June 1, 2024

Global ESG Strategy's Shareholder Proposals for Nippo's 2024 Ordinary General Meeting of Shareholders
Seeking an Increased Dividend and Abolition of Takeover Prevention Measures, etc. in Order to Increase Corporate Value

Global ESG Strategy ("GES") is an investment fund managed by Swiss-Asia Financial Services Pte Ltd ("SAFS") that makes medium- to long-term investments from an ESG (Environment, Social, and Governance) perspective, and as a responsible investor, its management policy is to support the achievement of improvements in medium- to long-term corporate value and shareholder value of Japanese listed companies through constructive dialogue, etc.

In 2023, GES began investing in NIPPO LTD. ("Nippo" or the "Company", Securities Code: 9913), a company listed on the TSE Standard Market, and has been engaged with the Company since. As of March 31, 2024, the SAFS-managed fund holds approximately 10% of Nippo's issued common shares, making it a substantial shareholder. As a result of repeated discussions with Nippo management regarding capital market dialogue, which is demanded of listed companies, and the importance of management that is conscious of capital cost and capital efficiency, GES has submitted the following four shareholder proposals (the "Proposals") to Nippo for the ordinary general meeting of shareholders scheduled to be held in June 2024 for the purpose of improving capital efficiency, abolishing unnecessary takeover prevention measures, and promoting dialogue with shareholders.

Agenda Item 1 (Proposal No. 5): Appropriation of surplus (dividend of 163 yen per share for FY2023)
Agenda Item 2 (Proposal No. 6): Partial amendment of Articles of Incorporation (Policy on Dividend of Surplus; dividend policy of a 100% dividend payout ratio or 10%+ DOE for FY2024 and FY2025)
Agenda Item 3 (Proposal No. 4): Abolition of takeover prevention measures
Agenda Item 4 (Proposal No. 7): Partial amendment of Articles of Incorporation (Handling by Directors of Interviews with Shareholders)

In addition, GES also issued materials outlining its opinions with respect to the details of the shareholder proposals, as well as the issues surrounding Nippo's business valuation and financial policies and, by extension, how to maximize corporate value. These materials can be accessed [here: link].

The materials detail, among other things, the fact that (i) although Nippo is valued comparably to similar companies in terms of PER and PBR (as a result of Nippo's net cash and deposit holdings reducing its corporate value), it has the lowest level of EV/EBITDA albeit having the highest profit margin in the industry; and (ii) Nippo maintains takeover prevention measures that can easily be operated arbitrarily by management, and function to increase the lack of transparency for the purchase and sale of company shares, such as not being finalized until seeking a judicial ruling even when triggered, and are easily disliked by investors. To resolve these issues, GES has proposed proactive investment and business development, enhanced dialogue with shareholders, the abolition of takeover prevention measures, and large-scale shareholder returns.

By taking appropriate measures, including the adoption of these shareholder proposals, if the net asset distribution rate were 10% and the dividend yield around 3.0%, Nippo's share price would increase to approximately 5,450 yen (approximately 2.5x the share price as of May 31, 2024).

Shareholder Proposals:
1. Increase the dividend per share to 163 yen (Proposal No. 5): Nippo, which maintains excessive financial capacity, currently has not disclosed a sufficient investment plan, and therefore we propose a net asset dividend rate (DOE) of 10% as a bold shareholder return policy. As of March 2024, Nippo's net cash is 20% of its market capitalization, and when added to investment securities, it increases to 38% of market capitalization. Free cash flow has been positive for the last five years, and even if additional cash outlays required under a shareholder proposal are paid, it will have no impact whatsoever on Nippo's financial health.

2. Revision of surplus dividend policy (Proposal No. 6): In its "Medium-Term Management Plan 2025," for which Nippo announced a partial revision in March 2024, the Company announced its plan to increase investment in human capital and growth investment to 6.0 billion yen, and to consistently increase dividends, increasing the dividend payout ratio to 50%. Prior to the announcement of the revised plan, Nippo insisted to GES that it believed maintaining net cash was the optimum capital structure for the Company, but their announcement of a revision with a small net debt during the period of the plan is worth a certain degree of praise. However, although improvements in the investment plan and shareholder returns were observed, the plan continues to be to retain excessive capital, and is insufficient.

Even if the Company were to achieve the targets in its "Medium-Term Management Plan 2025," Nippo will maintain significant financial capacity, which GES cannot say is a sufficiently efficient capital plan, and is still regarded as deviating from the Tokyo Stock Exchange's requirement for "management that is conscious of cost of capital and return on capital based on the balance sheet."

As Nippo has not currently disclosed a sufficiently efficient capital plan, GES proposes that for its end-FY23 dividend, as a bold shareholder return, Nippo adopt a dividend policy that makes the annual dividend amount the higher of "a net asset dividend rate (DOE) of 10%" or a "dividend payout ratio of 100%".

GES further proposes that Nippo maintain the same level of dividend through FY2025 as a temporary measure to return excessive internal reserves to shareholders, as well as adding the dividend payout ratio and DOE to the dividend determination policy.

When the impact of the Proposals' dividend policy was reasonably verified by adding growth investment of 6.0 billion yen and the acquisition of interest-bearing debt of 3.1 billion yen in addition to conservative assumptions such as the net sales and profit plan in the "Medium-Term Management Plan 2025" and carrying out capital expenditure in the same amount as depreciation expenses, the net D/E ratio at end-FY2025 was 0.44x, net debt/EBITDA was 1.85x, and the net asset ratio was 47.7%. Nippo stated its opinion that "funds can be borrowed from banks with net debt/EBITDA of 4-5x" to GES, and it is clear that, even under the Proposals, the Company's financial health would not be prejudiced and it would continue to have significant financial capacity.

Forecast Changes in Financial Indicators: A Comparison Between Nippo's Dividend Policy and if the Proposals' Dividend Policy Were Adopted

	FY2023 (company forecast)		FY2024 (medium-term plan)		FY2025 (medium-term plan)	
	Nippo Dividend Policy	**The Proposals' Dividend Policy**	**Nippo Dividend Policy**	**The Proposals' Dividend Policy**	**Nippo Dividend Policy**	**The Proposals' Dividend Policy**
Dividend per share (yen)	**74**	**163**	**76**	**162**	**78**	**161**
Dividend amount (million yen)	**674**	**1,485**	**692**	**1,475**	**710**	**1,466**
Dividend payout ratio	**46.3%**	**101.9%**	**50.2%**	**106.9%**	**50.0%**	**103.2%**
DOE	**4.6%**	**10.0%**	**4.5%**	**10.0%**	**4.4%**	**10.0%**
Net cash (million yen)	2,890	2,890	(2,522)	(3,315)	(4,812)	(6,369)
Net D/E	(0.20)	(0.20)	0.16	0.23	0.30	0.44
Net debt/EBITDA	0.86	0.86	(0.74)	(0.98)	(1.40)	(1.85)
Shareholder capital ratio	48.1%	48.1%	50.3%	47.7%	52.9%	47.7%
Anticipated maximum borrowing amount (million yen)	16,810	16,810	16,970	16,970	17,220	17,220
Borrowing capacity (million yen)	19,700	19,700	14,448	13,655	12,408	10,851
EBITDA multiple	5.86	5.86	4.26	4.02	3.60	3.15

Borrowing capacity (including BCP) (million yen)	16,700	16,700	11,448	10,655	9,408	7,851
EBITDA multiple	4.97	4.97	3.37	3.14	2.73	2.28

Note: Net sales are calculated assuming that the target in the company's medium-term management plan is achieved with a constant growth rate, and net income was calculated assuming a corporate tax rate of 30%. EBITDA was calculated assuming that depreciation expenses were the same as in FY2022. FY2023 net cash and net assets were calculated by deducting the cumulative net income through end-December 2023 from the net income for the period forecast by the company, assuming that capital expenditure in the same amount as depreciation expenses for the period. The net cash and net assets in each period thereafter were calculated by adding the net income for the period less the dividend amount to the net assets for the preceding period, assuming that capital expenditure in the same amount as depreciation expenses for each period, and also assuming, based on the medium-term management plan, the acquisition of 3.1 billion yen in interest-bearing debt in FY2024 and growth investment of 3.0 billion yen being carried out in each of FY2024 and FY2025. The net asset ratio was calculated based on the ratio of total assets to net sales.

3. Abolition of takeover prevention measures (Proposal No. 4): With the development and permeation of regulations on large-scale purchases of shares and the Corporate Governance Code, the Guidelines for Corporate Takeovers, and the normalization of purchases aimed at the post-purchase development of companies, the significance of takeover defense measures has decreased and fewer companies are adopting them.

Nippo stated in 2009 that it would "return to a principle of capitalism," wherein a company belongs to its shareholders. Despite having abolished a similar policy, ten years later in 2019 the Company "reintroduced" the policy upon being purchased by a specific shareholder based on a resolution made by the Company's board of directors on the grounds of an emergency event, which can be described as a highly outdated decision.

GES assumes that a resolution can be adopted at Nippo's general meeting of shareholders to abolish Nippo's takeover prevention measures. In accordance with such provisions, GES proposes the abolition of Nippo's takeover prevention measures.

4. Shareholder interviews with Directors (Proposal No. 7): Prior to the general meeting of shareholders, GES, as a major shareholder holding approximately 10% of issued common shares, repeatedly made requests to Nippo to be allowed to conduct individual interviews with all of its directors, but only a group interview with the directors was arranged.

The Corporate Governance Code stipulates that a listed company should hold constructive dialogue with shareholders outside the general meeting of shareholders for the enhancement of corporate value. Because shareholders are diversified, management at listed companies may run the company inefficiently and may not maximize common interests of shareholders. When major shareholders promote the improvement of corporate value by expending their own time and cost to put discipline on management through constructive dialogue via individual interviews on behalf of small-scale shareholders, the benefits achieved thereby can be shared by all shareholders, and not just such major shareholder. Therefore, major shareholders taking the initiative to conduct individual interviews serves the common interests of all shareholders.

GES requests that, in the event of a request for an individual interview is made by shareholders with 3% or more stake, in principle, an interview be held within 20 business days, and that an executive director shall hold one or more interviews per quarter and an outside director shall hold one or more interviews per annum, be added to the Articles of Incorporation.

The inclusion of the directors' obligation to hold an individual interview with major shareholders in the Articles of Incorporation and the implementation of such interviews not only greatly contributes to the enhancement of corporate value of Nippo through the promotion of constructive dialogue with shareholders, but also demonstrates the transparency and openness of Nippo management. Demonstrating that Nippo is both domestically and internationally a pioneer among other listed companies will lead to an increase in the Company's stock price.

Contact: **globalesg@swissasia-group.com**

About Global ESG Strategy

Global ESG Strategy ("GES"), an investment fund that is managed by SAFS, makes medium- to long-term investments from an ESG (Environment, Social and Governance) perspective, and its policy is to promote improvements on enterprise value and shareholder value of investee companies through constructive dialogue with investee companies and other means.

About Swiss-Asia Financial Services

SAFS was founded in 2004, and is a Singapore based investment management company that holds a Capital Markets Services (CMS) License under the Singapore Securities and Futures Act (SFA).