

# Message from Co-President Wakatsuki

$$MSV = M(EPS) \times M(PER)$$

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 DuluxGroup CEO Patrick Houlihan and NPHD 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.

▶ See "Development of Our Business Model and Evolution of Our Growth Strategy" on page 31.

**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 Selseys brand from DuluxGroup 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, once again reaffirming the effectiveness of our Asset Assembler model.

▶ See "Overview and Updates on Medium-Term Plan (FY2021-2023)" on page 51.

I perceive the numerical targets in MTP as a stepping stone towards the next phase, and it is important to recognize that attaining MTP numbers itself is not

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.

**Competitive advantage of our Asset Assembler model that gives us limitless growth potential**

I believe that our platform, built upon Asset Assembler model, has three pillars of competitive advantage: (1) Our ability to harness the low-funding cost, (2) Our ability to maintain and boost the EPS contribution from assets companies without intervention, and (3) Our unique appeal to management-class talents who empathize with our modus operandi.

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

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all-share funded. Adding an optimized level of low cost debt to such equity funding will lead to the “maximization” of EPS. This approach enables us to continuously assemble assets without being constrained by debt capacity limitations. Target assets are entities of low risk and stable profitability, of which we have found many.

▶ See “The Basis of Our Asset Assembler Model” on page 37.

The advantage we enjoy in funding stems from our ability to leverage our balance sheet with the portfolio of low-risk, stable income assets while ensuring the fulfillment of our obligations to financial institutions, which forms one of the premises of MSV. However, we are not the only company that enjoys low funding costs, and combining our second and third pillars as in below gives us our distinguished strengths.

Our second pillar of competitive advantage is our ability to maintain and boost EPS contribution from assets companies without intervention. This is manifested through our proficiency in recognizing companies with compelling appeal and effective leadership, particularly discovering management-class talents with just the right qualities. Furthermore, we maintain our respect for

the brands and heritage of target companies, while motivating their talented personnel post-acquisition. This approach enables the acquired companies to sustain and even boost their contribution to EPS accretion without headquarters’ control or intervention, enjoying only advantages of scale and other benefits provided by headquarters.

The fundamental idea is that the parent company does not claim superiority in terms of information and decision-making abilities; rather, it encourages autonomous decision-making by local subsidiaries.

This approach helps to circumvent slow decision-making processes and ensures agile and appropriate actions to outperform our competitors.

One of our key strengths lies in our ability to strike the right balance between autonomy and accountability, thereby unlocking the growth potential of our partner companies, also enabling us to assemble a large number of outstanding companies.

Our third competitive advantage lies in our prowess in attracting management-class talents. Our platform allows acquired companies that resonate with the concept of MSV to accelerate growth through autonomy and

accountability within our Group. This appeal enables us to draw in numerous outstanding talents. CEOs who have become part of our Group have been effectively communicating the benefits of our platform after experiencing it, fostering a similar sense of empathy among newly acquired companies. As a result, this facilitates a seamless engagement post-acquisition. Notably, our approach has already garnered resonance among numerous management-class talents around the globe at this stage.

While taking pride in such competitive advantages, and remaining steadfast in our pursuit of EPS accretion, we make sure we keep a vigilant mindset towards risk-taking actions such as M&A.

Our Asset Assembler model stands as a distinctive notion, granting us the ability to (1) assemble top-notch companies with appropriate valuations using optimal funding structures, (2) unlock the growth potential of these acquired firms, and (3) attract outstanding talents to expand our “federation” approach. Coupled with our unwavering sense of the MSV mission, I am confident that we have the potential to exceed investors’ expectations.

**Emphasizing our unwavering commitment to sustainability as the fundamental premise for MSV**

At the heart of accomplishing MSV lies our dedication to meeting our obligations to our customers, suppliers, employees, society, and other stakeholders. Embracing sustainability initiatives, we also strive to fulfill these commitments, while ensuring that they are understood as a prerequisite to MSV. The proposed approach has been thoroughly discussed in multiple Board meetings and has been universally adopted across the Group as our shared understanding.

▶ See “Sustainability as the Prerequisite for MSV” on page 41 and “Discussions by the Board of Directors” on page 108.

The sustainability expectations from society is ever-evolving, with certain requirements impacting both EPS and PER. As a result, we must remain vigilant to these changes. For instance, if we fail to adequately address concerns related to the procurement of raw materials from our suppliers, such as child labor, it could directly result in reduced sales with customers abstaining from purchasing our products and a decline in stock price through investors excluding our stock from their portfolio. To mitigate these risks, I believe that stronger engagement with our partner companies, who possess a deep understanding of the requirements and dynamics of their respective regions and markets, should prove most effective compared to a centralized approach from the headquarters in Japan. This approach again embraces autonomous and decentralized management.

Through refining our approach, we have crafted the Basic Policy on Sustainability, which supersedes the previous ESG Statement. This new policy aligns our sustainability endeavors more closely with our business activities,

explicitly recognizing it as the fundamental premise for achieving MSV.

As a publicly listed company, sustainability is not our ultimate objective. Nevertheless, we recognize that stakeholder requirements are constantly evolving. We are determined to fulfill these expectations in our quest for MSV.

**Transforming the demands of customers, suppliers, and society into viable business opportunities**

Our efforts to reduce CO<sub>2</sub> emissions (Scope 1 and 2) will not adhere to uniform standards across the Group. Instead, we will adopt a tailored approach, taking appropriate actions in each region and market. While our CO<sub>2</sub> emissions are not significant compared to major chemicals manufacturers, we are committed to steadily reducing emissions through initiatives such as developing alternative energy sources. Moreover, we have initiated efforts to reduce CO<sub>2</sub> emissions (Scope 3) across our supply chain. Environmental initiatives related to our products present increasing opportunities that translate into business advantages. For instance, developing products that reduce the number of required paint applications and shorten curing times hold promising potential for enhancing our market prospects. We view shifts in customer needs as opportunities for innovation, prompting us to create high-value products that precisely cater to the demands of local customers.

In FY2022, we took a step forward in meeting our sustainability obligations by adding a dedicated sustainable procurement team to the existing four teams. While there is some overlap with the existing sustainability teams, the inception of this new team emerged from the teams on the ground, prompted by the increasing demands and issues arising from each existing

team. The primary objective of the newly established team is to actively address ethical procurement matters, including human rights issues, by providing clear visibility into these challenges. Building a strong and cooperative relationship with our suppliers stands as a crucial element in ensuring the sustained growth of our Group. To achieve this objective, we will implement measures such as disclosing our Group’s fundamental approach to procurement which will ensure sustainable procurement practices while fostering stronger relationships with our suppliers.

**Instilling capital markets with conviction towards our continuous EPS accretion**

Establishing meaningful engagement with capital market participants is critical. It is imperative to cultivate expectations and confidence in our capacity to manage debts effectively, even with higher leverage, and achieve consistent EPS accumulation through prudent risk-taking. Additionally, we must instill trust and assurance in our pursuit of both organic and inorganic growth endeavors. We strive to maximize PER through a combination of proactive investor relations engagement, a well-planned finance strategy, and sustainability initiatives backed by the conviction for continuous EPS accumulation. Our dedication to achieving MSV remains unwavering, and we eagerly anticipate surpassing your expectations.

▶ See “Our Finance and M&A Strategies to Achieve MSV Presented by Co-President Wakatsuki” on page 55.

  
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