

**FY2020 1Q Financial Result Conference Call Q&A Summary**  
**May 15, 2020**

◆ Questions by Shinobu Takeuchi, SMBC Nikko Securities Co., Ltd.

Q1	Regarding the DIY segment in China, there may be some difficulties due to short track records since the recovery of demand, but can you share any differences in the way demand returns depending on the region and price range with regard to the drop in the first quarter?
A1	Although we explained the situation in NIPSEA China on page 18, frankly speaking, in the first quarter we were not at the point of speaking about each segments. Rather, we focused on the recovery of all our businesses. I previously stated that our businesses were growing in the order of Special Tier, Tier 3 and 4, and Tier 1 and 2, but it was a little difficult to assign right colors for this first quarter. Even in the second to fourth quarter, the repainting demand in the DIY segment is constrained by the entry of painters into homes. The Chinese people, notably in Wuhan, have had very painful experiences and feeling, so they are very cautious about taking various actions. The heat map on page 25 and 26 shows that both DIY and Project are assigned the same color, green, to indicate that the market conditions for both segments are forecast to improve in the second half. That said, we expect the return of DIY to be a little slower than that of Project through the second half of this year. DIY breakdown shows that there is no difference in timing of recovery among each grades of products.

Q2	Am I correct in understanding that retailers have fully resumed their activities throughout China?
A2	That is correct.

Q3	As described in the heat map on page 15, you explained that the market share was increasing. Is it correct to understand that this difficult environment provides an opportunity to increase market share and is the Company directed toward that end?
A3	That's right. The Chinese team in particular is discussing thoroughly how to turn a crisis into an opportunity. In the DIY segment, AkzoNovel's Dulux brand will be our competitor, but according to their disclosures at least their sales decline is greater than ours. Therefore, although we do not have an accurate figure, we expect our share is increasing even in the current operating environment. As Mr. Takeuchi pointed out, we are constantly considering how we can increase market share even in a harsh market environment.

◆ Questions by Takashi Enomoto, Merrill Lynch Japan Securities Co., Ltd.

Q1	<p>For operating profit, the first quarter was 15.2 billion yen and the full-year was 63.0 billion yen. Do you expect the change in operating profit from the first quarter to level off from the second to fourth quarters? Or do you expect a slight decline in the second quarter and an increase in the third and fourth quarter? Please tell us how you perceive quarterly earnings fluctuations.</p>
A1	<p>I can't tell you the breakdown of figures, but I think they are close to the latter whereby the second quarter will be a little weaker. However, as I mentioned earlier, performance trends differ across regions. For example, China is clearly better in the second quarter than in the first quarter. On the other hand, in other regions the second quarter is weaker than in the first quarter, so the situations are mixed across regions. Overall, I think that the third to fourth quarters will be strong in comparison with the second quarter. This is reflected to some extent in the colors indicating market conditions shown in the heat map on page 15, which shows brighter colors in the second half of the year indicating improving market conditions.</p> <p>On the other hand, there are high-demand periods and busy seasons, so we need to look at trends rather than simple figures, and we analyze our operating results on a year-on-year basis. In the paint business we seldom look at operating results on a quarter-by-quarter basis, so while the image you mentioned earlier (a slight decline in the second quarter) is not wide off the mark, our view is that it is important to analyze the year-on-year trend.</p> <p>With that, I would like to refrain from disclosing the quarterly changes from the second quarter onwards because it is very difficult to form a projection. For example, the forecast for the second quarter will differ greatly depending on the outlook for May and June and the actual results in April and subsequent months. We prepared a full-year projection by aggregating the forecasts for each quarter by factoring in such variables, not by thoroughly examining the outlook for each quarter. Therefore, I would like to refrain from commenting on the quarterly trend of increase or decrease, as this may be misleading.</p>

◆ Questions by Yoshihiro Azuma, Jeffries (Japan) Limited

Q1	<p>When there is concern for supply chain disruption, as may be the case today, I'm sure each company is working hard to tackle a variety of issues, such as trying out a supplier that has not done business with NPHD Group in the past. Has there been any new suppliers discovered or things you have realized through a process of trial and error?</p>
A1	<p>In reality, there was little necessity to develop new suppliers. As I mentioned at the</p>

	<p>conference call for the fourth quarter of FY2019, there have been no bottlenecks in the supply chain itself, but rather, we have been examining more efficient paint blending methods which in and of itself is nothing special, and we are continuing to work on it as part of our cost-cutting measures and novel coronavirus is not necessarily the background of our efforts. Our raw materials are diverse and these include considerable commodities, thus in contrast to disruption in the automobile or Asian supply chain where certain supply shortage of parts caused a bottleneck, until now, there has been very limited disruption in our supply chain.</p> <p>Naturally, some raw materials must be multi-sourced as part of BCP, and we have taken two measures to deal with the issue. The first is to find another supplier where we can procure the same ingredients. The second is to change the paint formulation etc. Of course, what actions we will take will differ depending on customers and transactions, but I believe it is sufficiently worth considering for decorative paints.</p>
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Q2	I think there was a possibility that bottlenecks might occur not only in procurement but also in logistics, for example. Were there any findings in this area?
A2	<p>We actually had a problem with logistics. Specifically, the problem is not logistics itself, but rather restrictions on transportation between cities, and it is difficult to find a means to replace it quickly. As President Tanaka explained on February 21, for example, we are reconsidering which areas to focus on as consumption areas while considering the realignment of domestic production bases, and how to further reduce logistics costs. These issues have come to light, including issues from the standpoint of BCP.</p> <p>We are considering logistics on a global scale, but at the present stage we are not carrying out the necessary realignment including distribution and sales channels. At the same time, we are constantly considering further efficiency improvements through digital transformation.</p>

◆ Questions by Tomomi Fujita, Morgan Stanley MUFG Securities Co., Ltd.

Q1	With regard to capital investment, you mentioned that some projects will be postponed. I would like to confirm those are mainly the construction project for a new U.S. automotive plant, where demand is not likely to start anytime soon, while continuing to make positive investments to improve domestic productivity.
A1	We did not have a plan to invest massively this year even in the earlier part of the year, but the realignment of aging domestic production facilities remain an immediate issue to be dealt as quickly as possible. Accordingly, we do not intend to put off major domestic

	<p>investment projects. That said, given the current circumstance, we are indeed reviewing minor projects and projects that can be postponed to next year from the cost and other perspectives.</p> <p>Regarding overseas investments, including the investment project for our North American plants, for example, we expect some delay taking into consideration moves of customers rather than our circumstances.</p>
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Q2	At the conference call for the fourth quarter of FY2019, you stated that you were quite positive about making the Asian joint venture into a wholly owned subsidiary, and that at an early point. I would like to confirm whether you will put the discussion on hold temporarily given the present circumstances.
A2	We have no comment beyond what President Tanaka stated at the February 21 presentation whereby we would shift to a Company with Three Committees on March 26, and six of the nine directors would be outside directors, and that we will start considering making the Asian joint venture into a wholly owned subsidiary. At least, the prerequisite for that has been fulfilled. However, I will refrain from commenting on whether this discussion will progress or not.

◆ Questions by Shuhei Nakamura, Goldman Sachs Japan Co., Ltd.

Q1	<p>This guidance is a reference value, but if sales do not recover in the second half of the fiscal year according to your scenario, please tell us what you will do about the FY2020 forecasts. In other words, please explain your policy, i.e. whether you consider it unavoidable to revise down the revenue forecast because the impact of novel coronavirus is a one-time factor, or whether the company maintains a certain level of revenue by curbing SG&amp;A expenses.</p>
A1	<p>First, because this guidance is also submitted to the TSE, it is basically subject to revision if the forecast changes hit revenue or profit standards. Needless to say, we expect that our business performance can both go up or down. Regarding whether we will take measures to maintain profit to keep the profit level in the event of a downturn, I believe that we should first distinguish between cost reduction that is necessary and non-urgent, and reduce costs that can be reduced. On the other hand, if cost reductions lead to a deteriorating business foundation or hinder medium-to long-term growth, we may decide to maintain costs and sacrifice short-term profits depending on circumstances.</p> <p>One thing I would like to reiterate is that, the paint industry has a high variable cost component whereby we can absorb a significant portion of revenue decline through</p>

	<p>reduction of variable costs coupled with relatively low capital investment and depreciation costs. Still, as we have fixed costs, it is natural that we consider cutting fixed costs according to decline in sales but as to by how much we should reduce fixed costs, as 50 percent of our costs is raw material costs, I feel the resilience in this industry is very strong. And, to put it another way, if sales decline, companies in this industry will have need less working capital, which is not particularly desirable, but our cash position will improve. On the other hand, when sales increase, we need more working capital as we need to build up inventories and increase accounts receivable, which is a very desirable situation for us. As a whole, we are borrowing ¥230 billion in anticipation of unforeseen circumstances (*of this, ¥180 billion is a commitment line). Under these circumstances, we do not want to be constrained by the guidance we announced this time and sacrifice our medium-to long-term business growth. On the other hand, although there are factors that we can control and cannot control, we will continue to operate our businesses this year with the aim of achieving performance that exceeds the guidance.</p>
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◆ Questions by Atsushi Yoshida, Mizuho Securities Co., Ltd.

Q1	Is my understanding correct that the segment forecast for FY2020 is not disclosed?
A1	Segment forecasts are not disclosed. The most information we can provide is the "Assumptions for Forecasts" on pages 27-28.

Q2	<p>I would like to ask you about the merits of raw material prices. In the presentation materials, there are comments in China that the effect of lower raw material prices will be seen from the third quarter onwards. In other countries, will the effect be seen from the second quarter, or will it start from the third quarter as in China? Also, please tell us when the effect will start diminishing.</p>
A2	<p>First answer is that it is not possible to make a general comment. In other words, there are inventories we work to accumulate and those we do not under these circumstances. On a naphtha price basis, we have inventories priced in the range of ¥40,000 to ¥45,000, while at present the prices are in the range of ¥23,000 to ¥25,000. The time lag of two to three months also occurs and varies from region to region, so it is difficult to make a general comment.</p> <p>Second answer is that in our business model we request customers to accept price increases when raw material prices rise. While prices in the DIY segment of the decorative paints business do not fall as much when prices fall, prices in the automotive coatings business, for example, are relatively highly linked to raw material prices. Therefore, as I mentioned</p>

	earlier, the decline in raw material prices does not have a direct correlation on profits, but there is no doubt that the decline in raw material prices will have a positive impact.
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Q2	I would like to know how you forecast future raw material prices. Do you expect prices, either crude oil or naphtha, to rise from the first half to the second half, for example, or remain low?
A2	We do not anticipate an increase in crude oil prices in the future and assume that naphtha prices will continue to be in the range of ¥25,000 throughout the year. However, as raw material prices decline, selling prices may also fall depending on circumstances. If competitors cut prices, we may follow suits. We would like you to understand that our operating profit forecast of 63 bn yen for FY2020 assumes profit contribution from partially factoring in a fall in naphtha prices to ¥25.000.

Q3	Is my understanding correct that the explanation of A2 above is based on the assumptions of the second to fourth quarter?
A3	That's right.

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

Q1	I would like to ask about the business in China. Based on the explanation so far, if sales in the remaining nine months are unchanged year-on-year and a decline in raw material prices will occur from the third quarter, it is likely that profits will increase in the Chinese business in the remaining nine months from the second quarter onwards. Is this understanding correct?
A1	Profits for individual regions are not disclosed this time. In short, the first quarter in China saw a sharp decline in revenue and profits, but as shown on page 27, we expect a 5% to 10% decline in revenues for the full year. We assume that the loss of the busy season in the first quarter, especially March, will also have an impact on our full-year earnings results. Although this is the base case at the present time, we cannot state clearly that profits are expected to increase in the remaining nine months.

Q2	NIPSEA China's decorative paint business was strong in April, but is it correct to understand that we should assume factors for sales decline such as sales decline in May after the reactionary increase in April following the weak sales in January to March and people's reluctance to have painters in their homes to do painting work?
A2	That's right. Project segment is B2B business, and projects progress at the client's

	<p>discretion. In the case of developers, while the Chinese government has assured to provide sufficient liquidity, there are companies with high leverage. Although we need to look at them carefully, there is a sentiment of "make up for the delay" and "complete the construction by any means."</p> <p>On the other hand, DIY recovered quickly, but people may have been traumatized by the experience with coronavirus although this is something of a new norm. Now that we are in such a situation, it is difficult for us to assume an early recovery.</p>
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Q3	You mentioned at a previous conference call that profits generated by lower raw material prices in China will be used to increase sales. Is the situation different in 2020?
A3	This also depends on competition with competitors, but we have not changed our policy of increasing market share and sales rather than profit margin. Based on this assumption, we believe it depends on circumstances whether we will not be able to increase our share of the market unless we discount the entire decline in raw material prices. Some competitors are not necessarily aggressive, while others are aggressive.

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