Message from Co-President Wakatsuki

Committed to limitless pursuit of shareholder value while upholding Integrity as a Corporate Group

Yuichiro Wakatsuki
Director, Representative Executive Officer & Co-President

As a federation of excellent assets, we derive our strength from our unwavering commitment to Integrity in our pursuit of MSV. Since becoming Co-President in April 2021, we have effectively undertaken numerous initiatives. I believe these actions have been made possible by three critical factors. Firstly, partnership with Mr. Wee, whose expertise in business management complements my experience in capital markets, creating an effective Co-President setup for agile corporate actions.

Secondly, our close communications with the Board members including Chair Nakamura play a pivotal role. We engage in meaningful and substantive discussions at a high level for every agenda item, prioritizing in-depth exchanges over formal bureaucratic processes. Having MSV firmly ingrained as the common basis of judgment among all Directors makes this possible.

Thirdly, Board members consist of corporate executives whom I deeply trust on a personal level. For instance, Chair Nakamura and I share an investment banking background, leading to commonalities in our thought processes, argument construction, and issue evaluation. He holds frequent dialogue directly with me, exchanging ideas, evaluating risks, while respecting perspectives of the management team. What distinguishes our Company is this culture of open and dynamic communication between the Board and management team. As a corporate executive, I hold Integrity in high regard, and it serves as a fundamental norm within our Company. We are a cohesive Corporate Group united by our commitment to Integrity.

Two significant achievements enabled by agile management decisions

Since the launch of Medium-Term Plan (FY2021-2023, “MTP”) in FY2021, I would raise two significant and successful examples of such close communication between management and the Board. First is the successful international secondary offering of shares conducted in January 2022. This was our proactive initiative taken to improve liquidity of our shares, addressing our management challenge. The goal was to build a global and long-term investor base who embraces our growth strategy, replacing the traditional domestic financial institutional shareholders, while easing concerns about potential overhang in the market. It was precisely at this timing that we started to appeal for our Asset Assembler model. I believe we were able to establish a quality institutional investor base, emphasizing our unique growth story and enticing them to evaluate our potential through this initiative.

The second example relates to the successful acquisitions of Cromology, JUB, and NPT in Europe. These decisions were made swiftly through repeated discussions, focusing on key points with the team led by DukaxGroup CEO Patrick Houlihan and NH-HD Board members, not to mention vigorous discussions between Co- Presidents to ensure a well-informed decision-making process. The success of these acquisitions completed under a competitive process, can be attributed to two major factors: MSV as a common basis for judgment and active communications.

MTP is only a milestone; aspirational management is anchored in our Group

Reflecting on the progress of MTP, the decorative paints market witnessed robust growth, while the industrial coatings market encountered more challenges under the pandemic and supply chain disruptions. Despite these challenges, Nippon Paint Group as a whole managed to maintain or increase market share in most regions, supported by steady profitability growth with consistent cost controls and multiple price increases in response to raw material and other cost inflations. Revenue growth in our adjacencies businesses surpassed expectations, driven by various factors such as growth in the Selleys brand from DukaxGroup and successful acquisitions of Vital Technical and JUB, renowned for its expertise in ETICS (External Thermal Insulation Composite Systems). Our solid growth has been realized through a combination of organic expansion and strategic M&A activities, again reaffirming the effectiveness of our Asset Assembler model.

Our primary competitive advantage lies in our ability to leverage the strength of low funding costs, which is a vital component in our M&A strategy. We being based in Japan, the stable currency and a consistent low interest rate environment set us apart from European and U.S. companies who face the challenge of higher interest rates. Our low-risk asset portfolio provides for higher leverage opportunity, which normally enables EPS accretion as we prioritize debt financing at favorable interest rates for acquisitions. However, debt capacity ceilings will eventually limit our acquisitions. To mitigate this risk, we hold the option of equity financing. Using high PER shares to acquire a company with relatively low PER generally results in EPS accretion, even if the acquisition is

Our ultimate objective, it is all about MSV. For example, the acquisition of Cromology was not driven to contribute to MTP or to pursue scale; instead, the decision was carefully evaluated with vigilance, ensuring that it would genuinely create shareholder value.

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Corporation
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I believe that our platform, built upon Asset Assembler model, has three pillars of competitive advantage:

1. **Accountability and Autonomy**: Our approach enables the acquired companies to have a strong sense of autonomy to make decisions, thereby unlocking the growth potential of our partners. This culture of ownership fosters a unique environment that facilitates a sustainable approach to business. The acquired companies have the freedom to make strategic decisions that align with their business goals, thereby maintaining a competitive edge.

2. **Sustainability**: Our platform’s commitment to sustainability is a fundamental aspect of our approach. We prioritize the environmental and social aspects of our business strategy, ensuring that our operations are not only profitable but also contribute positively to the society and environment. This commitment is reflected in our sustainable practices, innovative business strategies, and ethical business conduct.

3. **Financial Performance**: The platform’s focus on financial performance and sustainability is evident in the acquisition of firms with strong financial performance and a commitment to sustainability. This approach allows us to achieve a balanced performance, ensuring our long-term success.

Our platform’s approach is characterized by a strong sense of accountability and autonomy, commitment to sustainability, and impressive financial performance. These pillars form the foundation of our platform’s success and growth, ensuring our continuous progress and sustainability.