

Acquisition of Asian JV Stake and Indonesia Business
Q&A Summary August 21, 2020

◆ Questions by Shohei Nishigori, Nikkan Kogyo Shimbun, Ltd.

Q1	President and CEO Tanaka mentioned at the beginning of presentation that Mr. Goh would approve the decrease in the Wuthelam Group's shareholding ratio, if public offerings are to be implemented. Are you planning on increasing capital through public offerings? If so, please tell us the aim and objective of your plan.
A1	Currently, there is no such plan on increasing capital through public offerings. If, for example, we decide to carry out an M&A transaction in the future, there may well be cases where we will be required to implement public offerings, that is, to take in capital. Public offerings will automatically reduce the ownership ratio of Mr. Goh (the Wuthelam Group), to which his view is "that's all right." In other words, the key point is that acquiring 58.7% stake in Nippon Paint Holdings by and in itself is not his objective.

Q2	Will Mr. Goh be selling off the Wuthelam Group's paint business entirely to Nippon Paint Holdings through this transaction?
A2	That is correct. Mr. Goh Hup Jin has agreed to sell all of the paint businesses which the Goh family had been administering since his father, Mr. Goh Cheng Liang, had founded them.

Q3	Are there any possibilities that the Wuthelam Group will sell off their stake in Nippon Paint Holdings to other companies and withdraw from the paint business?
A3	After discussing with Mr. Goh about various topics, from what I understand, that is very unlikely to happen.

Q4	What is the basis for your answer to Question 3?
A4	Mr. Goh is a really smart business person and has studied in various fields. He says that the paint business has greater future as it relates to its growth potential than any other industry sectors. He considers the paint industry the best investment target when risks and returns are taken into account. In addition, he has great expectations for the growth potential of Nippon Paint Holdings. From this perspective, he has told me on several occasions that he has no intention of selling the stake.

◆ Questions by Atsushi Ikeda, Goldman Sachs Japan Co., Ltd.

Q1	Following the strategic alliance agreement between Nippon Paint Holdings and the Wuthelam Group in 2014, the Wuthelam Group's stake in your company rose to 39%. At that time, I believe there was an agreement that prevented the Wuthelam Group from further increasing its stake. Please correct me if I am wrong. I would also like to know the background and the reason why you suddenly changed your mind, which led to the increase in Wuthelam's stake to 58.7%.
A1	It is true that we made such an agreement, but we called it off. The independent directors, who are also members of our Special Committee, decided that it was not desirable in the first place to have such a special agreement with a major shareholder. Therefore, in consideration of their opinion, we have agreed on cancelling that agreement on the occasion of these acquisition and capital increase transactions.

Q2	So, now that the upper limit of the ownership ratio is abolished, the chances of the Wuthelam Group making Nippon Paint Holdings a wholly-owned subsidiary in the future is not zero, am I right?
A2	It is legally possible.

Q3	Please tell me about the valuation of the Indonesia business. I have concluded that you were able to achieve a 100% ownership of the Indonesia business at a fairly low valuation. When you consolidated the Asian JVs, mainly focusing on NIPSEA China, at the time of concluding a strategic partnership with the Wuthelam Group in 2014, the valuation was around 30 times PER. If I remember correctly, you were unable to consolidate and acquire 100% ownership of the Indonesia business back then because you failed to reach an agreement with the Wuthelam Group on the valuation of the business. Please explain why you were able to achieve 100% ownership of the business at an extremely low valuation of 30 times PER this time. I know President and CEO Tanaka was not with Nippon Paint Holdings back then, but has there been any changes in circumstances since then? Please tell us if there are any risk factors we should be aware of.
A3	In the course of various discussions I have had with Mr. Goh, pricing was indeed one of the important themes. As I mentioned earlier, Mr. Goh is currently both the seller and the buyer. I think he put a lot of thought into what was the right thing to do. As the seller, I think it makes sense that Mr. Goh would want to sell the Indonesia business at a high price because it is an asset that belongs to the Goh family, rather than Mr. Goh himself. On the other hand, as a major shareholder of Nippon Paint Holdings, Mr. Goh

	<p>would want to buy the business at a low price. Therefore, we held discussions based on various scenarios.</p> <p>During those discussions, we used many different indicators, including the comparable company comparison method, discounted cash flow method, P/E multiple method, and other valuation multiples method. Mr. Goh and I eventually agreed upon placing importance on pursuing a double-digit EPS growth with an eye on future growth of Nippon Paint Holdings.</p> <p>This was a very difficult decision to make because if we only look at the P/E ratio, the Indonesia business, in particular, would be valued at a high P/E ratio, i.e. 40 or 50 times based on valuations of comparable companies. Acquiring a business at such a high level of valuation could bring down our EPS to a negative figure. We have been advocating “Maximization of Shareholder Value” as our paramount mission with EPS as the most important management indicator. Eventually, we agreed, among others, that aiming toward a double-digit EPS growth would contribute most to the interests of minority shareholders, which made it easier to bring the transaction to a close.</p> <p>On the flip side, this decision involves a significant amount of sacrifice and concession on Mr. Goh’s part, and I am very grateful for his decision.</p>
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Q4	Does that mean that the valuations of the acquisition targets and the purchase price you are to pay were adjusted with an eye to achieve a double-digit EPS growth?
A4	That's right. Achieving a double-digit EPS growth was the critical point.

Q5	I understand. Does this mean that Mr. Goh will leave the paint business entirely to Nippon Paint Holdings and put the utmost priority on maximizing the value of Nippon Paint Holdings' shares?
A5	Mr. Goh made the decision to sell the business at a considerably lower price than the valuation price, in exchange for acquiring additional stakes in Nippon Paint Holdings. Therefore, we will return the favor by promoting further growth of our company. I believe this will be a major task and responsibility for the management team.

Q6	Does this increase in Wuthelam Group's stake have any impact or change on Nippon Paint Holdings' management structure? I would like to know whether the current management structure will change or not.
A6	There will be no changes to our management structure, and we will maintain our listing.

◆ Questions by Azusa Kawakami, Nikkei Inc.

Q1	<p>I have two questions. You mentioned earlier that the Wuthelam Group proposed a TOB to Nippon Paint in 2013, which I believe has led to countless negotiations and experimentations of various forms of a capital relationship between the two companies.</p> <p>My first question is what you think has changed most in the business environment surrounding Nippon Paint back then, in comparison to the current business environment. Japanese paint manufacturers are now in the global competitive environment, where there is a fierce competition in various emerging markets. What do you think has changed in the business environment at that time in terms of methods of acquisition and particularly in growth strategies? My second question is, what does Nippon Paint Holdings see as challenges in further expanding its global operations going forward?</p>
A1	<p>Although I was not a part of this company in 2013, I would like to reiterate that the Company's market capitalization and stock price have subsequently increased rapidly, regardless of what discussions took place back then. This proves that the decisions made back then by our former president, Kenji Sakai, and Mr. Goh were respectable as they paved way for a dramatic growth in corporate value.</p> <p>Since then, Nippon Paint Holdings has rapidly expanded its operations globally, and in that sense, I believe the Group's overall structure has changed dramatically. After the transaction is executed, more than 6,000 employees in Indonesia alone will join the Group, so we will have a total of more than 30,000 employees globally. Of this, Japanese employees are about 3,000. Companies with such structure are pursuing to develop and grow their businesses globally. Based on this premise, we are working on formulating global strategies.</p>
Q2	<p>Regarding issues in future growth strategies, you mentioned earlier that you have acquisition plans, etc. in mind. Nippon Paint Holdings executed several acquisitions, including the one in Australia, in 2019. Please tell us which regions you see have opportunities for business expansion and which regions you will focus on outside of Asia.</p>
A2	<p>Until now, we have been taking measures that focused on regional business expansion, but in the future, I think it would be better to think about growth strategies based on a business axis as much as possible. In that sense, I believe that the decorative paints sector would have the highest growth potential. Therefore, we will explore regions where we will have opportunities in both acquisitions and growth. For example, our presence is still weak in Europe and the United States, so we will pursue M&A opportunities in those regions as well.</p> <p>On the other hand, the automotive coatings business is also an extremely important</p>

	<p>business for us, and although the global automotive industry is currently facing tough times due to the impact of COVID-19, I think the industry will certainly recover. Looking at various researches particularly on the automobile market, China will see the biggest growth in manufacturing and sales of automobiles. We have a very strong foothold in China, and we intend to expand our automotive OEM coatings business globally, with a strong focus on China in the future.</p> <p>As I briefly mentioned, we will establish a structure to this end. Rather than focusing on a certain region, I think we will work out strategies centered on business axis.</p>
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◆ Questions by Tomomi Fujita, Morgan Stanley MUFG Securities Co., Ltd.

Q1	<p>First, let me confirm the valuation of the acquisition targets. You mentioned that the implied P/E ratio is 44 times for the Asian JVs and 30 times for the Indonesia business, which are quite undervalued. I believe the EV/EBITDA multiple method is oftentimes used for valuations. Please tell me what the valuation of the acquisition targets is in terms of EV/EBITDA multiples. I understand that it is difficult to explain the valuation of the Asian JVs because they are already consolidated. But please share if there are any estimates available.</p>
A1	<p>I have various figures on hand, but I don't think it would be appropriate to give detailed figures on EV multiples now. In any case, we are certainly acquiring target companies at valuations that are lower than ours. If you need detailed figures, please ask the relevant personnel later.</p>

Q2	<p>Understood. The second point is to confirm once again the significance of the acquisition. Acquiring a business that commands the top share in Indonesia can be expected to deliver growth, which is a straightforward and easy to understand explanation. On the other hand, making the Asian JVs, which are already consolidated, into wholly-owned subsidiaries will not bring much benefit on the operating profit level but will result in an increase in net income. I believe the acquisition will eventually stop the outflow of cash flows, but paying one trillion yen just to incorporate a profit of approx. 20 billion yen does not seem reasonable from an efficient investment standpoint. Are there any rational reasons for this as explained on page 31 of the presentation material? Please give us an explanation with numbers that would certainly make the acquisition seem reasonable. For example, are you expecting synergy-induced fixed cost reductions in the front sections that deal with NIPSEA China??</p>
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A2	<p>Regarding synergies, I have explained various forms of possible synergies which we will try to create down the road. But before that, I think I explained that just by looking at the financial analysis results, such as those on page 33 of the presentation material, you can see that the acquisition will have a considerable positive financial impact. The takeaway from this is that the acquisition will cultivate a boost in EPS of over 10% and not that it will allow us to incorporate a profit of twenty some billion yen. The justification is that the total number of issued shares will increase by 45.7%, whereas profit will grow by 60%. As you know, EPS is a management indicator that companies around the world talk about first when they announce financial results. Making a financial decision that is based on increasing EPS, I think, is the most appropriate way of enhancing a company's corporate value.</p>
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Q3	<p>As I had previously asked at the financial results presentation, are you reemphasizing that Nippon Paint Holdings will commit to increasing EPS? I ask again because ROE and ROIC are also commonly used indicators that can easily be adjusted to your own liking</p>
A3	<p>There are various economic and financial indicators, such as EBITDA and various multiples. However, I think it is common to use EPS as an indicator if your objective is to enhance corporate value. I also have experience in working at companies abroad, and when overseas companies announce their financial results, they normally start out by saying "our EPS outperformed or underperformed the analysts' consensus by this much." As such, EPS is an indicator that is closely observed by investors, and is something we should focus on in terms of enhancing corporate value.</p>

Q4	<p>Understood. My last question is about your growth strategies for the future. You had not provided much information about any particular business or region until now. Going forward, may I assume that your growth strategies will be based on the Asian regions and the decorative paint businesses, which are your advantages? More directly, am I right that you are not intending on aggressively expanding the automotive coatings business and the marine coatings business in regions other than China? Please tell us about your strategic priorities.</p>
A4	<p>In a sense, M&A is opportunistic. I will not explain what kind of specific actions we will take or in which order we will carry out M&A; however, from a standpoint that focuses on strategic importance, I believe the global decorative paints business will come in first as expected. The decorative paints business obviously has an attractive financial profile, be it other Japanese companies or overseas companies, in terms of profitability or risks. I believe the global decorative paints business is one of the segments that is viewed with a very high</p>

	<p>priority.</p> <p>In addition, we are also firmly engaged in the automotive coatings business, as well as industrial coatings and marine coatings. We will also pursue market opportunities in these segments if opportunities arise. Although we are somewhat currently struggling with automotive coatings, we will implement a turnaround of this business to enable global expansion of operations.</p>
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◆ Questions by Kuniaki Nishio, The Asahi Shimbun Company

Q1	<p>Looking back on the developments with the Wuthelam Group, when you received the takeover proposal in 2013, you responded by implementing takeover defense measures; and in 2014 you entered an agreement that set an upper limit on the acquisition of your shares to be acquired by the Wuthelam Group. Was the change in background mainly due to the trustworthy relationship that was established between the two parties following the massive amount of effort Nippon Paint Holdings put in enhancing corporate value since 2014 when the partnership was formed?</p>
A1	<p>As I mentioned earlier, I was not with this company at that time, so I will refrain from commenting on the situation back then. Speaking of the current management environment, Mr. Goh, as I have said many times today, is a wonderful person and an excellent entrepreneur. I rarely find people in Japan who is as respectable as Mr. Goh. Through the partnership, Mr. Goh and we firmly agreed on enhancing corporate value and nurturing the growth of this company, which we are currently making progress.</p> <p>Therefore, although I cannot comment on how things were back then, I am sure that our current management and structure are such that Mr. Goh and our management team are heading in the same direction and sharing the same dream.</p>

◆ Questions by Shigeki Okazaki, Nomura Securities Co., Ltd.

Q1	<p>Regarding your M&A policy, you mentioned earlier that your main focus on future M&A will be on the decorative paints business. Please tell me if you will continue to focus on schemes that will increase EPS without taking into account synergy effects, and whether your M&A policy has not changed on this aspect.</p>
A1	<p>Basically, we constantly have a number of acquisition projects lined up. What we look at first as a base case is whether the scheme can deliver EPS accretion without any synergies. In fact, there are a number of projects we abandoned after reviewing them from this perspective. However, if we already have an operating base and can definitely create</p>

	<p>synergies by integrating operations with local subsidiaries in that region, then we would take synergy effects into account in examining projects.</p> <p>I think synergies are created mostly from the revenue and expenditure aspects, but I am not very sure of the certainty regarding revenue synergy. On the other hand, synergy can be generated through reduction of investment and expenses. Therefore, what I think is necessary in terms of synergy effects is to carefully assess how much synergies will actually contribute to increasing EPS.</p>
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Q2	<p>While I see that your expansion strategy is going very well, I think there were discussions about posting impairment losses of operations that were not going well, such as your operations in India and Europe in 2019. What do you think of the so-called defensive restructuring? Please tell us if you need to implement restructuring measures.</p>
A2	<p>We recorded large impairment losses on two operations last year. Speaking of how those companies that posted large impairment losses are doing now, we are developing thorough restructuring plans and creating structures that will enable them to make a complete turnaround. In proceeding with the restructuring, I am very grateful for NIPSEA China for helping them formulate reconstruction plans and bringing in various resources by using their networks. Therefore, even though we recorded impairment losses, we are currently restructuring those companies without selling or liquidating them, and I believe they will make a steady comeback.</p> <p>Given this situation, if your question is whether we are considering divesting any companies soon or later, my answer would be that there are currently no companies that need to be divested. ..</p>

◆ Questions by Koji Nishimura, The Asahi Shimbun Company

Q1	<p>Please tell us about globalization of management. Through this acquisition deal, you acquired the Group's entire Asian operations. I think that the transaction will make the Asian segment the largest segment for your company in terms of both sales volume and number of employees. On the other hand, your head office is currently in Osaka, and the majority of your management teams and corporate officers are Japanese. Could you tell us if this is going to change in the future, and whether you are aware of any issues in this?</p>
A1	<p>That is a very good point. We have appointed Mr. Wee Siew Kim, the head of NIPSEA Management Company Pte., Ltd., as our deputy president and executive corporate officer to participate in the Group's management. He is in charge of a variety of issues that are</p>

	<p>necessary under my direction while staying in Singapore, and this structure is working very well. He is extremely competent with a very strong business execution ability, and his Singapore team also is also very competent and highly capable. They are helping me on many fronts.</p> <p>With this as a background, as we both belong to the same Group, and while our company is currently headquartered in Japan, the overall structure could naturally shift toward a growing number of foreign staff, or growing opportunities for foreign staff to play active roles. I believe such trend will certainly emerge regardless of our intentions.</p>
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Q2	Your headquarters are not in Tokyo, but in Osaka. What are benefits and advantages of having the headquarters located in Osaka?
A2	<p>I am from the Kansai area, so I like Osaka, but we have established a headquarters in Kyobashi, Tokyo since this April. We are holding this press conference from our Tokyo headquarters. We have slightly less than 100 staff at our Tokyo headquarters, and we are engaged in a variety of operations. This conference call is being held in the Board of Directors room, and the Board of Directors meetings are held in Tokyo, not in Osaka. Tokyo is an extremely important place in terms of information gathering, and while the environment is changing due to effects of the COVID-19 pandemic right now, it is somewhat inconvenient to fly from Osaka to other countries. Since it is much easier to travel from Haneda Airport in Tokyo, we established an office in Tokyo with headquarter functions. In any event, the headquarter structure in Tokyo will serve as a global headquarters. While enhancing this structure, we will work on reinforcing functions that will enable us to connect with people outside of Japan and move forward with various initiatives.</p>

◆ Questions by Atsushi Yoshida, Mizuho Securities Co., Ltd.

Q1	Regarding the acquisition of 100% stake in the Asian JVs, you have explained that your management structure will not change due to an increase in the Wuthelam Group's stake in Nippon Paint Holdings from 39.6% to 58.7%. Will there be changes in the management policy, etc. of the Chinese JV due to your acquisition of 100% stake in the Asian JVs?
A1	<p>There will be no changes. We have Mr. Eric Chang, the head of the decorative paints business in China. He is a great person who I can trust to do the right thing. He oversees the decorative paints business in all of China. He has an outstanding ability in responding to changes in the business environment and shifting business models. We communicate well on various matters, and I am honored to have such a competent person managing the</p>

	local operations.
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Q2	If the management policy of the Chinese JV is to be maintained (as in your answer to Question 1), the highlights of the acquisition of 100% stake in the Asian JVs are two points: a 60% increase in profit and more than 10% accretion in EPS. Is my understanding correct?
A2	<p>The financial importance of the transaction is as you have just pointed out. However, as I mentioned earlier, we have two automotive coatings subsidiaries in China: one being the local operations of Nippon Paint Automotive Coatings and the other being the automotive coatings operations of NIPSEA China. Nippon Paint Holdings currently has a 51% stake in NIPSEA China, while the Wuthelam Group has the remaining 49% stake in the company. As a result, there had been competition between the two companies, and have experienced difficulties in collaborating with each other.</p> <p>Nippon Paint Holdings' acquisition of 100% stake in the Asian JVs will make local operations of Nippon Paint Automotive Coatings and NIPSEA China both wholly-owned subsidiaries of Nippon Paint Holdings. This will naturally foster collaboration between the two parties in which one will work for the other to make profits on the other. I believe the acquisition transaction will facilitate integrated management, which will create an environment that enables creation of synergies on various fronts.</p>

Q3	Regarding the Indonesia business, will there be any change in its management structure following the change in ownership from the Wuthelam Group to Nippon Paint Holdings? You said earlier that you would introduce management know-how and expertise accumulated in NIPSEA China into the Indonesia business. If you have any specific ideas, please share them with us.
A3	<p>P.T. NIPSEA Paint and Chemicals, which is the acquisition target, has already been operating with the support of NIPSEA Malaysia's management team. Since NIPSEA's business development in China has been extremely successful, I believe that the sharing of such know-how between them will further advance.</p> <p>Those explanations are mainly for the decorative paints business. In the field of industrial coatings, which is made up largely by automotive coatings and motorcycle coatings, I believe that it will strengthen the collaboration between this company and other businesses in Japan such as Nippon Paint Surf Chemicals and Nippon Paint Industrial Coatings. Regarding the automotive coatings business, we have an auto parts coating subsidiary of Nippon Paint Automotive Coatings in Indonesia, and we can expect to collaborate with such companies in the future, or may integrate them depending on circumstances.</p>

	By welcoming the Indonesia business to the Group as a wholly-owned subsidiary, I think synergies will be created on some fronts through spider web management as I said earlier.
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◆ Questions by Yoshihiro Azuma, Jeffries (Japan) Limited

Q1	Are there any debt or off-balance sheet liabilities that need to be accounted for following the acquisition of the Indonesia business and Indian subsidiary that have not been consolidated until now?
A1	There are no debt or off-balance sheet liabilities.

Q2	It is quite nice that you can acquire the Indonesia business at an undervalued price. You mentioned earlier that it was due to Mr. Goh's concession which allowed you to acquire the business at low valuation multiples. What do you think was Mr. Goh's incentive to make such decision?
A2	I believe Mr. Goh's incentive is as follows: the transaction, which will raise his stake in Nippon Paint Holdings, will build a foundation for the growth of the Group as a whole, allowing him to reap the fruits of the Group's growth as a shareholder. What I feel most strongly is that Mr. Goh likes Nippon Paint Holdings, as well as Japan. Therefore, I believe he eventually made this decision after looking at EPS accretion of more than 10% and other factors.

Q3	You explained earlier that you will finance the acquisition through using 100 billion yen debt financing and about 1.2 trillion yen equity financing. How did you determine the proportion? I think the balance is good. Please tell us what criteria you followed to make this decision?
A3	This is the result of negotiations. Of course we negotiated to work out the right proportion. From our standpoint, we held negotiations with due consideration to factors such as the proportion of debt and equity after the execution of acquisition and issues with financial balance. After such negotiations, we decided on this proportion.

End