

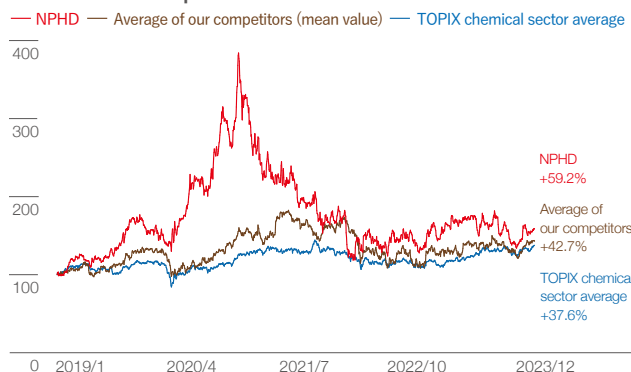
# Management Focused on Stock Price

We are pursuing our sole mission of MSV through the maximization of EPS and PER. We practice management with a focus on our stock price, which is the outcome of the pursuit of MSV.

Over the past five years, our stock price has outperformed the TOPIX chemical sector average and the average of our competitors, bolstered by robust EPS growth. However, our stock price declined despite the growth in EPS, prompting us to carry out an analysis that takes into account macroeconomic factors, sector trends, and our own analysis of stock price trends.

Moving forward, we aim to achieve MSV by focusing on sustainable EPS compounding and elevating capital markets' expectations.

## Historical stock price trends

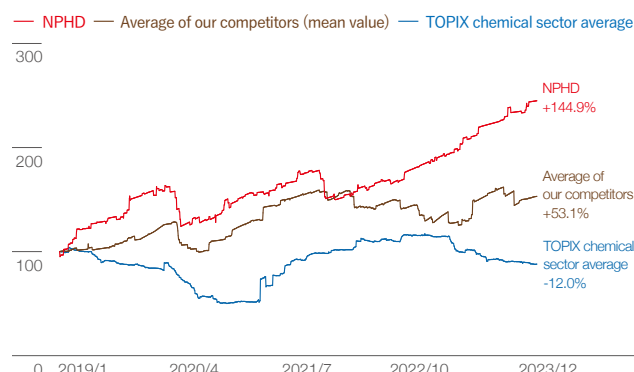


\*1 Source: FactSet, Bloomberg

\*2 The stock prices were indexed with the closing price on January 1, 2019 as 100

\*3 The average of competitors is the average of indexed stock prices of Sherwin-Williams, BASF, Asian Paints, PPG, AkzoNobel, Berger Paints, Axalta Coating Systems, SKSHU Paint, Kansai Paint, TOA Paint, and Asia Cuanon Technology

## Historical EPS trends

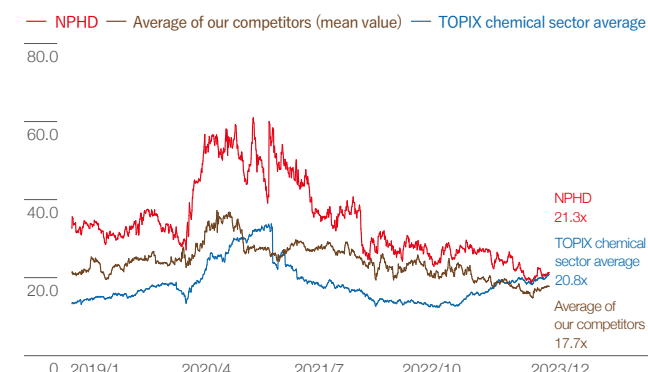


\*1 Source: FactSet, Bloomberg

\*2 The stock prices were indexed with the closing price on January 1, 2019 as 100

\*3 Average of our competitors is the average of indexed stock prices of Sherwin-Williams, BASF, Asian Paints, PPG, AkzoNobel, Berger Paints, Axalta Coating Systems, SKSHU Paint, Kansai Paint, TOA Paint, and Asia Cuanon Technology

## Historical PER trends



\*1 Source: FactSet, Bloomberg

\*2 Average of our competitors is the average stock price of Sherwin-Williams, BASF, Asian Paints, PPG, AkzoNobel, Berger Paints, Axalta Coating Systems, SKSHU Paint, Kansai Paint, TOA Paint, and Asia Cuanon Technology

## Rate of change of stock price, EPS, and PER

	Five-year trend (2019-2023)			Three-year trend (2021-2023)			One-year trend (2023)		
	Stock price	EPS	PER	Stock price	EPS	PER	Stock price	EPS	PER
<b>NPHD</b>	+59.2%	+144.9%	-11.3x	-62.1%	+56.6%	-25.6x	+8.6%	+27.5%	-3.7x
<b>Average of our competitors</b>	+42.7%	+53.1%	-3.5x	-17.0%	+21.8%	-9.6x	+13.5%	+11.0%	-4.6x
<b>TOPIX chemical sector average</b>	+37.6%	-12.0%	+7.5x	+9.1%	+70.3%	-11.6x	+25.4%	+63.6%	+8.1x

## Macroeconomic factors

### (1) Rapid rise in long-term U.S. interest rates and acceleration of the tapering pace (reduction of quantitative easing measures) since 2022

⇒ Significant adjustment of high valuation stocks such as tech stocks and domestic growth stocks with low liquidity, leading to a shift towards large domestic demand-driven stocks and value stocks

### (2) Emergence of debt non-performance by property developers and tightened regulations on tech companies in China since 2022

⇒ Capital flight of investment money from China and Hong Kong, resulting in increased fund inflows into the Japanese stock market

## Analysis of sector trends and our performance

• **TOPIX chemical sector average:** EPS has improved significantly, mainly attributed to stocks of companies that have bounced back from a slump in demand influenced by the pandemic since 2021 and have benefited from the yen's depreciation

• **Average of our competitors:** PER of high-valuation stocks declined from 2021 to 2022, influenced by the macroeconomic factors (as outlined to the left)

• **NPHD:** (1) In 2020, PER climbed to over 60 times due to a combination of factors, including (i) the capital markets' preference for growth stocks and high interest in China-related stocks, (ii) the realization of our long-term goal: the full-integration of the Asian JVs and acquisition of Indonesia business, and (iii) the low liquidity of our stock. Despite the significant growth in EPS, PER has been greatly influenced by the macroeconomic factors (as outlined to the left) since 2021

(2) Although our PER follows a similar trend as China-related stocks, businesses outside of China make up as much as 64% of our consolidated operating profit. Over the past three years, our China business has demonstrated stable growth with a CAGR of +12.4% (on a local currency basis) in revenue and operating profit margin at 12.5% (on a Tanshin basis) in 2023, showing a relatively low correlation with Chinese macroeconomic trends

## Management Focused on Stock Price

### Analysis of current situation and future direction

As analyzed on the previous page, while our EPS has significantly increased over the past five years, the rate of change in our PER has been trending downward compared to the TOPIX chemical sector average and the average of competitors, even though the

absolute level of PER is not low.

We believe that the main factors contributing to this decline in PER are: (1) market anxieties over China-related risks; (2) an underestimation of our growth potential; and (3) our aggressive M&A strategy being evaluated as high risk.

We are working to alleviate these concerns and evaluations. Furthermore, we are committed to accelerating the sustainable EPS compounding through both organic and inorganic growth towards achieving MSV.

### Management focused on stock price

» P3 Pursuing the Maximization of Both EPS and PER Towards the Achievement of MSV

$\text{Stock price} = \text{EPS} \times \text{PER}$

	<b>c.¥1,000</b>	<b>¥50.45</b>	<b>c.20 times</b>
			$\frac{1}{1}$
			<b>Cost of shareholders' equity</b>
			<b>expected rate of return</b>

**Future direction**

- Organic EPS CAGR target: +10-12%
- Accelerate EPS compounding through aggressive M&A activities

- Elevate capital markets' conviction and expectations in the business acumen of the management team
- Elevate capital markets' conviction and expectations in growth potential and profitability

**Key initiatives**

- Accelerate EPS compounding across both organic and inorganic growth, leveraging the combined advantages of autonomous and decentralized management and lean headquarters

- Promote understanding of our business model, track record, and growth potential
- Encourage recognition of our portfolio as a collection of low-risk entities
- Enhance investor engagement opportunities and disclosure material

» P20 Asset Assembler Model

» P29 Our Strategy for Maximizing PER

### For reference (the points of analysis presented by TSE)

(1) Market evaluations (PER/PBR)  
(2) Returns on capital (ROE/ROIC)

$\text{PER} \times \text{ROE} = \text{PBR}$

<b>c.20 times</b>	<b>9.5%</b>	<b>c.1.7 times</b>
<b>ROIC</b>		<b>Financial leverage</b>
<b>6.9%</b>		<b>2.0 times</b>

- Continuously improve the individual ROIC of acquired companies
- Accelerate EPS compounding through aggressive M&A

- Pursue an optimal capital structure while maintaining leverage capacity
- Secure trust and creditworthiness from financial institutions and rating agencies

- Rigorously select only low-risk, high-return deals for M&A activities
- Ensure that the individual ROIC surpasses WACC within 3-4 years of acquisition through improvement in CCC
- Aim to balance capital efficiency with profit growth

- Enhance cash generation capabilities by improving earnings growth and CCC
- Repay debt when there are no M&A activities
- Implement debt financing in yen to maintain a stable debt composition

» P44 Our Finance Strategy Presented by Co-President Wakatsuki

\* The stock price is as of June 30, 2024; the EPS, ROE, ROIC, and financial leverage are based on the 2023 results; and the PER and PBR are as of June 30, 2024.