



18 May 2018

Tokyo Broadcasting System Holdings
5-3-6 Akasaka
Minato-ku
Tokyo
107-8006
Japan

Asset Value Investors Limited
25 Bury Street
London SW1Y 6AL
tel 020 7659 4800
fax 020 7659 4801
www.assetvalueinvestors.com

To: Mr. Shinji Takeda, President and Representative Director
Board of Directors, Tokyo Broadcasting System Holdings Inc.
Special Committee on Corporate Value

We are writing to respond to the arguments put forward by Tokyo Broadcasting System Holdings (TBS) on 10th May 2018, regarding the shareholder proposal submitted by Asset Value Investors, on behalf of the beneficial shareholder, British Empire Trust plc.

TBS put forward three key arguments against our proposals, below we address each of these in turn.

1) Sunk Cost Fallacy

TBS' main argument against the proposal relies on what economists refer to as the "sunk cost fallacy". TBS argues that, since its stake in Tokyo Electron (TEL) was acquired many years ago at minimal cost, "in fact there is very little risk posed by possible future fluctuations in TEL's stock price."

This argument ignores a basic concept taught in introductory economics and business textbooks: historical investment costs ("sunk costs") are irrelevant to current investment decisions.

This concept is illustrated by the following textbook example. Suppose you have tickets to an opera concert. The night of the performance, there is a heavy blizzard that makes driving hazardous. In deciding whether to drive in the blizzard, does it make any difference whether you paid \$100 for the tickets or received them from a friend for free? The correct answer is No. The unrecoverable historical cost of the tickets is irrelevant to the current decision whether to take on the hazardous conditions or not.

TBS seems to be saying that its shareholders should not be worried about a possible sharp decline in the value of TEL since the shares were originally acquired at low cost. But this defies basic economic logic. The decision whether to keep or dispose of an asset like TEL shares now has nothing to do with whether the historical acquisition cost was low or high. Does TBS believe the "risk" to which its shareholders are currently exposed by holding (or selling) TEL shares would be different if TBS had originally paid more to acquire the shares?

This poor grasp of basic investment economics should give TBS shareholders reason to question whether TBS management adequately comprehends the significance of other equally fundamental concepts such as "capital efficiency" and "shareholder return".

2) Failure to Justify Abnormal Magnitude of TBS' Strategic Holdings

TBS' ownership of TEL stock (constituting 19% of total assets and 35% of strategic holdings) is just one piece of a larger and more serious problem—namely that securities, real estate and cash unrelated to its core broadcasting business account for 72% of total assets. This is an abnormally high percentage of non-core financial assets by any standard.

Viewed in this light, TBS is, in reality, a ¥450 billion securities investment fund, with a side broadcasting business. ¥300 billion of this investment fund is invested in a narrow basket of five companies, based not on objective investment criteria but historical corporate and personal relationships. A professional investment manager who assembled a portfolio this narrow and haphazard would rightly be accused of negligence.

TBS' response, which focuses only on TEL, completely sidesteps this larger problem. TBS' response states that by 2020 it expects to invest up to ¥50 billion in various vaguely described projects, implying that the proposed dividend of TEL shares would somehow interfere with these investment plans, (we emphasize that we are fully supportive of investments that rationally support TBS' core broadcasting business.) What TBS fails to mention, however, is that TBS, after paying the proposed dividend, would still have a securities portfolio worth over ¥350 billion, ample capital to cover the ¥50 billion in investments. Moreover, even after paying the entire capital gains tax liability on this portfolio, there remains surplus capital to cover TBS' CAPEX for the past two decades. The distribution of TEL shares does not prohibit TBS from executing investments, nor does it jeopardise TBS' important societal role as a broadcaster.

It is now widely accepted in Japan that, from the perspective of corporate value, there is little room to justify the existence of strategic holdings, and that in principle they should be eliminated. This view is reflected in the current Corporate Governance Code and reinforced in proposed changes to the Code that would heighten management's obligation to reduce, explain and justify strategic holdings.

TBS' shareholders should be concerned that TBS management, by its silence, continues to shirk its obligation to honestly address the issue of its substantial and disproportionate strategic holdings.

3) Technical Objections

The final arguments asserted against the proposal are technical in nature. First, the TBS response correctly states that there will be a capital gains tax on the distribution of TEL shares. This is the case whenever the shares are disposed of, whether now or at some time in the future. The fact that the distribution will be subject to capital gains tax is not a valid reason to postpone or reject the distribution. The capital gains tax is already accounted for in TBS' accounts, and as such, the payment of tax will have no impact on TBS' underlying value.

TBS' response also correctly points out that an in-kind dividend is technically more complicated than a simple cash dividend. We note that the proposal gives all shareholders the option of receiving the dividend in the form of cash if so desired. Our professional advisors have confirmed that the withholding tax and other technical obstacles you cite can be practically resolved. Administrative burden is not a valid excuse for blocking the right of shareholders to receive TEL shares directly. We are confident that TBS management and its professional advisors are fully capable of implementing an in-kind dividend, in compliance with the Company Act and applicable tax laws.

We appreciate the time you have given us in the past, and we welcome further dialogue in the future.

Yours sincerely,



Joe Bauernfreund
Chief Executive Officer