Nippon Paint Holdings IR DAY 2024
December 2, 2024
Q&A Summary: Governance

◆ Questions from Participant A

Q1	I understand that you have MSV as the target, but when we look at the results over the past several years, I think it's been challenging to achieve enhancement of MSV. As the Board Chair or the person in charge of organizing discussions at the Board, what do you think were the challenges that hampered the stock price increase over the past two years? Could you please explain your position or take on why you think the share price hasn't been performing as expected? What kind of additional measures do you need to take in order to enhance MSV?
A1	**Masayoshi Nakamura** This is one of the topics we've been talking at the Board. Going back to a couple of years ago or even before 2018, our stock price has been enjoying the so-called China market premium. No question about that. But then, after completion of the 100% integration of the Asian JVs, and a couple of years later, we saw the China premium no longer support our stock price. Then, the situation unfortunately has shifted from merely losing the China premium to what could be described as a China market discount, so to speak. This is despite our China business performing well relative to our competitors, and we will continue to do so as Wee Siew Kim mentioned and explained. However, unfortunately, our stock has been perceived as one of the China-related names within the Japanese stock market. As Siew Kim and Yuichiro Wakatsuki mentioned, we're continuously working on expanding our business in China. I believe that our efforts in the China business will continue to positively impact our EPS performance. Simultaneously, DuluxGroup as well as Dunn-Edwards have been performing well, and Japan Group is rebounding. The acquisition of AOC was one of the strategies we employed to improve our stock price performance, and ultimately, this will positively impact our mission to pursue MSV. The stock market moves according to its own dynamics, which is why we are making additional efforts to help the capital markets appreciate our initiatives. I believe that sooner or later, we will see the results of these efforts. This perspective is consistent with the discussions and position of our Board members.

Q2	Is it correct to understand that the objective of the recently announced acquisition of AOC is to reduce your dependence on the China market?
A2	**Masayoshi Nakamura** The China market continues to present growth potential, and we may be able to mitigate the China discount. Whether it is reasonable for us to have such

	expectations may vary on a case-by-case basis. Maximizing the residual value of the company after fulfilling our obligations to the stakeholders, our business in China has positively impacted our EPS. Additionally, we anticipate a positive impact from the AOC transaction. Our strategy, particularly in terms of portfolio management, is solely focused on MSV, whether or not these businesses immediately contribute to our EPS growth, in both the short term and long term. In terms of the cash management, our China business significantly contributes to cash generation and EPS growth. They are also self-financing their expansion efforts in China. This demonstrates that our China operations are robust. We are continually seeking other well-managed businesses that can positively impact our EPS accretion. Our primary focus is not geographical expansion or becoming No.1 in any specific region, but rather on how much EPS growth we can achieve. We hope that our efforts will eventually mitigate the current China discount, leading to a more positive outlook. Despite the current challenges, we believe the overall business of the Company will improve as the China market rebounds. Even under present conditions, our China operations are performing well and are expected to perform even better in the medium term. **Yuichiro Wakatsuki** I want to ensure everyone understands that while MSV is about EPS maximization, it is also about PER maximization. As mentioned at the outset, we believe there is a gap between the capital markets' perception of us and the reality of our business across Nippon Paint Group. We are adding another valuable asset, AOC, with the objective not to lessen our dependence on the China business but to enhance overall profitability. Our M&A strategy may be more focused on non-China assets, which could result in a perceived dilution of our China exposure. However, our primary goal remains profitability enhancement, or MSV. To clarify, we are committed to continued growth in China, but our focus is on the overall business. I urge analysts and investors to adopt a broader perspective when evaluating our strategy. While it is important to address questions about China, it is equally important to recognize our mission to be an EPS Compounding Machine that ultimately benefits our shareholders.

◆ A question from Participant B

Q1	Recently you announced the acquisition of AOC. I understand that you have carefully considered various risks and that your Board members are well-versed in M&A. Could you please elaborate on the key factors that encouraged you to proceed with this acquisition, particularly in terms of business risks and management potential?
A1	**Masayoshi Nakamura**

The question pertains to the AOC acquisition, specifically how the Board discussed it and evaluated the risks and management potential of AOC. The idea of acquiring AOC was introduced to all Board members around mid to late July this year.

Let me explain how the Board reviewed this opportunity in a somewhat chronological manner. In mid-July, we became aware that the management team was reviewing AOC in a highly serious manner. Although AOC is not exactly in the paint and coatings space, it is within our field. At that time, the management team was also considering other opportunities, including potential transactions from DuluxGroup and other Group companies.

We were reviewing more than a couple of M&A transactions simultaneously and had to determine which one should be our highest priority. Our review focused primarily on how EPS-accretive each opportunity would be in the short term, medium term, and long term, as well as the quality of each business's management team.

We considered all available opportunities and narrowed them down to two or three potential ideas. We continued to evaluate these options until we made a final decision. This process involved comparing the potential risks of each business with our existing operations, while consultants highlighted an optimistic outlook for the market.

We relied on our knowledge and experience to assess these opportunities, scrutinizing the proposed projects and other factors. Throughout this process, our management team engaged with the target company's management, raised numerous questions, and conducted thorough due diligence.

Eventually, we determined that AOC represented the best opportunity for us. While acknowledging a certain level of risk, we encouraged our management to take this risk. Importantly, the management of the company to be acquired was also prepared to take on further risks acceptable to us.

This is how we have been reviewing potential acquisition opportunities. Following the announcement, we held a Board meeting in November, where we began reviewing other potential opportunities. This demonstrates our ongoing efforts to explore M&A opportunities and reach informed decisions.

Yuichiro Wakatsuki

I checked the records and found that we initially brought the AOC opportunity to the Board in May, not July. We had broader spectrum discussions during our brainstorming session in March and even the prior year. Specifically, among the many projects we reviewed, I mentioned multiple projects in our Board report where either I or the other side decided not to proceed. The Board has had a very busy schedule evaluating many opportunities presented by the executive team.

◆ Questions from Participant C

Q1	My first question is about the acquisition of AOC. Looking ahead, do you plan to consider these types of transactions frequently, or rather once every year or two? I noted that there was a positive market response to the share price following the announcement of the AOC deal. How often does the Board intend to review such potential acquisitions? Additionally, in terms of skill sets, what, if any, are the missing competencies necessary to effectively evaluate potential M&A deals? I understand the Board has an excellent matrix of skill sets, as reflected in the Board's curricula vitae, but please mention if there are any gaps in the current skill sets.
A1	**Masayoshi Nakamura** First of all, your understanding is correct. We will continuously review and aim to consummate transactions, including those like AOC and potentially even larger or in different fields. As for the skill sets among our nine Board members, I do not currently see any gaps. However, if we require specific knowledge, such as market insights or technological expertise, we will certainly hire external advisors to ensure we are as informed as possible in making our decisions. Based on my observations and our ongoing evaluations, I do not believe we are missing any essential skills at this moment.

Q2	My second question pertains to the Board's Initiatives for FY2025 in the presentation material, specifically the third point about the audit structure. In your company's Governance Report, I believe there was mention of enhancing and fine-tuning the audit framework to better suit your Asset Assembler model as one of the Board's initiatives. Does this mean that the audit accounting system will be adapted for your audit model? Could you please elaborate on what you mean by "Audit on Audit"?
A2	**Masayoshi Nakamura** If I may return to your first question, I have been considering it and would like to add that while our Board members possess significant skills in running businesses, we must be cautious about relying too heavily on past experiences. Although each Board member has substantial experience managing their own businesses, the current business environment is different. Our decentralized model delegates autonomy based on trust and accountability, which differs from how they operated in the past. It's not just about having the right skill sets, but also about being careful in how we apply our past experiences, given the different circumstances and business environment today. This is a delicate balance, as each member's experience is valuable but may not always align with today's circumstances. This is one of the challenges for me as the Board Chair to keep focusing on the strategic discussion, given that all members have had corporate management experience. Regarding your question about "Audit on Audit" and whether anything is

	missing to efficiently run the business, the concept entails that each Group company has its own audit management organization. They conduct their audits at various levels (first line, second line, and third line). At the holding company level, we receive reports from these third-line audits and organize them through our risk management systems, which include several components such as the Whistleblowing Hotline, Control Self-Assessments, and our Global Code of Conduct. We deliver these to our Group companies through third-line audits to gather information and ensure we manage risks in a reasonable manner. Fine-tuning our audit framework involves reflecting on past practices. We used to have internal auditors at headquarters who would occasionally visit business units within the Group. Our current “Audit on Audit” model aims to redefine the role of the headquarters’ audit department and the Audit Committee, determining the extent to which we rely on the audits conducted by each business unit based on trust and accountability. With acquisitions like AOC, which is a significant asset addition alongside NIPSEA Group, DuluxGroup, Dunn-Edwards, and Japan Group, our decentralized approach necessitates that headquarters be ready to listen and address any issues that arise in our Group companies. We aim to solve these problems rather than actively seeking them out, as identifying and resolving on-the-ground issues helps us expand our business. The holding company’s Audit Committee and audit department, along with the Co-Presidents, work together to resolve these issues. This collaborative approach provides valuable insights for expanding our future business and ensuring sustainability.

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