Nippon Paint Group New Medium-Term Plan (FY2021-2023) Presentation
Q&A Summary
March 5, 2021

◆ Questions by Takashi Enomoto, BofA Securities Japan Co., Ltd.

Q1	Please give us your forecasts for FY2021-2023 for the China decorative paints business on pages 12-13 of the presentation. Please explain your forecasts for market share and the competitive landscape for the DIY and Project segments.
A1	As shown on page 43 of the presentation, we target revenue growth of approximately 10% for NIPSEA China overall (total of decorative, automotive, and industrial). The growth forecast is higher for Project than for DIY.

Q2	Please explain your outlook for the global paint market over the next three to five years with major realignments such as M&A going on in the industry.
A2	Following the takeover battles in recent years, the multiples have gone up, resulting in high valuations in the decorative paints market worldwide. However, I have been contacted about a variety of acquisitions. I feel that M&A activities have started to pick up. I believe paint manufacturers, particularly major ones, have formulated and started implementing strategies to divest some of their businesses and acquire new businesses based on the assessment of business portfolios. I cannot go into details, but we are continuing to discuss M&A opportunities.

Q3	Your competitors are also increasing revenue significantly in the Chinese market. What actions are you going to take to increase your market share in China?
A3	Some competitors have strengths in the Project segment of the decorative paints market. We will strengthen relationships with leading real estate developers and expand business with them by fully taking into consideration credit risk. We are working on increasing our market share by taking actions such as establishing partnerships with customers in selected market segments, rather than pursuing business expansion mainly by engaging in price competition. Competitors have increased their market shares more than we did recently. However, our basic policy is to do business at prices that can generate adequate profits.

	We are dedicated to the Maximization of Shareholder Value (MSV) as I have stated repeatedly on various occasions. Therefore, we will not aim to capture market share merely by cutting prices. The Project business will continue growing steadily during the next few years. In that sense, I believe our approach has even greater potential due to the growth prospects for this business.

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

Q1	The presentation lists your strategies for the automotive coatings business for FY2021-2023, such as increasing market share in China, strengthening partnerships in Asia, and utilizing overseas factories. Please give us more details. I would also like to know your market share target for China.
A1	We believe that we currently rank fourth in the Chinese automotive coatings market. I cannot give you market share data. One of the reasons for establishing Nippon Paint Automotive Coatings (NPAC) is the strong performance of the NIPSEA team in the automotive coatings business in China. NIPSEA's strong marketing capabilities have given us a significant advantage over competitors with regard to approaching Chinese automobile manufacturers. I cannot disclose specific names, but we have a few cases in which the Nippon Paint Group has succeeded in increasing its market share among Chinese customers thanks to NIPSEA China's assistance. Our Group's technology and product development capabilities in Japan support NIPSEA China's marketing activities. We must be able to accurately meet the broad range of needs of automotive coatings customers. One of the key missions of NPAC is to securely link our Group's technical development capabilities in Japan with marketing capabilities in China. Japanese automakers have the largest share of the global automobile market. We will aim to capture contracts for automotive coatings in China from Japanese OEM manufacturers through discussions with their head offices in Japan. Our goal is to strengthen our Group's capabilities by having our Japan and Chinese teams work closely together. The key to success in this is close coordination within our Group. This coordination is already starting to produce benefits.

Q2	Are all factories in the Major Investment Projects on page 34 new factories?

A2	All of these factories are basically new and already have customers. This is because we planned these projects while holding discussions with customers. The paint factory in Okayama, which uses state-of-the-art technologies, will replace our factory in Hiroshima. The Okayama factory project is about to break ground. When completed, this factory will reduce staffing requirements by nearly 50 percent. Therefore, all factories on page 34 are new facilities because we plan to build more smart factories of this type.

◆ Questions by Tomotaro Sano, JP Morgan Securities Co., Ltd.

Q1	Page 38 says that your financial discipline includes maintaining sufficient room for leverage. Please tell us how much leverage you think is suitable.
A1	Page 45 shows our cash flows and capital allocation. As you can see from the graph on the left side, our leverage will improve gradually assuming that we do not engage in any M&A deals and use cash flows to repay debts. Our current leverage is not high, so I basically believe that we should use borrowings to finance M&A. I think we should determine the proper level of leverage case by case. One important criterion is to maintain leverage at a level that can preserve our current credit rating.

Q2	Regarding the realignment of the Tokyo Stock Exchange (TSE), one of the requirements for companies to transition to TSE's Prime market is to have a tradable share ratio of 35% or more. In your case, the major shareholder owns nearly 60% of your stock. Please tell us if you will take some action if you cannot achieve a tradable share ratio of 35%, or you are not necessarily interested in a Prime market listing?
A2	We know that we need a tradable share ratio of 35% or more to move to the Prime market. This 35% requirement is based on the number of listed share certificates, etc. and the number of tradable shares as of the end of the most recent business year, which is at the end of 2020 for us. We believe we cleared the threshold of 35% as of this date. We also know that we will need to take into consideration the increase of Wuthelam's ownership to 58.7% in 2021 to determine our fulfillment of the qualification requirement in the future. I expect cross-holdings by companies and financial institutions will generally decrease gradually. We will continually consider what actions to take by taking into consideration progress with sales of these cross-holdings.

◆ Questions by Megumi Iwano, Nikkei Inc.

Q1	You used the Okayama and Hiroshima factories as an example to explain your factory restructuring projects in Japan. I have heard you mention your plan to consolidate the Aichi factory. Please explain this plan.
A1	Regarding the restructuring of our factories in Japan, we have established a very thorough master plan covering about 20 years, as I stated earlier. This master plan changes every time we review it. The restructuring of the Okayama and Hiroshima factories is expected to take place during the new Medium-Term Plan. In addition, we have been looking for sites to relocate two factories in Aichi, Taketoyo and Takahama, due to aging of production facilities and lack of space for new equipment. These projects will be launched after the current Medium-Term Plan. We have narrowed down potential sites to a few locations. If things will go as we hope, the relocation sites will be in Aichi prefecture. Our plan is to consolidate the automotive coatings business with paint for plastic bumpers (paint for auto body and plastic bumpers) and establish R&D facilities by relocating facilities from these two factories or establishing new ones where necessary. The new factories will not start operating until after the current Medium-Term Plan because of the time required for site preparation and construction.

Q2	What is your rough image of the master plan 20 years from now?
A2	The master plan has all the components of capital expenditure for factory equipment and these components are assigned priorities. The master plan is a matrix with production facilities in columns and a timeline of 20 years in rows. This matrix shows how much capital investments are needed and in what time span. We need to prioritize updating older production facilities. Priorities are set according to ESG requirements, local regulations and other factors. The order of priorities may change every time the master plan is reviewed. For instance, a project without prospects for the acquisition of land naturally takes a backseat to another project with good prospects for acquiring land.

Q3	Do you have a similar 20-year master plan for your Group companies outside Japan as well?
A3	We do not have a 20-year plan for our Group companies outside Japan. For

	instance, NIPSEA has a strategy of building factories in areas where they have customers and business opportunities. They look at their balance sheet and profit and loss statement to determine the timing and size of capital investments. In China, regulations may create an urgent need to relocate a factory. As a result, our capital investment plan allows for urgent relocations. NIPSEA takes steps such as monitoring overall capital investments to ensure that their financial discipline is maintained.

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

Q1	Looking at your outlook for the Project market on page 13, your market growth forecast of 5%, which is lower than China's growth rate, appears rather low considering that renovation demand is taking off. We forecast 30-40% growth in the Project market. Please give as the reasons for the slow growth forecast. Also, I would like to know why the growth forecast is the same for the DIY and Project markets even though demand in the decorative paints market is clearly shifting from the DIY segment to the Project segment. Your growth forecast for NIPSEA China during the Medium-Term Plan is the same at around 10% both in FY2021 and in FY2022 onwards. Does that mean you will prioritize profitability over market share growth?
A1	The market growth rate forecasts on pages 12 and 13 are the same at 5% because these figures show our growth forecasts for the overall decorative paints market. Please note that a growth rate of 5% means growth of 5% CAGR here. We expect that the overall decorative paints market in China will grow at this rate. I believe this is a fairly high growth rate when compared with growth forecasts for other markets around the world. The structure of the Chinese decorative paints market has been changing. The Project segment, which had previously been rather small, has recently been growing rapidly. For instance, the Xiong'an New Area is a new area developed by the government in suburban Beijing. Many people are expected to relocate from Beijing to Xiong'an in the future. As this example shows, very big business opportunities are being created throughout China. The important strategy is to grow by forming partnerships with leading local construction companies with sound financial positions. We are pursuing growth of both overall revenue and volume rather than using a price offensive.

	The DIY market is growing very steadily and we fully expect this solid growth to continue.

Q2	You said you will aim for both revenue growth and profit margin improvement. I suppose the Project segment targets real estate developers, who are highly cost conscious and do not care about brand names as DIY customers do. If you are to pursue revenue growth, don't you need to sacrifice profit margins by cutting prices to some extent and reinforcing staff to provide better services with prices unchanged? Please explain thoughts on the possible deterioration in product mix caused by high revenue growth in the Project business.
A2	Our Project revenue growth rate has been increasing since FY2017. Our customers in the Project business are large construction companies, unlike customers in the DIY business. Besides selling paints, we provide paint exteriors to our Project customers. We have various partnerships involving paint exteriors with customers. I cannot tell you the details of these partnerships yet. What I can say is that NIPSEA China is generating additional earnings by providing a broad range of services. As a result, we see no evidence that our operating profit margin has declined due to the increase in competition.

Q3	Raw materials prices have increased sharply and Nippon Paint has been raising DIY-related prices since March, according to a local news article. I would like to know what strategies you are using in the Project business during the Medium-Term Plan.
A3	Prices of raw materials, including naphtha, are generally rising. Raw material cost contribution (RMCC) to net sales in January and February increased by slightly less than 1% compared with the same months in 2020. We don't know how much impact higher raw material prices will have on a full-year basis. But there is no doubt that the raw material price increase has impacted our performance somewhat. NIPSEA China and the Nippon Paint Group in Japan are purchasing low-cost raw materials from their global procurement sources. Our Group has established a framework that can absorb raw material price increases. I expect that these sourcing activities will work out well. Raw material prices have gone up and down. I think you can tell from our track record that our Group is capable of absorbing the impact of raw material price increases.

Q4	Can we assume that you have incorporated any positive or negative impact of raw material price increases in your earnings forecast?
A4	Naturally, we have factored a slight increase in raw material prices in our earnings forecast.

Q5	Is it 1% or so?
A5	That’s right.

Q6	Please share with us your M&A target areas and market sectors. Can we assume that you are exploring opportunities outside the decorative paints sector? How about opportunities outside Asia?
A6	The decorative paints market is characterized by very stable growth and high profitability. We will explore M&A options around the world if opportunities arise in order to further expand our decorative paints business. We are not strictly limiting target areas. We will avoid M&A in areas we are unfamiliar with as much as possible. For example, I think there are opportunities for acquisitions of decorative paints companies in regions where the market is fairly easy to understand. These regions include Asia, the Middle East, where Betel Boya operates, Europe, where DuluxGroup held two companies, and the U.S. West Coast, where our Group already has operations. In the automotive coatings business, customers are a very important element. For instance, we will take into consideration relationships with automotive OEM customers and target areas or companies which can open up opportunities for business with a certain customer. The automobile industry is expected to transform dramatically in the future, and thus requires new technologies and innovation. One option is to acquire a company with new technologies in order to become more competitive.

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

Q1	Regarding strategy for reducing CO_2 emissions on pages 28 and 29, please provide information about specific targets, if you have any. For instance, reducing CO_2 emissions by 30% by FY2030.
A1	We currently have no targets for FY2030. This is a very complicated issue. Individual countries are expected to take different steps to reduce CO_2

	emissions. The Japanese government aims to become carbon neutral by 2050. Carbon neutrality initiatives involve carbon pricing and other challenges, and addressing these issues will increase the cost of production. On the other hand, I expect that new energy and power storage technologies will be developed. Our goal is to properly follow the Japanese government's initiatives to achieve its carbon neutrality goal of 2050. We will take one step at a time based on our own ideas. That's why we have no goals at this time.

Q2	Your capital investment framework allocates 10 billion yen for environmental protection, etc. How much do you plan to spend for CO_2 emissions reduction initiatives? Also, can you raise prices of products to offset the cost of these initiatives?
A2	We have estimated the cost of CO_2 emissions reduction at this time. We need to think about how changes in our energy mix will alter the cost of energy. This includes determining an outlook for changes in the cost of wind and solar power, which is currently higher than electricity from conventional sources. As to whether we can immediately pass the cost increase on to customers, it's not easy. Usually, governments provide subsidies for these green initiatives. China accounts for the largest share of our Group's CO_2 emissions. The Chinese government seems to have numerous ideas on the table. So, our response now is to establish a policy to contribute to achieving a carbon-neutral society while targeting many opportunities to protect the global environment based on current conditions in different countries.

Q3	You designated the decorative paints and industrial coatings sectors as targets in your M&A strategy. However, you did not talk much about the industrial coatings business. Please explain the reasons why you included the industrial coatings sector in your M&A target sectors.
A3	While we naturally see the decorative paints sector as target, we see potential benefits from acquiring industrial coatings companies, such as automotive coatings and general coatings companies, to acquire their technologies. Our competitors have completed M&A deals like this recently. Major technological innovations are anticipated at customers in the industrial coatings sector, notably automotive manufacturers. We see opportunities involving these innovations, which are called CASE (Connected, Autonomous, Shared, and Electric) and MaaS (Mobility as a Service).

	These innovations may require us to use new technologies. Therefore, I believe acquiring companies with innovative technologies should naturally be included in our options.

Q4	Can we assume that you are not considering a focus on industrial coatings sector as one of the core M&A areas?
A4	As I have been stating repeatedly, we may examine an opportunity if it is in line with the framework of our acquisition guidelines, such as contributing to EPS accretion.

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

Q1	Your targets for operating regions are more or less convincing. I would like you to give us some supplementary explanations regarding your earnings in Japan. Looking at the previous Medium-Term Plan period, you achieved operating profit of approximately. 28 billion yen in FY2018 in the Japan segment. But operating profit in FY2020 was approximately 7 billion yen, although this is partly due to the impact of COVID-19. According to the page 17, the operating profit margin in the Japan segment, excluding NPHD's expenses, is around 10%. Some calculation tells us that NPHD's expenses are around 9 billion yen. In addition, you expect expenses to continue increasing in FY2021. Please tell us what actions you will take to increase operating profit during the FY2021-2023 period while making substantial capital investments in Japan.
A1	In the Japan segment, we operate the decorative paints business, industrial coatings business, and the automotive coatings business. In addition, we have the surface treatment business. Taking the decorative paints business as an example, we started selling anti-viral paint products under the PROTECTON brand last year. We have been receiving an increasing number of inquiries about the PROTECTON brand products. For instance, a leading construction company has asked us to supply a substantial volume of anti-viral paint. They are planning to sell pre-owned condominiums with anti-viral interior coatings as one of the features. We have also received inquiries from medical institutions and other organizations. I believe these inquiries will turn into actual sales. We have been promoting PROTECTON brand products with measures that

	include TV commercial from late last year. We plan to launch many new PROTECTON brand products this year, including a new product that we plan to announce soon. We place a premium on the safety of products, and we only sell products with quality levels that assure the safety of consumers. We believe that this quality assurance will provide a big boost in sales of PROTECTON brand products. There is always a risk involved with business. However, we are confident that these new products will contribute to our earnings. We will seek opportunities to partner with peer companies who understand our strengths. I believe these actions will give our Group an infrastructure that can generate growth in Japan.

Q2	Do you mean that you cannot expect significant growth in decorative paints and industrial coatings in Japan, but can make up for the slow-growth of earnings through the launch of the PROTECTON brand as well as synergies from partnerships in terms of cost- and technology-sharing with small- and medium-sized paint manufacturers in Japan?
A2	I think earnings growth is one benefit that can be expected from these types of initiatives.

Q3	Regarding the M&A targets on page 38, you mentioned earlier that you did not target a Finnish paint manufacturer because its valuation was too high. Considering that you acquired DuluxGroup and Betek Boya at high valuations, what are your decision criteria for acquisitions? Will you acquire a company even at a slightly high valuation if it has a powerful brand? Please provide more information about your M&A policy.
A3	Our view is that our main target is the decorative paints business around the world. NIPSEA, DuluxGroup, and Betek Boya are basically companies specializing in decorative paints. We have acquired business insights from these partner companies. Mr. Goh Hup Jing, our partner, is well versed in the paint industry. He has extensive personal networks. When we talk with him about a paint manufacturer, he often already has a deep understanding of its business activities and history. Our M&A targets are naturally decorative paints manufacturers. M&A transactions normally take time. Another point is that we may not be able to achieve EPS accretion through M&A transaction because valuations have gone up recently. Our key criterion is to achieve the Maximization of Shareholder

	Value and EPS accretion. But the main targets are companies operating businesses that we understand very well. In addition, we may acquire an industrial coatings company to acquire its technologies, or a company in a certain region where we need to provide more services to customers. Therefore, we may target companies outside the decorative paints sector if the acquisition will enable us to respond to changes in our customers' requirements.

Q4	Do you mean you will acquire companies with businesses you understand and that have reasonable valuations and not indiscriminately go after companies with businesses you are unfamiliar with?
A4	We will not acquire any company indiscriminately.

Q5	I would like to ask about your capital policy. I understand that a high cash flow generation capability is one of the strengths of the paint industry. As stated on page 45, your current dividend policy is to maintain a 30% payout ratio. You will also use cash flows for the repayment of debts. My question is if you will use cash flows to return cash to shareholders through dividends and share buybacks when the leverage has declined to an appropriate level and if you have no good M&A targets.
A5	We prefer to use cash flows for M&A transactions. If not, we will use cash to repay debts. The idea is that if we see an attractive M&A opportunity, we will use borrowings to finance the acquisition. When we have very large surplus of funds, share buybacks and dividend increases are obviously options for use of funds. However, we will explore M&A opportunities that will contribute to our Group's growth as much as possible. An acquisition battle in the paint industry that started in the Baltic Sea region has spread to other regions, I believe there is a good chance that we can find attractive opportunities. We are not limiting our targets to large companies. We will consider acquisitions of smaller but sound opportunities with a cost of 10-20 billion yen, perhaps in Asia for example. Our priority is to use our cash flows for high-quality M&A transactions.

◆ Questions by Yoshihiro Azuma, Jeffries (Japan) Limited

Q1	Regarding actions for earnings growth in the decorative paints business in

	China, you stated that you can maintain operating profit margins by providing added value and services not linked to lower prices, even if your focus is shifting to the Project business. I think you cannot exploit brand power in the Project business as you do in the DIY business. Can we still assume that your operating profit margins will not decline as you shift to the Project business? Another point is that the distribution networks you have established do not necessarily correspond to the marketing areas where you need to increase sales. Please tell me if you can accelerate growth by hiring much more people to cover new marketing areas.
A1	Our profit margin in the Project business has been improving steadily since FY2017. One of the reasons is that we have established partnerships with 100 major construction companies and succeeded in acquiring their business by meeting their needs with services as well as paint and coatings. The business areas of these construction companies are expanding beyond Beijing and Shanghai to regional cities. Therefore, we have shifted our focus to these cities. Regarding hiring people, NIPSEA makes investments in areas where they have identified business opportunities and is recruiting people as needed. Their focus is business growth. When they identify business opportunities in an area, they build a factory nearby. In addition, they are quick to hire people to reinforce their sales force. That's the corporate culture of NIPSEA China, and this culture is working well.

Q2	Please tell me what you mean by acquiring business by providing support in non-paint areas. Do you mean utilizing the products of your Group companies in Oceania and Turkey, such as adhesives and heat insulation materials? Please give us some examples.
A2	Coatings for unit furniture and unit kitchen systems, all-in-one thermal insulating panels, water-resistant coatings for bathrooms—these are what we call adjacencies. In a nutshell, we provide additional, non-paint services, such as by providing paint-related adjacencies and introducing service providers.

◆ Questions by Shuichi Nakahara, Tokai Tokyo Research Center Co., Ltd.

Q1	According to news reports, China's population is declining due to the COVID-19 pandemic. Please tell us the possible impact of this on the decorative paints industry.

A1	China has ended the one-child policy and is taking other actions to address the population decline. But I don't think the population decrease will have a significant impact on the decorative paints industry during the Medium-Term Plan. On the contrary, I believe we will have more opportunities for business expansion during the next three years in step with the growth of the market for repainting and rebuilding existing housing.

End