



Asset Value Investors

**NC Holdings Co., Ltd.  
Explanatory Materials  
for Shareholder Proposals**

Asset Value Investors

18 May 2023

# AVI at a Glance



Note 1: As of 3 May 2023  
Note 2: As of 31 March 2023

- AVI is an investment management company established in London, United Kingdom, in 1985, and AVI has invested in global equities for more than 35 years.
- AVI has been investing in overlooked, undervalued Japanese equities for more than 20 years as a long-term investor. AVI currently invests JPY81.5bn in Japanese public equities<sup>1</sup>.
- AVI manages AVI Global Trust (Total Gross Assets: £1.2bn<sup>2</sup>), AVI Japan Opportunities Trust (Total Gross Assets: £0.2bn<sup>2</sup>). AGT and AJOT are public companies whose shares are listed and traded on the main market of the London Stock Exchange. The closed-ended nature of the trust structure, with more stable capital, allows AVI to take a long-term approach.
- AVI has signified its commitment to the “Principles for Responsible Institutional Investors: Japan’s Stewardship Code” and, in accordance with its aim, engages in constructive and meaningful dialogue with management and board members in order to contribute to the enhancement of the corporate value and sustainable growth of the portfolio companies.

1 Background of the Shareholder Proposals

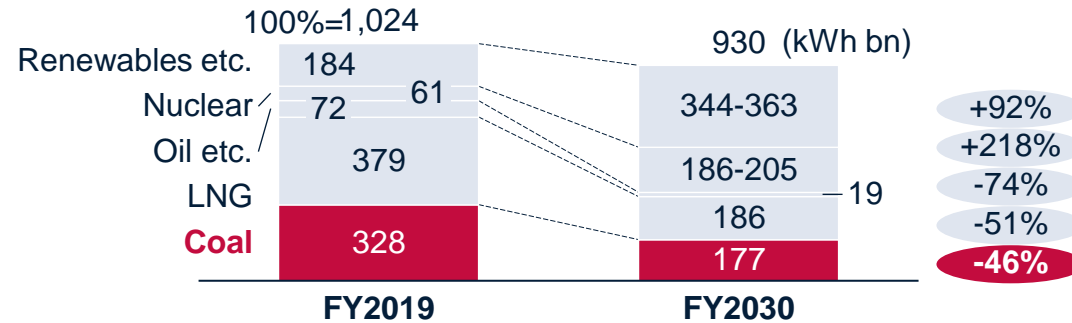
2 Contents of and Reasons for Each Proposal

# Agenda

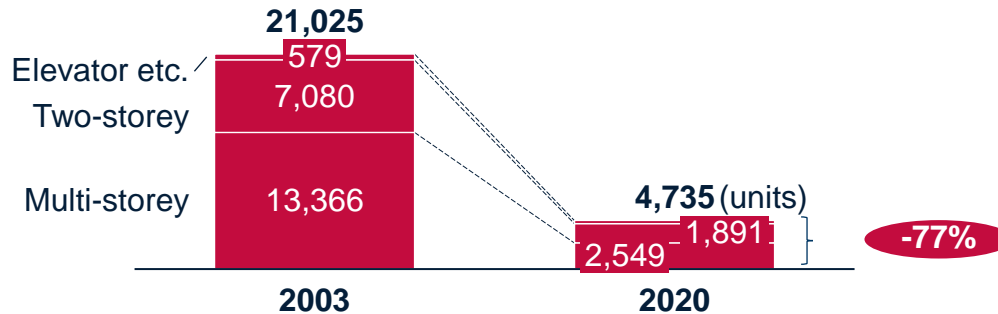
# Background

- The current business environment surrounding NCHD is **highly uncertain**.
- The conveyor belt market, in which NCHD's main business operates, is **expected to shrink** due to decarbonization efforts and reduced reliance on coal-fired power generation plants.
- In the **multi-storey parking equipment-related business**, another core business, **competition is expected to intensify** as the domestic market becomes saturated and the number of new mechanical parking installations declines with population shrinkage.
- This has been reflected in NCHD's **sluggish performance**, with FY2024/3 guidance showing a decrease in both revenue and profit, and operating profit is expected to be 27% lower than three years ago.

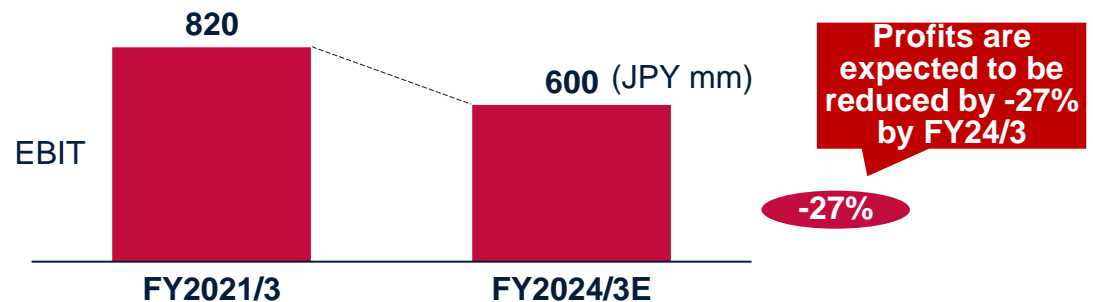
## Decarbonisation in Japan<sup>1</sup>



## New instalment of Parkings<sup>2</sup>



## NCHD Financial Performance



Note 1: Prepared by AVI based on the Sixth Basic Energy Plan, Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry.

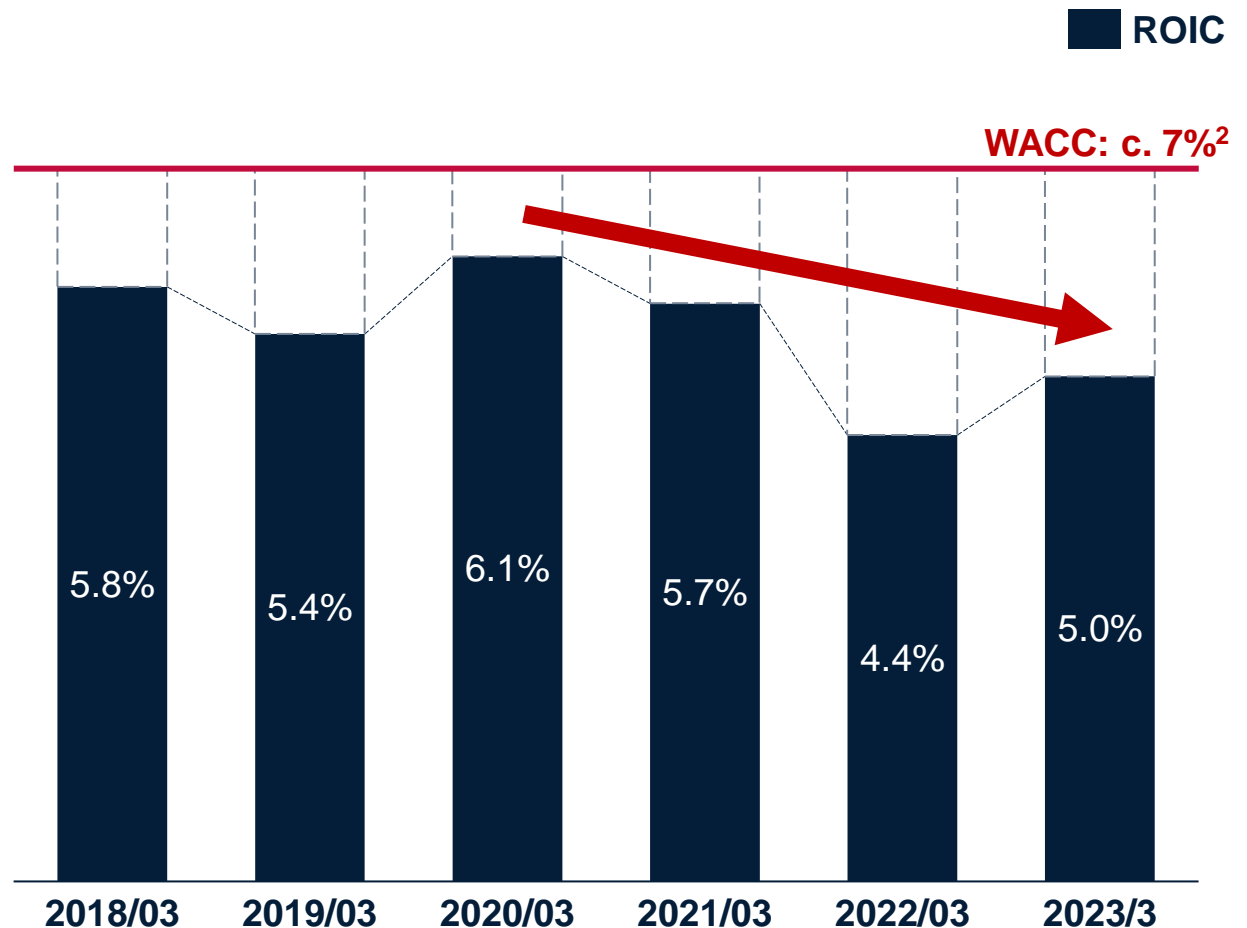
Note 2: Compiled by AVI based on data from the Multi-storey Car Parking Industry Association.

Source: "The Sixth Basic Energy Plan," Agency for Natural Resources and Energy, Ministry of Economy, Trade and Industry; Multi-storey Car Parking Industry Association; NCHD financial disclosure materials; SPEEDA.

# Background

- Under these circumstances, as part of its responsibilities as a listed company, NCHD is expected to explain to shareholders and investors what measures it will take, and over **what time frame, to recover its performance and regain the damaged shareholder value.**
- However, the management has only attributed the deterioration in performance to changes in the external environment and has **not provided a clear explanation to the stock market.**
- NCHD's **ROIC has fallen** and is now below the estimated cost of capital.

## ROIC trajectory and comparison with WACC<sup>1</sup>



Note 1: Return on invested capital (ROIC) = consolidated operating profit after tax / invested capital (consolidated interest-bearing debt + consolidated net assets).

Note 2: The 7% weighted average cost (WACC) is an AVI estimate. According to CAPM estimation, WACC is 7.6%. Assumptions include a risk-free rate of 1.0%, a market risk premium of 6% and an unlevered beta of 1.1.

Source: Prepared by AVI based on disclosed documents.

# Background

- Especially given the difficult environment, **NCHD should provide clear explanations on NCHD's medium- to long-term management vision, what types of investments it will make, and how it will enhance its corporate value and the common interests of shareholders.**
- Industry peers, despite the uncertain business environment, have made efforts to fulfill their accountability to the stock market by, for example, disclosing their medium-term management plans.
- AVI has, through private and constructive dialogues with the management and the directors, stressed the need to develop and disclose a **medium- to long-term management strategy, mid-term plan and investment plan.** However, to date, NCHD has not announced any strategic plans, and its **disclosures continue to fall short of market expectations.**



	NCHD Holdings	IHI	ShinMaywa	SPACE VALUE HOLDINGS <sup>1</sup>	富士変速機株式会社 <sup>2</sup>
Earnings call	n/a	✓	✓	✓	✓
Mid-term plan	n/a	✓	✓	✓	✓
Long-term vision	n/a	✓	✓	n/a	n/a
Business portfolio management plan	n/a	✓	✓	n/a	n/a
WACC, or ROE/ROIC target	n/a	✓	✓	✓	n/a
Investment plan, cash allocation	n/a	✓	✓	n/a	✓
Shareholder return policy	n/a	✓	✓	✓	✓
Integrated report	n/a	✓	✓	n/a	n/a

Note 1: Based on disclosure documents at the time of listing. Including disclosure documents of Nissei Build Kogyo Co., Ltd. prior to the establishment of Space Value HD through a share transfer.

Note 2: Based on disclosures by Fuji Transmission Co Ltd and parent company Tachikawa Blind Industry Co Ltd.

Source: disclosure documents of each company

# Background

- Since becoming a shareholder in 2021, AVI has, in accordance with the aim of Japan's Stewardship Code, conducted private dialogue with the directors and management, holding 12 meetings and delivering, among other methods, detailed presentation materials and letters to stress the need for various initiatives to improve the common interests of shareholders.

# 12

# of meetings with directors<sup>1</sup>



# Background

- However, while some of the initiatives have been implemented which AVI appreciates and acknowledges, **NCHD has not implemented important initiatives from the perspective of the common interests of shareholders, such as the disclosure of a business investment plan, improvement to the transparency of segment information, and the disclosure of a quantitative shareholder return policy.**

	AVI's major suggestions to date	Implementation by NCHD
Operations	Establish portfolio management strategy based on capital efficiency of each business domain	No improvement
Capital Efficiency	Disclose qualitative shareholder return policy (e.g., TSR XX%)	No improvement
Governance	Establish nomination committee with external directors	No improvement
Governance	Disclose Skill Matrix	No improvement
ESG	Disclose mid-term D&I targets (e.g., 3+ directors with gender and ethnicity diversity)	One female director (June 2022), 9.1% <sup>1</sup> (1 out of 11)
Governance	English corporate websites, English disclosures	Started disclosing English earnings reports. No English corporate websites, not compliant with 1-2-4 of CG code
Governance	Reallocate HQ related expenses in segment information (~50% of total profits)	No improvement (HQ cost of 0.8bn accounts for 57.7% of total segment profit of 1.5bn)
Capital Efficiency, Governance	Cancel treasury shares (c. 33.0%, 2,116,530 shares)	Canceled 26.97% (1.7mm shares) in March 2022, 7.3% remaining
All	Disclose Mid-term Plan (M&A, WACC, ROIC, shareholder return policy, ESG materiality, D&I targets etc.)	No improvement

Note 1: Based on corporate governance report and other disclosures on gender and international diversity, not an official figure disclosed by NCHD.  
Source: prepared by AVI based on information disclosed by NCHD and engagement





# Background

- For 16 principles of the Corporate Governance Code, NCHD is not compliant nor has it explained convincing reasons for non-compliance in its Corporate Governance Report, highlighting that there is significant room for improvement in its governance policies.

## 【コーポレートガバナンス・コードの各原則を実施しない理由】

2021年6月の改訂後のコードに基づき記載しています。  
当社は、以下の14原則については業務効率、資本効率や当社事業上の特性から、実施することが必ずしも当社及び当社のステークホルダーの皆にとって最適ではないと考えているもの、あるいは一定の取り組みは行っているものの、さらなる検証と対応が必要であるものについては「実施していない」と捉え、開示しています。

### 【補充原則1—2—4】

当社の外国法人等の持株比率は2021年3月末日現在で、1.0%と僅少でありましたが、2022年3月期には35.5%と急増しました。一方、本年4月の東京証券取引所の再編に当たっては、当社の事業規模・株式総数及び業務効率を勘案し、グローバルな投資家から資金を集めるプライム市場ではなく、主として国内投資家向け市場であるスタンダード市場を敢えて選択したという経緯もあります。以上の事情を勘案し、今回は招集通知の英訳については実施いたしません。新たに決算短信の概要を英訳したものについて、和文の開示後速やかに当社ホームページに掲載するとともに、英文のアンニュアルレポートについても、適宜当社ホームページに掲載することといたしました。議決権電子行使プラットフォームについては未導入ですが、昨年度より議決権行使書を用いた議決権の電子行使を可能としており、遠隔地の株主様の議決権行使の利便性向上に努めております。

### 【補充原則1—2—5】

当社では、株主総会における議決権は、株主名簿上に記載または記録されている者が有しているものとして、信託銀行等の名義で株式を保有する機関投資家等の実質株主が株主総会へ出席し、議決権の行使や質問を行うことは原則認めていません。今後は、実質株主の要望や信託銀行等の動向を注視しつつ、実質株主の株主総会への出席に関わるガイドラインの検討・整備に努めてまいります。

### 【原則1—4】

投資目的以外の目的で保有する株式に関する具体的な検証内容については開示しておりませんが、事業戦略上の重要性、取引先との事業上の関係等を総合的に勘案し、政策的に必要とする株式は保有していく方針です。同株式の買い増しや処分を要否は、当社の成長に必要かどうか、他に有効な資金活用はないか等の観点で、担当取締役による検証を適宜行い、必要に応じ取締役会に諮ることとしています。さらに、政策的保有の意義や当初予定していた目的・効果が発揮されているか、保有に伴う便益やリスクが資本コストに見合っているか等を精査し、取締役会において年に1度継続的にモニタリングしております。検討の結果、保有することが適当でない判断した場合、相手方の理解を得ながら売却・縮減を図っていくことと致します。また、同株式に係る議決権行使については、その議案が当社の保有方針に適合するかどうかに加え、発行会社の効率かつ健全な経営に役立つ、企業価値の向上を期待できるかどうか等を総合的に勘案して行っています。

### 【原則1—4—1】

政策保有株主より当社株式の売却の意向が示された場合には、取引の縮減を示唆することなどにより当社が売却を妨げることはありません。

### 【原則1—4—2】

政策保有株主との取引について取締役会での定期的な検証は行っていませんが、個々の取引に当たっては、業績目標をもつ各決裁権限者が、政策保有株主であるかに関わらず、経済合理性に基づき判断しております。

### 【原則2—6】

当社は、独自の年金制度としては、確定拠出年金のみであるため、本原則の対象外と考えております。

### 【原則3—1—2】

当社の外国法人等の持株比率は2021年3月末日現在で、1.0%と僅少であったため、業務効率面を考慮して英文での情報開示については実施していませんでしたが、2022年3月期には外国法人の持株比率は35.5%と急増しております。一方、本年4月の東京証券取引所の再編に当たっては、当社の事業規模・株式総数及び業務効率を勘案し、グローバルな投資家から資金を集めるプライム市場ではなく、主として国内投資家向け市場であるスタンダード市場を敢えて選択したという経緯もあります。以上の事情を勘案し、新たに決算短信の概要を英訳したものについて、和文の開示後速やかに当社ホームページに掲載するとともに、英文のアンニュアルレポートについても、適宜当社ホームページに掲載することといたしました。

### 【補充原則3—2—1(i)】

(i)外部会計監査人については、その監査実施状況や監査報告等を通じ、職務の実施状況の把握・評価を行っていますが、外部会計監査人候補の詳細に関する明確な基準は策定していません。今後、外部団体のガイドラインを参照する等して、監査等委員会にて協議・決定する予定です。

### 【補充原則4—1—2】

当社グループの業績は、当社子会社、日本コンベヤ株式会社の業績に大きく左右されます。同社の主要な事業であるコンベヤ関連事業は、案件1つの受注・失注により業績が大きく左右され、また案件によっては受注から納入までに1~5年という非常に長い期間を要する事業です。また、納入先も大規模な工事現場や鉱山等、収益化に比較的長い時間を有します。こうしたリスクの高い事業上の特性から、中長期の経営計画を立案することは、株主の皆様には不要かつ過大なリスク負担を強いることになり、かえって的確な投資判断を損なう恐れがあるものと考えています。このため当社では、経営計画は単年度の策定としています。今後は株主の皆様との建設的な対話に向けた共通認識を形成するため、経営計画及びその達成状況について開示していきたいと考えています。

### 【補充原則4—1—3】

当社では現在のところ最高経営責任者の後継者計画の策定・運用・監督には、取締役会は主体的には関与していませんが、当該目的のため、後継者候補である経営幹部と常勤取締役に対し、経営課題に対する意見具申を求めたうえでイントラネットを通じて全員で議論を行うという研修を常時行っております。これらのプロセスを通じて、次期経営責任者としてふさわしい人物が、客観的かつ透明性をもって選出されるコンセンサスが醸成されていくと考えております。

### 【補充原則4—2—2】

当社のサステナビリティに関連した環境に対する取り組みは、本書の補充原則3—1—3に記載の通りです。このほか、人権の尊重、従業員の健康・労働環境への配慮、公正・適切な処遇、取引先との構成・適正な取引、自然災害等への危機管理等を含め、近くまとめてサステナビリティを巡る取り組みについての基本方針として策定し、当社ホームページ上に公開する予定です。人的資本、知的財産への投資等に係る戦略が企業の持続的な成長に資するべく取締役会が実効的に監督できるように、毎年実行状況について、取締役会に報告することといたします。

### 【補充原則4—3—2】

CEOの選解任について、当社では、独立した顧問委員会は設置していませんが、取締役11名中7名を独立社外取締役が占める取締役会により客観性を担保しながら慎重に検討して決定しております。

### 【補充原則4—3—3】

CEOの解任について、具体的な業績基準などは策定していませんが、会社業績等を踏まえCEOがその機能を十分発揮していないと認められる場合には、取締役会にてすみやかに解任手続きを行います。

### 【補充原則4—11—1】

現在、各取締役のスキル・マトリクスは開示していませんが、招集通知および有価証券報告書に記載している役職、経歴、選任理由により、各取締役の役割、経験等はご理解頂けるものと考えています。常勤取締役3名は、いずれも複数の会社において取締役として経営に参画した経験があり、内2名は、経営再建を主導した経験があります。残り1名は、複数の他社において、技術者として設計並びに開発に携わった経験に加え、金融並びに経営管理責任者の経験があります。また、社外取締役はいずれも独立役員で、内3名は他社代表取締役の経験者であります。他3名は、弁護士であり、会社法を始めとした法務面での高い専門性を、他2名は公認会計士として、会計に関する高い専門性を有しております。上記の通り、当社取締役会は、経営からの独立性を担保しながら、知識、経験、能力において多様性に富んだ人材で構成されており、現経営環境において経営執行に適したスキルの組み合わせとなっているものと考えております。

### 【補充原則4—11—3】

取締役会の実効性評価については、今後、取締役会の機能を向上させるという観点から、評価手法も含めて検討してまいります。

### 【原則5—2】

当社は毎年、経営計画を策定し、当期の売上高、営業利益及び1株当たり当期純利益等の予想値を、決算短信で開示しています。予想値について、変更が生じた際は、変更の背景や内容について、業績予想の修正の適時開示を行っております。これを超える経営資源の配分計画などより具体的な計画を定期的には開示しては至っておりませんが、株主の皆様との有益な対話のベースとしての情報提供を積極的に行うことで、よりわかりやすい情報開示に取り組んでまいります。

# Background

- Peers have been proactive in communicating information to the capital markets, such as business portfolio management using ROIC, business restructuring, cost of capital/hurdle rates, shareholder return policies, medium-term plans and long-term visions.

## IHI

### Content of Management Targets

Capital investment efficiency	ROIC (after tax)*1	10% or more
Cash generation capabilities	CCC*2	80 days
Profitability	Operating profit margin	8% or more

### Challenges of Restructuring Business Portfolios



IHI also needs to evaluate profitability in each business division based on invested capital and prioritize the allocation of this capital to businesses expected to show a return on that investment.

## ShinMaywa

### Target management indicators

Management indicators	SG-2023 Target level	Cash allocation	SG-2023 Target level
Net sales	250 billion yen	Growth investment	30 to 40 billion yen (Cumulative total for FY2021 to FY2023)
Operating profit	15 billion yen	Dividend payout ratio	Implement with 40-50% as the basis
Overseas sales	45 billion yen	Purchase of treasury stock	Implement flexibly depending on stock price levels, etc.
ROE	10% or more		
ROIC	7% or more		



Director,  
Finance  
Manager

As well as financial soundness, efforts to increase capital efficiency are important for management business. As part of these efforts, we conducted a 45 billion yen share buyback program in FY2018, which resulted in an improved ROE.

Our policy on shareholder returns during the Medium-term management plan period sets the dividend payout ratio at 40 to 50% in principle, and in some circumstances, we will flexibly carry out share buybacks.

### Progress of Restructuring Business Portfolios

事業名	分類	時期	概要
ロケットシステム事業	集中	2018年6月	IHIの子会社である株式会社IHIエアロスペースは、キヤノン電子株式会社、清水建設株式会社、株式会社日本政策投資銀行と共同で、小型ロケット打上げ事業を行なうスペースワン株式会社を設立
F-LNG・海洋構造物事業	選択	2018年9月	F-LNG・海洋構造物事業の主力工場である愛知工場が受注済案件を完工し、生産拠点としての機能を終了
パーキング事業	集中	2018年10月	IHIの子会社であるIHI運搬機械株式会社はオリエント産業株式会社から機械式立体駐車装置の保守・保全事業を譲受
シールド事業	集中	2018年10月	IHIの子会社であるJIMテクノロジー株式会社は、シールド掘進機のグローバル競争力強化に向け香港Terratec社の株式の51%を取得
小型原動機事業	選択	2018年12月	IHIの子会社である株式会社IHIアグリテックの小型原動機事業を米国キャタピラー社へ継承
環境対応システム事業	選択	2019年1月	IHI子会社である株式会社IHI環境エンジニアリングの廃棄物処理施設関連事業等を、株式会社神鋼環境ソリューションへ継承
プラント事業	構造改革	2019年4月	IHIのプロセスプラント事業とIHIの子会社である株式会社IHIプラントエンジニアリングをIHIの子会社であるIHIプラント建設株式会社に統合し、株式会社IHIプラントが発足
原動機事業	構造改革	2019年7月	IHIの原動機事業とIHIの子会社である株式会社ディーゼルユナイテッドをIHIの子会社である新潟原動機株式会社に統合し、株式会社IHI原動機が発足予定

### Optimizing business portfolios

- Business evaluation based on business growth potential (including market growth potential) and ROIC
- Ensure ROIC management by setting hurdle rates



External  
Director

When I think of how the ShinMaywa Group could increase its value, I sometimes wonder whether the strong independence of the business divisions could present a hurdle. The challenge is to achieve a management style that can be referred to as a conglomerate premium.

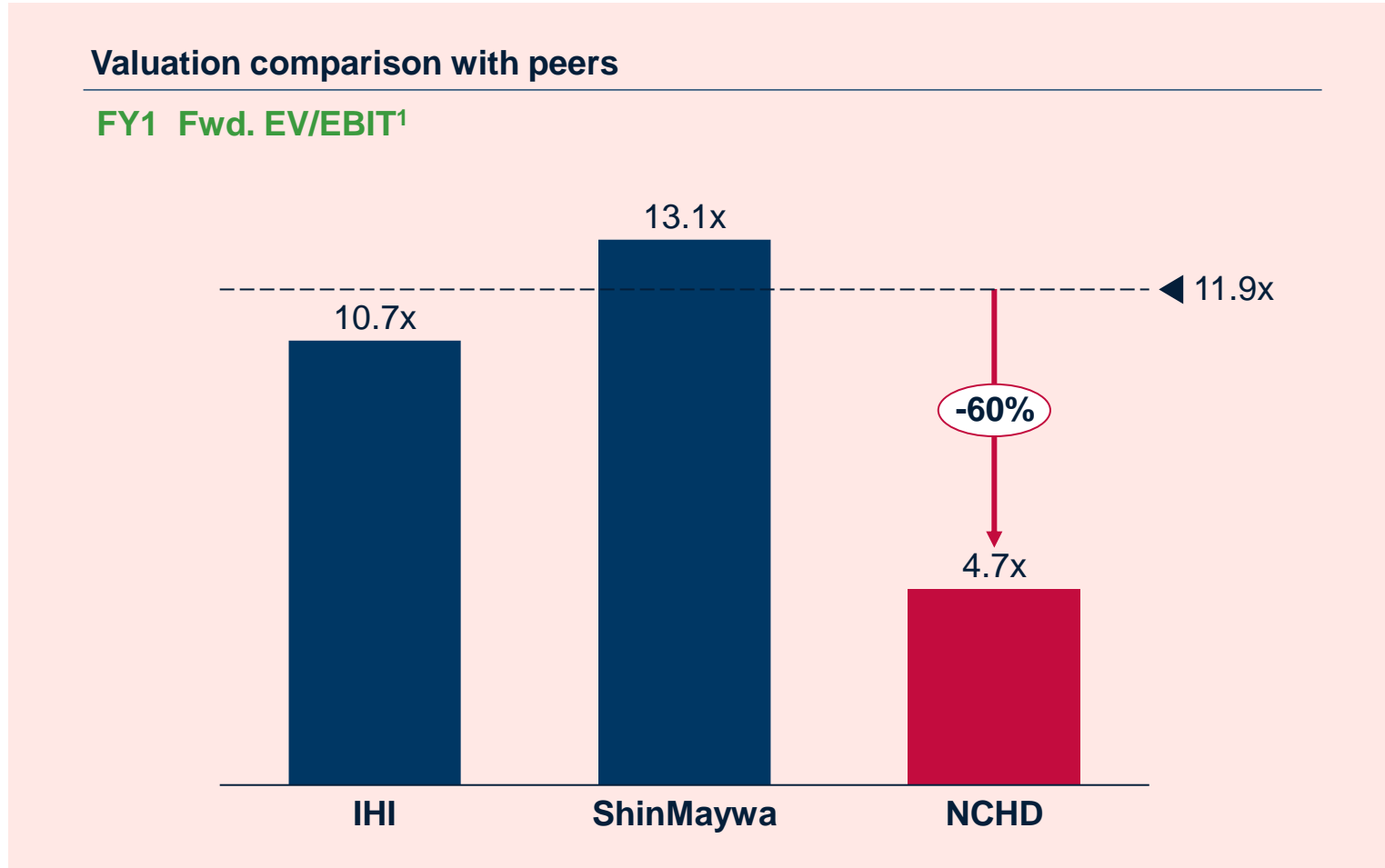
### Business portfolio management

Net sales growth rate	ROIC
<b>New growth businesses</b> <ul style="list-style-type: none"> <li>Growth strategies</li> <li>Investment of management resources</li> <li>Active investment</li> </ul>	<b>Current main businesses</b> <ul style="list-style-type: none"> <li>Growth strategies</li> <li>Profitability improvement</li> <li>Active investment</li> </ul>
<b>Low-growth, low-profit businesses</b> <ul style="list-style-type: none"> <li>Reduced investment</li> <li>Transformation to high-profit structure</li> <li>Determination of growth potential</li> </ul>	<b>Low-growth mature businesses</b> <ul style="list-style-type: none"> <li>Consideration of regrowth</li> <li>Reduced investment</li> <li>Focus on high-profit businesses</li> </ul>

Aim for optimal business portfolio by increasing business segment growth rates and improving ROICs

# Background

- Due to the lack of disclosure and in the face of continued underperformance, **NCHD's market valuation is around 60% below that of industry peers.**



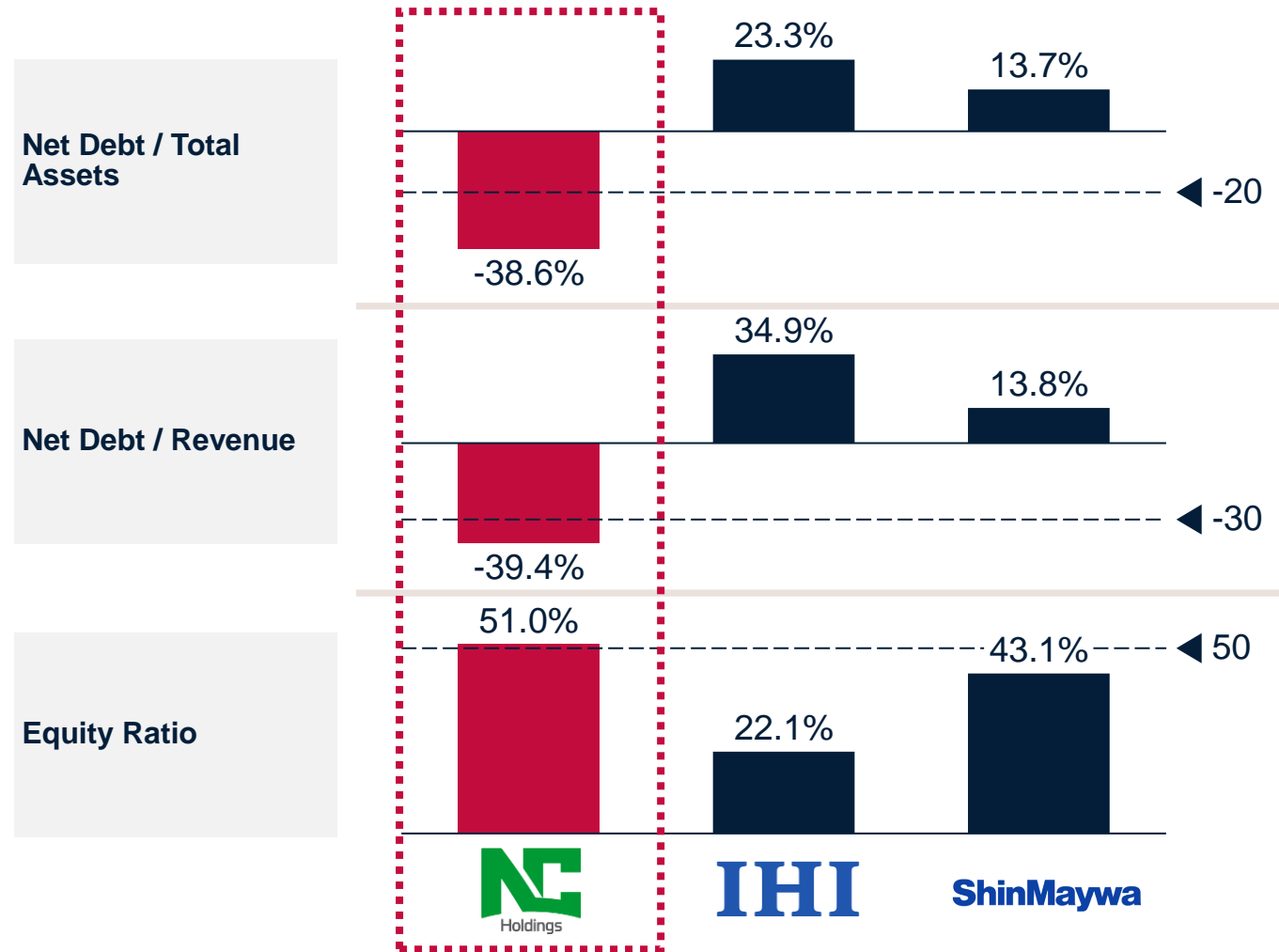
Note 1: Calculated based on share price as of 15 May 2023. Enterprise value takes into account after-tax investment securities and is calculated at a tax rate of 30.6%.  
Source: Compiled by AVI based on SPEEDA and company disclosures.

# Background

- Given that NCHD has net cash equivalents and after-tax investment securities amounting to almost 70% of its market cap and that NCHD is considered to have sufficient debt-financing capacity, the need for future financing on the stock market appears to be limited.

## Capital efficiency comparison with peers (LTM)

■ : "Companies with excessive financial assets" in the voting criteria of a major domestic asset management company<sup>1</sup>



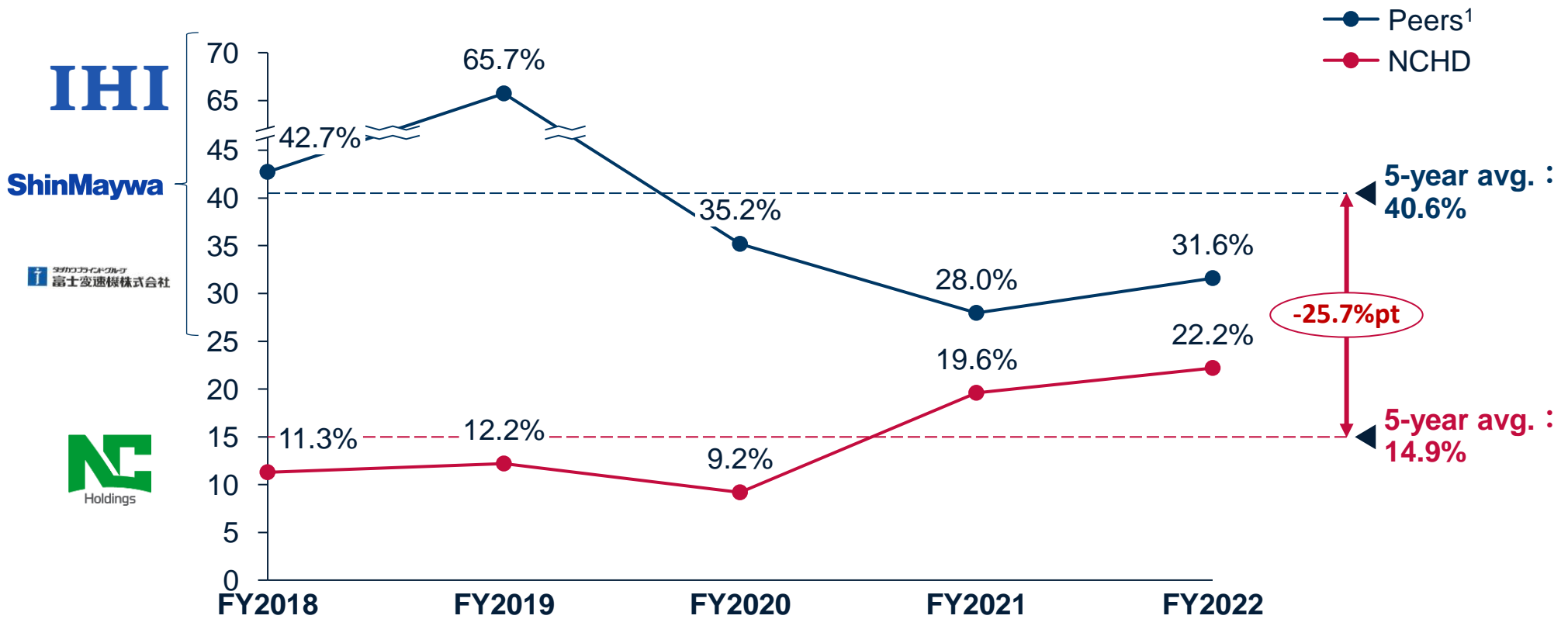
Note 1: Nissay Asset Management voting criteria (February 2023). See the criteria for the details of "companies with excessive financial assets." AVI does not have any intention to express any opinion in respect of the exercise of voting rights by any shareholder.  
Source: prepared by AVI based on company disclosures and SPEEDA, as at end-December 2022.



# Background

- While NCHD has “excessive financial assets” sitting as surplus assets on its balance sheet, the dividend payout ratio is well below peers and shareholder returns remain extremely low (excluding the buy-back through a tender offer from a then-conflicting shareholder in 2021).

Pay-out ratio trajectory against peers

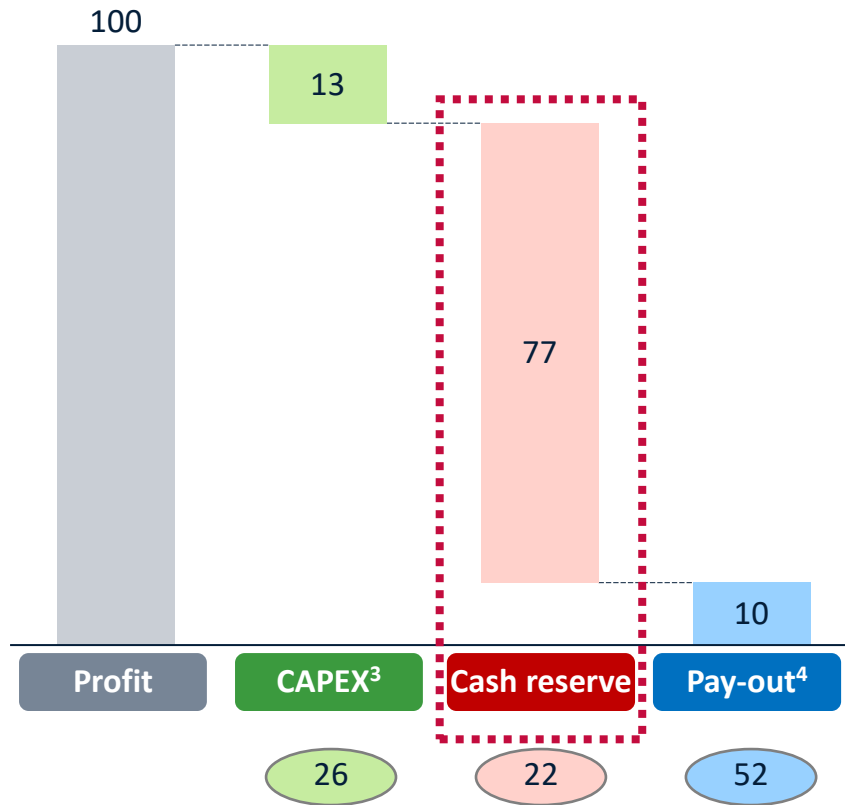


Note 1: Average of IHI, ShinMaywa, Fuji Hensokuki  
Source: prepared by AVI based on company disclosures

# Background

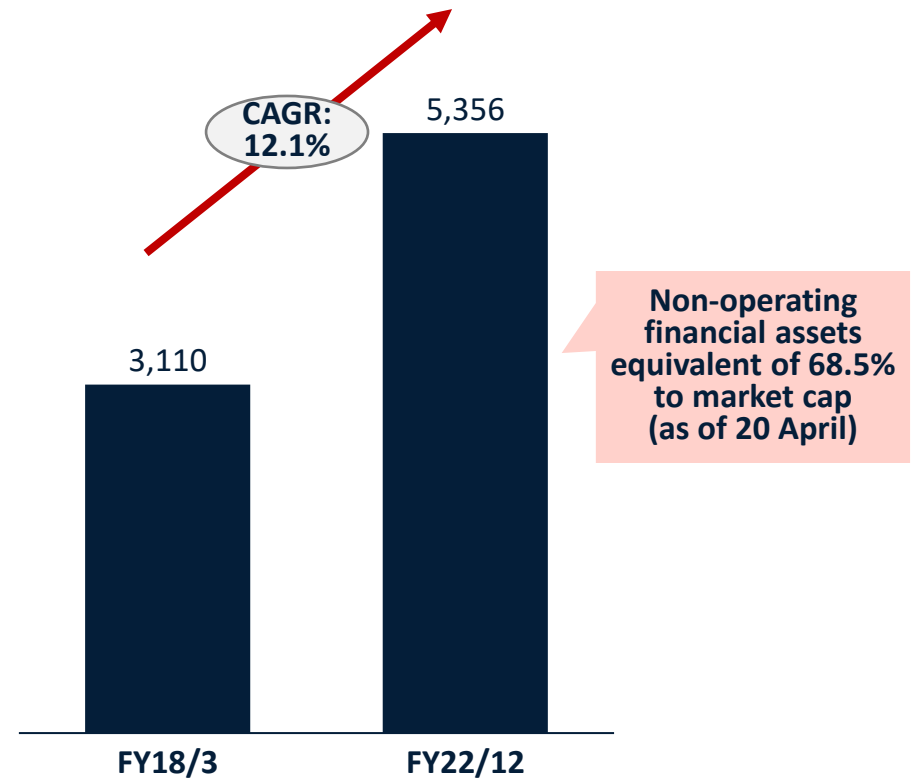
- NCHD's CAPEX is only about half that of its peers.
- With low shareholder returns, this has led to the accumulation of financial assets.

Distribution of net profits<sup>1, 2</sup> (4-yr average)



Ref)  
Comps:

Net financial assets trajectory (JPY mm)<sup>5</sup>



Note 1: Does not include cash increase/decrease due to borrowing and repayment of interest-bearing debt.

Note 2: There is a separate increase in cash due to changes in net working capital of +96% of net income, but this is not included in the above "cash reserve."

Note 3: (Purchase of property, plant and equipment and intangible assets (excluding gains on sales) + M&A expenditure - depreciation and amortisation of goodwill) / profit for the year

Note 4: Only dividend pay-outs are included (peer companies as well), as the tender offer for NCHD's shares conducted primarily to buy back shares held by then-conflicting TCS Holdings is not considered to represent the normal level of shareholder returns.

Note 5: Cash and cash equivalents - interest-bearing debt + after-tax securities (calculated assuming a tax rate of 30.6%).

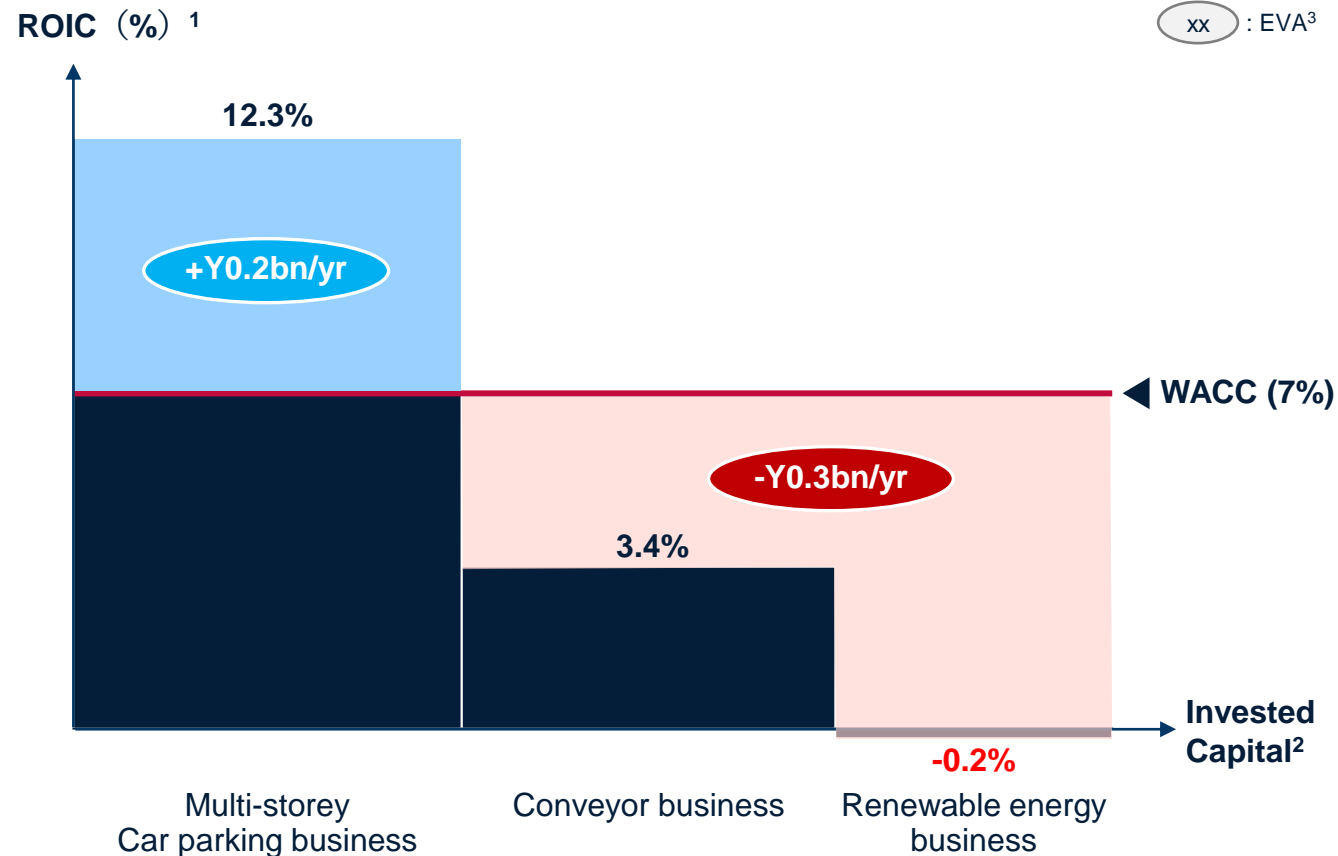
Source: Compiled by AVI based on company disclosures, SPEEDA and Capital IQ (as of 13 May 2023).



# Background

- If NCHD continues to fail to adequately fulfil the responsibilities expected of a listed company, **it may not be best for NCHD to continue its stock market listing**. The management and the Board of Directors should examine **various strategic options and consider the best option from the perspective of the common interests of shareholders**, including reviewing the business portfolio and the capital structure.
- Given the lack of improvements, AVI suspects that all options are not being explored by NCHD, and that **the common interests of shareholders are being undermined as a result**.

## NCHD Business Portfolio



Note 1: ROIC is the average of the three most recent financial years (FY2020 - FY2022) at the time of the shareholder proposal. The ROIC for each business portfolio is based on AVI calculations based on each segment's assets and each segment's sales and profits, as the most recent financial statements of each subsidiary have not been disclosed (as of 13 May 2023). Head office expenses and head office assets are allocated proportionally based on each segment sales respectively.

Note 2: Invested capital is data for the most recent period as at the time of the shareholder proposal (FY2022). For invested capital by business portfolio, AVI calculations are based on each segment's assets and each segment's sales and profits, as the most recent financial statements of each subsidiary have not been disclosed (as of 13 May 2023). 15

Note 3: Calculated as EVA = (ROIC (average of last 3 periods) - WACC) \* IC (last period)

Source: Prepared by AVI based on disclosed documents.

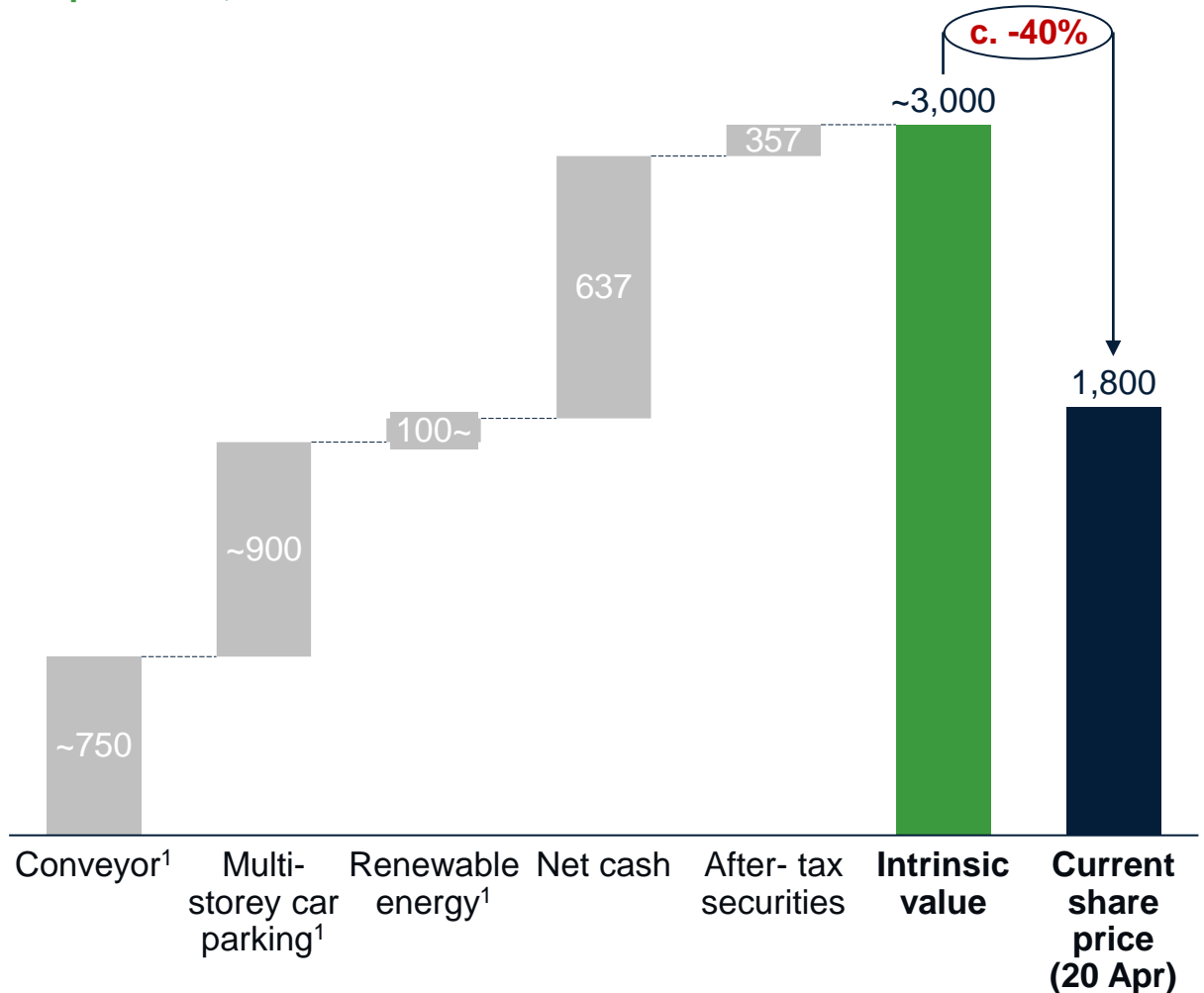


# Background

- The share price of NCHD trades below our estimated intrinsic value. This reflects a conglomerate discount due to NCHD's diversified business portfolio, the uncertainty regarding NCHD's future performance and prospects, and the low expectations that the common interests of shareholders are being appropriately considered.

## Comparison of intrinsic value against market value

### Value per share, JPY



Note 1: Head office costs are allocated proportionally based on the sales of each business. The business value of each segment is calculated based on the domestic comparable companies method and the profit of each segment in FY22/3.  
Source: AVI estimates based on company disclosures.



# Background

- AVI hopes to maintain friendly and constructive relations with the management and the directors of NCHD in private. However, **the lack of progress and speed of the improvements made so far are significantly below our expectations.** We do not think that NCHD's management and Board are acting with proper consideration of the common interests of shareholders. Due to NCHD's intransigence, AVI believes that **much-needed improvements will not be achieved through private engagements.**
- To fulfill its fiduciary duty as a responsible institutional investor, **AVI is making its suggestions through the more formal process of shareholder proposals to give all shareholders a chance to vote on the future direction of NCHD.**

**AVI is submitting shareholder proposals to NCHD's Ordinary General Meeting to achieve the necessary changes to maximise NCHD's corporate value for the benefit of all shareholders.**

# List of AVI's Shareholder Proposals

Agendas		Summary		
1	Partial Amendment to the Articles of Incorporation (Number of Directors)	Increase the maximum number of directors by one	p.21	Strengthen supervisory function of the Board
2	Election of Two (2) Directors (Excluding Directors Who are Audit and Supervisory Committee Members)	Elect two additional outside directors	p.22	
3	Partial Amendment to the Articles of Incorporation (Strategic Review Committee)	Establish the Strategic Review Committee	p.27	Evaluate strategic alternatives
4	Partial Amendment to the Articles of Incorporation (Policy against Large-Scale Purchases of Share Certificates, etc., of the Company)	Set forth minimum matters to be complied with in adopting or triggering a poison pill	p.33	Ensure discipline over management
5	Partial Amendment to the Articles of Incorporation (Issuance of Shares, etc.)	Require prior approval of a general meeting of shareholders for a third-party allocation of shares, etc.	p.38	
6	Partial Amendment to the Articles of Incorporation (Dividends of Surplus, etc.)	Grant general meetings of shareholders the authority to determine dividends of surplus, etc.	p.41	Enhance capital efficiency
7	Appropriation of Surplus	Year-end dividend of JPY 65 per share	p.46	
8	Determination of Compensation for Performance-Based Stock Compensation Plan and Restricted Stock Compensation Plan for Directors (Excluding Directors Who are Audit and Supervisory Committee Members)	Amend / introduce stock compensation	p.49	Strengthen incentive
				Enhance shareholders' interests



1 Background of the Shareholder Proposals

2 Contents of and Reasons for Each Proposal

# Agenda

# **Strengthening Supervisory Function**

# Partial Amendment to the Articles of Incorporation (Number of Directors)

Increase the maximum number of directors by one to enable the election of two outside directors with knowledge and experience of capital markets outlined in Proposal 2.

## Board of Directors

	Director	Experience / Knowledge
1	Hironori Kajiwara	Internal Director
2	Hiroshi Yoshikawa	Internal Director
3	Hidekazu Murata <sup>1</sup>	Internal Director
4	Ayo Kinoshita (Makino)	M&A, Construction
5	Yasushi Hashimoto	Finance, Management
6	Hiroaki Komatsu	Finance, Management
7	Koji Takahashi	Finance, Management
8	Kentaro Kitagawa	Legal
9	Takuro Katayama	Legal
10	Masao Fujie	Accounting
11	Kenichiro Matsuki	Accounting
<b>Upper Limit</b>	<b>12</b>	<b>Director proposed by AVI</b>
	<b>13</b>	<b>Director proposed by AVI</b>

Directors lack capital markets knowledge and experience  
 ↓  
 Insufficient supervisory function

Increase maximum number of directors by one  
 ↓  
 Allow the election of two directors with knowledge and experience of capital markets  
 ↓  
 Strengthen supervisory function



Note 1: In place of Mr. Hidekazu Murata, Mr. Toshio Ishida is nominated by NCHD as a candidate for a new internal director for approval at this Ordinary General Meeting of Shareholders.  
 Source: NCHD disclosure

## Election of Two Directors (Excluding Directors Who are Audit and Supervisory Committee Members) (1/4)

Elect two outside directors with abundant capital markets knowledge and experience to strengthen the Board of Director’s supervisory function from the perspective of the common interests of shareholders.

### Structure of the Board of Directors

Director	Experience / Knowledge
1 Hironori Kajiwara	Internal Director
2 Hiroshi Yoshikawa	Internal Director
3 Hidekazu Murata <sup>1</sup>	Internal Director
4 Ayo Kinoshita (Makino)	M&A, Construction
5 Yasushi Hashimoto	Finance, Management
6 Hiroaki Komatsu	Finance, Management
7 Koji Takahashi	Finance, Management
8 Kentaro Kitagawa	Legal
9 Takuro Katayama	Legal
10 Masao Fujie	Accounting
11 Kenichiro Matsuki	Accounting
<b>12 Jiro Yasu</b>	<b>Capital Markets</b>
<b>13 Philip Partnow</b>	<b>Capital Markets</b>

Directors lack capital markets knowledge and experience  
 ↓  
 Insufficient supervisory function

Elect two directors with abundant knowledge and experience of capital market  
 ↓  
 Strengthen supervisory function



Note 1: In place of Mr. Hidekazu Murata, Mr. Toshio Ishida is nominated by NCHD as a candidate for a new internal director for approval at this Ordinary General Meeting of Shareholders.  
 Source: NCHD disclosure

# Election of Two (2) Directors (Excluding Directors Who are Audit and Supervisory Committee Members) (2/4)

Jiro Yasu

## Biography

- 1996 Daiwa Securities America Inc. (NY)
- 1998 First Eagle Investment Management, LLC (Formerly Arnhold and S. Bleichroeder) (NY)
- 2001 Senior Vice President, First Eagle Investment Management, LLC
- 2005 Director in charge of New Business Promotion, Jyujiya Securities Co. Ltd.
- 2006 Representative Director, VARECS Partners Limited (to present)
- 2012 Director, Jyujiya Holdings Inc.
- 2013 Director, Fujii Shuzo Co., Ltd. (to present)
- 2018 Representative Director, JWC Inc. (to present)
- 2022 Representative Director, Jyujiya Holdings Inc. (to present)

## Qualifications

- Can devote sufficient time and effort to his duties as an outside director.
- The investment management firm and investment funds in which Mr. Yasu is involved do not currently have any investments in NCHD, nor will they have any investments in NCHD during his term of office.
- Has a global perspective, having worked in the US for c. ten years and communicating with overseas asset owners and investment management companies on a daily basis.
- B.A. in Economics from Keio University, Certified Financial Analyst.
- Fluent in Japanese and English.

## Experience

- Involved in buy side public equity investments for more than 20 years.
- At First Eagle Investment Management, a long-established investment management firm in New York, as a senior vice president, he was involved in a wide range of asset management work, including company analyses, fundraising, product developments, and risk management.
- Co-founded an independent investment management firm and became its representative director. As a portfolio manager, he makes long-term investments in mid-cap Japanese listed companies.
- Focuses on contributing to realising the intrinsic value and further growth of portfolio companies through dialogue with their management teams.

## Reasons for Proposing as Outside Director

- Expected to utilise his many years of experience investing in listed companies as an institutional investor to supervise management emphasising the common interests of shareholders, to deepen dialogue with shareholders and the capital markets, and to provide advice to NCHD to be better appreciated by investors.
- Expected to utilise his extensive network of domestic and foreign capital market participants and listed company managers, etc., which he has built up through his many years of managing investment funds, to help NCHD resolve various management issues.



# Election of Two (2) Directors (Excluding Directors Who are Audit and Supervisory Committee Members) (3/4)

## Philip Partnow

### Biography

- 1995 Joined Sullivan & Cromwell LLP (NY, HK, Tokyo)
- 1999 Senior Vice President & Head of Transaction Legal Dept., Nikko Salomon Smith Barney Limited (Tokyo)
- 2000 Director in M&A Dept., UBS Investment Bank (Tokyo, HK)
- 2004 Executive Director in M&A Dept., UBS Investment Bank (HK)
- 2007 Managing Director in M&A Dept., UBS Investment Bank (HK)
- 2007 Deputy Head of Investment Banking, UBS Securities (Beijing)
- 2010 Head of China M&A, UBS Investment Bank (Beijing)
- 2010 Member of the Board of Directors, UBS Securities (Beijing)
- 2013 Vice Chairman of Asian M&A, UBS Investment Bank (HK)
- 2014 Founder & CEO, Partnow & Co. (to present)

### Experience

- Involved in M&A and strategic investment advisory work for more than 20 years.
- Held several senior positions at UBS Group, including Vice Chairman of Asian M&A. Worked closely with senior management of large companies in Japan, China, USA and Europe on M&A and strategic investment transactions.
- Gained a deep understanding and insight into the capital markets in the process of advising listed company clients on financing and other capital markets matters.
- Runs his own M&A advisory boutique firm in Japan since 2014. Mainly advises foreign investors in their investments in Japan, including assisting them in their engagements with the management team of Japanese listed companies. Further deepening his understanding and insight into the Japanese capital market and the challenges and opportunities facing Japanese listed companies.

### Qualifications

- Can devote sufficient time and effort to his duties as an outside director.
- Born and raised in the US and has many years of work experience in Japan and China, giving him both a global perspective and an understanding of Japanese values and corporate culture.
- B.A. in Social Studies from Harvard University, J.D. from Columbia Law School.
- Fluent in Japanese, English, and Mandarin Chinese.

### Reasons for Proposing as Outside Director

- In addition to supervising management with an emphasis on the common interests of shareholders, he is also expected to make significant contributions to NCHD in other highly important challenges, such as (i) reviewing the business portfolio, (ii) considering and formulating M&A strategies, (iii) considering and executing M&A and strategic investments, (iv) deepening dialogue with shareholders and the capital markets, and (v) globalising the business.

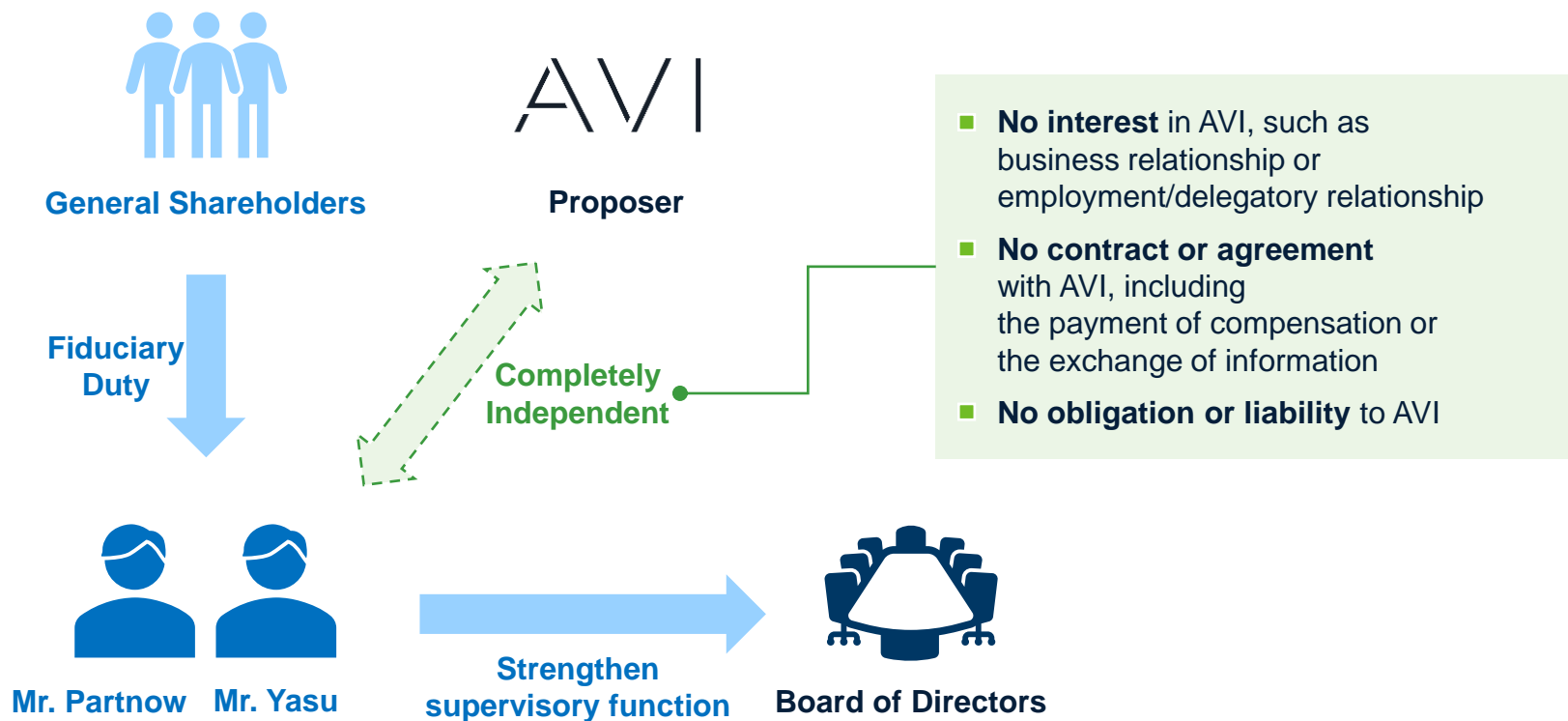




## Election of Two (2) Directors (Excluding Directors Who are Audit and Supervisory Committee Members) (4/4)

Mr. Yasu and Mr. Partnow are completely independent of AVI and will not represent the interests of any particular shareholder. They are expected to supervise the management from the perspective of the common interests of all shareholders.

Mr. Yasu and Mr. Partnow are completely independent of AVI

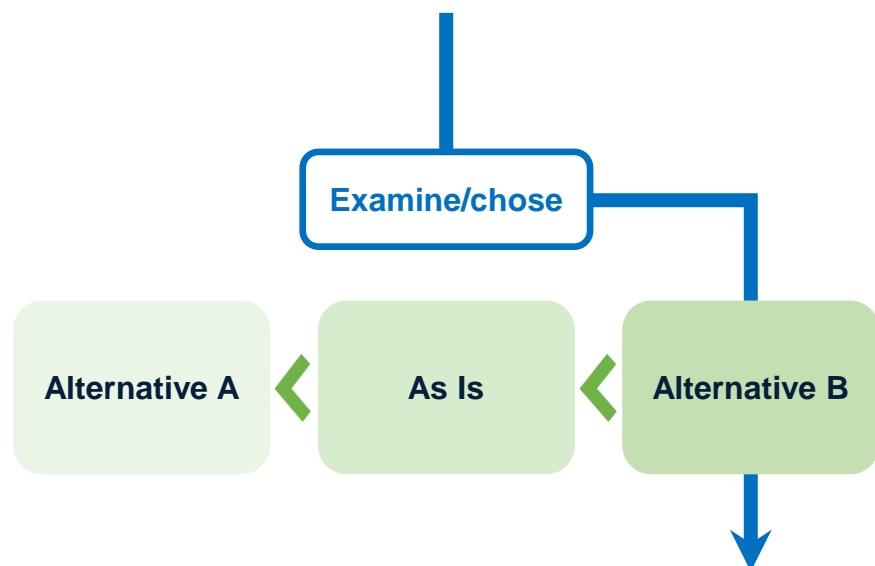


# Evaluate Strategic Alternatives

## Partial Amendment to the Articles of Incorporation (Strategic Review Committee) (1/5)

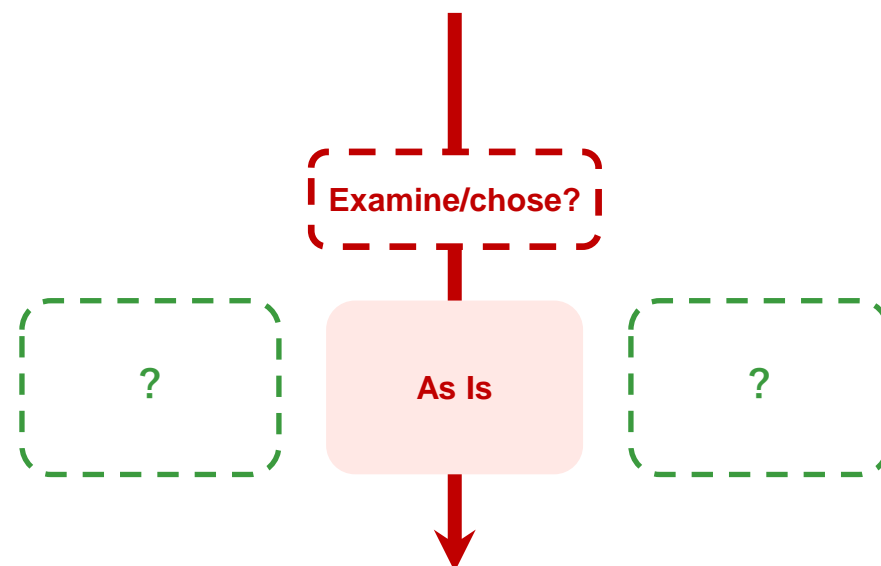
The Board should evaluate the best strategic options from the perspective of the common interests of shareholders. However, AVI believes that the Board may not have adequately considered all options, and the common interests of shareholders may have been undermined.

Ideal



- Management and the Board are expected to **examine whether the status quo is the best option from perspectives of shareholders' interests**, after having **compared it with various strategic alternatives**, including reviewing the business portfolio and capital structure.

AVI's concern



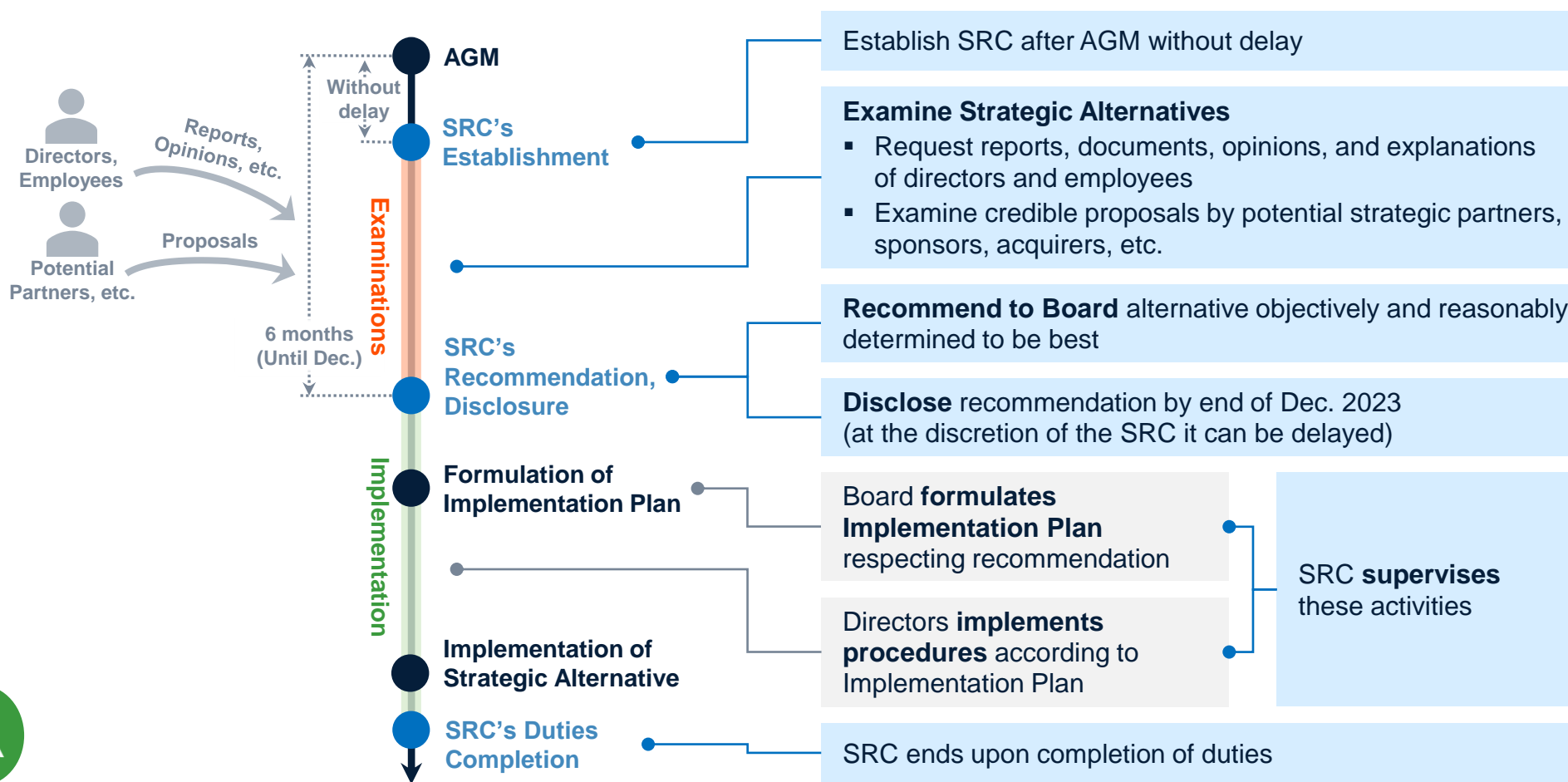
- However, the Board has made no effort to explain the results of such examinations to shareholders and investors to gain their understanding and trust.
- Rather, **all strategic options may not have been adequately considered and shareholders' interests may have been undermined.**

# Partial Amendment to the Articles of Incorporation (Strategic Review Committee) (2/5)

The Strategic Review Committee shall examine strategic alternatives broadly and recommend the best option. The Board of Directors shall formulate an Implementation Plan, and the directors shall implement procedures.

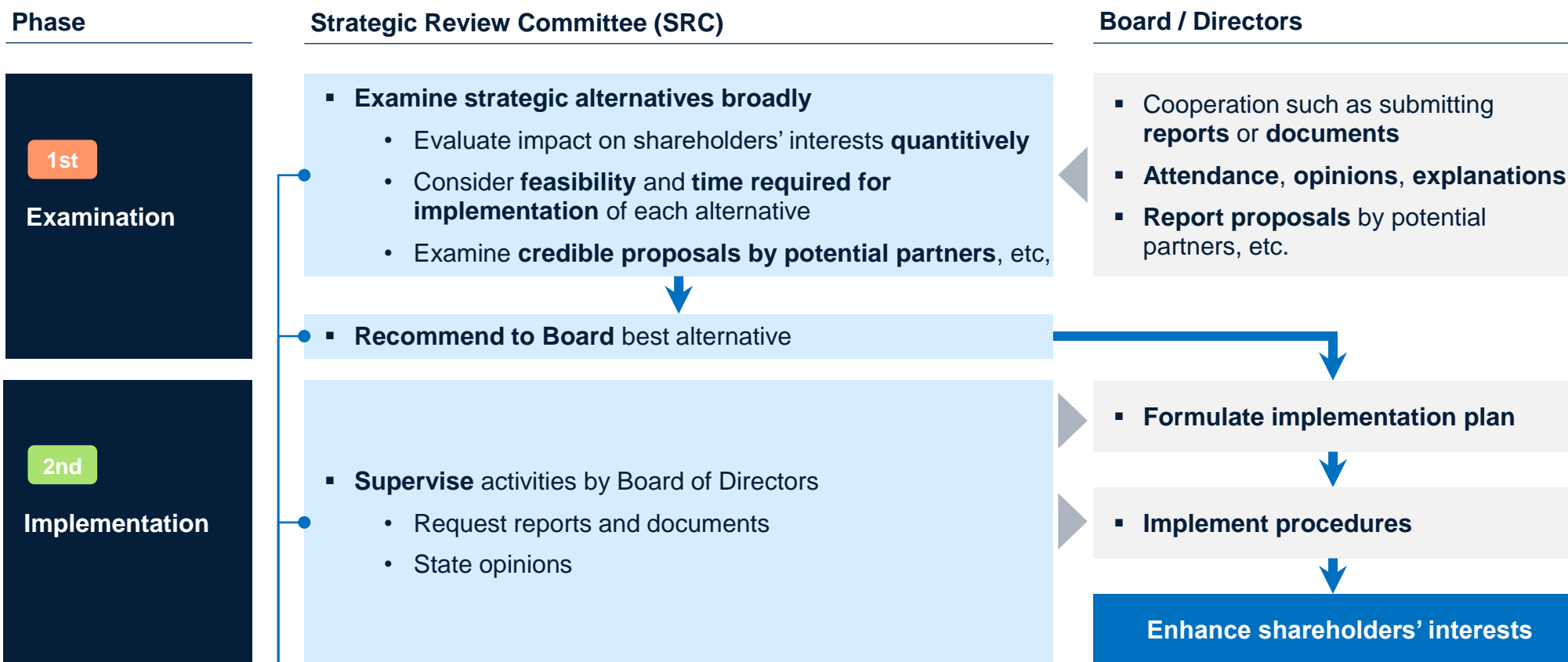
## Process of the Strategic Review Committee ("SRC")

: SRC's roles



# Partial Amendment to the Articles of Incorporation (Strategic Review Committee) (3/5)

In the 1st phase, the SRC examines and recommends strategic alternatives.  
In the 2nd phase, the Board and the directors formulate the plan and implement procedures, which the SRC supervises.



The Articles of Incorporation shall stipulate that all duties are performed from the perspective of the common interests of shareholders.



# Partial Amendment to the Articles of Incorporation (Strategic Review Committee) (4/5)

## Composition and authorities to ensure the effectiveness of the SRC.

Item	Purpose	Matters to stipulate in Articles of Incorporation
<p><b>Duration</b></p>	<p>SRC should be <i>ad hoc</i> to enable <b>intensive discussions</b> within a <b>certain time frame</b></p>	<ul style="list-style-type: none"> <li>▪ Establishment: After AGM without delay</li> <li>▪ Disclosure of Recommendation: by the end of Dec. 2023 (at the discretion of the SRC it can be delayed)</li> <li>▪ End: Upon completion of duties</li> </ul>
<p><b>Composition</b></p>	<p>Ensure <b>independence</b> and include <b>capital market perspective</b> to perform duties from perspective of <b>shareholders' interests</b></p>	<ul style="list-style-type: none"> <li>▪ Members selected amongst <b>all outside directors</b> by mutual election</li> <li>▪ A person with work experience at an institutional investor and <b>abundant knowledge and experience of the stock market</b> becomes <b>chairperson</b></li> </ul>
<p><b>Authorities</b></p>	<p>Grant <b>necessary authorities</b> to ensure <b>objectivity, rationality, and effectiveness</b> of duties</p>	<ul style="list-style-type: none"> <li>▪ Request <b>cooperation</b> (reports, documents, etc.) of <b>directors/employees</b>, who must listen to the opinions of the SRC</li> <li>▪ Have <b>person other than SRC members</b> attend meetings and request <b>opinions/explanations</b></li> <li>▪ Receive advice/assistance from <b>outside experts</b> (attorneys, consultants)</li> <li>▪ Request reimbursement of necessary expenses, etc.</li> <li>▪ NCHD must form a support team for the SRC to utilise</li> </ul>



## Partial Amendment to the Articles of Incorporation (Strategic Review Committee) (5/5)

The Articles of Incorporation guarantees that outside directors lead the SRC and that its duties are performed from the perspective of the common interests of shareholders. It is impossible that the duties are performed for the benefit of any particular shareholder.

### Matters to stipulate in Articles of Incorporation to enhance common interests of shareholders

Composition of the SRC	Eligibility for Members	<ul style="list-style-type: none"> <li>▪ All outside directors                             <ul style="list-style-type: none"> <li>➢ <b>Duty to enhance common interests of shareholders</b> by law</li> <li>➢ No difference between incumbents and new directors</li> </ul> </li> <li>▪ Candidates AVI proposes are <b>completely independent of AVI</b></li> </ul>	Impossible for SRC to be led by anyone other than outside directors
	Process to select members	<ul style="list-style-type: none"> <li>▪ <b>Mutual election</b> by all outside directors (8/10 are incumbents)                             <ul style="list-style-type: none"> <li>➢ Selection through <b>fair process</b></li> </ul> </li> </ul>	
	Number of Members	<ul style="list-style-type: none"> <li>▪ <b>Range of 3 to 5 members</b> <ul style="list-style-type: none"> <li>➢ <b>Flexibility</b> to determine <b>number of members</b> and <b>ratio of incumbent outside and new outside directors</b></li> <li>➢ At the discretion of all outside directors (<b>8/10 are incumbents</b>)</li> </ul> </li> </ul>	
Duties of the SRC	<ul style="list-style-type: none"> <li>▪ Articles of Incorporation clearly state that <b>all duties</b> shall be performed “from the perspective of maximising the <b>common interests of the Company’s shareholders.</b>” (Article 36)</li> <li>▪ Outside directors are <b>legally obligated to comply with Articles of Incorporation</b> (and will be liable for damages if they do not comply).</li> </ul>		Impossible for SRC to perform duties for anyone other than all shareholders



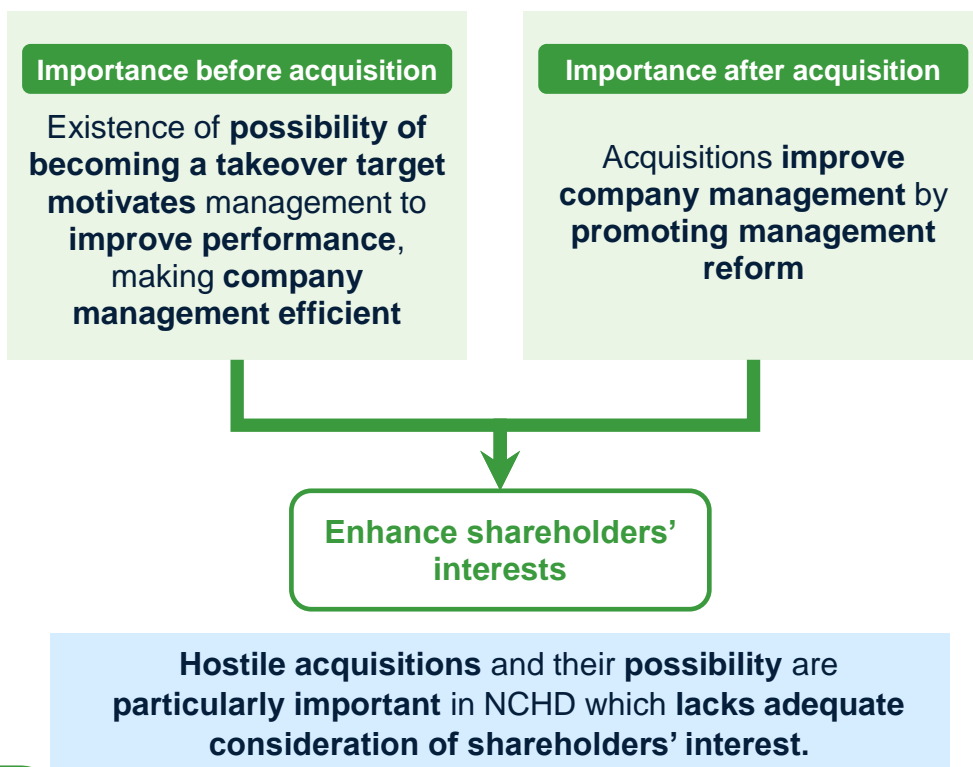
# Ensure Discipline over Management



# Partial Amendment to the Articles of Incorporation (Policy against Large-Scale Purchases of Share Certificates, etc., of the Company) (1/5)

Hostile acquisitions and the existence of their possibility play a significant role in improving the efficiency of NCHD's management.

## Economic significance of hostile acquisitions



## Reference

Hostile acquisitions have positive effects (e.g., the existence of their threat disciplines the management team, an acquisition can enhance the common interests of shareholders).

METI & MOJ, "Guidelines on Takeover Defense Measures to Ensure or Enhance Corporate Value and Common Interests of Shareholders"

### 1. Effect of hostile acquisitions on promoting corporate reform

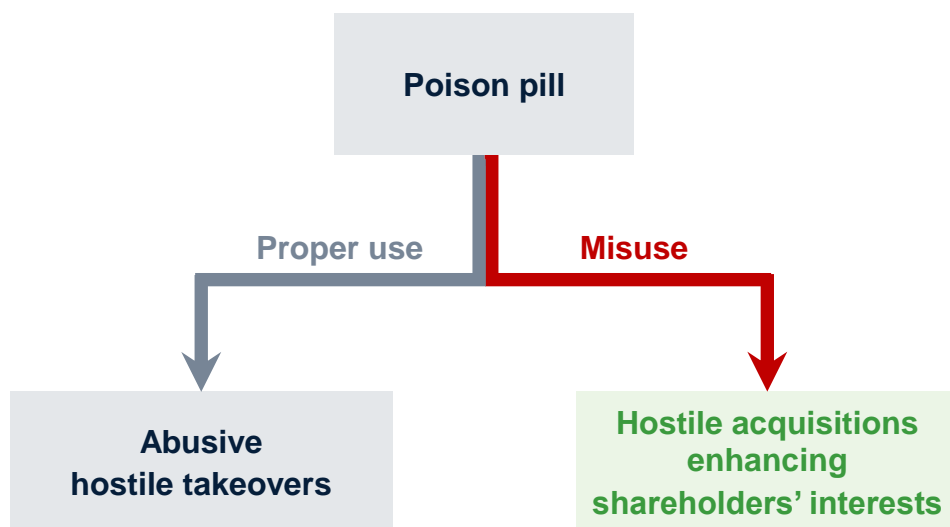
When an acquirer with better capability than the current management team acquires a company, **corporate value is enhanced by management reforms**. In addition, it is necessary to be prepared for hostile acquisitions and **manage the company with a sense of urgency** in order to enhance corporate value. Increased concern about hostile acquisitions has the effect of **encouraging efforts to enhance management discipline**... The greater the threat of hostile acquisitions, the more companies prepare for them by conducting **managerial efforts to increase market capitalisation**... The **advantage of public stock companies** lies in the fact that they are **subject to pressure for management innovation under such monitoring by the capital market**. ...Hostile acquisitions allow companies to make a **bold selection and concentration of management resources, which would not have been possible under the current management**, enhancing corporate value.



# Partial Amendment to the Articles of Incorporation (Policy against Large-Scale Purchases of Share Certificates, etc., of the Company) (2/5)

The benefit of better management performance when there is a possibility of a hostile acquisition is weakened when countermeasures are misused, although there can be situations where they are necessary to thwart abusive takeovers.

## Necessity of preventing poison pills from being misused



- There may be situations where countermeasures are necessary to deal with abusive takeovers
- Poison pills should only aim to **enable shareholders to make an appropriate decision** on whether to accept an acquisition by **providing information and time**



- Hostile acquisitions are often not favourable to management
- There is a risk that management may **misuse poison pills to protect themselves and prevent acquisitions that might be in shareholders' interests**



- **Minimum measures** should be taken to prevent the misuse of poison pills that undermine the important roles of hostile acquisitions

## Reference

“The **final decision on the desirability of an acquisition** should be made by **shareholders**.”  
 “**Arbitrary use** such as endlessly requesting information to the acquirer or unreasonably prolonging the evaluation period of the acquisition offer ... with the aim of **discouraging an acquisition should not be tolerated**.”



# Partial Amendment to the Articles of Incorporation (Policy against Large-Scale Purchases of Share Certificates, etc., of the Company) (3/5)

Set minimum requirements when adopting or triggering a poison pill so that the benefit from the possibility of hostile acquisitions is not weakened.

Item	Ideal	Current	Matters to stipulate in Articles of Incorporation
Triggering poison pill	Shareholders should <b>decide</b> whether acquisition is desirable	<ul style="list-style-type: none"> <li>Shareholders' authority to decide is not guaranteed</li> </ul>	<ul style="list-style-type: none"> <li>Require <b>prior approval</b> by <b>general meeting of shareholders</b></li> <li>Allow <b>ex-post approval</b> in case of <b>urgency</b></li> </ul>
Abolition of poison pill	Shareholders should be able to <b>abolish pill</b> if its adoption is not appropriate	<ul style="list-style-type: none"> <li>Shareholders' authority to abolish is not guaranteed</li> </ul>	<ul style="list-style-type: none"> <li><b>Grant general meeting of shareholders authority to abolish pill</b> (Board can also abolish pill by law)</li> </ul>
Evaluation period	<b>Unreasonably prolonging evaluation period</b> to stop acquisition should be <b>prevented</b>	<ul style="list-style-type: none"> <li>No upper limit on evaluation period</li> </ul>	<ul style="list-style-type: none"> <li>Set <b>upper limit</b> on evaluation period while <b>securing necessary time</b> for Board to request information and conduct evaluations/examinations</li> <li>Period should be <b>30 business days</b>, which is considered sufficient for passive market checks</li> </ul>
Majority-of-the-minority resolution <sup>1</sup>	It should be clear when a MOM resolution would be utilised to avoid the <b>chilling effect</b> on acquisitions	<ul style="list-style-type: none"> <li>Uncertain scope of MOM resolution</li> </ul>	<ul style="list-style-type: none"> <li>Limit scope of MOM resolution to <b>rapid in-market acquisitions</b>, to which tender offer regulation does not apply</li> </ul>

Note 1: A majority-of-the-minority resolution (MOM resolution) is a resolution of a general meeting of shareholders to trigger a poison pill, which is voted on by excluding the voting rights of interested parties such as acquirers.



# Partial Amendment to the Articles of Incorporation (Policy against Large-Scale Purchases of Share Certificates, etc., of the Company) (4/5)

## Explanation of proposed amendment to the Articles of Incorporation

(Policy against Large-Scale Purchases of Share Certificates, etc., of the Company)

1. Article 19 The Company must obtain **prior approval by a resolution of a general meeting of shareholders** in cases where:
  - (i) The Company (a) has in place a policy against large-scale purchases of share certificates, etc., (meaning share certificates, etc., set forth in Article 27-23, Paragraph 1 of the Financial Instruments and Exchange Act; hereinafter the same) of the Company (regardless of whether or not it is adopted prior to the commencement of a large-scale purchase; hereinafter referred to as the "Policy"), and (b) intends to **trigger countermeasures** according to the Policy, such as an allotment of stock acquisition rights without contribution, or
  - (ii) The Company intends to take any other action that would make it significantly difficult to conduct a large-scale purchase.
2. Notwithstanding the preceding paragraph, the Company may **trigger** the countermeasures set forth in the preceding paragraph **without obtaining approval** by a resolution of a general meeting of shareholders in cases where (i) the Company has in place the Policy, and (ii) a large-scale purchaser (meaning a person who attempts to conduct a large-scale purchase; hereinafter the same) attempts to conduct a **large-scale purchase without complying with procedures set forth in the Policy**. In this case, the Company shall **convene a general meeting of shareholders promptly** after the triggering of the countermeasures in order to obtain approval by resolution. If the Company fails to obtain approval by such resolution, it shall immediately take necessary measures to abort the triggering of the countermeasures.
3. In addition to the matters set forth in the Companies Act, **general meetings of shareholders may resolve to abolish the Policy**.
4. The **period** to be specified in the Policy for the Board of Directors to request large-scale purchasers to provide necessary and appropriate information, or for the Board to evaluate and examine large-scale purchases, discuss and negotiate with large-scale purchasers, form the opinion of the Board, and develop alternative plans, shall **not exceed 30 business days** in total. If the Company intends to trigger the countermeasures set forth in Paragraph 1 after such period has elapsed, it shall immediately convene a general meeting of shareholders in order to obtain approval by resolution as set forth in Paragraph 1.
5. The resolutions of general meetings of shareholders set forth in the preceding paragraphs shall be adopted by the method set forth in Article 309, Paragraph 1 of the Companies Act and Article 17, Paragraph 1 of the Articles of Incorporation; provided, however, that this does not apply in cases where (i) a **rapid large-scale purchase** is being conducted in a **financial instruments exchange market** (meaning a financial instruments exchange market set forth in Article 2, Paragraph 17 of the Financial Instruments and Exchange Act), and (ii) the Company intends to trigger the countermeasures set forth in Paragraph 1.

Require **prior approval** by **general meeting of shareholders** to trigger **poison pill**

Allow **ex-post approval** in case of **urgency**

Enable **general meeting of shareholders** to **abolish** poison pill  
(the Board can also abolish)

Set **upper limit** on **evaluation period** by Board

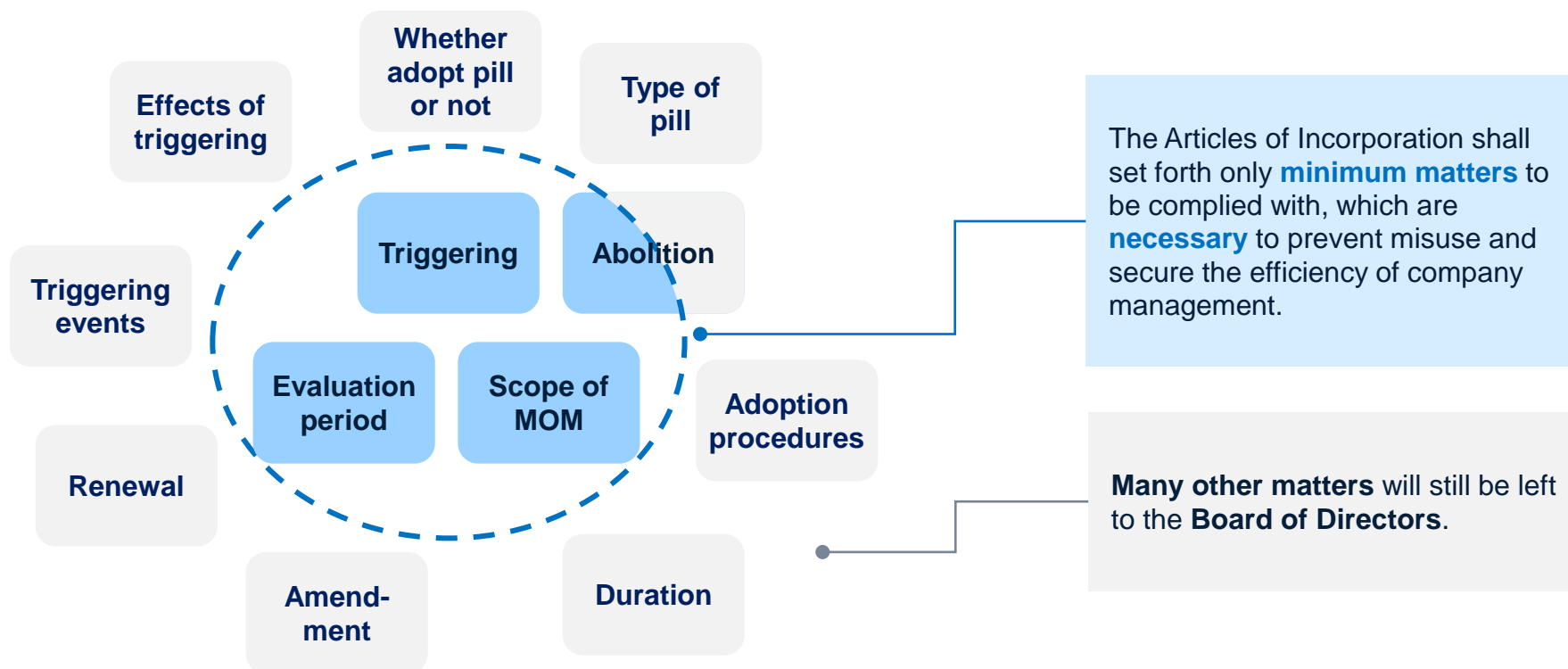
Clarify **scope of MOM resolution**



# Partial Amendment to the Articles of Incorporation (Policy against Large-Scale Purchases of Share Certificates, etc., of the Company) (5/5)

Reasonable scope of shareholder influence, while respecting the professional judgment of the Board of Directors.

## Scope of proposal



## Partial Amendment to the Articles of Incorporation (Issuance of Shares, etc.) (1/2)

The need for prompt financing on the stock market is limited in NCHD.  
An abusive third-party allocation of shares undermines discipline over company management and existing shareholders' interests.

Disadvantages of third-party allocation of shares by Board of Directors outweigh advantages in NCHD

<p><b>Advantages</b></p>	<p>Prompt financing</p>	<ul style="list-style-type: none"> <li>▪ <b>Limited need for prompt fundraising</b> on stock market                             <ul style="list-style-type: none"> <li>➢ <b>Net cash and cash equivalent</b> amounting to almost <b>70% of market cap.</b></li> <li>➢ Sufficient <b>debt</b> financing capacity.</li> </ul> </li> </ul>
<p><b>Disadvantages</b></p>	<p>Damages to existing shareholders</p>	<ul style="list-style-type: none"> <li>▪ Decrease in <b>voting right ratio</b></li> <li>▪ Economic loss due to <b>dilution</b></li> </ul>
	<p>Loosening discipline over management</p>	<ul style="list-style-type: none"> <li>▪ <b>Discipline over management</b> is undermined if it is conducted for purpose of                             <ul style="list-style-type: none"> <li>➢ <b>Maintaining/securing control</b> of management</li> <li>➢ <b>Reducing influence</b> of active shareholders</li> </ul> </li> </ul>

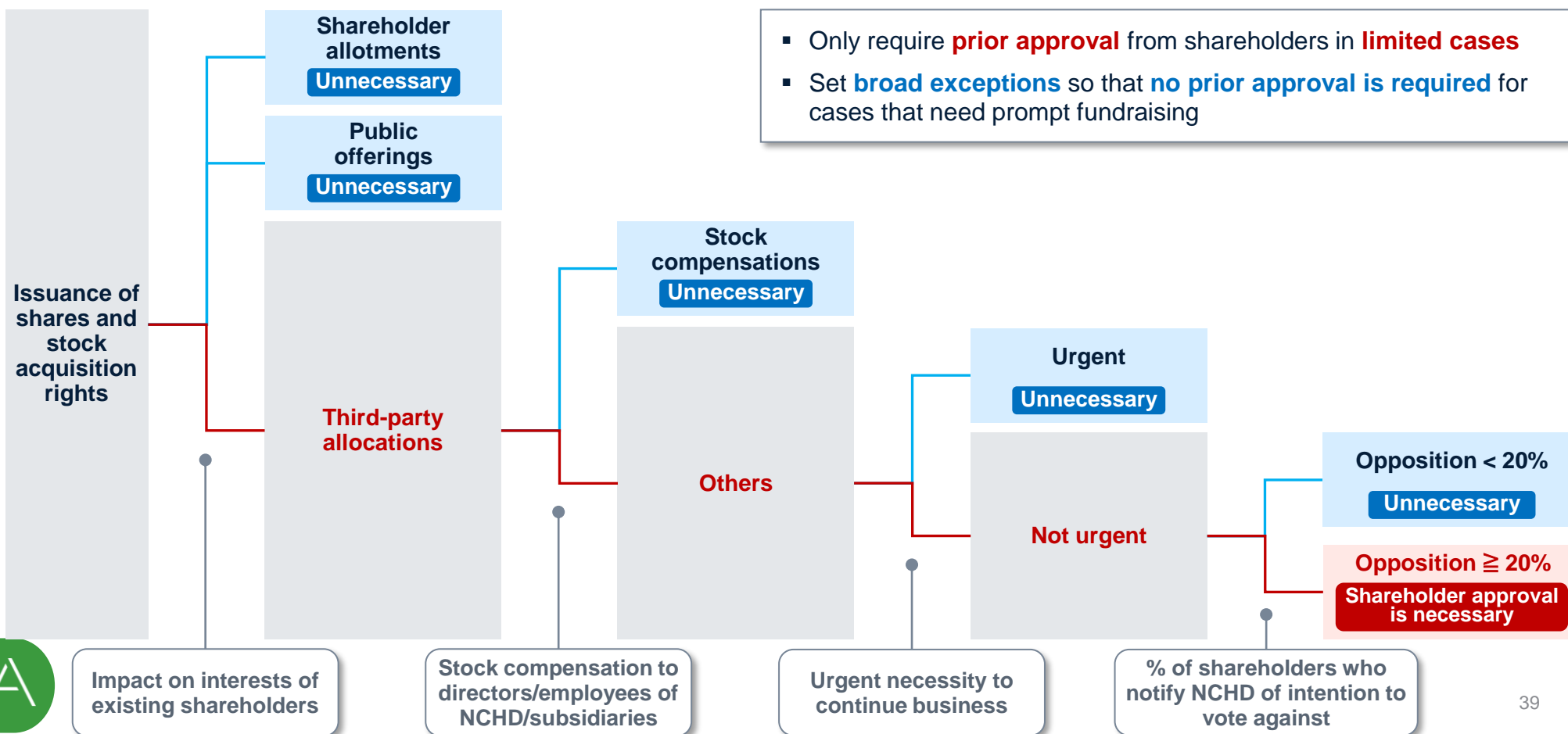
**Discipline over management and existing shareholders' interests should be prioritised over prompt funding.**



# Partial Amendment to the Articles of Incorporation (Issuance of Shares, etc.) (2/2)

Require prior approval by a general meeting of shareholders for a third-party allocation of shares, etc., only in cases of high necessity in order to prevent discipline over company management and the interests of existing shareholders from being undermined.

## Where prior approval from shareholders is needed





# Enhance Capital Efficiency

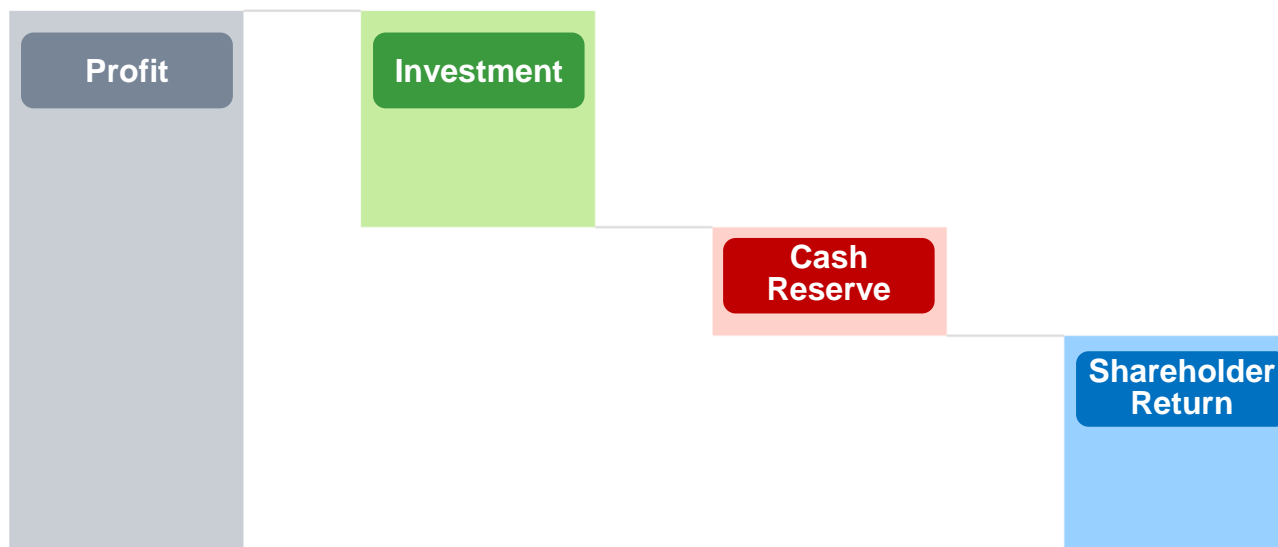


## Partial Amendment to the Articles of Incorporation (Dividends of Surplus, etc.) (1/5)

Profits generated from the business should first be utilised for investments to enhance corporate value. Any surplus thereafter should be returned to shareholders so long as financial soundness is ensured.

### Appropriate management to enhance capital efficiency

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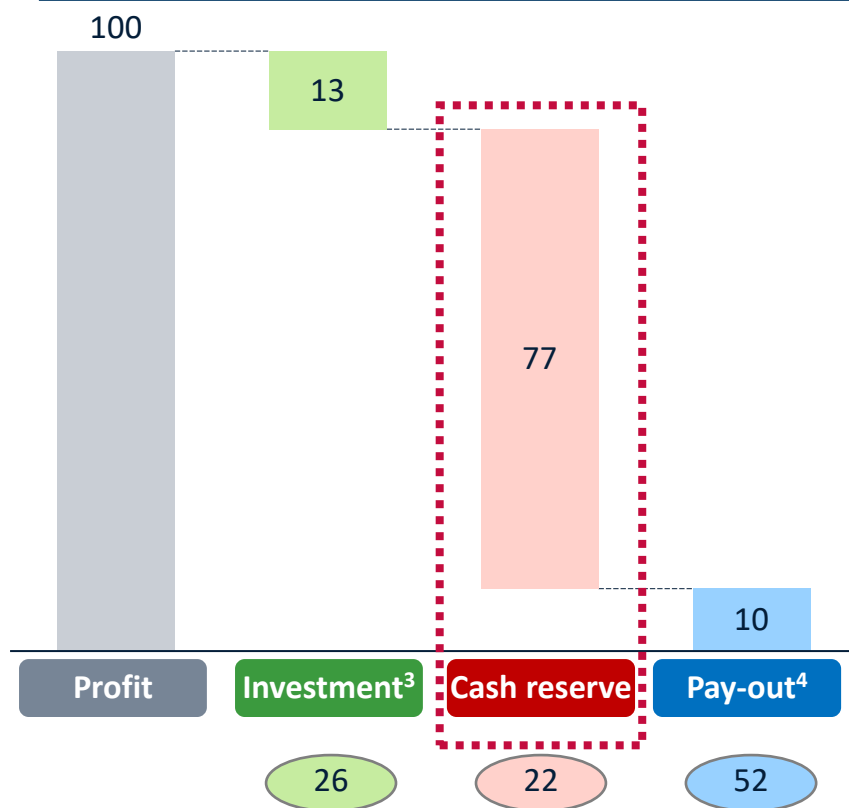
- Profits generated from the business should first be utilised for investments aimed at enhancing corporate value, such as capital expenditure, investments in research and development, and investments in human capital.

- Surplus thereafter should be returned to shareholders to the extent that financial soundness is ensured.
- This not only enhances capital efficiency but also contributes to a virtuous cycle of funds through reinvestment by investors.

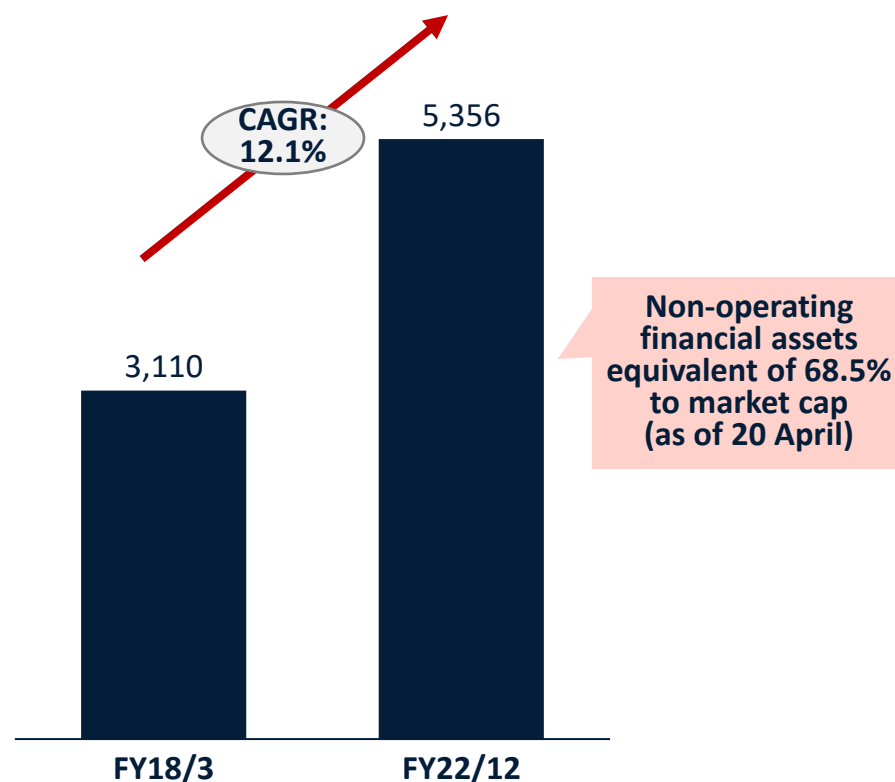
# Partial Amendment to the Articles of Incorporation (Dividends of Surplus, etc.) (2/5)

The majority of profits have accumulated and have not been utilised to enhance corporate value or returned to shareholders for the past five years. As a result, cash equivalents amounting to approx. 61% of the market capitalisation have been piled up, undermining capital efficiency.

Distribution of net profits<sup>1,2</sup> (4-yr average)



Net financial assets trajectory (JPY mm)<sup>5</sup>



Ref)  
Comps:

Note 1: Does not include cash increase/decrease due to borrowing and repayment of interest-bearing debt.

Note 2: There is a separate increase in cash due to changes in net working capital of +96% of net income, but this is not included in the above "cash reserve."

Note 3: (Purchase of property, plant and equipment and intangible assets (excluding gains on sales) + M&A expenditure - depreciation and amortisation of goodwill) / profit for the year

Note 4: Only dividend pay-outs are included (peer companies as well), as the tender offer for NCHD's shares conducted primarily to buy back shares held by then-conflicting TCS Holdings is not considered to represent the normal level of shareholder returns.

Note 5: Cash and cash equivalents - interest-bearing debt + after-tax securities (calculated assuming a tax rate of 30.6%).

Source: Compiled by AVI based on company disclosures, SPEEDA and Capital IQ (as of 13 May 2023).

# Partial Amendment to the Articles of Incorporation (Dividends of Surplus, etc.) (3/5)

Low capital efficiency and poor shareholder returns contradict “promises” made voluntarily by management.

“Please vote in favour of NCHD’s proposals.”

会社提案にご賛成ください

現経営体制の実績とお約束



“Performance of and promises by the current management team”

現体制のお約束

“Promises by the current team”

1. ステークホルダーに感謝し、精進します  
株主の皆様、取引先、従業員などの当社を支えてくださっている皆様に感謝し、皆様の利益が最大となるように、これからも尽力して参ります!
2. SDGsの重視と持続的な成長  
環境問題にも取り組み、SDGsを重視しつつ持続的な成長を実現します!
3. 資本効率の重視・株主還元の強化  
資本効率を重視した経営を行い、株主還元を強化します!

“3. Focus on capital efficiency / strengthening shareholder returns

We will manage the company focusing on capital efficiency and strengthening shareholder returns!”

Current management team contested management rights with conflicting major shareholders at AGM in 2021

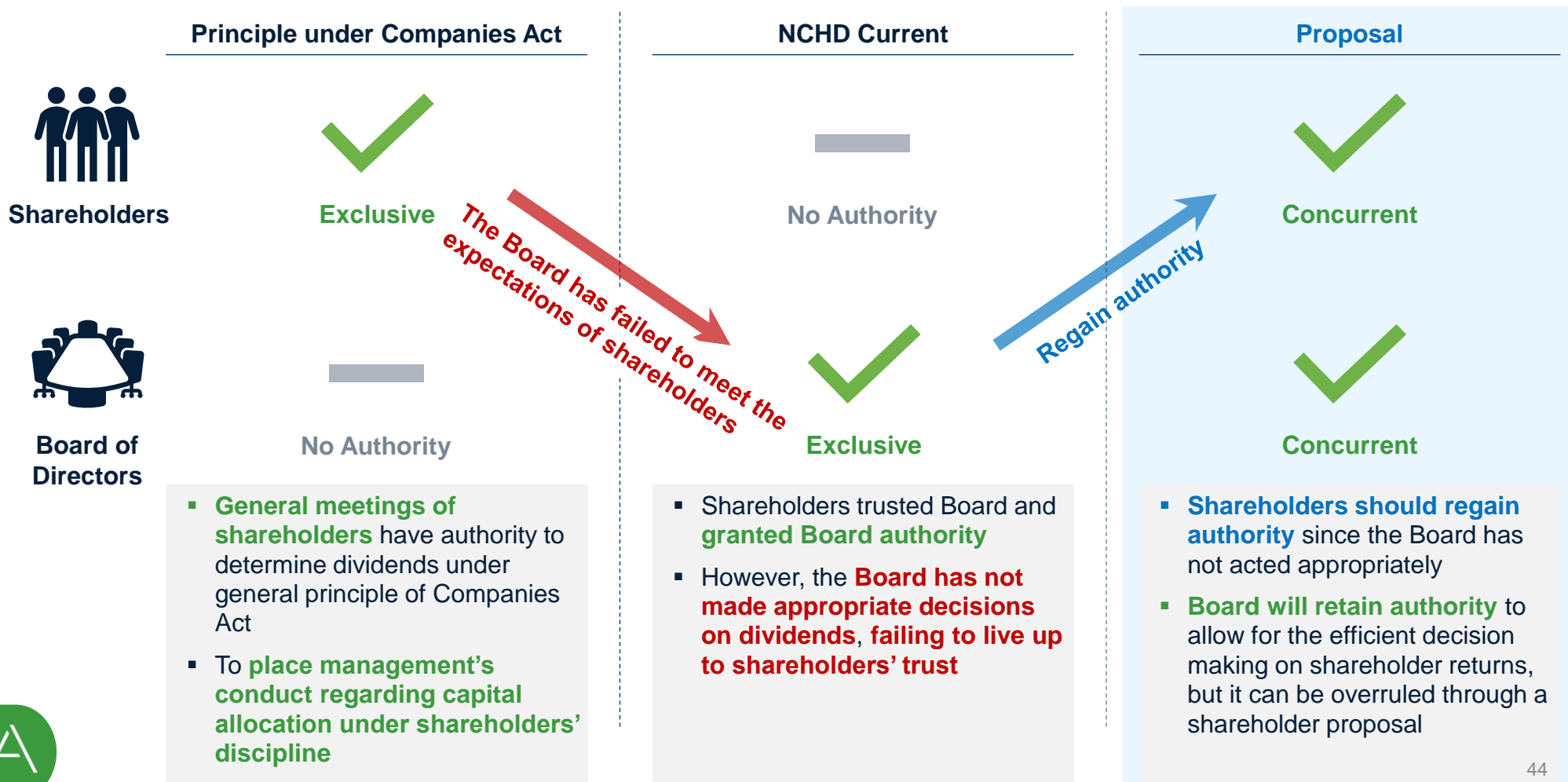
Made “promises” in calling on shareholders to vote in favour of current management team

“Promises” have not been fulfilled for two years. Current management team has not lived up to confidence of shareholders who trusted promises.



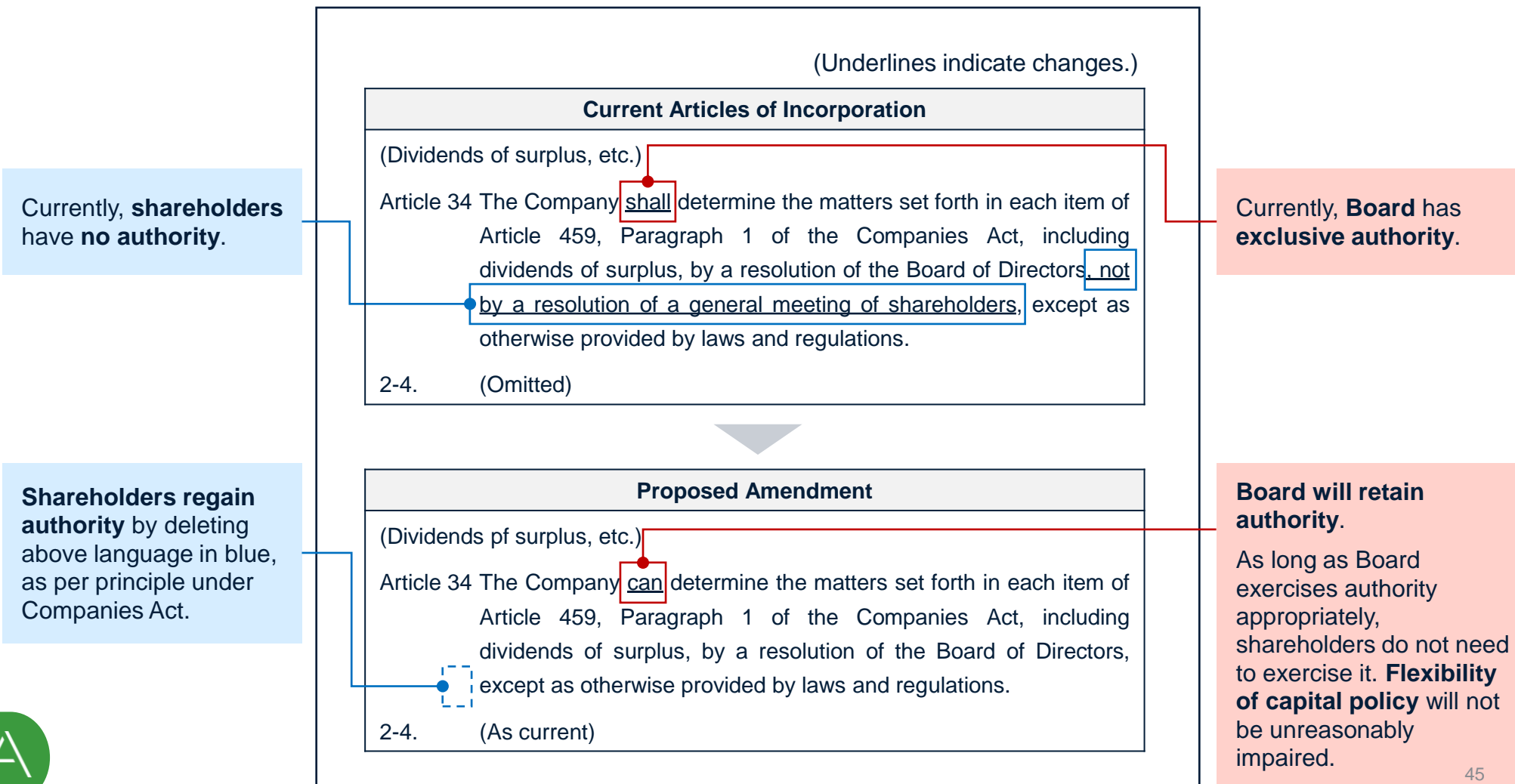
# Partial Amendment to the Articles of Incorporation (Dividends of Surplus, etc.) (4/5)

AVI has lost trust in the Board of Directors having the exclusive authority to determine dividends. Shareholders should determine dividends as per the principle under the Companies Act.



# Partial Amendment to the Articles of Incorporation (Dividends of Surplus, etc.) (5/5)

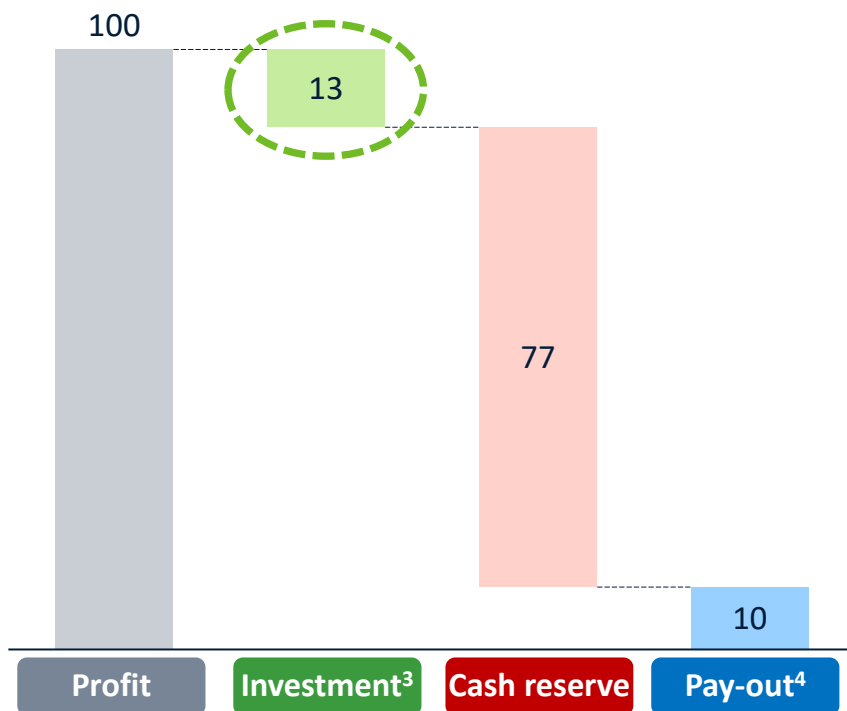
## Explanation of proposed amendment to the Articles of Incorporation



## Appropriation of Surplus (1/2)

At least a 70% pay-out ratio is appropriate for NCHD.  
The year-end dividend should be JPY 65 per share.

Distribution of net profits<sup>1,2</sup> (4-yr average)



- Even if the level of growth investment were to double, a dividend payout ratio of 70% would still be a reasonable target
- Given that NCHD's non-operating financial assets account for just shy of 70% of its market cap, strengthening shareholder returns is an initiative that will also contribute to improving capital efficiency

Note 1: Does not include cash increase/decrease due to borrowing and repayment of interest-bearing debt.

Note 2: There is a separate increase in cash due to changes in net working capital of +96% of net income, but this is not included in the above "cash reserve."

Note 3: (Purchase of property, plant and equipment and intangible assets (excluding gains on sales) + M&A expenditure - depreciation and amortisation of goodwill) / profit for the year

Note 4: Only dividend pay-outs are included (peer companies as well), as the tender offer for NCHD's shares conducted primarily to buy back shares held by then-conflicting TCS Holdings is not considered to represent the normal level of shareholder returns.

Source: Compiled by AVI based on company disclosures, SPEEDA and Capital IQ (as of 13 May 2023).

## Appropriation of Surplus (2/2)

NCHD's past disclosure assures that the dividend of JPY 65 per share would not impair the financial soundness at all.

Buyback through tender offer (Sep. 2021)

Total amount of purchase price

JPY 2,000,211,300

The funds required for the Tender Offer will be allocated entirely from cash on hand. In this regard, the Company's liquidity on hand (cash and deposits) on a consolidated basis as of 30 June 2021 is JPY 5,875 million. Even after the funds for the Tender Offer are used, the Company's financial soundness and safety will be ensured, as the Tender Offer will not have a material impact on the Company's financial condition or dividend policy.

Cash / deposits before buyback

5,875

Purchase funds

2,000

Cash / deposits after buyback

3,875 million

Cash / deposits current

5,529<sup>1</sup>

Total amount of dividend

282<sup>2</sup>

Cash / deposits after dividend

5,246 million

Even after the dividend, there will be more cash and cash equivalents on the balance sheet than there were after the buyback when the management said NCHD's "financial soundness and safety will be ensured."

Note 1: Cash and deposits as of 31 March 2023 (consolidated basis).

Note 2: Calculated by multiplying the dividend per share of JPY 65 by the total number of issued shares of NCHD's common stock (excluding treasury stock) as of 31 March 2023.

Source: Press release dated 1 September 2021, "Notice of acquisition of own shares and commencement of tender offer for own shares"; Financial Statement for the fiscal year ended 31 March 2023.

# **Strengthen Incentive**



# Determination of Compensation for Performance-Based Stock Compensation Plan and Restricted Stock Compensation Plan for Directors (1/3)

The current compensation system does not provide for compensation that is linked to medium- to long-term business performance, which is necessary to incentivise sustainable growth.

	Existing stock comp.		Proposal	
<b>Eligible Director</b>	Executive directors	▶	Executive directors	Only executive directors are eligible
<b>Performance linkage</b>	No	▶	Yes (see next slide)	Clear linkage with medium- to long-term performance
<b>Total amount of monetary comp.</b>	JPY 100 million / year	▶	JPY 150 million / year	Increase in total amount
<b>Total number of shares</b>	200,000 shares / year Dilution: 4.3%	▶	80,000 shares / year Dilution: 1.7%	60% decrease in maximum dilution

**Strengthen incentive for executive directors**

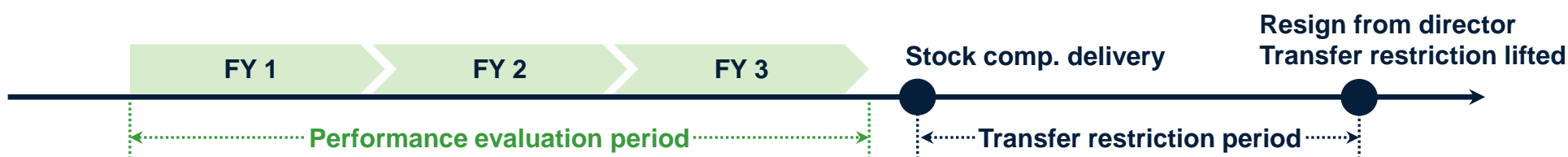
## Reference

“The board should design management remuneration systems such that they **operate as a healthy incentive to generate sustainable growth** . . . . The **proportion of management remuneration linked to mid- to long-term results** and the balance of cash and stock should be set appropriately.”

# Determination of Compensation for Performance-Based Stock Compensation Plan and Restricted Stock Compensation Plan for Directors (2/3)

Under the proposed performance-based stock compensation (PSU) plan for executive directors, the number of shares to be delivered shall be calculated based on the degree of achievement of TSR and ROIC targets during three fiscal years.

## Process of delivery of stock compensation



## Formula to calculate number of shares to be delivered

$$\text{Number of shares to be delivered} = \text{Base number} \times \text{Degree of target achievement}$$

\* Determined based on position, etc.

### TSR Target

TSR during evaluation period is **150%** or more

### ROIC Target

Average of ROIC in each fiscal year during evaluation period is **10%** or more

(Or any higher target determined by Board after deliberation by Compensation Committee)

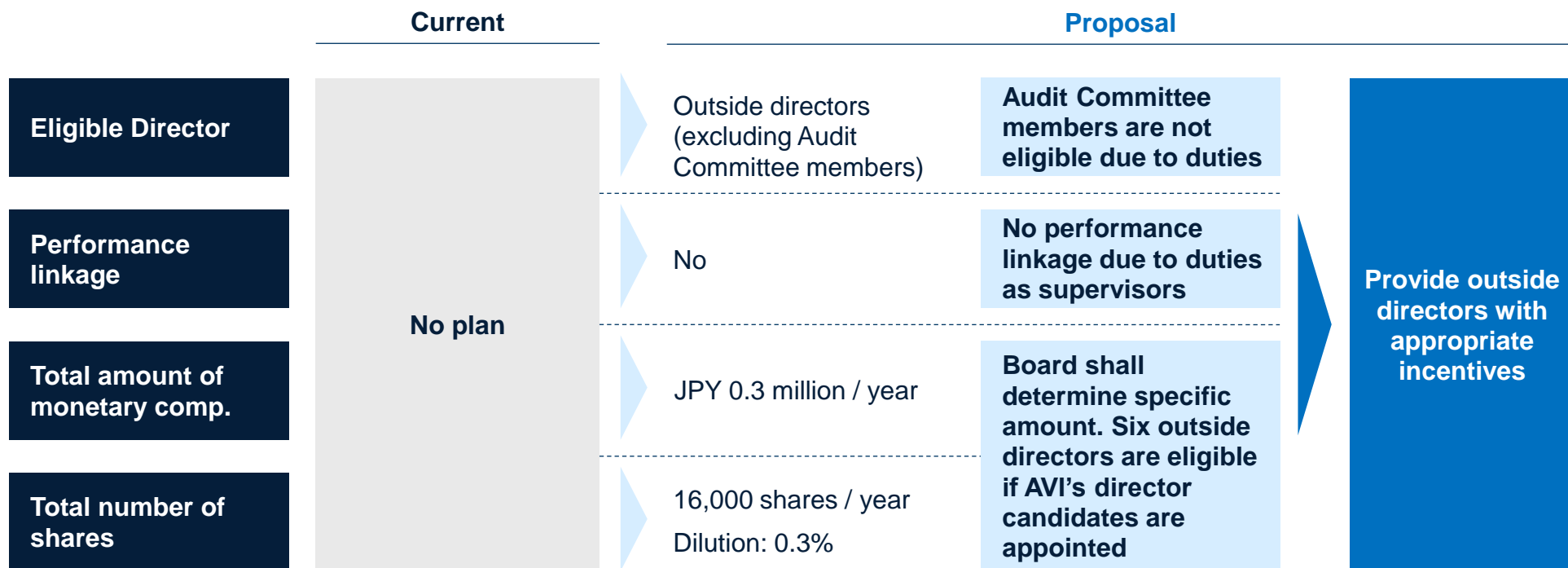
### Degree of Target Achievement

		TSR Target	
		Achieved	Unachieved
ROIC Target	Achieved	100%	50%
	Unachieved	50%	0%



# Determination of Compensation for Performance-Based Stock Compensation Plan and Restricted Stock Compensation Plan for Directors (3/3)

A stock compensation plan for outside directors should be introduced to provide them with appropriate incentives. Whether to grant shares under the plan shall be determined by the Board of Directors after deliberation by the Compensation Committee.



## Reference

“It is worth considering granting outside directors **incentive compensation**, such as **stock-based compensation**, for which the **number of shares to be granted does not change depending on performance . . .**” “Incentive compensation is unlikely to undermine their independence and oversight.” “**Stock-based compensation** can be **effective** for outside directors, whose role is to appropriately reflect shareholders’ opinion, from the viewpoint of **aligning their perspective with that of shareholders**. In particular, **stock-based compensation . . . with no performance conditions attached** may be a **valuable option . . .**”



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