust ('AJOT')	Invests in under-valued small-cap Japan listed companies	¥17bn
AVI Global Opportunities Trust ('AGT')	Invests in family-backed holding companies, closed-end funds and Japanese cash-rich companies. 26% of the fund is allocated to Japan	¥113bn
AVI Family Holding Companies ('FHC')	Invests in family-backed holding companies	¥1bn

Source: AVI as at 30/04/2020. Global and Japan AUM figures incl. gearing.

AVI's History with Fujitec

- AVI, on behalf of its clients, owns 3.4%[1] of Fujitec's outstanding shares
- We have been shareholders since July 2018 and have sought to work constructively with Fujitec's management
- We have had open discussions and sent three letters to the Board seeking an improvement in governance - highlighting Fujitec's underperformance and undervaluation
- Despite our suggestions Fujitec's management has shown little willingness to improve, renewing its anti-takeover measure and not formally responding to any of our letters - management seem ambivalent towards Fujitec's underperformance
- We are releasing this presentation to highlight Fujitec's underperformance and call for a strategic review

Note: [1]As of 30/04/2020.

EXECUTIVE SUMMARY

Taking Fujitec to the Next Level - Summary

- **Fujitec can be a best-in-class services and technology company focused on Asia…**
- **…but it currently lags its global competitors in the elevator/escalator (“E&E”) market in all relevant performance metrics; operating margins, ROE and stock valuation**
- **That it trades for a mere 6X EV/EBIT vs 19X for its listed global peers is a symptom of serious underlying problems that incumbent management seem not to understand**

FUJITEC’S THREE KEY FAILINGS

1) Operational Inefficiencies

- Questionable strategic decisions have led to Fujitec’s failings today with the worst performance amongst its global pure-play E&E peers
- Caused by a lack of scale, low outsourcing of manufacturing, centralised decision making, and scattered geographical focus

2) Poor Capital Discipline

- A weak strategy is connected to a poor allocation of Fujitec’s capital resources
- Instead of deploying capital rationally, it is being wastefully invested in excess manufacturing capacity, tied up in working capital or held back as an unproductive security blanket against future unknowns

3) Weak Governance

- To focus strategy and impose capital discipline, Fujitec urgently needs to change its governance structure

Taking Fujitec to the Next Level - Summary

- **AVI is proposing an integrated set of concrete measures to solve Fujitec's weaknesses. AVI's proposed solutions are not narrowly focused on capital efficiency, but address strategy and governance <u>as a whole</u>**

<u>SOLUTIONS TO ADDRESS FAILINGS</u>

<u>1) Comprehensive Strategic Review</u>

- 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 include the exploration of merger options with competitors

<u>2) Capital Discipline</u>

- 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

<u>3) Improved Governance</u>

- 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

Agenda

1. Overview of Fujitec, its Failings and our Solutions

- Company Overview
- Attractive Industry
- Fujitec's low valuation
- Explaining Fujitec's undervaluation
- AVI's recommendations

2. Addressing Fujitec's Undervaluation

- Operational Inefficiencies
  - Lack of scale
  - Inefficient manufacturing processes
  - Mismanagement of china business
  - Non-core country exposure
  - Centralised decision making
- Poor Capital Discipline
- Weak Corporate Governance
- Shareholder Communication

Appendix

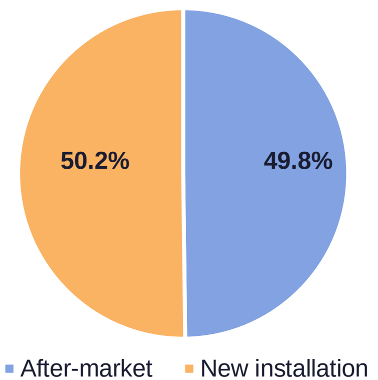
- Debunking Management's Arguments

OVERVIEW OF FUJITEC, ITS FAILINGS AND OUR SOLUTIONS

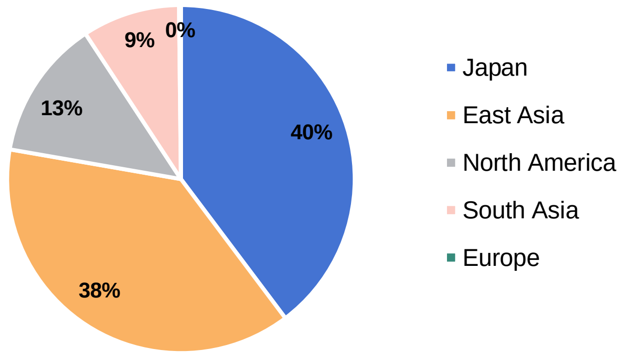
Fujitec – Company Overview

- Founded in Japan in 1948 it first expanded overseas into Hong Kong in 1964
- Fujitec manufactures, installs and maintains elevators and escalators ("E&E")
- While having a global presence, 87% of sales and 90% of profits are derived from Asia where it has its highest market shares
- Sales are split equally between new installation and after market[1]
- With a market cap of ¥125bn ($1.2bn) it is the largest independent listed E&E player
- The founding family are still involved, with the Founder's son, Takakazu Uchiyama, being CEO and Chairman. His son also works for Fujitec. However, the family have only a small ownership today, ~7.7%[2]

Equal split between after-market and new installation

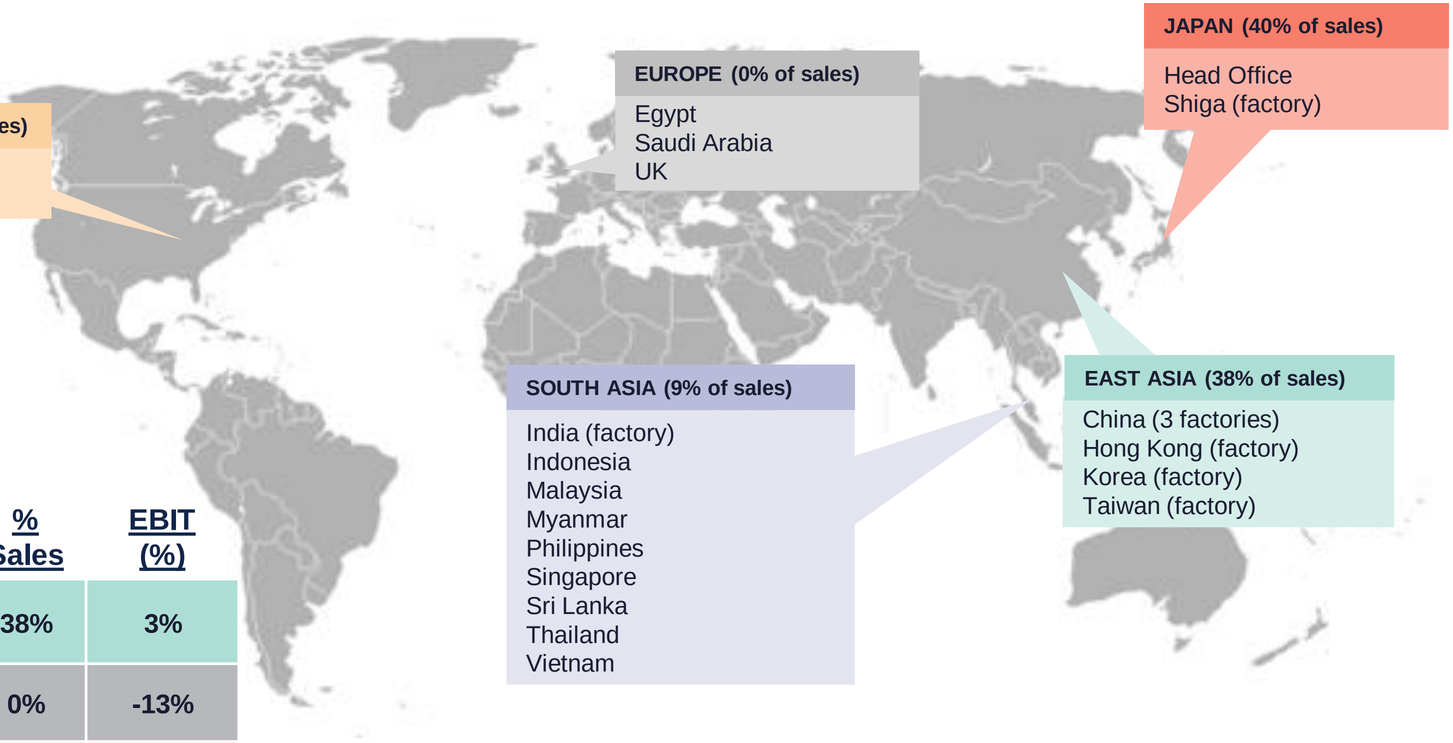


Main sales exposure to Asian markets, largely unsuccessful expansion elsewhere



Source: Fujitec reports for year ending 31 March 2019
Note: [1]After-market includes both maintenance and modernisation revenue [2]Uchiyama International Limited 6.2%, Sunto Co,. Ltd 1.1%, Takakazu Uchiyama 0.4%

Fujitec Overview – Sales Split and Regional Presence



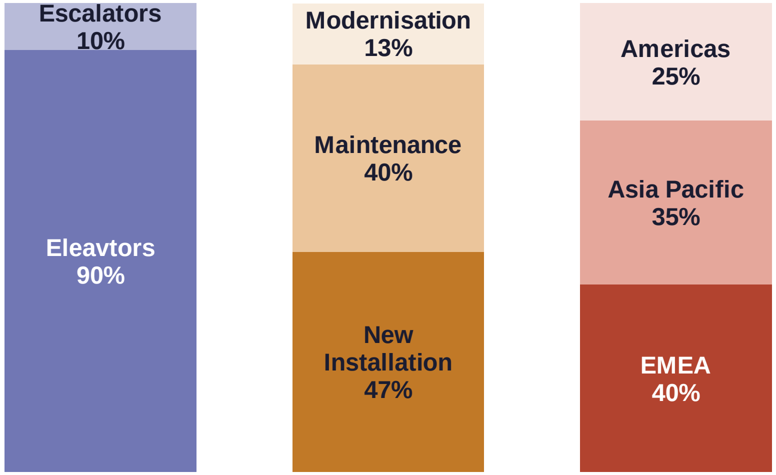
Region	Sales (¥bn)	% Sales	EBIT (%)
East Asia	69.3	38%	3%
Europe	0.3	0%	-13%
Japan	72.5	40%	7%
North America	23.7	13%	4%
South Asia	16.6	9%	11%

Source: Fujitec reports for year ending March 2019, Fujitec website.

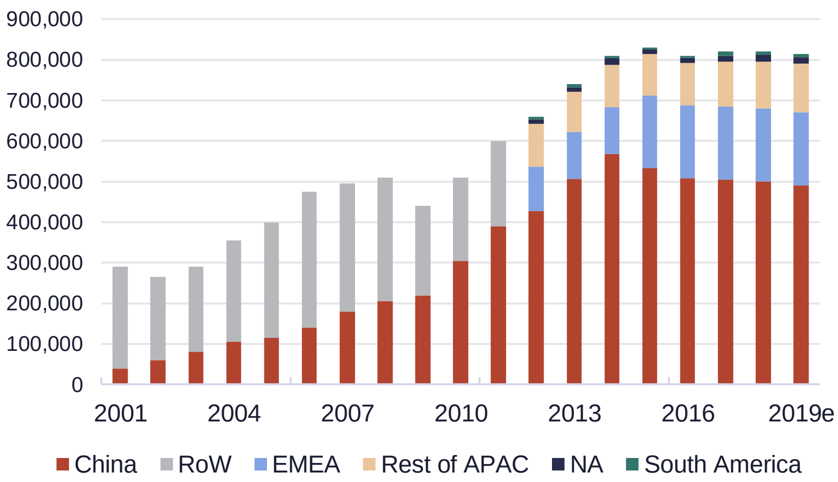
E&E Industry Overview

- The industry is split into three areas: new installation (47%), modernisation (13%) and maintenance (40%)
- 90% of the market is elevators and 10% escalators
- The majority of new installations are in China with a mature and largely saturated industry elsewhere
- The maturing industry has driven E&E players to focus on service revenue, driving a grab for service units to increase density, while outsourcing capital intensive manufacturing
- Technological innovations, such as remote monitoring, are increasing competitiveness vs independent maintenance players while also reducing labour maintenance costs

Global Elevator Breakdown



# of new installations driven by China



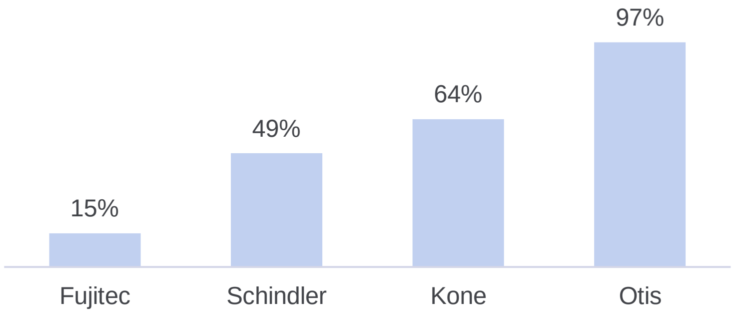
Source: Fujitec reports for year ending 31 March 2019, Jefferies, UBS
Note: [1]After-market includes both maintenance and modernisation revenue

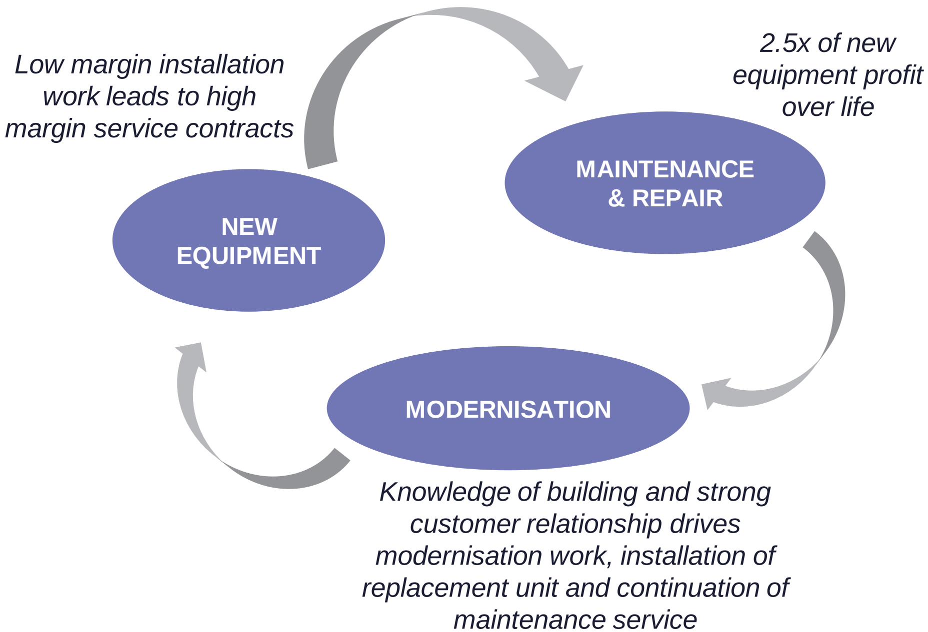
Attractive Business Model

- The risk of unsafe equipment, heavy regulation and customer trust restricts new entrants, with the top 8 players being on average 111 years old, allowing incumbents to earn high returns on capital
- Increasing use of outsourcing has driven efficiencies and shifted E&E companies away from capital intensive manufacturing, to service and technology
- The maintenance and repair of installed units drives an attractive service model. Over the product life cycle, profits from service is 2.5x higher than profit from installation[1]
- Larger E&E players benefit from a wider product offering, technological superiority and high density in their installed base driving high margins

The E&E industry generates high returns on capital

Relative ROIC[2]



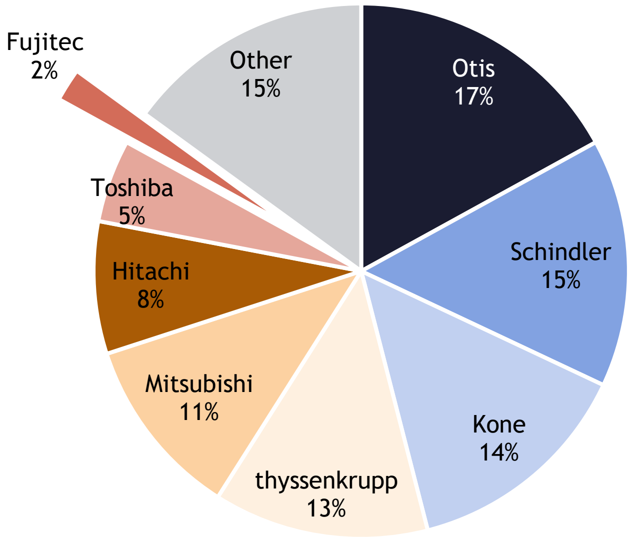


Source: Capital IQ, company reports
Note: [1]Otis capital market day Feb 2020 [2]ROIC = Normalised Operating Profit After Tax / (Shareholder's Equity + Debt – Cash)

Fujitec Overview – Competitive Positioning

- Fujitec is the 8th largest E&E company in the world by sales
- Like all the main players Fujitec has a deep history – essential for customer trust
- The industry has undergone heavy consolidation over the past two decades with the largest five players commanding a 70% market share
- Fujitec's low market share is due to its failure to take part in M&A and questionable overseas strategies, rather than inferior product quality - it is the only global independent player remaining

The Global Elevator Market



All the main players have a long history with few new entrants

Player (market position)	Founded
Otis #1	1853
Thyssen #4	1865
Schindler #2	1874
Kone #3	1910
Hitachi #6	1924
Mitsubishi Electric #5	1931
Fujitec #8	1948
Toshiba #7	1967

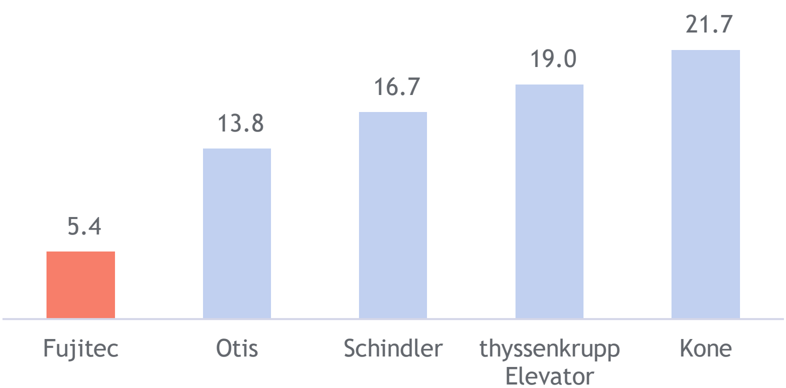
Source: Jefferies, as at March 2020

Undervalued Despite Attractive Business Model

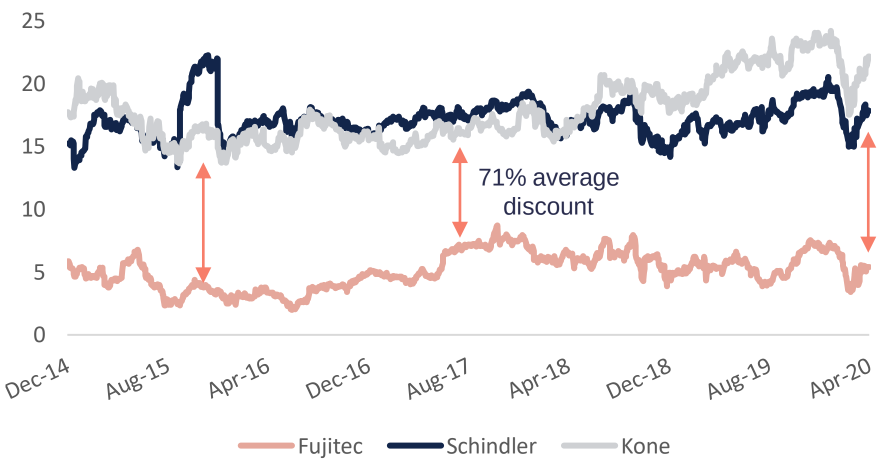
Despite Fujitec's attractive business model and deep history, it trades on a low multiple and at a significant discount to peers…

… which is not a recent or one-off occurrence

Fujitec's Relative EV/EBIT



Fujitec's relative EV/EBIT for the past five years



Source: Capital IQ, company report
Note: EBIT based on trailing twelve months. EV = Market cap – Cash – Investment Securities Net of Tax + Debt. thyssenkrupp elevator valuation based on reported transaction value of €17.2bn and segment disclosure i.e. not on a standalone basis. Historic multiples are not available for Otis or thyssenkrupp elevator

Explaining Fujitec's Low Valuation

We attribute Fujitec's low valuation to three key failings…

OPERATIONAL INEFFICIENCIES

Poor strategy and implementation have driven lowest operating margins amongst peers.

Current plan shows only vague awareness of competitive advantages and clear path ahead.

Lack of scale, scattered geographical focus, in-house production and poor product offering.

POOR CAPITAL DISCIPLINE

An excess of equity, with assets funded with 62% of equity compared to 27% for peers driving inferior ROE.

Low historic returns to shareholders and lack of a rigorous, disclosed capital policy.

WEAK GOVERNANCE

High presence of executives on Board and low independence.

Lack of independent committees, combined Chairman and President role, kansayaku board structure and poison pill.

…and one secondary

SHAREHOLDER COMMS

Vague mid-term plan lacking detail and substance.

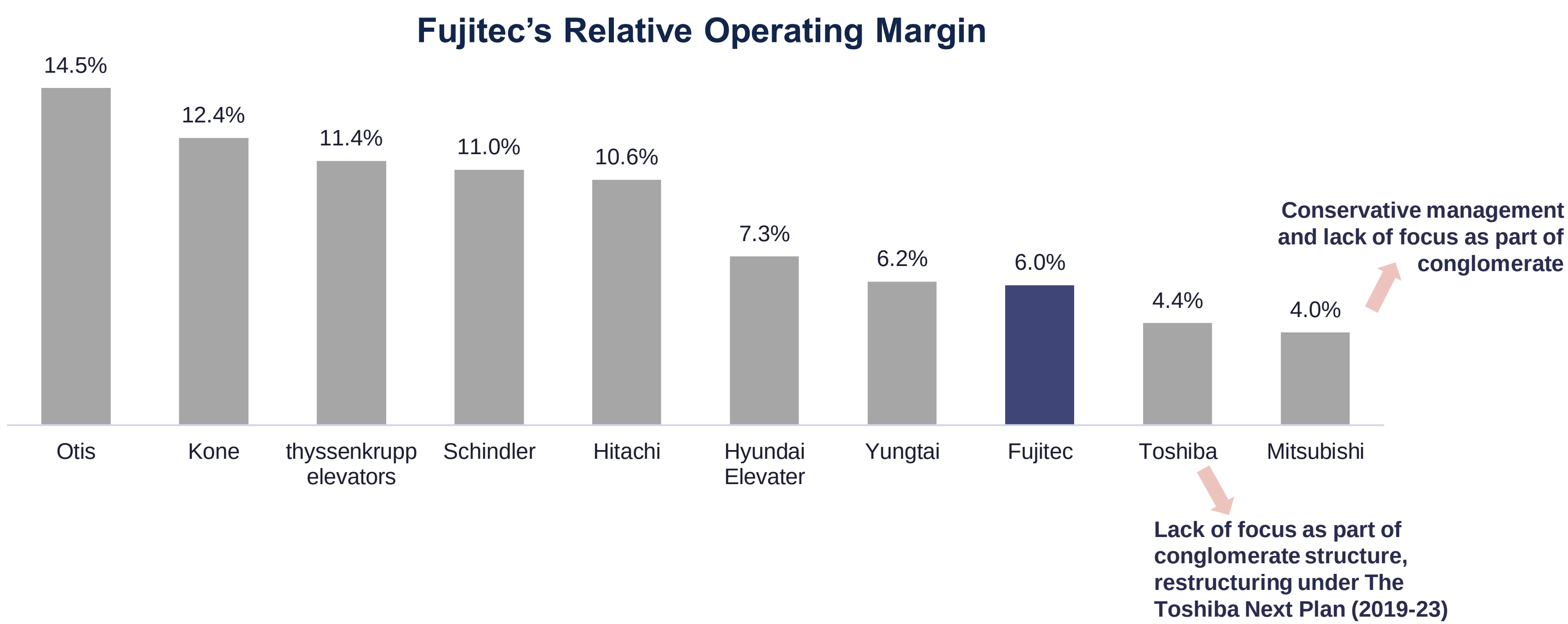
Poor transparency compared to peers and no dedicated IR function.

Source: Capital IQ, company reports

Explaining Fujitec's Low Valuation cont'd
Operational Inefficiencies

OPERATIONAL INEFFICIENCIES

- **Fujitec has the lowest operating margin of any pure-play E&E peer and less than half industry leader, Otis**
- **A lack of scale, low outsourcing of manufacturing, centralised decision making, and scattered geographical focus creates a significant gap to peers**
- **Fujitec lacks a coherent vision of the global regions and relies too heavily on manufacturing rather than focusing on high margin service and technology**



Source: Capital IQ, company reports, industry sources, company handbook for private companies

Explaining Fujitec's Low Valuation cont'd

Poor Capital Discipline

POOR CAPITAL DISCIPLINE

- Fujitec has 32% of balance sheet assets allocated to cash and 'strategic investments' which is excessive considering that its assets are funded with 62% equity compared to 37% for peers (12% including Otis)
- Fujitec has underutilised working capital and debt funding, which, in part, explains its lower ROE
- Without a rigorous capital policy the Board have failed to give due consideration to an essential component of shareholder value

	ROE	% of Assets Funded by Equity[1]	% of 10 Year Cash Flow Returned to Shareholders	Shareholder Payout Ratio	Target Return	Disclosed Capital Policy
Fujitec	**8.8%**	**62%**	**29%**	**40%**	**Not disclosed**	**No**
Kone	*30.1%*	*37%*	*70%*	*94%*	*No*	*Yes*
Otis	*---[2]*	*-37%*	*--- [3]*	*--- [3]*	*40% Buybacks[4]*	*Yes*
Schindler	*24.4%*	*37%*	*56%*	*50%*	*35-65%*	*Limited*

Source: Capital IQ, company reports
Note: [1]Including minority interests and other comprehensive income. [2]Otis has negative shareholder's equity, preventing the calculation of ROE. [3]Data not available due to limited financials prior to Otis' recent separation. [4]Disclosed plan to conduct buybacks once leverage targets have been met.

Explaining Fujitec's Low Valuation cont'd
Weak Governance

WEAK GOVERNANCE

- **Fujitec has the weakest governance of all global elevator companies**
- **Weak governance is a risk for shareholders which along with poor decision making contributes to Fujitec's lower valuation**

	% Board Independence	Separation of Chairman and President	Board Structure	% Executives on Board	Compensation/ Nomination Committee	Anti-Takeover Measure
Fujitec	**56% (5/9)**	**N**	**Audit & Supervisory Committee**	**44%**	**N**	**Y**
Peers *(below)*	**67%**	**Y**	**Three Committee[1]**	**20%**	**Y**	**N**
Hitachi	***73% (8/11)***	***Y***	***Three Committee***	***27%***	***Y***	***N***
Kone	***67% (6/9)***	***Y***	***Three Committee***	***0%***	***Y***	***N***
Mitsubishi Electric	***42% (5/12)***	***Y***	***Three Committee***	***25%***	***Y***	***N***
Otis	***78% (7/9)***	***Y***	***Three Committee***	***22%***	***Y***	***N***
Schindler	***64% (7/11)***	***Y***	***Three Committee***	***27%***	***Y***	***N***
Toshiba	***83% (10/12)***	***Y***	***Three Committee***	***17%***	***Y***	***N***

Source: company filings and corporate websites
Note:[1]Three committee board structure: Audit, Nomination and Compensation – or equivalent

Explaining Fujitec's Low Valuation cont'd
Shareholder Communications

SHAREHOLDER COMMS

- Fujitec's disclosure and transparency to shareholders is suboptimal
- Peers have dedicated IR functions and devote considerable resources to shareholder communications
- Lack of information and awareness is hampering Fujitec's valuation

	Capital Markets Days/Mid-term Plan # of pages	# of sell-side analysts	Length of Annual Report	Length of Interim Report	Dedicated IR	Length of annual results briefing
Fujitec	**15 pages**	**0**	**115 / 64[1] pages**	**2 pages[1]**	**N[2]**	**14mins**
Kone	***5 separate presentations, total 131 pages***	***32***	***100 pages***	***34 pages***	***Y***	***1 hour 25mins***
Otis	***77 pages***	***7***	***-[3]***	***-***	***Y***	***53mins[4]***
Schindler	***n/a***	***24***	***226 pages***	***18 pages***	***Y***	***1 hour 55mins***

Source: Capital IQ, company reports
Notes: [1]English [2]IR function lead by Yasuhiko Kimura but not as his primary responsibility [3]Form 10, 846 pages released prior to listing [4]Q1 2020 results briefing length as Otis has not had an annual results call yet

AVI's Recommendations

AVI

How Fujitec can improve its situation

OPERATIONAL INEFFICIENCIES

Undertake strategic review with help of outside professionals

Reduce expensive and capital intensive in-house manufacturing by utilising outsourcing partners

Delegate decision making to regional management

Exit non-core geographies

1-4 years

POOR CAPITAL DISCIPLINE

Reduce reliance on shareholder's equity

Enhance working capital management and sell strategic holdings

Undergo a buyback program, cancel treasury shares and increase payout to >50%

Disclose a rigorous and detailed capital policy

<2 years

WEAK GOVERNANCE

Increase board independence

Reduce # of executives on board

Change board structure to three committees

Separate Chairman and President role

Abolish anti-takeover measure

<2 year

SHAREHOLDER COMMS

Increase transparency on operations through more detailed reporting

Release a detailed and rigorous strategy through a capital markets day

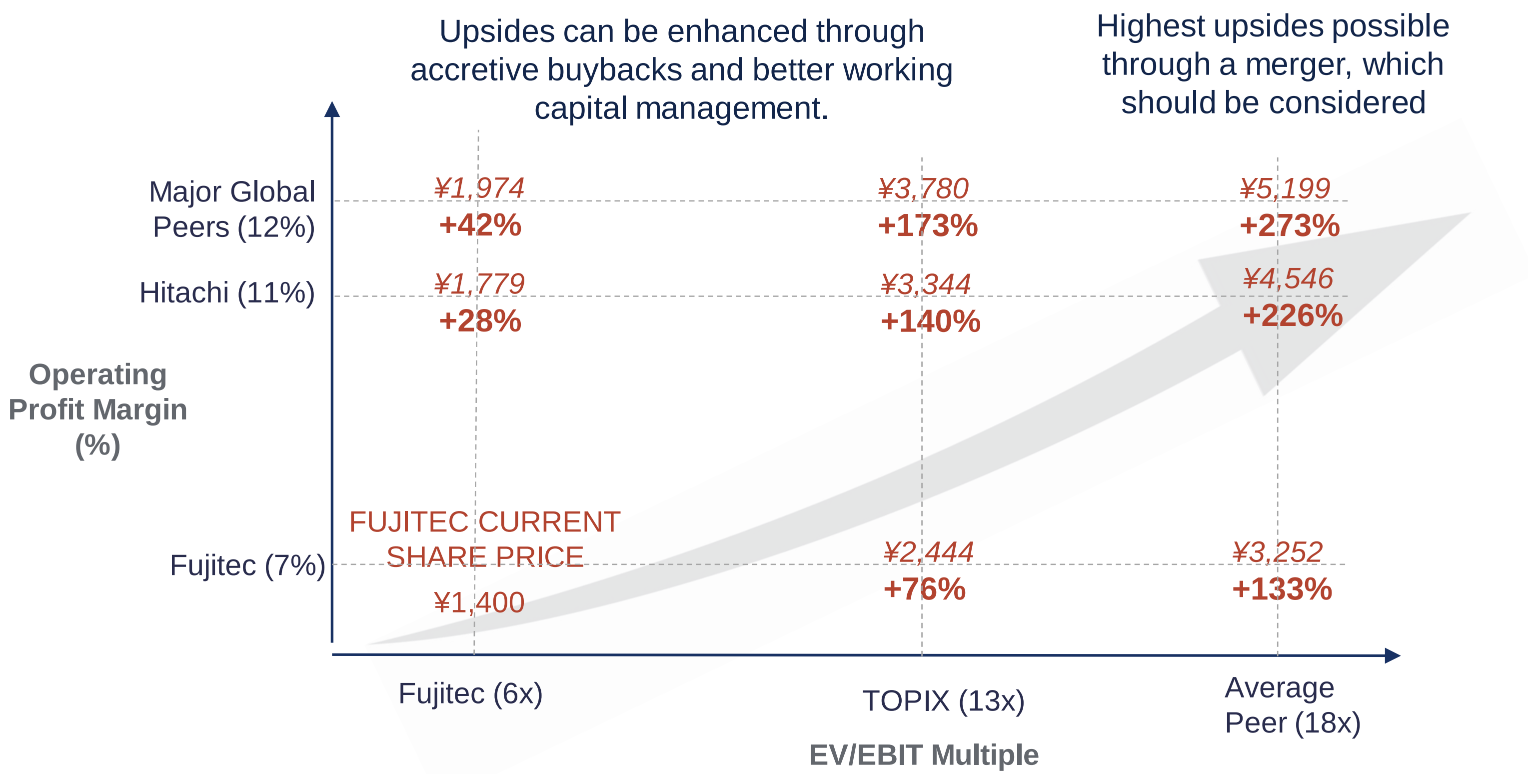
Devote further resources of IR function

Encourage uptake of sell-side research coverage

<2 year

Taking Fujitec to the Next Level – Potential Upside

We urge the Board to recognise Fujitec's potential upside and conduct an <u>objective strategic review</u> of the business with the help of outside professionals – considering all options including a merger with a competitor



Source: Capital IQ, company's handbook
Note: For valuation purposes we use trailing 12 month operating profits.

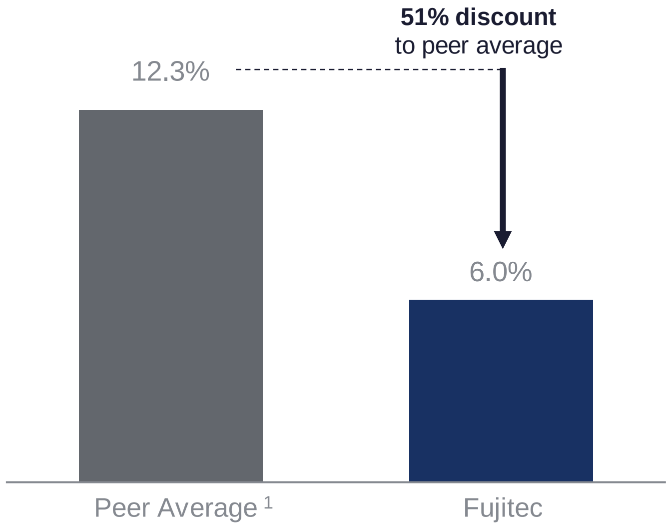
ADDRESSING FUJITEC'S UNDERVALUATION

OPERATIONAL INEFFICIENCIES

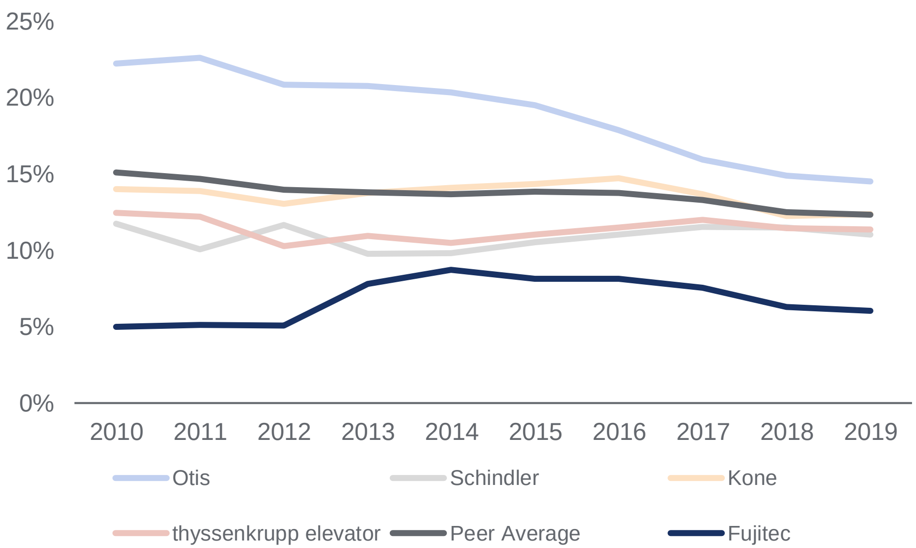
Fujitec's Operational Underperformance

- Fujitec's 6% operating margin is the lowest amongst its pure-play global E&E competitors
- Over the past 10 years its margin has trailed peers by an average of 6.9 percentage points
- Fujitec's underperformance is not a recent or one-off occurrence, its persistence is driven by fundamental operational inefficiencies, which are the result of a flawed strategy

Operating Margin Peer Average vs Fujitec



Persistent Margin Underperformance



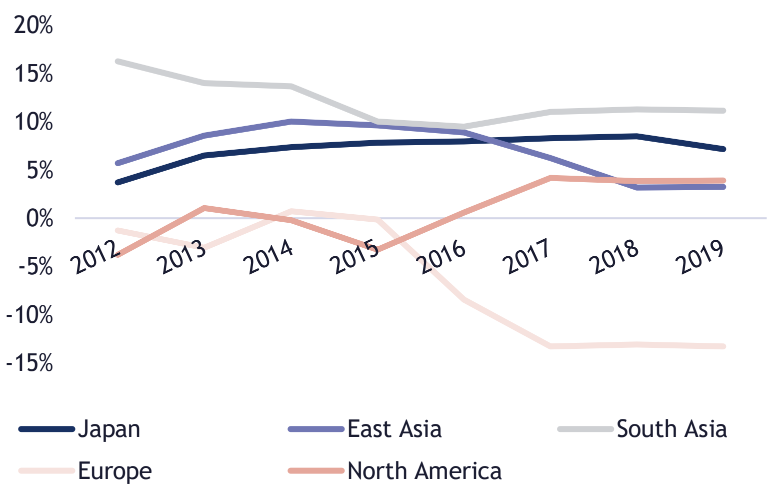
Source: Capital IQ

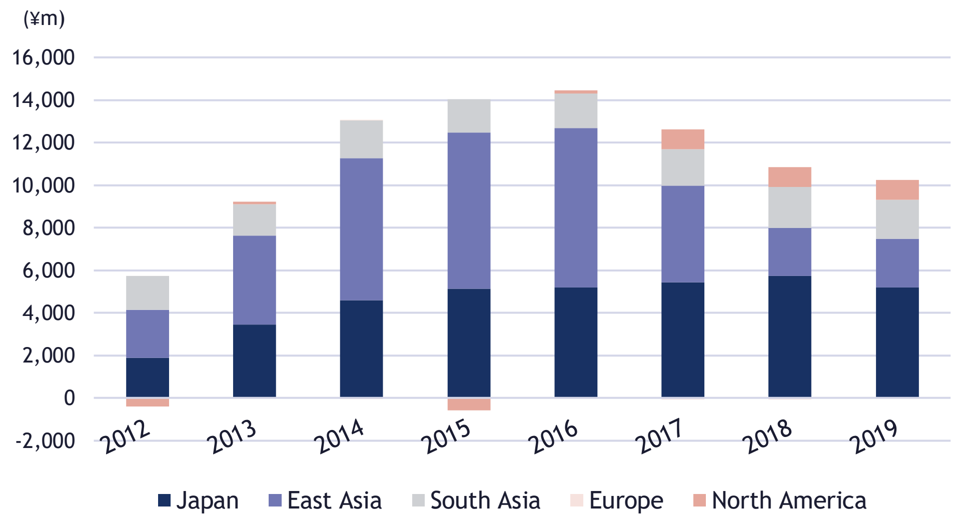
Note: [1]Otis, Schindler, Kone, Thyssenkrupp (Elevator Segment). Year end 31 March for Fujitec and 31 December for peer group.

Fujitec’s Operational Underperformance by Region

- Fujitec’s highest margins are achieved in South Asia and Japan, although still below peers. Japan margins are driven by a respectable 10% market share and high exposure to profitable after-sales business. Margins could be boosted further from more efficient manufacturing
- Fujitec’s East Asia segment, ~80% China, faced margin compression during 2016-2018 following sluggish sales and significant overheads from excess manufacturing capacity
- Fujitec’s Europe and North America segments have consistently suffered from low margins and losses due to lack of scale

Fujitec’s Operating Profits and Margins by Region





Source: Capital IQ for year ending March 2019

Explaining Fujitec's Operational Inefficiencies

Our research and discussions with management, customers, suppliers, distributors, and industry experts indicate Fujitec's low margins come from the following factors:

i) Lack of Scale

ii) Inefficient Manufacturing Process

iii) Mismanagement of China Business

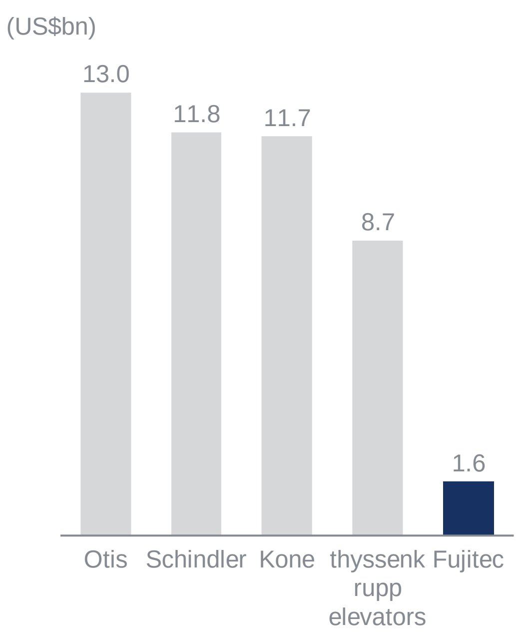
iv) Non-core Country Exposure

v) Centralised Decision Making

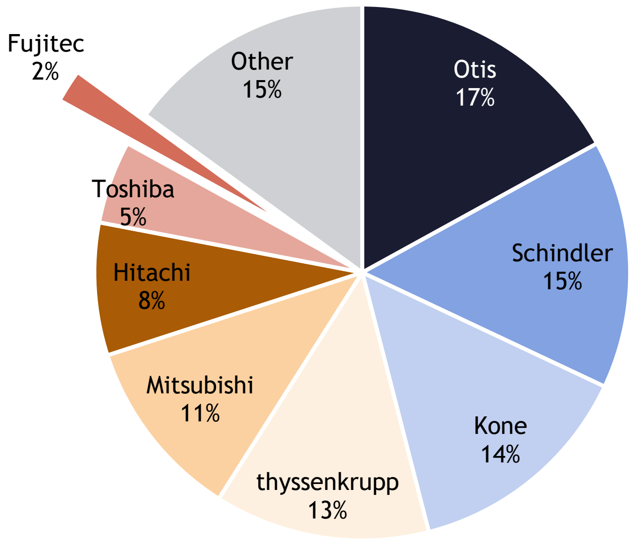
i) Lack of Scale

- Fujitec is one of the smallest E&E OEMs in the world with just a 2% global market share, someway behind its nearest competitors

Revenue



Fujitec's Low Relative Market share

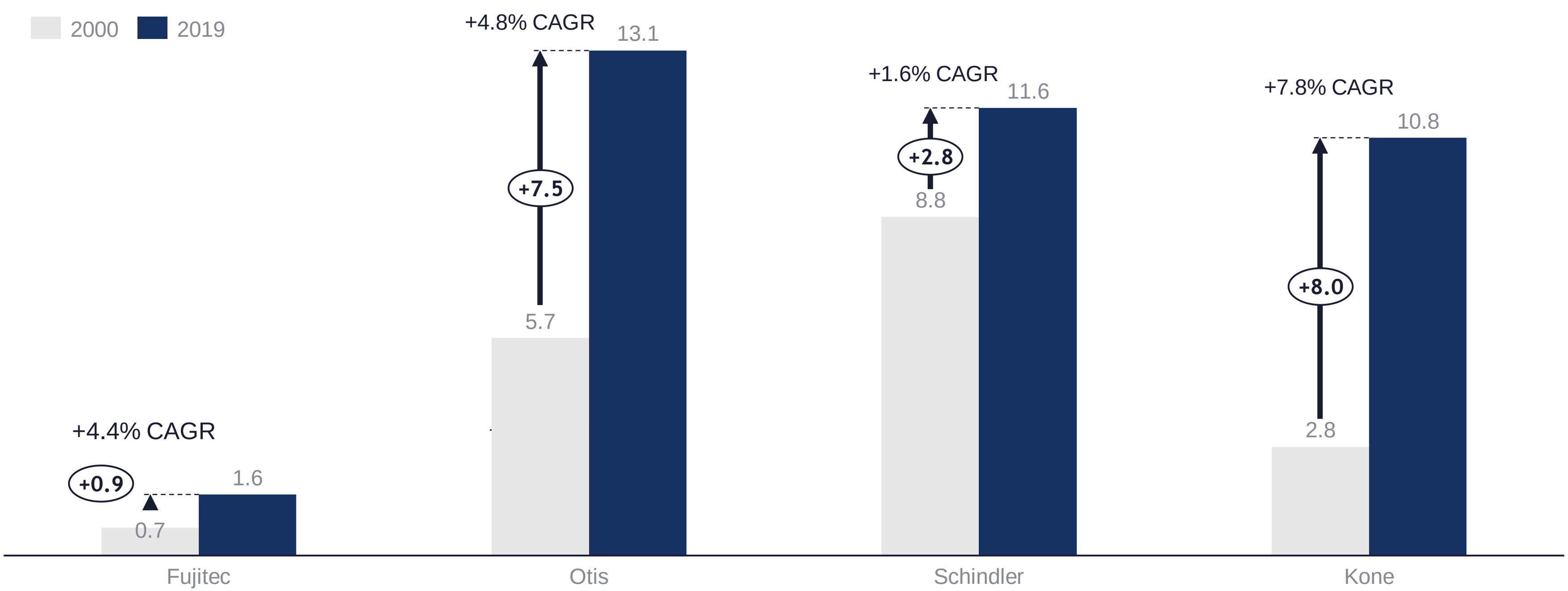


Source: Capital IQ, Jefferies

i) Lack of Scale – Widening Gap

- The difference in scale between Fujitec and other OEMs has been widening
- Fujitec has achieved a lower revenue CAGR since 2000 than 2 of the 3 major OEMs despite starting from a smaller base

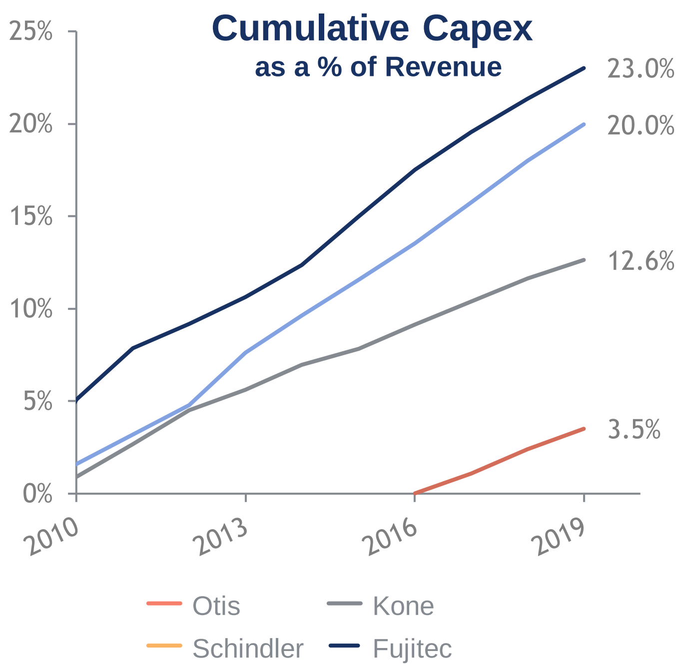
Historical Revenue Expansion (US$bn)



Source: Capital IQ

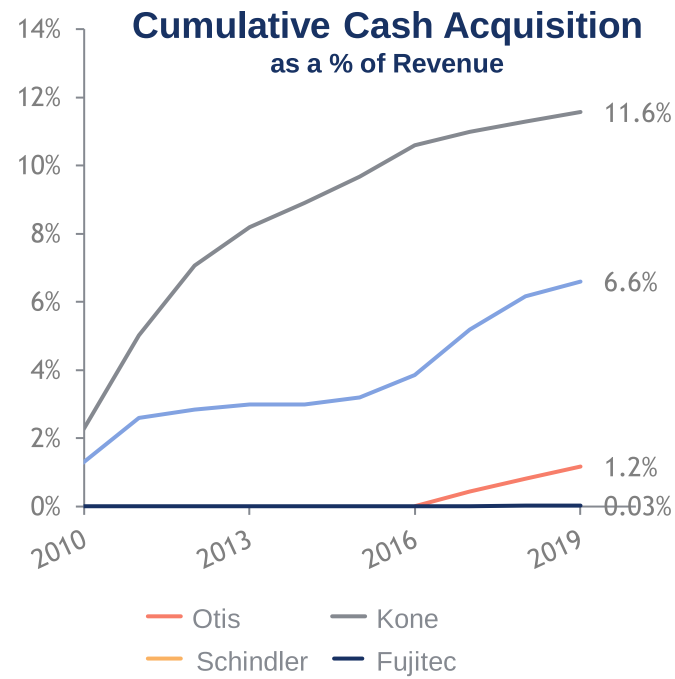
i) Lack of Scale – The Cause

Fujitec has unsuccessfully relied on costly organic growth to pursue market share…



…while competitors have capitalized on M&A, particularly Kone which has achieved the strongest growth.

As a % of revenue Otis has spent more on M&A in just 3 years than Fujitec has in 10



Source: Capital IQ.
Note: Fujitec year end 31 March. Otis data not available before 2017

i) Lack of Scale – Summary

- Economies of scale play a significant part in driving lower costs and higher margins especially for maintenance services and procurement
- Fujitec should explore all M&A options in its transformation plan

Procurement

- Larger material purchases give stronger bargaining power over suppliers resulting in lower prices and more favourable terms
- For more commoditised products, OEMs can capitalise on suppliers' economies of scale by outsourcing components to them

Fujitec suffers from higher raw material prices than peers due to lower bargaining power

This can be solved through concentrating on growth through M&A in regions where Fujitec has a strong foothold and relying on the scale of third party manufacturers

Maintenance

- The service of elevators is labour-intensive requiring technicians to physically attend sites for inspections
- This means regional economies of scale are important for advancing profitability i.e. service technicians can spend less time travelling between sites and conduct more visits per day at comparable cost

Fujitec should seek to increase the density of its units under management by acquiring smaller, independent service providers

Source: AVI

ii) Inefficient Manufacturing Processes

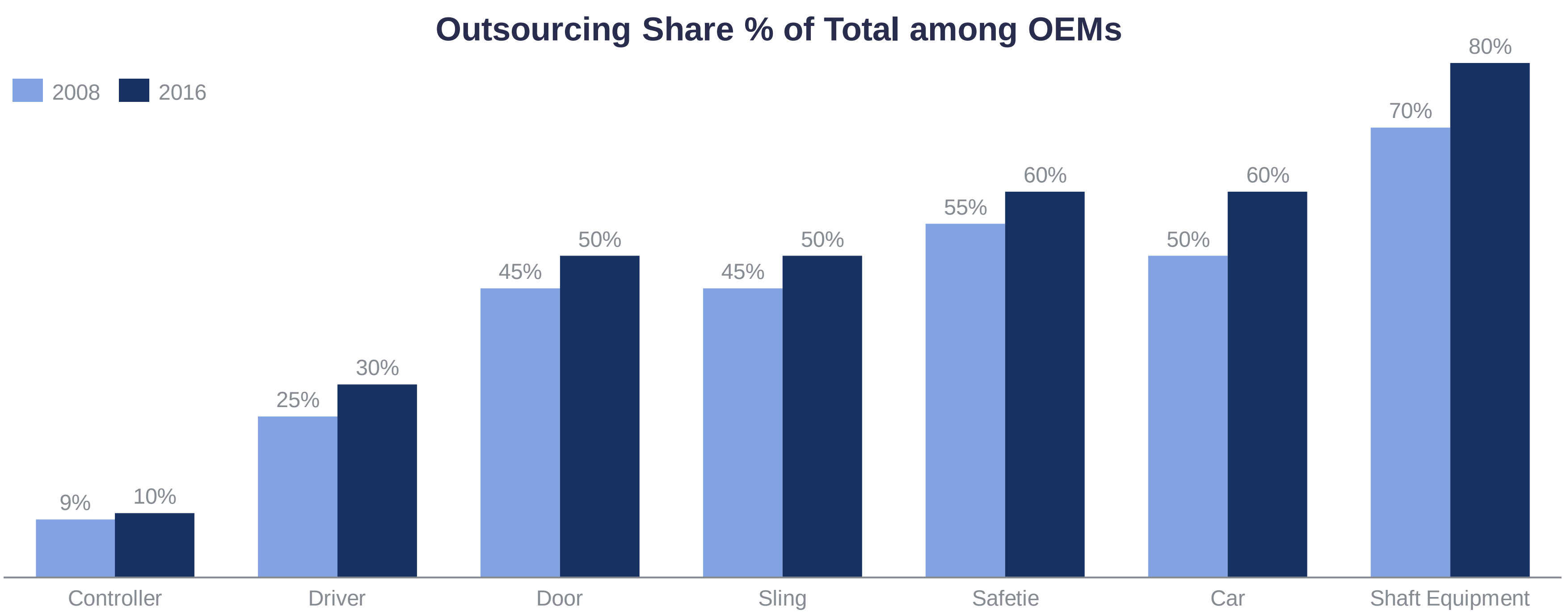
- Fujitec largely relies on a vertically-integrated manufacturing process, where it produces componentry in-house
- There are significant cost savings to be made by streamlining this process and relying on outsourced manufacturing

	Order Receipt	Planning & Customisation	Sourcing	Manufacturing
Issue	• Fujitec easily accepts order with special specification, compromising manufacturing efficiency	• % Customisation is high, ending up with complicated manufacturing process	• Management sticks to vertical-integration model even after years of poor factory utilisation and low cost competitiveness	• Manufacturing parts in-house increases overheads, inventory and reduces flexibility • Outsourced manufacturers have better knowhow in parts production and high production quality
Solution	• Increase standardised product offering to decrease the extent of customisation • Persuade customers into standardized products/specifications	• Simplify design drawings and leverage expertise of specialist third party manufactures	• Increase outsourcing of components to third party manufactures who benefit from scale and better cost efficiencies	• Focus on high-spec components, technological innovation and assembly only • Modularise components
Goal	• Minimised customization and simplified design drawings streamline subsequent manufacturing process		• Leverage suppliers' economies of scale and expertise • Benefit from positive working capital impact from increased payables and reduced inventory	• Increase cost competitiveness • Drive higher margins through lower manufacturing costs and increase focus on technologically advanced solutions

Source: AVI

ii) Inefficient Manufacturing Processes – Outsourcing

- Continued outsourcing trend has allowed OEMs to focus on installing and maintaining elevators
- Like the automotive industry some decades ago, E&E players are recognising the benefits of outsourced manufacturing
- Controllers are still the primary component that most OEMs produce in-house due to complexity and proprietary technology

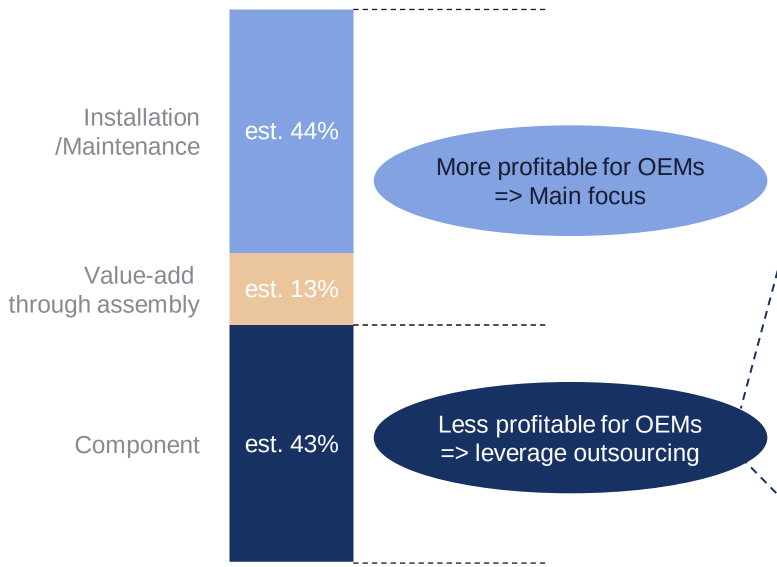


Source: Wittur, Berenberg

ii) Inefficient Manufacturing Processes – Outsourcing cont'd

- Outsourcing is a good way to leverage suppliers' scale economies and expertise
- Thanks to outsourcing, elevator OEMs can focus on core competencies – software, technology and servicing – rather than spending resources on manufacturing
- Third party manufacturers have deep capabilities and are able to produce parts to an exceptionally high standard
- Outsourcing also allows OEMs to adjust output level to changes in demands

Market Breakdown per Product Line



Why Outsourcing?

Advantage

- *Reduce costs* by leveraging suppliers economies of scale/experience
- *Focus on core competencies* such as technologies and maintenance without dealing with production issues
- *Reduce asset intensity*, freeing up cash and avoiding capital expenditures
- *Greater flexibility* to adjust output in accordance with demand
- *Utilise pooling of innovation* from suppliers to access new technologies and best-in-class processes

Suggestion

- Capitalise on outsourcing for commodity items and focus resources on value-added components (e.g. controller, electronics) and cutting-edge technology

Source: AVI, Wittur

ii) Inefficient Manufacturing Processes – Outsourcing cont'd

AVI

- **Multiple discussions with Fujitec management and competitors/suppliers suggest there is huge room for Fujitec to ramp up outsourcing**

This should be the key focus in the strategic review.

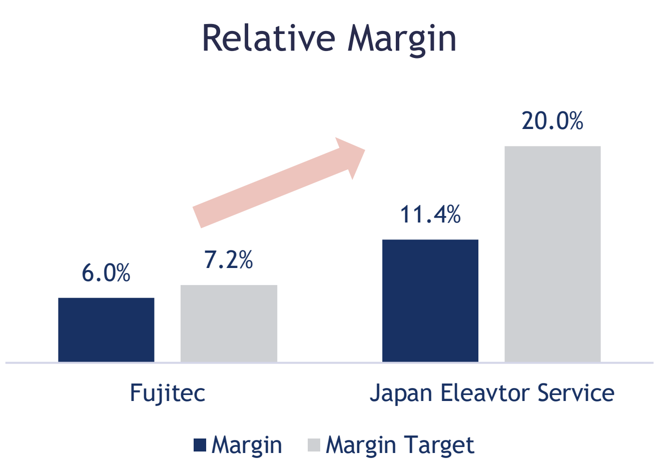
	Component	Western E&E Peers	Fujitec	Point to address
Commodity Items Est. **50-60%** of total cost	Door	**High** Full product	**Medium** Only mechanism outsourced	✓✓
	Drive/Machine	**High** Full product	**High** Full product	
	Other Commodity (Shaft, Sling, etc)	**High** Full product	**Low - Medium** Only material procured	✓✓✓
	Safety Gear	**High** Full product	**Low** Hardly outsourced	✓✓
	Cabin/Car	**Medium** Partially outsourced	**Low** Hardly outsourced	✓
Differentiating Items Est. **40-50%** of total cost	Electronics	**Low** Hardly outsourced	**Low** Hardly outsourced	
	Controller	**Low** Hardly outsourced	**Low** Hardly outsourced	
	Total Outsource Rate	Est. **50-70%**	**Est. < 30%**	

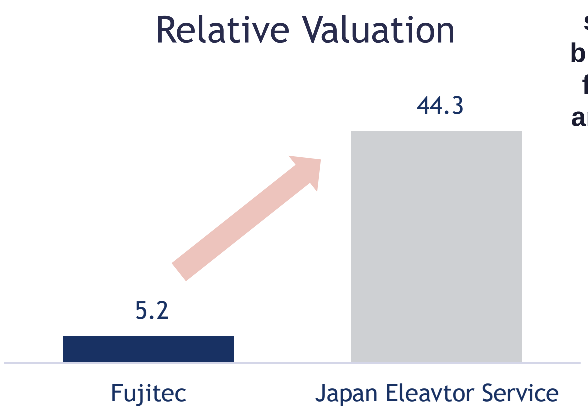
Source: AVI, Company Disclosure, Berenberg

ii) Inefficient Manufacturing Processes – Value is in Service and Technology not Manufacturing

- **Fujitec's strategy of investing heavily in vertical manufacturing and avoiding active M&A has been unsuccessful**
- **The greatest driver of shareholder value for an E&E company is not manufacturing, but technology, brand and service offering**
- **By shifting focus from manufacturing to technology and service, Fujitec could unlock a tremendous amount of value**

Japan Elevator Service (JES)(6544), a pure service company, showcases how a focused service model in a mature market like Japan can work





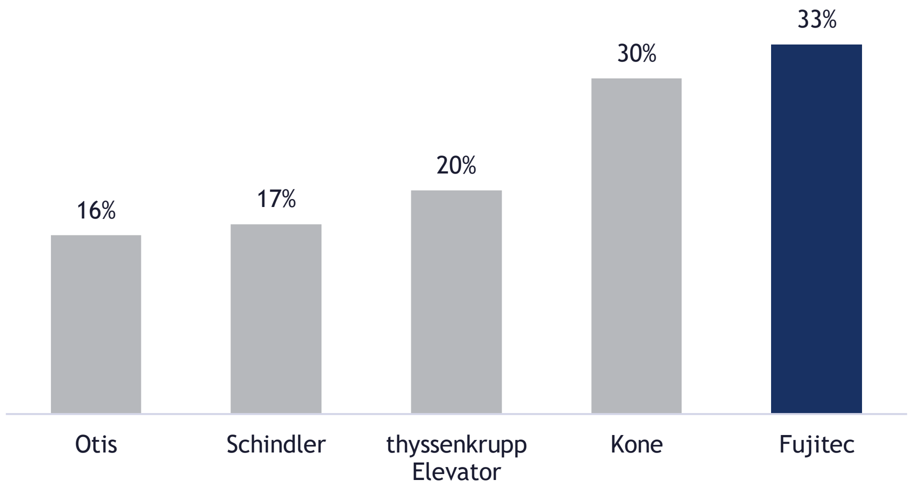
JES' achieves a high valuation multiple without manufacturing capacity. Focusing on stable maintenance business, and growth from modernization and increased market share.

Source: AVI, Capital IQ

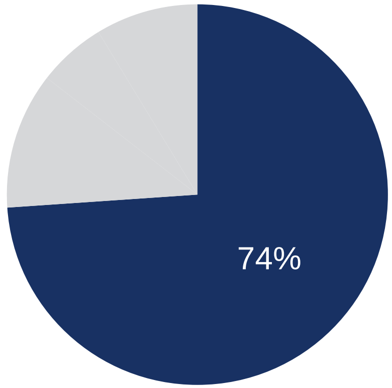
iii) Mismanagement of China Business

- Established in 1995 through a JV with Chinatex, Fujitec has a long history in China
- Today Fujitec holds a 60% stake in Huasheng Fujitec with Cofco (merged with Chinatex in 2016)
- Fujitec has a unique exposure to China in terms of profit as well as elevator production
- Given Fujitec's exposure, a transformation of Fujitec depends on the operational improvement of Fujitec's China business

Estimated % of Sales in China



Est. of Fujitec's China Production Capacity

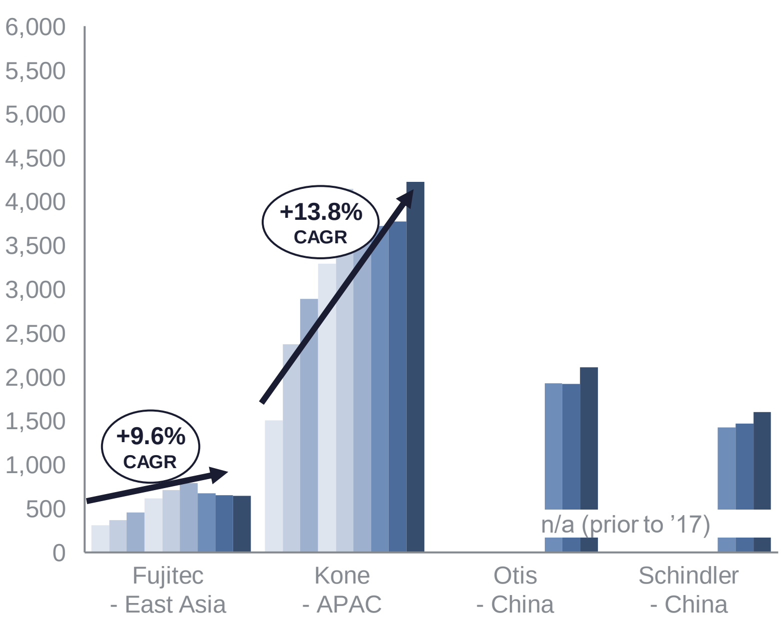


Source: AVI, Capital IQ, Jefferies, JP Morgan

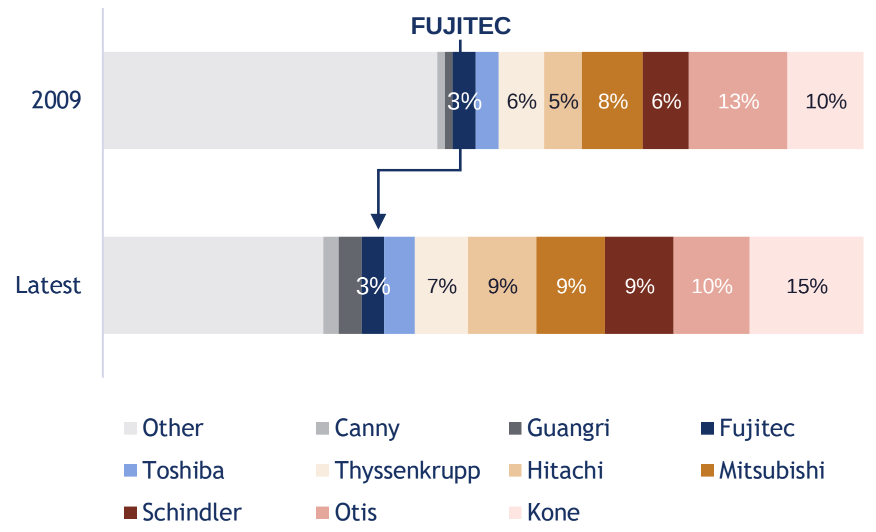
iii) Mismanagement of China Business – Market Share

- Fujitec has been suffering from lack of scale in China for years
- While local small players have been squeezed out by major OEMs over the past decade, Fujitec has failed to take market share
- Despite its smaller size it has achieved slower growth than Kone
- It is squandering an opportunity due to mismanagement and poor strategy

Revenue Expansion in China-related Segment (2011-)



Fujitec has Failed to Take Market Share in China Despite Market Consolidation

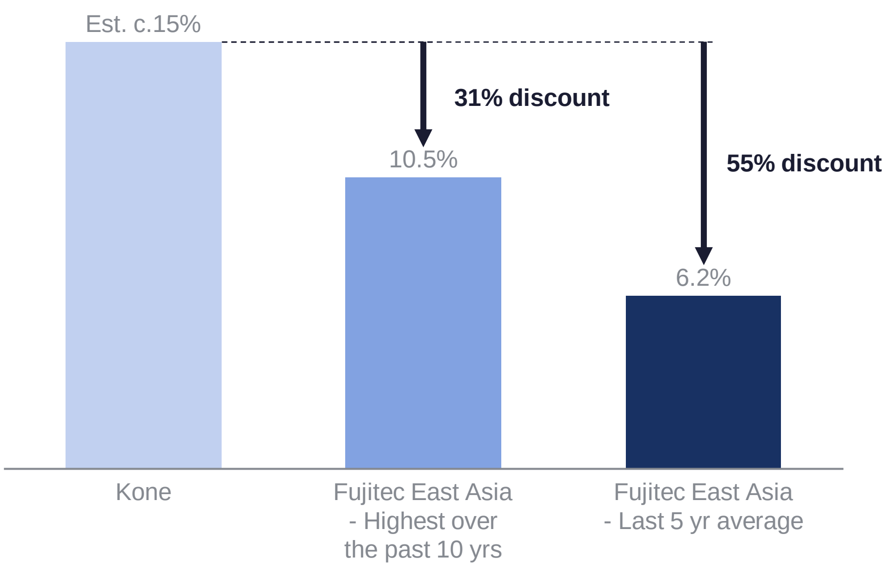


Source: Capital IQ as at 31/03/2020, Berenberg "Capital Goods & Industrial Engineering 06/06/2017"

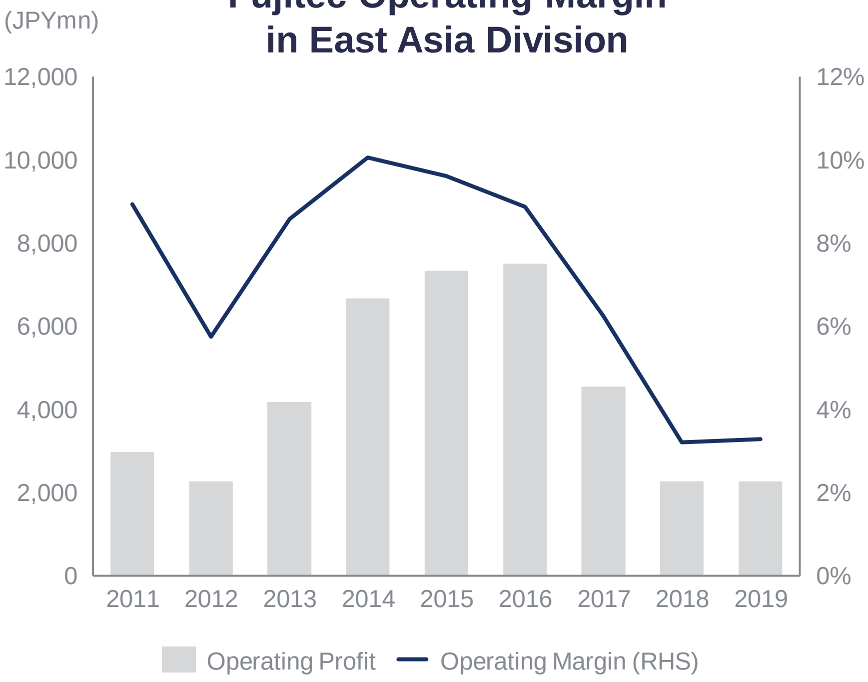
iii) Mismanagement of China Business – Underperforming Margins

- Fujitec China has been underperforming competitors margin-wise
- Its margins suffered greatly during the market downturn in 2016-2018 due to inefficiencies and high costs

Operating Margin in China-related Division



Fujitec Operating Margin in East Asia Division



Source: Capital IQ, Berenberg, Jefferies
Note: year ending March 31

iii) Mismanagement of China Business – Recommendations

- **Fujitec must address issues in its manufacturing, sales and maintenance network in China to take advantage of the huge potential, increase its scale, and reduce costs**
- **A transformation plan should be led by a new head of China, with local experience working for one of the large OEMs**

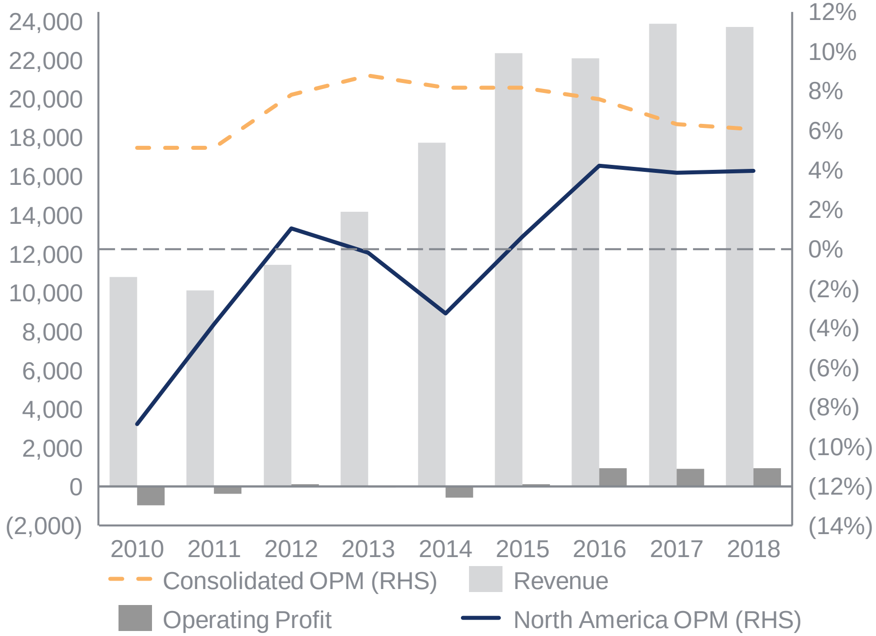
	Current State	Issue	Recommendation
Manufacturing	• Production capacity: est. **25k** elevators p.a.; Shanghai (17.5k) and Langfang (7.5k) • Utilisation rate: est. **60%**	• Overcapacity and subsequent low utilisation • Margin vulnerable during economic slowdown as seen in 2016-2018 • Fujitec has a poor product offering, particularly in high-rise and low-cost products, as it has focused on vertical in-house manufacturing rather than flexibly meeting demands of customers	• Ramp up outsourcing of products to increase flexibility • Limit further investment in manufacturing • Utilise excess capacity through rationalizing global manufacturing, and increase exports from China factories
Sales Network	• Dealing with c. **300** agents across China • Most sales activities done by agents • One of the most generous incentive policies for agents	• Mainly dealing with major agents, some of whom do NOT cover low-tier cities • Agent coverage inferior to other OEMs; e.g. Otis dealing with **1,000+** agents/distributors (drastically increased from 600+ in 2009) • Low conversion rate into maintenance contract (**<30%**) due to a focus on new installation	• Be open to expanding coverage across China by relying on agents to increase market share in lower-tier cities • Increase efforts to build long-term relationships with distributors and major construction firms by entrusting decision making to local management
Maintenance Network	• In-house maintenance 20-50% of total • Low conversion into maintenance contracts <30% vs 60% for best-in-class Schindler	• After-sales business is the bedrock of future profits and stability • Major OEMs have 60-70% of in-house maintenance • Low in-house share negatively affects margins and error rate (Fujitec's est. 20-40% higher than peers)	• Set a clear target and take effective measures to achieve higher in-house maintenance share • Properly incentivise sales agents to convert customers into maintenance contracts

Source: AVI, Berenberg, Jefferies

iv) Non-core Country Exposure – North America

- Established in 1977, Fujitec has failed to get a foothold in the North American market due to a lack of M&A and centralised decision making by Tokyo
- With North America accounting for just 3% of global new installations and being heavily focused on the service business, Fujitec should achieve a significantly higher margin
- Low scale and consequent sparse density has caused Fujitec North America to suffer consistently low margins

(JPYmn) **North America – Low Operating Margins**



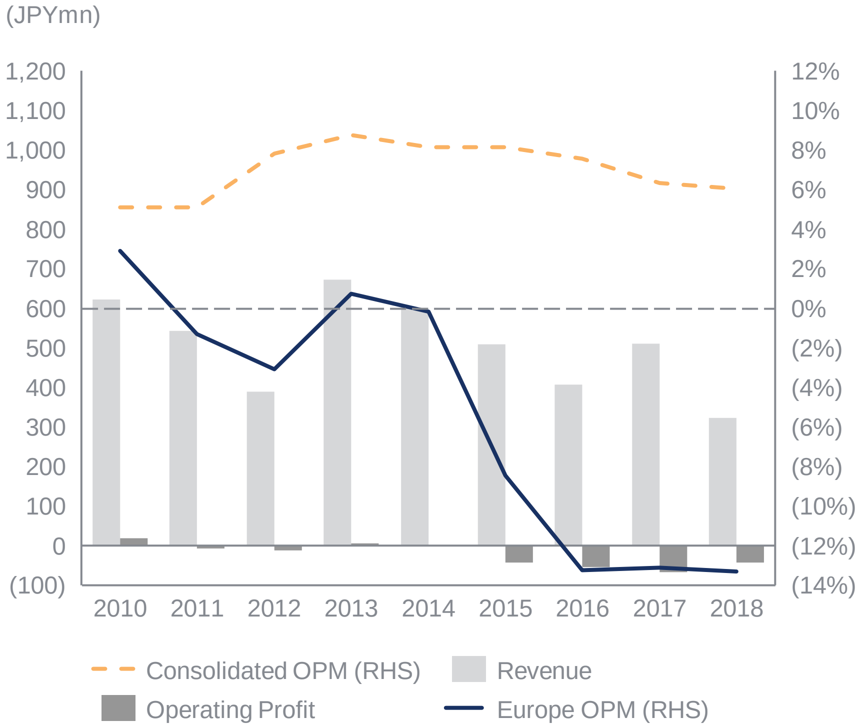
North America – Sparse Sales Footprint

Source: Capital IQ as at 31/03/2020, Jefferies

iv) Non-core Country Exposure – Europe

- Fujitec first expanded in Europe with the establishment of Fujitec UK in 1982
- Despite almost 40 years of history it has failed to establish a successful business
- Fujitec's presence today contributes little to earnings and is a distraction for management

Europe - Operating Margin



Starting to rationalize Europe business but it has come too late

2020: acquired AMALGAMATED LIFTS (UK),

- Revenue: £11.9mn
- EBIT: £0.3mn

2018: Divested FUJITEC DEUTSCHLAND (Germany) to Vestner Aufzuge

- Revenue: €1m
- EBIT: (€0.5mn)

Source: Capital IQ, Company Disclosure as at 31/03/2020

iv) Non-core Country Exposure

- **Fujitec's strategy for North America and Europe is unclear given its under-investment and resistance to exploring strategic options**
- **Fujitec needs to set clear milestones and take effective measures to overcome difficulties in North America and Europe, including *possibly* exiting the markets**

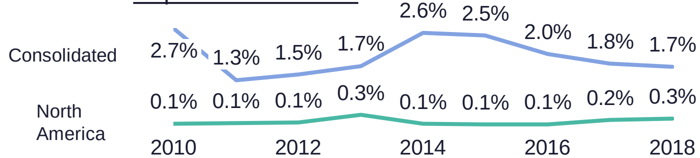
Scale-up

Organic

North America

- Under invested over years compared to company-wide

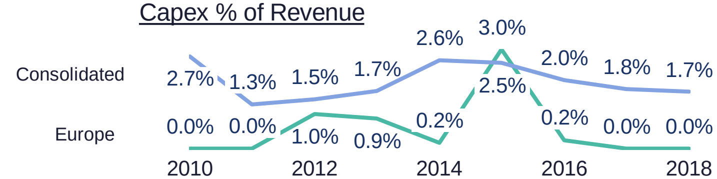
Capex % of Revenue



Europe

- Lacked consistent investment

Capex % of Revenue



In-organic

North America

- NA

Europe

- Acquired Amalgamated Lifts (UK) in 2020, which generates small £12m revenue (<1% of total)

Strategic Reorganisation

North America

- Fujitec management is NOT open to the discussion about strategic reorganisation in North America Division

Europe

- Divested German Business in 2018
- In 2007, Dalton Investments proposed Fujitec discontinue European business, which Fujitec refused and has subsequently lost money

Our Suggestion

North America

- Open the door to discussions about partnering with strategic players
- Make a strategic decision about whether to continue with North American Division or sell to a more efficient operator
- The sale of the business would attract plenty of interest given estimated 12k of units under management

Europe

- Accelerate restructuring of Europe Division
- Consider total exit to focus resources on Asian markets

Source: AVI, Company Disclosure as at 31/03/2020

iv) Centralised Decision Making

- **Discussions with Fujitec management and industry experts reveal a centralised decision making structure that does NOT allow Fujitec to leverage local experts' experience**
- **Too much centralised control reduces flexibility and leads to bureaucratic, inefficient decision making**
- **Greater delegation to overseas branches without micromanagement from Japanese executives will help address various issues below**

Utilise local needs and qualification

- Fujitec has failed to offer the right products at the right price to suit local customer needs, which is proven, for example, by the lack of market share gain in China
- China operations run by a layer of Japanese management, criticised for their bureaucracy and poor local knowledge

Achieve operational efficiency

- Fujitec management claim that they do NOT benchmark competitors due to difficulty caused by difference in scale, geography mix, business mix, etc
- More delegation of decision-making to local experts will help benchmark competitors on a local basis, giving Fujitec a better indication of their relative operational efficiency

Maximise profits by optimising business strategy

- Fujitec has failed to optimise profits in businesses outside of Japan. For example, Fujitec has failed to successfully convert new customers into maintenance due to their primary focus on new equipment business
- Giving more authority to local management will help choose the best business strategy

Seize M&A opportunities

- After years of consolidation attractive M&A opportunities are limited
- Management in charge of local branches have the contacts and local knowledge to be able to source and secure M&A opportunities. They should be encouraged to pursue deals and given more authority to act on them

Source: AVI

iv) Centralised Decision Making

- Centralised decision making is frustrating for local management and employees who have on-the-ground expertise and are better placed to guide strategy
- Public reviews by Fujitec employees highlights their frustrations:

"**Communications with the head office** is very difficult, which makes doing things difficult and means the company is highly inefficient. The unnecessary firing of employees is a serious issue"

job592 – Huasheng Fujitec – May 2018

"A lot of **red tape** between departments"

Glassdoor – Singapore – April 2014

"The situation between the head office and the subsidiaries **mean the cost of doing things is high and communication is difficult**"

job592 – Huasheng Fujitec – May 2018

"**Dinosaur policy**. Old mindset in 1980s"

Glassdoor – Anonymous – Aug 2018

"**The organizational structure changes too frequently** and, as a basic or middle-level manager, this causes a great sense of insecurity. The heads of department change too frequently and the management style changes too fast"

Kanzhun – Huasheng Fujitec – Jan 2019

"Feels like working in **old organization**"

Glassdoor – India – April 2020

Source: Glassdoor, job 592 and Kanzhun

Note: Original review is in Chinese for Job592 and Kanzhun and the above are translations

ADDRESSING FUJITEC'S UNDERVALUATION

POOR CAPITAL DISCIPLINE

Poor Capital Discipline

- A resilient, strong financial foundation is paramount for any corporation
- However, Fujitec is depressing corporate value with its inefficient balance sheet; 32% of balance sheet assets are allocated to cash and equity investments, excessive given its assets are funded with 62% equity compared to 37% for peers (12% including Otis)
- Fujitec has underutilised working capital and debt funding, which, in part, explains its lower ROE
- The Board's failure to articulate a clear capital allocation policy means they are not giving due consideration to an essential component of shareholder value

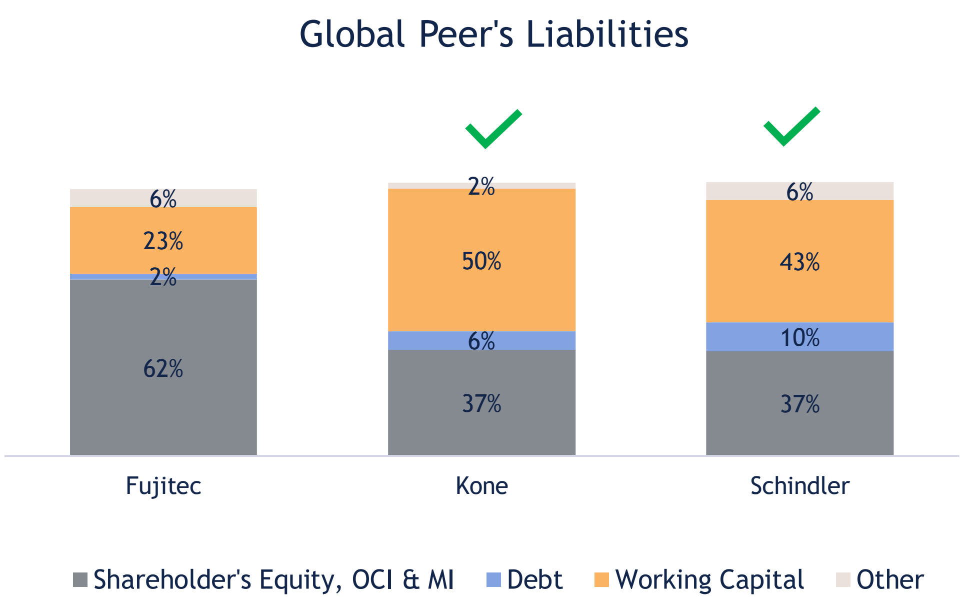
	ROE	% of Assets Funded by Equity[1]	% of 10 Year Cash Flow Returned to Shareholders	Shareholder Payout Ratio	Target Return	Disclosed Capital Policy
Fujitec	**8.8%**	**62%**	**29%**	**40%**	**Not disclosed**	**No**
Kone	*30.1%*	*37%*	*70%*	*94%*	*No*	*Yes*
Otis	*---[2]*	*-37%*	*--- [3]*	*--- [3]*	*40% Buybacks[4]*	*Yes*
Schindler	*24.4%*	*37%*	*56%*	*50%*	*35-65%*	*Limited*

Source: Capital IQ, company reports

Note: [1]Including minority interests and other comprehensive income. [2]Otis has negative shareholder's equity, preventing the calculation of ROE. [3]Data not available due to limited financials prior to Otis' recent separation. [4]Disclosed plan to conduct buybacks once leverage targets have been met.

Poor Capital Discipline cont'd – Excess Equity

- Finding the balance between maximising returns on capital and financial security is difficult
- However, Fujitec's lack of focus on capital efficiency has led to a bloated balance sheet that has been, and is, mismanaged
- 62% of assets are funded with shareholder's equity compared to 37% for peers[1]



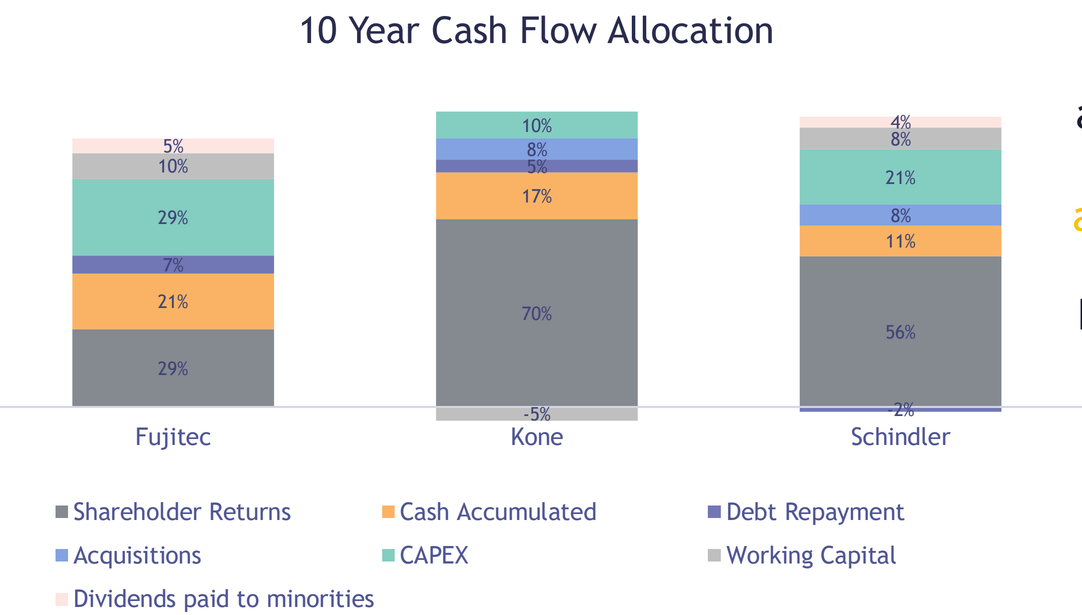
Fujitec has underutilised funding from debt and working capital, relying too heavily on expensive equity.

Kone's and Schindler's approach to balance sheet management is conservative yet value enhancing.

Source: Capital IQ and company reports
Note: [1]Excluding Otis

Poor Capital Discipline cont'd – Excess Equity Driven by Low Shareholder Returns

- Fujitec has returned less cash to shareholders than its peers
- Over the past 10 years Fujitec has allocated only 29% of cash flow from operations to shareholder returns, compared to 70% and 56% for Kone and Schindler
- Fujitec has allowed 21% of its 10 year cash flow to needlessly accumulate on the balance sheet compared to 14% for peers
- The situation is exacerbated by Fujitec's diversion of 7% of cash flow to pay down inexpensive debt. Excluding debt repayments Fujitec has accumulated 28% of its 10 year cash flow compared to 16% for peers



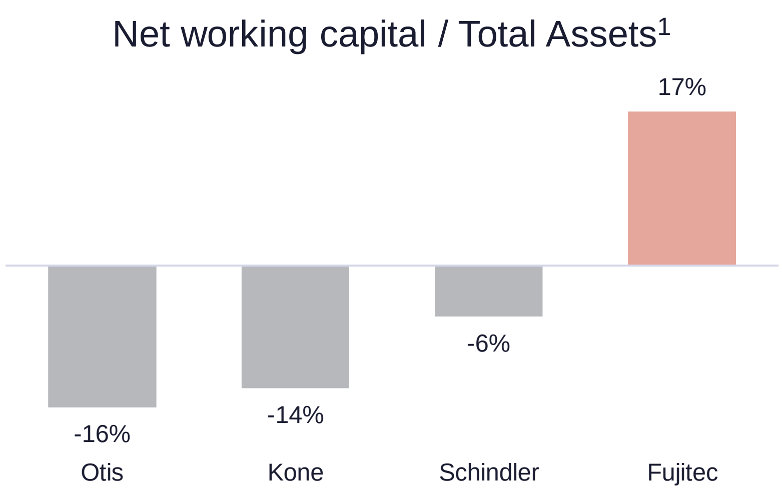
Fujitec has returned a relatively low amount of cash to shareholders, repaid inexpensive debt and senselessly accumulated cash on the balance sheet

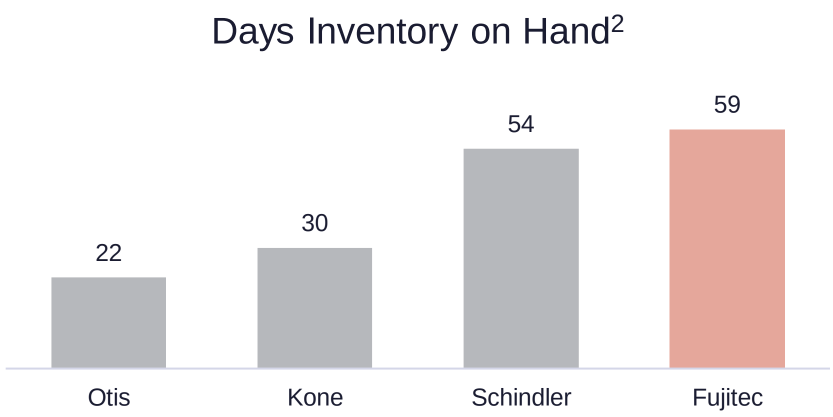
Fujitec's management have focused on investing capital to build out manufacturing rather than conducting opportunistic M&A, a strategy with questionable results

Source: Capital IQ and company reports
Note: Capital allocation based on cash from operations before working capital

Poor Capital Discipline cont'd – Excess Equity Driven By Poor Working Capital Management

- Fujitec is the only global peer with a net positive working capital position
- Low manufacturing outsourcing and inefficient terms with customers and suppliers absorbs excess capital, particularly inventory





Source: Capital IQ and company reports

Note: [1]Working capital defined as: Receivables + Inventory +/- net advance payments – payables – accruals. [2]Days inventory on hand = (average inventory / cost of goods sold) * 365. Cost of goods sold is defined, where possible, for each company as cost of materials + staff costs + production costs

Poor Capital Discipline cont'd – Too Much Equity Driven by Strategic Investments

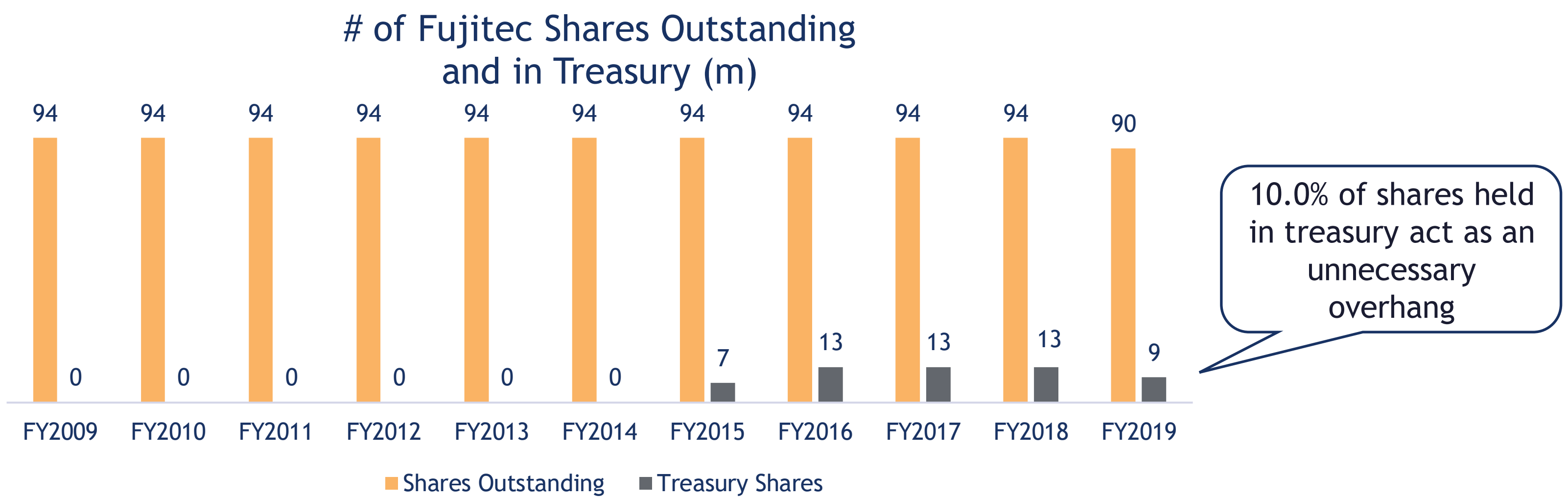
- Fujitec holds stakes in 39 listed companies with a value of Y5.8bn or 5% of Fujitec's market cap and 4% of balance sheet assets
- 25 of these holdings are part of a cross-shareholding structure, an archaic approach to building business ties with customers or suppliers
- The Japanese Corporate Governance Code frowns upon such cross-shareholdings, emphasising that companies should have a plan for their reduction and that business relationships should not be harmed from the unwinding

Company	Value (¥m) 24/04/2020	Cross-Holding?
Kubota	969	Y
Sumitomo Realty & Development	856	Y
Shibusawa Warehouse	546	Y
Taikisha	431	Y
Torishima Pump	327	Y
Uchida Yoko	324	Y
Ono Pharmaceutical	222	Y
Fuji Electric	218	Y
Sapporo Holdings	218	Y
Sekisui Jushi	216	Y
Other (29)	1,514	Y (15/29)
Total	**5,841**	

Source: Capital IQ and Fujitec's 2019 securities report
Note: Value as at April 2020 based on holdings as at 31/03/2019

Poor Capital Discipline cont'd – Historical Buybacks and Overhang of Treasury Shares

- Fujitec has only ever conducted two share buybacks, in February 2015 and April 2015, for 6.4% and 7.4% of shares outstanding respectively
- Both purchases were conducted through ToSNeT-3 where a seller is usually arranged prior to announcing the buyback
- The buybacks seemed to be driven by the purchase of shares from a UTC (previous Otis owner) affiliate company to facilitate their exit from Fujitec. Capital allocation was not the primary objective
- Fujitec only cancelled 3.9% shares, leaving 10.0% of shares in treasury which, to eliminate the risk of reissuance, should be cancelled



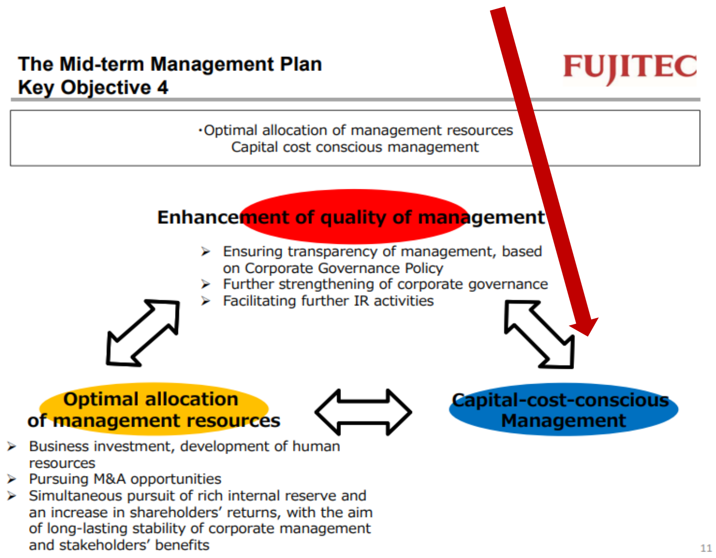
Source: Capital IQ, company announcements

Poor Capital Discipline cont'd – Lack of Capital Policy

- Fujitec does not disclose a capital policy and simply states they have a policy which considers cost of capital[1]
- Capital efficiency is an important driver of corporate value. It must be rigorously analysed by the Board and a policy disclosed to shareholders
- To differing degrees of detail, each of Fujitec's peers discloses a capital policy
- Fujitec should outline a detailed and well-thought-through capital policy to shareholders, including justification for its bloated balance sheet and a target shareholder return ratio

	Capital Policy	Shareholder Return Policy
Kone	Eight paragraphs, discussing aim to maintain negative working capital and high return on assets employed, ensuring strong credit, willingness to utilise borrowing and using WACC as a hurdle rate when allocating capital.	Flexible
Otis	Whole slide dedicated to capital allocation in Capital Markets Day presentation. Paying down $250m of debt in 2020 and 2021 - no planned deleveraging thereafter. Sustainable 40% payout ratio, share repurchases once target leverage metrics met and bolt-on M&A.	40% Buyback[2]
Schindler	Dedicated section in annual report to capital management. Aim to maintain strong credit rating and manages its capital by monitoring net liquidity and equity ratio.	35%-65%

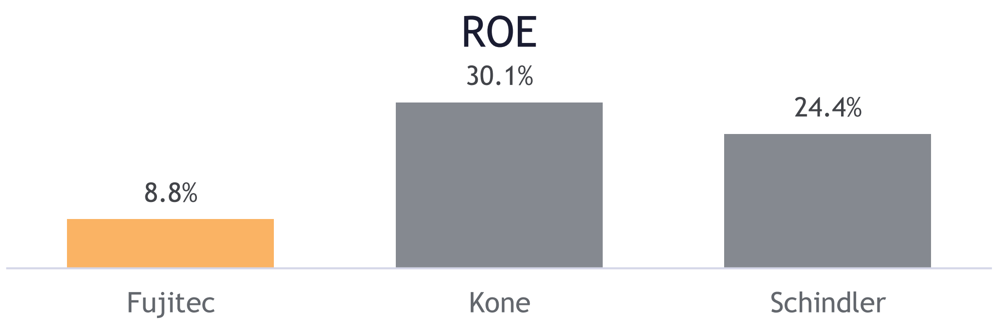
Fujitec's capital policy in its 2019 mid-term plan consists of four words



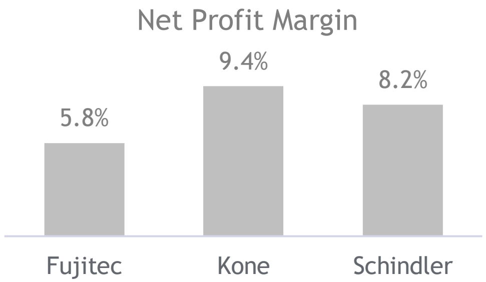
Note: [1]Fujitec Corporate Governance report 2019 [2]Disclosed plan to conduct buybacks once leverage targets have been met

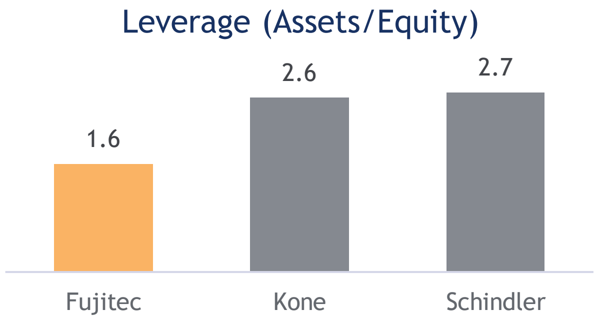
Poor Capital Discipline cont'd – Inefficient Balance Sheet Harming ROE and Corporate Value

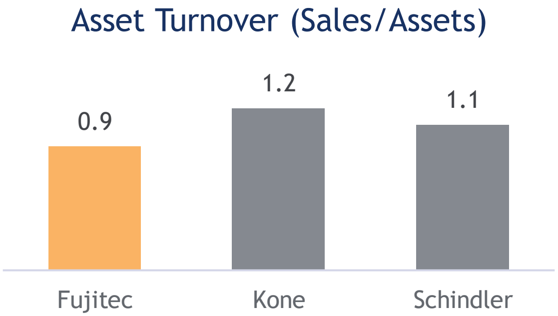
- **ROE is a primary driver of corporate value which is driven by both "R" and "E" - either increasing profits or reducing equity**
- **Fujitec's relatively low margins offers an opportunity for improvement but alongside this Fujitec must explore improving balance sheet efficiency**
- **Fujitec has the lowest leverage and asset turnover amongst its peers**



Fujitec has the lowest ROE amongst peers. ROE is as much about "E" as it is "R"



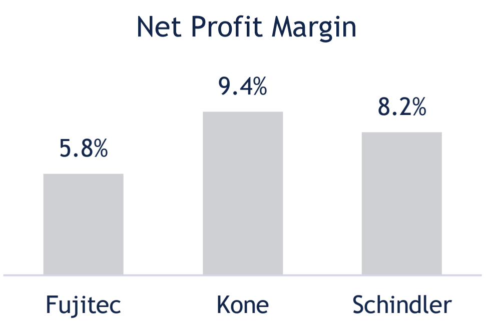


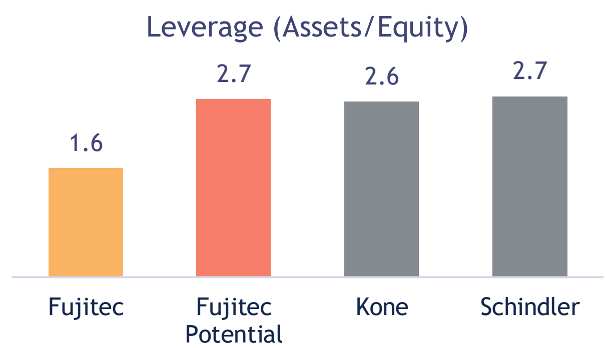


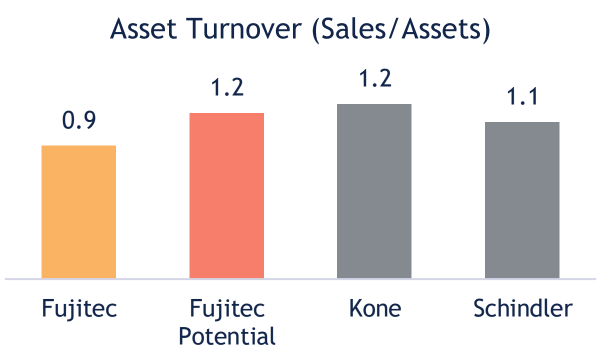
Source: Capital IQ, company reports
Note: Otis excluded from analysis due to negative equity. Based on latest full year results, including minority interests and the average of two year equity/assets

Poor Capital Discipline cont'd – Inefficient Balance Sheet Harming ROE and Corporate Value

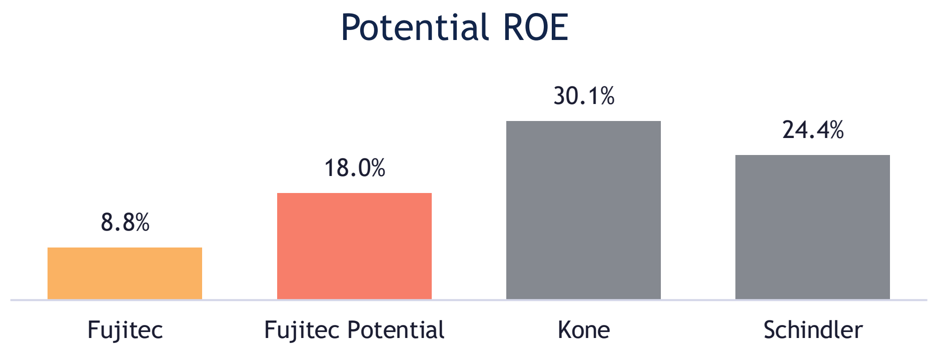
- **Kone's and Schindler's balance sheet structure presents a target for Fujitec to work towards**
- **Both companies have family roots and management have successfully achieved a healthy balance between prudent conservatism and shareholder returns**
- **By better managing working capital and returning excess capital to shareholders Fujitec could achieve a higher ROE, while preserving its financial strength**







A significant improvement in ROE and shareholder value, through better balance sheet management is possible



Source: Capital IQ, company reports
Note: Otis excluded from analysis due to negative equity. Based on latest full year results, including minority interests and the average of two year equity/assets

Poor Capital Discipline– Recommendations to Improve Capital Efficiency

Reduce Excess Equity

- **Fujitec has too much equity, harming ROE and corporate value:**
  - Fujitec has the lowest ROE amongst peers, 8.8% vs Kone and Schindler's 30.1% and 24.4%
  - While partly attributable to lower margins, Fujitec's low ROE is also driven by an excess of shareholder equity. By matching Kone and Schindler's balance sheet management, Fujitec could increase its ROE to 18.0%
  - To reduce excess equity, Fujitec should undergo a share buyback program and increase its payout ratio to above 50%. All purchased shares should be cancelled

Enhance Working Capital Management

- **More rigorous working capital management:**
  - Fujitec is the only global peer with a positive working capital position
  - Part of this is explained by a low outsourcing ratio
  - A not insignificant amount of cash could be released through shifting manufacturing processes and better managing working capital

Sell Strategic Investments

- **4% of balance sheet assets held in strategic investments:**
  - Fujitec has investments in 39 listed companies for business related purposes
  - These relationships are an antiquated way of doing business and are discouraged by the Corporate Governance Code
  - Fujitec should sell all its strategic investments and return the cash to shareholders

Introduce a Rigorous Capital Policy

- **Fujitec's should implement a rigorous and publicly disclosed capital policy:**
  - Fujitec's capital policy is unclear and the lack of detail indicates its low priority for management
  - Given the differing allocation of Fujitec's balance sheet from those of its peers, Fujitec should explain its stance and provide a detailed strategy for how it plans to make improvements

ADDRESSING FUJITEC'S UNDERVALUATION

WEAK GOVERNANCE

Weak Governance

- Fujitec has the weakest governance of all global elevator companies
- Poor governance is a risk for shareholders and contributes to Fujitec's lower valuation
- These issues are easily rectifiable

	% Board Independence	Separation of Chairman and President	Board Structure	% Executives on Board	Compensation/ Nomination Committee	Anti-Takeover Measure
Fujitec	**56% (5/9)**	**N**	**Audit & Supervisory Committee**	**44%**	**N**	**Y**
Peers *(below)*	**67%**	**Y**	**Three Committee[1]**	**20%**	**Y**	**N**
Hitachi	***73% (8/11)***	***Y***	***Three Committee***	***27%***	***Y***	***N***
Kone	***67% (6/9)***	***Y***	***Three Committee***	***0%***	***Y***	***N***
Mitsubishi Electric	***42% (5/12)***	***Y***	***Three Committee***	***25%***	***Y***	***N***
Otis	***78% (7/9)***	***Y***	***Three Committee***	***22%***	***Y***	***N***
Schindler	***64% (7/11)***	***Y***	***Three Committee***	***27%***	***Y***	***N***
Toshiba	***83% (10/12)***	***Y***	***Three Committee***	***17%***	***Y***	***N***

Source: company filings and corporate websites
[1]Three committee board structure: Audit, Nomination and Compensation – or equivalent

Weak Governance cont'd – Low Relative Independence

- 56% of Fujitec's Board directors are independent vs a peer average of 67%, with Toshiba-best-in class at 83%
- While additional independent contribution of Endo Kunio and Yamahira Keiko from June 2019 is welcome, more independence - particularly with capital markets, M&A and global elevator expertise - is needed

Name	Position	Appointment Date	Career Experience
Takakazu Uchiyama	Representative Director, President and CEO	June 2002 (representative director)	Fujitec (1976)
Takao Okada	Senior Executive Operating Office	June 2012	Fujitec (1976)
Yoshiichi Kato	Senior Executive Operating Office	June 2017	Fujitec (1977)
Takashi Asano	Senior Executive Operating Office	June 2017	Fujitec (1977)
Terumichi Saeki	Independent Director	June 2014	Kitahama Partners (attorney)
Nobuki Sugita	Independent Director	June 2017	Professor of Economics
Shigeru Yamazoe	Independent Director	June 2018	Marubeni
Kunio Endo	Independent Director	June 2019	Honda Motor Co., Ltd
Keiko Yamahira	Independent Director	June 2019	Kubota House Co., Ltd (now Sanyo Homes)

Source: Fujitec 2019 Annual Report

Weak Governance cont'd – Suboptimal Board Structure

- Fujitec adopts the conventional statutory auditor-style board structure
- This was the only board structure available in Japan until 2003
- An audit & supervisory committee board structure has two separate boards: a board of directors and a board of statutory auditors, a majority of which must be outsiders. However, they do not vote on board matters
- The greatest flaw with this structure is that decision making cannot be delegated to management
- The Board operates as a management body with minor resolutions and reporting clogging Board agendas. Decisions like abolishing/changing of branches and appointing/dismissing management are decided by the Board, leaving little time for long-term strategy and big-picture thinking
- All of Fujitec's global peers adopt a three committee-style board to better enhance decision making, which Fujitec should emulate

	Problem with statutory auditor-style company
❌	Cannot delegate decision making
❌	Board agenda gets clogged with minor resolutions, not allowing adequate time for long-term strategic discussions
❌	No legal committee structure, with lack of rigor surrounding compensation and nominations decision making

Company	Board Structure	# of Execs on Board
Fujitec	Statutory auditor	44%
Hitachi	Three committee[1]	27%
Kone	Three committee	0%
Mitsubishi Electric	Three committee	25%
Otis	Three committee	22%
Schindler	Three committee	27%
Toshiba	Three committee	17%

[1]Three committee board structure: Audit, Nomination and Compensation – or equivalent

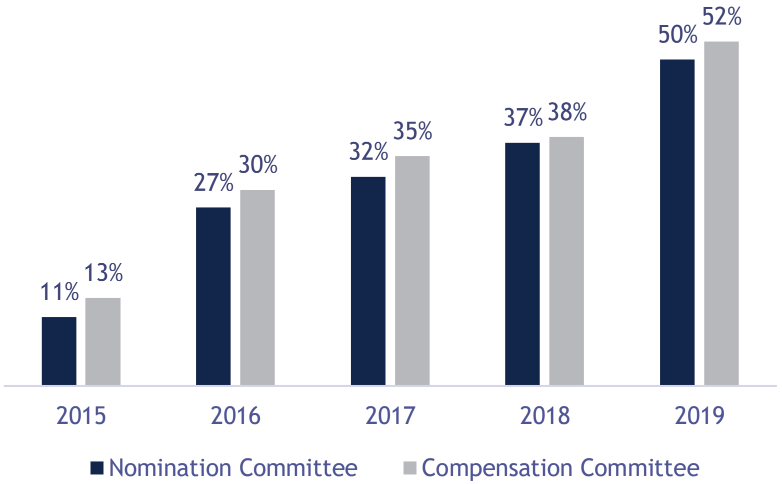
Weak Governance cont'd – No Compensation or Nomination Committee

- Fujitec is the only global elevator company not to have a compensation or nomination committee
- Decision making surrounding compensation and nomination is vague and unclear
- Fujitec needs dedicated committees, composed and chaired by independent directors to improve compensation and nomination decision making
- This can be resolved through adopting a three committee-style board structure

All Fujitec's global peers have nomination & compensation committees

Company	Committees
Fujitec	Statutory Audit Committee
Hitachi	Audit, Compensation and Nomination
Kone	Audit, Compensation and Nomination
Mitsubishi Electric	Audit, Compensation and Nomination
Otis	Audit, Compensation and Nomination
Schindler	Audit, Compensation and Nomination
Toshiba	Audit, Compensation and Nomination

The ratio of companies on TSE1 with either a nomination or compensation committee is increasing



Source: Mizuho based on FSA and TSE

Weak Governance cont'd – Combined Chairman and President/CEO Role

- Fujitec has no separate Chairman role, with Takakazu Uchiyama holding the role of President, CEO, and Chairman
- METI in its Practical Guidelines for Corporate Governance Systems, encourages companies to examine whether the powers and title of chairman should be given to the president/CEO
- Fujitec is the only company amongst its global peers where the Chairman is also the President/CEO
- No peer has a Chairman that also sits on its executive board
- Fujitec should appoint a non-executive, independent, Chairman to oversee board matters

Company	Chairman	President/CEO
Fujitec	President & CEO	Chairman
Hitachi	Independent, **non-executive**	Board member
Kone	Insider, **non-executive**	**Not on board**
Mitsubishi Electric	Insider, **non-executive**	Board member
Otis	Insider	Board member
Schindler	Insider	**Not on board**
Toshiba	Outsider, **non-executive**	Board member

Weak Governance cont'd – Anti-takeover Measure

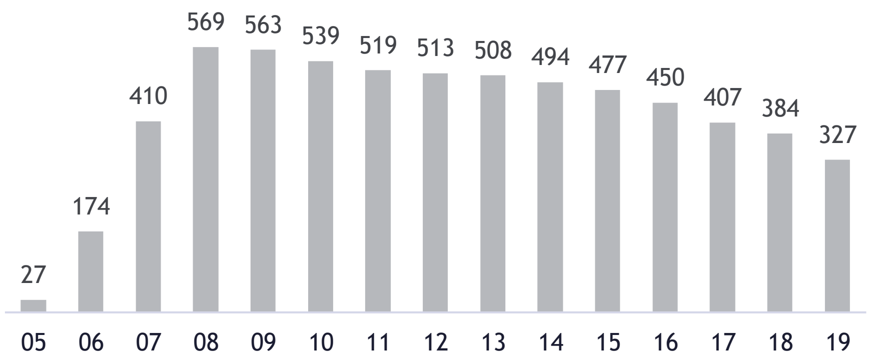
- **Fujitec implemented an anti-takeover measure/poison pill in 2007 following a takeover attempt**
- **The measure is voted on by shareholders every three years and was passed with 64% approval 2019**
- **After instruction by the board and approval at a shareholder meeting, a shareholder who acquires more than 20% of the shares can be diluted**
- **While only implementable by shareholders, its legal complexity and the Board's ability to delay an acquirer is enough to discourage advances by would-be-suitors**
- **Anti-takeover measures are associated with the entrenchment of the Board; without the healthy risk of a takeover, management are less incentivised to maximise shareholder value**
- **All else being equal, anti-takeover measures impair corporate value**

Fujitec is the only company amongst global peers with an anti-takeover measure

Poison Pill	No Poison Pill
Fujitec	Hitachi, Kone, Mitsubishi Electric, Otis, Schindler, Toshiba

Fewer companies are retaining their anti-takeover measures… Fujitec is the exception to the trend, with the Board seeking its renewal in 2019

Companies with anti-takeover measures



Source: Nomura, based on companies disclosure
Note: All listed companies in Japan are covered

Weak Governance – Recommendations to Improve Fujitec's Governance

Increase Independence

- **Appoint additional independent directors such that 2/3 of the board are independent:**
  - In order to ensure diversity of opinion Fujitec should seek a board that has 2/3 independent members, inline with peers
  - New independent directors should have capital markets and M&A experience, in addition to relevant global elevator expertise

Change Board Structure

- **Change Fujitec to a company with a three committee-style board structure:**
  - All global peers have a three committee board structure
  - The three committee structure allows delegation of management powers to executives and frees up time for the Board to focus on long-term strategic decision making
  - Independent and dedicated input into important nomination and compensation matters will ensure fair and thorough decision making

Separate Chairman Role

- **Appoint a non-executive Chairman:**
  - Separate the Chairman and President role to ensure appropriate accountability and rigorous decision making, in-line with every other global peer
  - Appoint an independent Chairman to increase independent oversight

Abolish Anti-Takeover Measures

- **Abolish antiquated anti-takeover measures:**
  - Anti-takeover measures entrench management at shareholders expense
  - No other global peer has anti-takeover measures which are becoming less common in Japan
  - The Board should abolish the measure or at the very least not seek its renewal in 2022

ADDRESSING FUJITEC'S UNDERVALUATION

Poor Shareholder Communications

Poor Shareholder Communications

- Fujitec's disclosure and transparency in both Japanese and English is suboptimal
- Peers have dedicated IR functions and devote considerable resources to shareholder communications
- Lack of information and awareness is hampering Fujitec's valuation

	Capital Markets Days/Mid-term Plan # of pages	# of sell-side analysts	Length of Annual Report	Length of Interim Report	Dedicated IR	Length of annual results briefing
Fujitec	**15 pages**	**0**	**115 / 64[1] pages**	**10/2 pages[1]**	**N[2]**	**14mins**
Kone	***5 separate presentations, total 131 pages***	***32***	***100 pages***	***34 pages***	***Y***	***1 hour 25mins***
Otis	***77 pages***	***7***	***-[3]***	***-***	***Y***	***53mins[4]***
Schindler	***n/a***	***24***	***226 pages***	***18 pages***	***Y***	***1 hour 55mins***

Source: company filings, corporate websites, Bloomberg

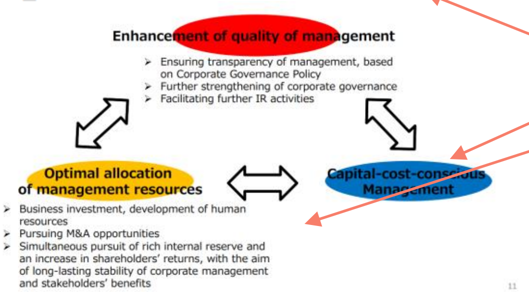
Notes: [1]English [2]IR function lead by Yasuhiko Kimura but not as his primary responsibility [3]Form 10, 846 pages released prior to listing [4]Q1 2020 results briefing length as Otis has not had an annual results call yet

Poor Shareholder Communications – Lack of Strategy and Vague Mid-Term Plan

- Fujitec's 15 page mid-term plan is vague and covers very little strategy
- It's clear that little thought or effort went into the plan, with little importance placed on communicating to shareholders
- Management presented goals and objectives without rationale or a plan on how to achieve them
- No analysis of the 2016-2018 mid-term plan despite missing profit forecasts by -36%
- Subpar transparency relative to peers, particularly versus best-in-class Kone

Fujitec's unimpressive and vague mid-term plan

・North America:
- Increasing the market share through installation and modernization
- Improving profitability by reinforcing competitiveness of maintenance activities



Vague goals without detailed explanations or figures.

vs

・China:
- Simultaneous pursuit of larger market share and higher profitability of installation based on further enhancement of price competitiveness

KONE's 2018, 29 slide presentation on its China strategy vs Fujitec's one sentence

Source: company filings and corporate websites

Poor Shareholder Communications – Sell-Side Coverage

- Fujitec has no sell-side coverage, limiting the market's awareness of Fujitec
- Fujitec's coverage is dramatically lower than peers
- Considering Fujitec's market cap, attractive business model and high foreign ownership it is surprising Fujitec has no coverage
- While it is not directly within Fujitec's control whether a investment bank adopts coverage, it can be encouraged through better transparency and communications with sell-side analysts
- There are also paid research services, such as Shared Research, that Fujitec should explore

	# of sell-side analysts
Fujitec	**0**
Kone	*32*
Otis	*7*
Schindler	*24*

With Fujitec's ¥125bn market cap one would expect 3 sell-side analysts to provide research

Market Cap	<¥100bn	¥100bn - ¥150bn	¥150bn - ¥200bn	>¥200bn
Average # of sell-side analysts	0.4	3.0	3.8	9.1

Source: CapitalIQ, Bloomberg
Notes: All companies listed on 1st and 2nd section of Tokyo Stock Exchange

Poor Shareholder Communications – Lack of Detail and Transparency, no Dedicated IR

- No dedicated IR function shows in quality of shareholder materials. The current management who oversee IR are overworked and cannot focus solely on shareholders
- Fujitec's two page English interim and quarterly reports contain no explanation of the business results or detailed financials
- With foreigners accounting for almost 50% of the shareholder base, improved disclosure in English is essential
- Fujitec's annual reports contain nowhere near the same level of detail as its peers – in either English or Japanese
- While it is helpful that the results briefing webcast is translated to English, it is brief, formulaic and without Q&A from market participants

	Dedicated IR	Length of results briefing
Fujitec	N[1]	14mins
Kone	*Y*[2]	*1 hour 25mins*
Otis	*Y*[2]	*53mins*[3]
Schindler	*Y*[2]	*1 hour 55mins*

Source: company filings and corporate websites
Notes: [1]IR function lead by Yasuhiko Kimura but not as his primary responsibility [2]Head of IR at Kone, Sanna Kaje; Otis, Stacey Laszewski; Schindler, Marco Knuchel. [3]Q1 2020 results briefing length as Otis has not had an annual results call yet

Poor Shareholder Communications – Recommendations to Improve Shareholder Dialogue

AVI

Enhance Transparency

- **Improve information disclosure in reporting documents and mid-term plan:**
  - Fujitec's transparency and information disclosure is subpar relative to peers
  - A vague mid-term plan with a poorly presented strategy shows low priority placed on shareholder communication
  - Following a strategic review of the business, Fujitec should present a well thought through and rigorous strategy through a capital markets day

Encourage Sell-Side Research

- **Proactively seek coverage from sell-side investment banks:**
  - Fujitec has no sell-side coverage
  - This is surprising considering Fujitec's size, attractive business model and high foreign ownership
  - Following enhanced disclosure and a strategic review, Fujitec should approach investment banks to take up coverage of Fujitec to help improve market awareness

Improve IR Function

- **Appoint a dedicated head of IR whose sole responsibility is IR:**
  - Fujitec does not have a dedicated head of IR
  - Fujitec's poor shareholder communications can be explained by the absence of an IR team. The current management who oversee shareholder communication are overworked and unable to focus on producing high quality material
  - Fujitec should invest resources into its IR capabilities, by appointing a dedicated head of IR who is able to build a team. This IR team should regularly communicate with shareholders through road shows and conference calls

Appendix

Debunking Management's Arguments

Appendix: Debunking Management's Arguments

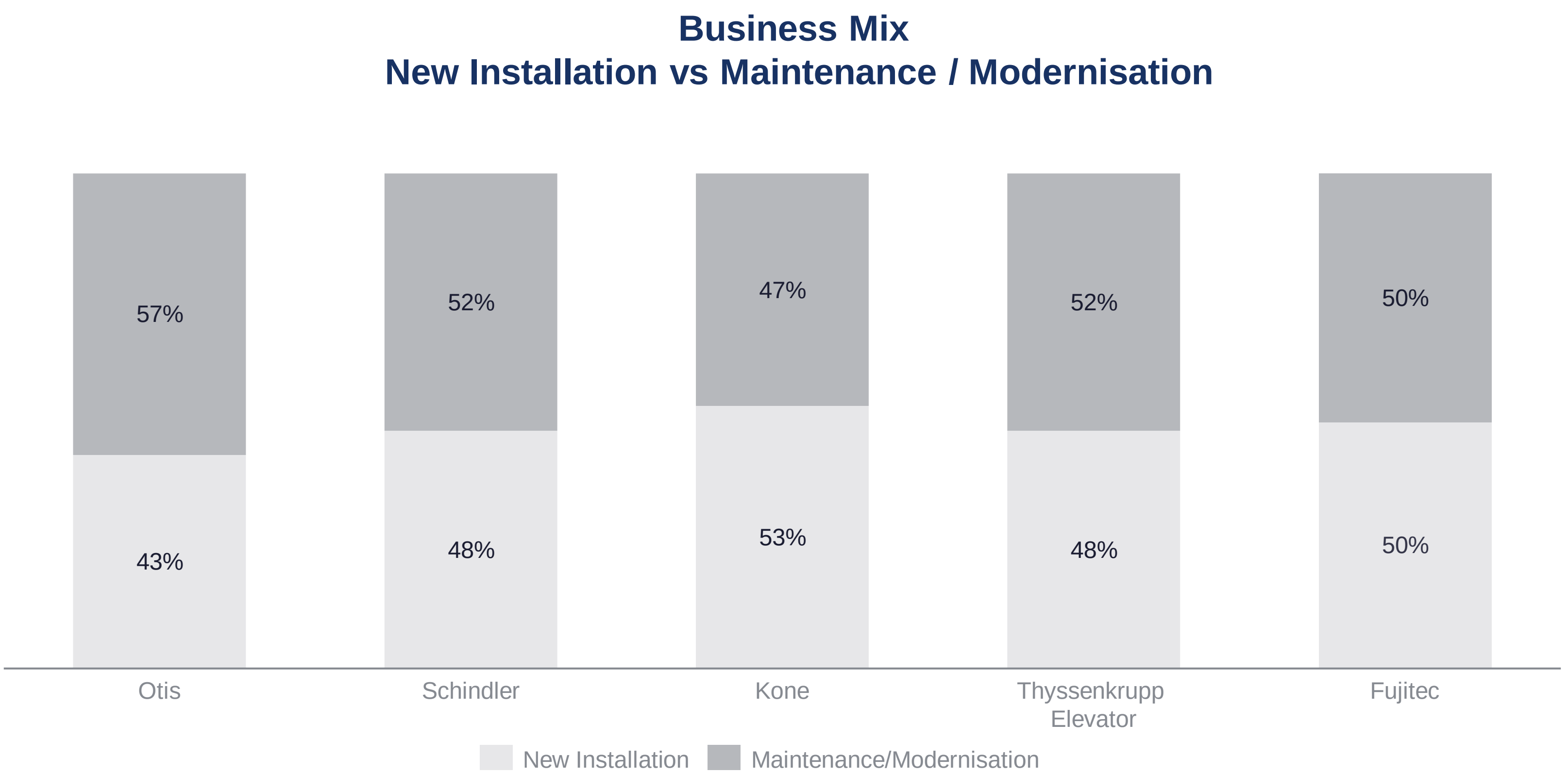
Fujitec management have defended Fujitec's low operating margins due to the following factors:

1. We are more exposed to **NEW INSTALLATION**, which generates lower margin
2. We are more exposed to **DEVELOPING MARKETS**, which generate lower margin

BUT, the above factors do NOT fully explain Fujitec's low margin, and there is substantial room for operational improvement

Debunk Management's Arguments – 1. "Fujitec is More Exposed to New Installation"

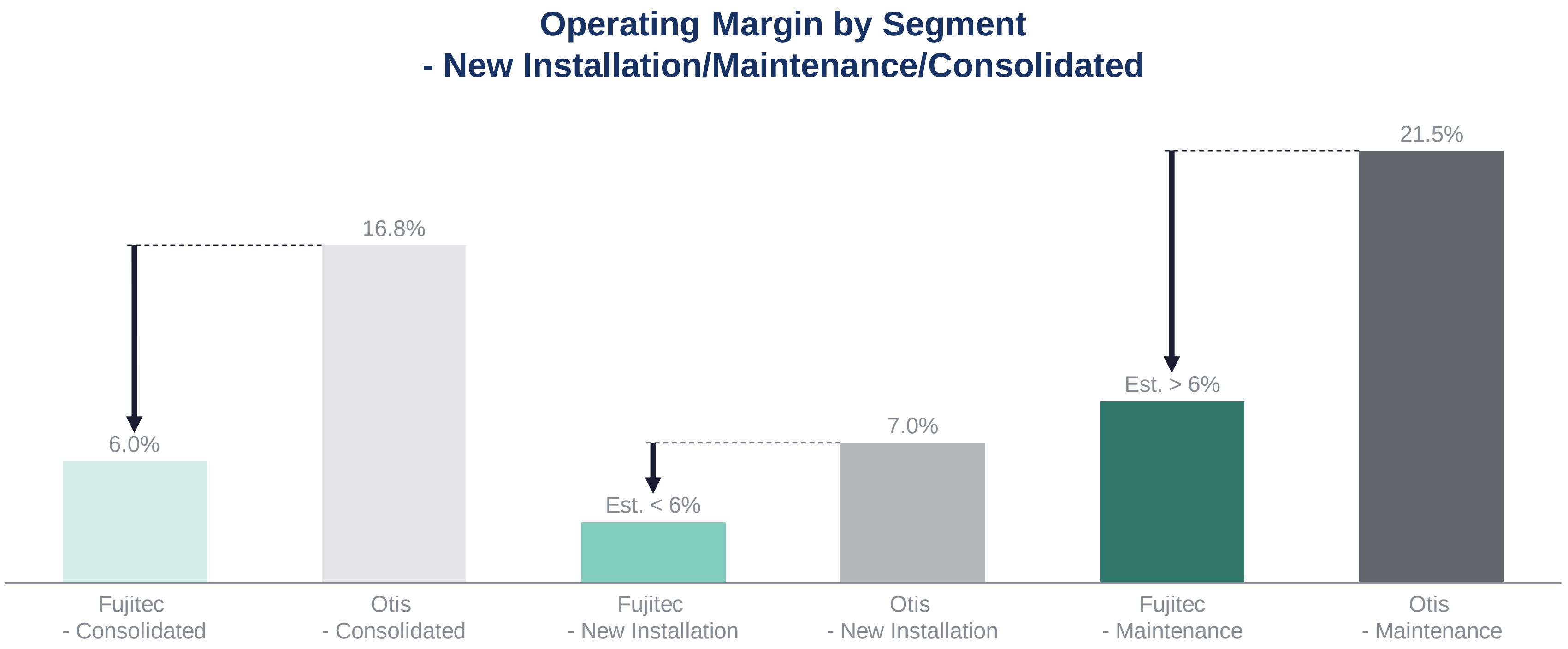
- Fujitec's exposure to high-margin after-service work is inline with peers, accounting for 50% of total sales



Source: Capital IQ, Jefferies

Debunk Management's Arguments
– 1. "Fujitec is More Exposed to New Installation cont'd

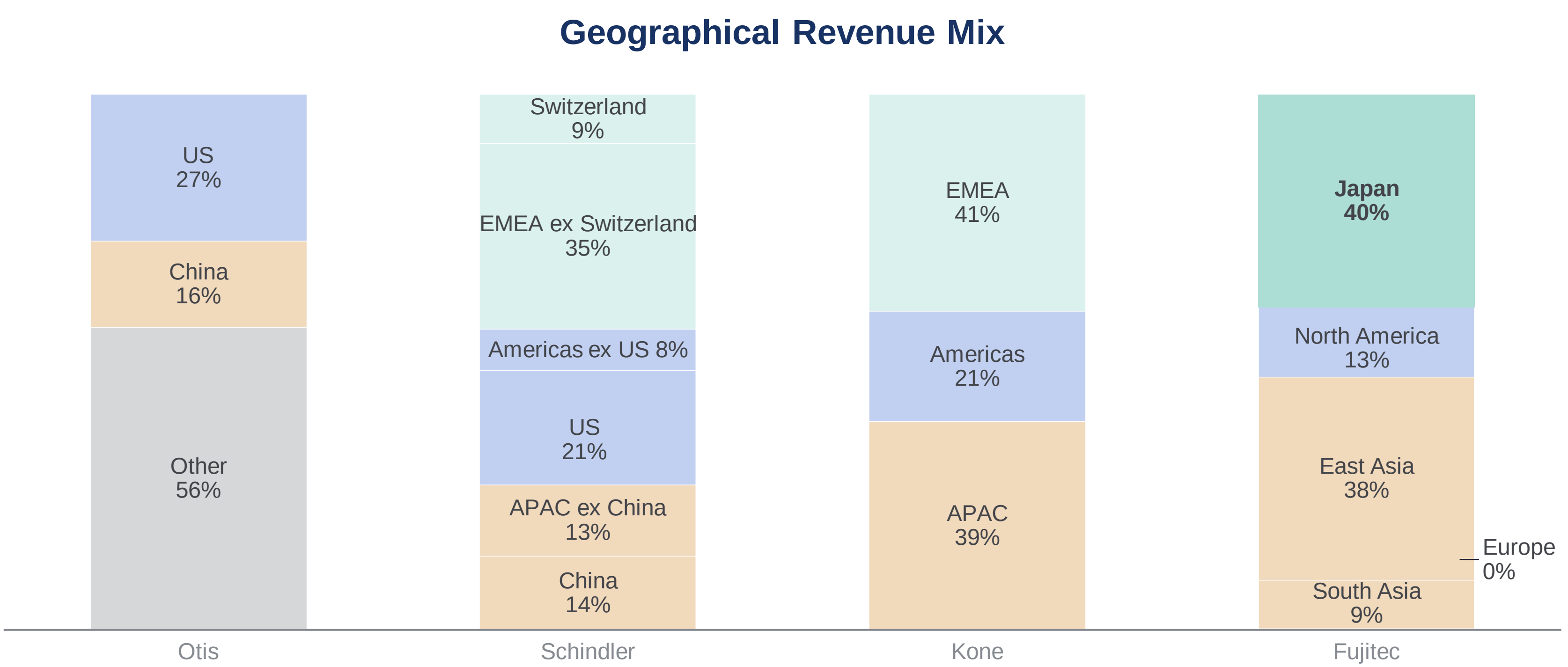
- Otis discloses its margins for new installation and maintenance respectively
- Even Otis' new installation business achieves a higher margin than Fujitec's total business
- Otis' maintenance margins highlight the possible upside from a high density maintenance portfolio



Source: AVI, Capital IQ

Debunk Management's Arguments – 2. "Higher Exposure to Developing Markets"

- Although difficult to compare with peers, Fujitec derives 40% of its sales from Japan, a developed market with high reliance on maintenance and modernisation
- Coupled with North America at least 53% of Fujitec's sales come from developed markets, not dissimilar to Kone's 62%
- Exposure to developing countries does not explain the magnitude of Fujitec's margin underperformance



Source: Capital IQ