

Message from the CFO



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Senior Managing Executive Officer and CFO

Focusing efforts on establishing financial base for future growth

Leveraging experience in the financial industry to embody CEO's vision

As chief financial officer (CFO), I oversee six departments: Finance & Accounting, Corporate Planning, Corporate Development, Public Relations, Investor Relations, and Investment Management. My responsibilities are very extensive in scope; but in short, my mission is to provide support on all fronts to embody the vision pursued by our CEO. During my time in investment banking where I previously worked, I provided M&A advisory services to clients for more than 20 years advising top management. I will contribute to the sustainable growth of NPHD by leveraging experience and knowledge that I accumulated during my career.

Paint and coatings market is growing steadily worldwide. Our business enjoys high profitability while expanding its possibilities in terms of technological evolution. Under these circumstances, the Group is working on establishing foundations in various business fields to evolve into a true global company.

Communicating with shareholders and investors is another important role I have. I listen to their candid opinions, sincerely reflecting on their expectations and

feelings, and periodically report to the Board of Directors in hopes of their decision making that is streamlined with the market. At the same time, I will ensure investors a timely and fair disclosure of information to help them understand the Group's values and strategies and to properly evaluate our performance.

Focusing on reinforcing financial bases considering the post-COVID-19 world

Our current 'N-20' medium-term management plan has entered its final year in 2020. Unfortunately, the numerical targets set out in the plan are unlikely to be achieved due to the impact of the COVID-19 pandemic and other factors. However, our efforts in implementing various measures under this medium-term management plan have led to a steady expansion of global operations, such as a boost in market share in China and an expansion of businesses and operating regions through M&As.

The Group has more than ¥100 billion on hand as of March 2020, but is working on further reinforcing its financial bases considering the ongoing global uncertainty due to the COVID-19 pandemic that is overshadowing our outlook.

In April 2020, NPHD borrowed funds totaling ¥50 billion from several banks, as well as entering into a commitment line agreement worth ¥180 billion, to prepare for the worst. When the current situation improves, stable product supply capabilities and financial resources will be essential in undertaking business development that quickly responds to market movements, which I believe will translate to market share gains. Accordingly, from a financial perspective, we will also be fully prepared in order to not miss out on any business opportunities. What challenges I can turn into opportunities will test my abilities as CFO.

Our acquisition of the Asian JV and Indonesia business that was announced on August 21, 2020, was also aimed to strengthen balance sheet for future growth, while achieving EPS accretion.

Building a track record of M&A that contributes to MSV

M&A will continue to be a high priority for our future. Total market share of top 10 paint manufacturers worldwide is less than 50%, leaving a significant scope for us to gain market share. Our M&A selection criteria is whether the acquisition target will contribute to Maximization of Shareholder Value (MSV), which is our paramount management mission. In selection of potential M&A targets, we will pursue Return on Invested Capital (ROIC) that exceeds Weighted Average Cost of Capital (WACC), which translates into EPS accretion. We will proactively examine potential investment deals according to disciplined capital allocation, without missing any investment opportunities.

The Board of Directors does not discuss any potential M&A deal merely for the sake of formality; instead, it conducts rigorous verification from various aspects including, but not limited to, the necessity of the M&A deal and whether it contributes to MSV, as well as an analysis of risks and

profitability, purchase price, financial impact, and Post-Merger Integration (PMI) process. I have long experience in M&A practices, but rarely have I seen a board that engages in heated discussion on a potential deal as thoroughly as they do at NPHD. The large-scale M&A deals we carried out previously have proven very successful, which I believe can be attributed to our careful management decisions made through this process. We will continue to collect, analyze, and provide information that is essential for such critical decision-making.

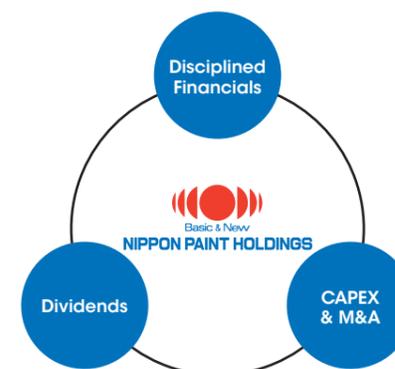
In January 2020, NPHD set up Investment Management Department that performs post-M&A progress management, as well as monitoring of partner companies in Japan and overseas to improve management efficiency. For this purpose, we are considering adopting ROIC as its performance indicator, and will accelerate EPS growth by building growth potential through M&As and business expansion, and earnings capacity through improving management efficiency.

Endeavoring to increase TSR through EPS accretion while maintaining stable dividends

NPHD aims for Maximization of Shareholder Value (MSV) while maintaining financial discipline of pursuing optimal capital structure with balanced leverage with financial stability as a premise, and places higher priority on investments for future growth, thus focusing on providing higher Total Shareholder Return (TSR).

As a component of TSR, NPHD has set a policy for paying dividends stably and continuously, taking into account factors including earnings trends, investment opportunities and dividend payout ratios and at this point aims to maintain a dividend payout ratio of 30%. We will continue striving toward improving earnings in order to meet the expectations of our shareholders.

NPHD's capital policy



TSR



ROIC

