

# Small Investor Meeting with Independent Director

October 24, 2023

Masayoshi Nakamura

Lead Independent Director and Board Chair

Nippon Paint Holdings

## Profile of Independent Director

Specialized professional in M&A advisory services and financing from the capital markets



Masayoshi  
Nakamura

Lead Independent Director  
and Board Chair

### Profile

Masayoshi Nakamura has more than 30 years of experience as a specialized professional in M&A advisory and capital market financing at major US investment banks including Lehman Brothers and Morgan Stanley, as well as at Mitsubishi UFJ Securities (currently Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.). He has experience and a track record in successfully executing numerous large-scale cross-border M&A deals.

# Main Investor Questions Received in Advance

## Governance questions (1)

\*Kindly be aware that the questions received are presented in their original wording, and there may be some overlapping queries.

(1) Potential areas of difficulty related to “encouraging appropriate risk-taking by management in the pursuit of Maximization of Shareholder Value (MSV)”

I'm of the opinion that a pivotal factor for the success of autonomous and decentralized management lies in the individual discretionary risk-taking by each Partner Company Group (PCG). In the Integrated Report 2023, on page 102, the Lead Independent Director explains the existence of three categories of risk-taking. Does the Board identify any instances, whether within PCGs, regions, business segments, or specific types of risk, where there is an observed prevalence of either excessive risk-taking or a deficiency in such actions?

\*Kindly direct your response towards those areas where risk-taking appears to fall short (in comparison to the level deemed ideal by the Lead Independent Director), as an overly aggressive risk-taking approach can be adjusted. Should the Board discern any areas or categories of risk where adequate risk-taking measures are not being exercised, what actions or strategies does the Board intend to employ to address the situation?

(2) Succession planning

I hold the belief that the effectiveness of autonomous and decentralized management greatly depends on the insights and communication abilities of the Co-Presidents and Lead Independent Director. The current Co-Presidents and Lead Independent Director exhibit such high levels of skill and competence that I am concerned about the long-term human capital risk within Nippon Paint Group. This poses a challenge that needs to be tackled. I would appreciate your insights on the following questions pertaining to succession planning.

\*Rather than providing responses to each question individually, you can offer a comprehensive answer that addresses all the questions below.

- What, in your opinion, is a suitable tenure duration for Co-Presidents and the Lead Independent Director?
- Do you anticipate that the Co-President structure will persist at NPHD over the long term?
- Could you outline the procedures involved in the selection of successors for Co-Presidents and Lead Independent Director? (Please provide information to the extent that is permissible.)
- What are the prerequisites and experiential qualifications sought in candidates for the positions of President and Lead Independent Director at NPHD?

# Main Investor Questions Received in Advance

## Governance questions (2)

\*Kindly be aware that the questions received are presented in their original wording, and there may be some overlapping queries.

- (3) What intentional behaviors and strategies do you employ to nurture and strengthen the trust-based relationship between the Board, which oversees, and the management, which executes the company's functions?
- (4) I have gathered that the Co-President structure is operating effectively. Kindly explain the merits of this structural approach.
- (5) From the standpoint of enhancing corporate value in the medium and long term, what strengths and weaknesses (or challenges) have you identified within NPHD?
- (6) Considering your comprehension of the strengths and weaknesses (challenges) associated with the Co-President structure, how are you contributing to the CEO succession planning process?
- (7) Within your sustainability framework with MSV as the goal, could you elaborate on the Board's ongoing discourse and forthcoming challenges regarding your proactive innovations and climate change response strategies, intended to secure customer engagement and develop approaches that will contribute to EPS and PER growth?
- (8) On your corporate website, you highlighted that Nippon Paint Group's most significant governance concern and hurdle revolved around whether the management team could persistently embrace calculated risks in a prompt and fitting manner to attain MSV. This challenge is intrinsically tied to whether the Board of Directors can steadfastly progress alongside the management team, firmly dedicated to fulfilling their responsibilities. Considering this viewpoint, do you anticipate there may be restrictions on the size and number of M&A transactions the group can undertake in the future? (With regard to the Board's capacity to oversee transaction sizes.)
- (9) Wuthelam Group's ownership of 55.08% of NPHD's shares seems to have transformed the capital relationship between NPHD and Wuthelam into a situation where the tail wags the dog, as observed from an external perspective. While I grasp the rationale behind this shareholding level, including historical developments and funding needs for M&A activities, do you believe that this will continue to be a suitable scenario in the future? Could there be a scenario in which Wuthelam Group considers transforming NPHD into a wholly-owned subsidiary, contingent on stock price levels and other relevant factors? Furthermore, certain participants in the stock market perceive that the role of Mr. Goh Hup Jin, who serves as a Director of both Wuthelam Group and NPHD, presents a conflict of interest with regard to NPHD's minority shareholders. Please provide your perspective on this issue?

# Main Investor Questions Received in Advance

## Governance questions (3)

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- (10) Kindly explain your policy regarding the protection of minority shareholders' interests, which encompasses the rationale behind the Board's decision concerning the buyback of the India business.
- (11) As indicated in the Key Audit Matters section of the Annual Securities Report, NPHD holds a significant proportion of goodwill and intangible assets with indefinite useful life, accounting for approximately 46.7% of the total assets at the close of FY2022. As the Board persists in its assessment of potential acquisition targets, how does the Board manage the risk of net asset impairment, and what specific discussions does the Board engage in regarding this matter?
- (12) Before finalizing the acquisitions of Cromology, JUB, NPT, and other companies, were Independent Directors given an opportunity to share their perspectives and insights? What counsel or guidance do Independent Directors typically offer in the context of acquisition transactions, such as acquisition pricing, the financial standing of the target companies, and post-acquisition synergies? Have there been instances where Independent Directors expressed dissenting views or objections?
- (13) Ms. Lim Hwee Hua is the sole female Independent Director at NPHD, resulting in a female directorship ratio of 11%. The Japanese government has established an objective to increase the proportion of female Directors to 30% or higher in corporations listed on the TSE Prime market by 2030. Could you please provide your perspective on the appointment of female Directors in this context? Kindly offer your perspective on the appointment of female Directors. Additionally, please provide insights into the company's initiatives aimed at nurturing its human resources.
- (14) Kindly elaborate on the procedures governing communication between the parent company and the listed entity, as well as the Board's efforts to protect the interests of minority shareholders.
- (15) I have a qualitative question. To what extent do the Board's deliberations become intense or contentious? How frequently do agenda items face rejection or require reevaluation due to the Board's deliberations?

# Main Investor Questions Received in Advance

## Questions regarding Asset Assembler model

\*Kindly be aware that the questions received are presented in their original wording, and there may be some overlapping queries.

- (1) Could you provide your insights regarding the long-term sustainability of Asset Assembler model? Is it a sustainable model for an indefinite period, or does it have inherent weaknesses in your view?
- (2) Is there a prototypical example that embodies Asset Assembler model? I anticipate that stock market participants may not readily endorse a strategy that prioritizes top-line and EPS growth over profitability (ROS and ROIC) for a mature industry company, even though some may consider this approach suitable for businesses in emerging industries or markets. Could you provide some illustrative success cases, potentially from diverse industries, that demonstrate the effectiveness of such strategy?
- (3) Do the multiples associated with each business factor into the criteria for deciding whether to incorporate it into your business portfolio? In an extreme scenario, would you endorse the acquisition of a business with low multiples (characterized by low growth and profitability but high risk) if it is expected to contribute to EPS accretion?
- (4) As an Independent Director, what do you consider to be the threshold for the extent of the market that NPHD should explore beyond the paint and coatings industry (approximating the total addressable market)? Given this perspective, could you provide your projections for the Compound Annual Growth Rate (CAGR) and the breakdown of growth (organic and through M&A) for the foreseeable future?
- (5) What specific criteria guide the selection and management of your M&A targets?
- (6) It seems that your stock price is notably sensitive to news and developments related to China, despite the enhanced profitability in the Japanese market and the robust performance in Indonesia and other regions. Kindly provide your insights regarding areas of concern for the China business in the future, specifically addressing the balance between gaining market share and maintaining profitability. Additionally, could you discuss the growth prospects of other regions and the strategies to address key focal points in the market? Lastly, how does the M&A strategy evolve in response to increasing interest rates?
- (7) In your capacity as an Independent Director, what are your perspectives on geopolitical risks, such as supply chain vulnerabilities, in light of heightened political instability?

# Main Investor Questions Received in Advance

## Questions related to stock price and capital efficiency

\*Kindly be aware that the questions received are presented in their original wording, and there may be some overlapping queries.

- (1) NPHD remains committed to MSV-driven management, yet its stock price continues to be undervalued. What do you believe are the underlying factors contributing to this situation? Can the company sustain its MSV-driven approach even when the stock price remains undervalued or when interest rates are on the rise? If there are factors that the stock market might be overlooking in its assessment of NPHD's growth potential, please explain them.
- (2) As an Independent Director, could you elaborate on the perceived disparity between the company's perspective and that of its shareholders/investors? Given the stock price decline in the first quarter, despite your emphasis on prioritizing MSV, please share your insights, within the bounds of disclosure, regarding whether you consider this situation to be a transitory occurrence or if it highlights underlying management concerns that necessitate attention.
- (3) I comprehend that the company's primary objective is the maximization of EPS. Could you provide your perspective on the equilibrium between EPS maximization and asset profitability, such as ROIC?
- (4) In your capacity as an Independent Director, what factors do you attribute to the decrease in stock valuations, including metrics like PER? What recommendations or counsel do you have for restoring these valuations to appropriate levels?