Co-Presidents' Small Meeting with Buy-Side Analysts
Q&A Summary (November 28, 2022)

◆ Questions by Participant 1

Q1	My first one is more on your Asian businesses, probably outside of China. I think maybe just more on ASEAN and maybe Japan if you can. Mr. Wee, I mean you have raised prices quite aggressively in the past few quarters. I mean given raw material price situation. I'm just curious, have you been seeing, you know, impact on volumes, just broadly speaking, in your Asian businesses because of that, or are there any other factors besides that as well? Yeah, just curious about whether you have been seeing weakness in terms of volumes. This is my first question.
A1	**Wee Siew Kim** Over the past year, we have seen huge spikes in input prices and we have tried to put through a lot of the cost increases into the market. In areas where we are stronger or able to push through price increases, we definitely would do so. And as a group, we have put through significant price increases. But in reality, my take is that this is not enough, and more needs to be done. And I did mention that in areas where we are strong, we put in bigger price increases, where we are weaker and have to look at how the competitive field plays out, there may be a less aggressive approach. One of the elements that we actually calibrate in terms of the level of price increase is the impact on the market, and that is reflected in your question on volumes. Overall, as an aggregate of Asia outside of China, I will say that volume growth is in the low single digits. So I would actually think that the inflationary environment has certainly tampered some demand. However, we believe that even in markets that have seen negative volume growth, we take some comfort that we actually do better than the general market, which is an important parameter that we always monitor internally, which is our own estimate of market share, and where we stand in the market. I would say that overall, we see a low single digit market growth, with significant price movements in the past year. And for Japan, I think Japan faces the same inflationary environment. Japan's market characteristics is slightly different from the rest of Asia, and it is also a learning experience on the part of both manufacturers like ourselves, as well as customers. I would say that there is some time lag in the reaction in Japan versus the rest of Asia.

Q2	My second question is specifically on Indonesia. I am curious what you think about the competitive landscape there in Indonesia because it's quite interesting that both Nippon Paint and your major competitor have very high margins in Indonesia. I mean, Indonesia is the most profitable segment you have in Nippon Paint, from what it seems from your public filings. I am curious as to what you think of the competitor and how competition is lagging in Indonesia. Do

	you do price war or how is the market environment there in Indonesia specifically? Thank you.
A2	**Wee Siew Kim** It is always good to have a publicly-listed competitors that we can chase. We have a lot of respect for their positioning in the Indonesian market and there are aspects that we aspire to. We are trying and closing the gap. So as such, we see Indonesia as an area that we can only do better. And when we look at margins, we consider our competitors' respective margin as well as PT Nipsea, (which is the Nippon Paint Group company in Indonesia) who has done fairly well compared to a lot of our peers or even among other operating entities within the Nippon Paint Group. And this higher margin is reflective in several aspects, and the key is really that we have sensible competitors in the market, where we compete on a lot of dimensions and do not focus singularly on just the price element. As such, we are able to differentiate ourselves based on product offering, based on how we position ourselves in the market, based on what we bring to the customer beyond just the paint and that is how we differentiate ourselves. The competitor, ourselves, and even several of the other non-listed competitors have all been very rational competitors. So I really hope that we are able to keep that friendly competition and keep competition on a multi-dimensional basis, and not just focus on price itself only.

Q3	I guess, for Indonesia specifically, has it always been this market environment, very rational, or is it something that - in the past 5 to 10 years or throughout your experience in Nippon, it's always been this sort of very profitable, very rational type of market?
A3	**Wee Siew Kim** Well, if you have looked at Indonesia over say a 40-year timeframe, you will probably see that every 8-9 years, the country goes into a little bit of a self repair where the currency gets adjusted, and then the market bounce back again. And if you look at each bounce of the market disruption, you will find that the survivors come out slightly stronger. So that indicates that surviving players always learned from the past, were always very sensible, and possibly always prepared that the economy is not going to be a straight uphill climb. There's always a discontinuity lurking somewhere, and we have to be prepared for it. So as such, I think the psychology of the players is slightly different from other countries, and with each bounce, we seem to be able to get slightly stronger. So as such, I would think that the margin has never been always high, but each time with each bout of instability, we get a little back. So, it is market dynamics that's not seen in many markets, so as such, we make hay while the sun shines, enjoy while it lasts, and keep sensible.

◆ Questions by Participant 2

Q1	How do you see your own competitive advantage in the Chinese market versus 5 years ago, and how do you see 5 years later, comparing your competitive advantage versus the peers? How do you see the margin or the gap between the two players regarding competitiveness? That is my first question. My second question is, do you have a specific strategy to release or to unlock the huge re-paint demand in the Chinese market?
A1	**Wee Siew Kim** Five years ago, I think competitors were further behind. They have done well. I think they are much closer to us at this point in time. Five years from today, if we do our job well, we should go ahead. So this is certainly our hope. My guess is you will probably question what gives us the confidence that we can go ahead? As I answered earlier to Enomoto-san's question, we study our competitors intensely, just as we believe they studied us intensely too. So we know where their profit pool is and where their strengths in the respective markets (as in how we segmentize China) are. And we come up with approaches that reduce our disadvantages in areas that we are behind, and build our strengths where we are ahead. And just to give you, at the risk of repeating myself, we see ourselves as behind in the third to sixth-tier cities. We are putting a lot of resources in pushing our presence in the third to sixth-tier cities, and this is a strategy, which I think I had discussed it in September last year when I last spoke to a group of investors. At that time, we were already on this strategy. We knew that that is something we need to do. And this past year, we believe we have made the inroads, in spite of all the operating difficulties, and the signs are promising. Another area where one of our competitors is very strong is the exterior texture segment. We hope we could get our act together in terms of putting a more differentiating product into the market, and that is competition we like because there is a good competitor with a very strong product and we are behind. We know where our job is, what needs to be done in order for us to catch up, and we are firmly focused on that. So we get all this done well, and hopefully, we are able to continue to build upon our strengths in areas that we are strong and further widen and open up the gap again with our competitors. And I think you also asked a question on re-painting. Well, if you had asked the same question 10 years ago, I would have said that with a lot of hindsight, Nippon Paint China was actually too early in the re-painting market. If you have seen our advertisements way back in Year 2011, you would have already noticed that we already had the advertisements out in the market. And that was what we called the Refresh business, and Refresh（刷新） is actually our brand name in China for the home renovation and repainting market. That was 11 years ago when the market was very nascent.

	But move ahead 10 years today, I think the situation has really changed. The housing stock of China, especially those built in the early days of reopening in probably the late 80s and 90s are ageing very rapidly. I would say that across China, maybe one-third of the market demand in terms of the B2C side is really on the re-painting market. With the housing stock ageing, I can only see further growth. So if you just simply say that Year 2011, when we started pushing advertising, developing the system, how to properly reach out to the homes, how to give consumers the comfort, allowing suitably qualified Nippon Paint trained painters to go into their homes and with security. This is a company with the track record, the system to back it and to give the consumers that assurance, developed and built up over the years. I believe that both Nippon Paint as a company as well as our partners (the applicators in the field, our dealer and distributor base) have all learned over the many years of trying. So as such, we are well positioned for the growth, and I believed that the growth will be there. If you take another statistic where we look at the major metros, probably 50% of the property transactions are actually resale transactions, which actually means that there is a vibrant market out there as whenever people buy and sell an apartment or house, that is when coating demand is generated. With the pick up, I believe that we were too early in 2011, but I must say we are in a pretty sweet spot right now.

Q2	Regarding your movement, you are going to lower tier cities, and meanwhile, you are going to do more in the repaint sale, so how does that impact your profile – margin profile? Shall we see the margin to be consistent with what we see before or actually the margin profile will be pretty different because lower tier cities have poor economics there? And also, do you have a target for the seller market topline in the coming 3 years or something the target? Thank you.
A2	**Wee Siew Kim** Well, the target is always bigger every year. I know margin is something people focus on, and this is something I focus on whenever I talk to all our leadership in different countries. But I have to caution that sometimes a singular fixation on margin may not be healthy, mainly because margin is a reflection of also what we are trying to do in a market. In some markets that we are intending to grow market share, it may be a strategy of lower margin on the frontend, and hopefully, higher margin in the backend. While we are channel building, or when there are different competitors in different provinces, it may require different product mix, or could well be a mix of high volume lower margin versus lower volume higher margin premium business. So that mix may be different depending on the market. And also as the market changes like what we have seen in China since 2015, with the introduction of new laws on exterior installation, environmental consciousness and energy use, you will find that many of our competitors, including ourselves (Nippon Paint China) has gone into the exterior thermal insulation business. And it is a business that

	when you look back to Year 2015 was zero, and fast forward today, it is no longer an insignificant part of our business. We have built the product, built the supply chain and built the factories to deliver these products. And those early days of market building, product segment building in response to the regulatory changes, affected our margin to some extent. I will say that it is sometimes very difficult to say where the margin should be heading. In fact, I will always say that if you believe in our MSV narrative, if you believe that MSV is driven by PER multiplied by EPS, then the real focus should be EPS. Year after year, can we continue to deliver that EPS and growth which is what we are really after. And in order to deliver EPS and growth, we have to grow the top line, which means that we have to enter markets, we have to develop markets so there's always continued year-on-year growth albeit with different forces at work. I know you have a job to do and have got to guess margins, but focus on the EPS and growth.

Q3	I am more interested to hear from Mr. Wee about your group's capital allocation policy because you put EPS growth as a priority above capital allocation. How about return on invested capital? I mean why the group chose EPS rather than return on invested capital when it comes to how you will do the M&A and how will you do the investment projects? It's pretty different from what we see in many other companies.
A3	**Wee Siew Kim** I have a partnership here, and my partner is Wakatsuki-san, and he's the expert on capital allocation. But as far as capital allocation, I think from my standpoint, I will put capital where I see growth and I see returns, because that is the only way you grow your EPS. And as such, from our announcements where we are building new plants and where we are investing in a market, you will be able to detect what kind of animal Nippon Paint is. And, yes, we do track return on capital as one parameter, but overall, it is still a focus on EPS growth. **Yuichiro Wakatsuki** A snapshot of our operation is that on an operating unit basis, it's all cash generating and very low on the Capex end. Even on higher growth areas, the Capex could be around 3% to 4% sales. If you think about our margin, it's all cash generating and we don't need to allocate A capital to a B unit, or NPHD has to inject money (unless there's an M&A). So it does come to and where we have to consider whether to take dividends, take the cash to repay our debt, which is like zero point X percent and is very low. And from our balance sheet standpoint, we have a very strong balance sheet with strong backing from the Japanese banks, all Yen-based, and a fairly long duration on an average of about 5 years. And people ask me, what will you do you with the interest rate if Japanese yen goes up? It doesn't affect our current interest because the loans are all fixed. And because our capital is finite, we will need to prioritize if we want to do this M&A versus another one? So that's when the return on invested capital kicks in, and we want to make sure that our sort of overall capital costs, including potential equity costs, has to really be considered, not just in terms of EPS accretion by that issuance [ph].

	So all that is taken into consideration, but at this point in time, we don't really see the kind of limitation on our capital base. Thereby, I think the easier way to go is really just to focus on EPS, but just be reminded that whenever we do analyze M&As, we do all the basic work including the DCF and return on invested capital assessment. At the end of the day, I think EPS is for the shareholders, especially if we talk about Maximization of Shareholder Value. Let's not talk about adjusted EBITDA. All these things don't really matter to the bottom line, and we want to make sure it does give accretion to the shareholders, be it the larger shareholder or the minority shareholders. So that's the way we think about it, and we try to simplify things so that people understand that we are not putting our company into any risk by over leveraging. Of course, we won't do that. That's against the MSV idea. So that's the simpler way, and we hope it makes your life easier for analyzing us.

◆ Questions by Participant 3

Q1	In regard to shareholder return, are there any limitations in terms of your own ability to upstream dividends to the parent given that, from what I can see, it seems like you have a more favorable tax rate outside of Japan. So is that a consideration when you think about shareholder return policy, because obviously, you have to be paying dividends out of the parent company.
A1	**Yuichiro Wakatsuki** Basically, given that our structure is now almost every entity we own 100%, as opposed to where we used to be at like 51%, 49% for Nipsea, there is no limitation. But we always think about the tax leakage, and what does it do to serve our debt in Japan or our dividends, which are all based in Japan. The short answer is still there is no limitation. If we have to, we will take out more cash from our partner companies. But to the extent that we don't need to, we won't. Because for Japan, as I mentioned, I can repay my debt earlier, but that only gives me a 0.3% sort of benefit, as opposed to the tax leakage, and the potential opportunity for the subsidiaries or partner companies to reinvest and further grow our EPS. There are some FOREX risks that we have taken, but we wanted to reinvest in brand, reinvest in distribution so that they can grow and take more market share. We didn't need the cash and we are still paying meaningful dividends. As Wee-san mentioned, the EPS growth is very important and as effectuated on each of the entities making the roadmap.

Q2	Just to clarify you mentioned that there would be tax leakage, so if you actually upstream more, that would result in a higher effective tax rate?
A2	**Yuichiro Wakatsuki** Am referring more to the withholding tax. It is more on a consolidated basis where we are taking an effective tax rate, and I don't think there is going to be any meaningful change.

◆ Questions by Participant 4

Q1	My question is with regards to China. I believe in the most recent results briefing, Wakatsuki-san you were talking about how October to mid-November, Nippon Paint's numbers in China will be weak. The flipside to this is a competitor suggested that, you know, public numbers will be strong. So I am just trying to understand this disparity in view. Right, that's my first question. I am wondering if that has to do with the geographic mix or whatever. The second part of my question is to better understand the tier-3 to tier-6 city strategy here. What proportion of your business is in this part of the market? And do you have any - can you tell us about how that business has evolved over the last few years, in terms of market share, in terms of distribution, and how has the competitor reacted to your strategy? Has it been a lot more competitive, more aggressive margins, etc.?
A1	**Wee Siew Kim** Well, I have said earlier that we have a formidable competitor, and I too scratched my head why they are optimistic as far as this fourth quarter is concerned, and we could only make our guesses. From our standpoint, what Wakatsuki-san mentioned in the last results briefing was really a fourth quarter to last year fourth quarter comparison. So I guess both Nippon Paint standpoint and the competitor standpoint, we have different starting base from last year fourth quarter. For us Nippon Paint last year, October was the biggest October ever. And it was driven by several factors, one of which was that we put in three price increases in a single month in response to the input cost pressures. And when you are that aggressive to put in price increases, you could actually guess that our customer base starts to load up ahead of what they expect to be the next price increase. So as such, last October was a phenomenal month for us. Then comes to this October, which actually gives a lot of input to what Wakatsuki-san mentioned as what we think this fourth quarter is going to be for Nippon Paint. We came off a weaker October because on fourth quarter to fourth quarter comparison, it was fairly weak. And it was also weaker because we saw that there was this big national conference happening in China that had just concluded, and ahead of that conference, there were a lot of restricted measures in terms of traffic flow, logistics movement, and the clamp down was actually pretty extensive. So that factored into our view of the outlook. As you all may know, several big cities also experienced district level or even multi district level lockdowns, that again impacted our view of where the market is going to be. And as a result, we saw that if October was weak, we hope to bounce back in November, but we are not sure what the pronouncement was going to be post the conference. That said, whether the policy gets relaxed or not, it remains that there are a lot of unknowns. Also, we factored in the fact that December is a traditionally weak month for the whole of China as the cold weather sets in. It is a

	seasonally low month and most of manufacturers also look forward to January. But when we look at January 2023, we saw a very early Chinese New Year. Chinese New Year is on the 22nd of January next year, which actually means that two or three weeks before that, job sites actually see a slowdown of activities as workers start to return home. So we foresee that January will also be a weak month. So all compounded, we actually saw that the fourth quarter may not be as strong as we would hope it to be. As a result, we make sure that we are prudent in our guidance. So does the competitor face the same conditions? I say except for our baseline, the competitor probably faced many of the same conditions as we do. And I guess, the participant asked is it because we are present in different parts of China? I think that could well be a factor because we are fairly strong in first and second-tier cities, which seems to be disproportionately affected by logistics, lock down, and even the COVID measures. Whereas the smaller inland cities tends to at least be a lot better off from those perspective. So as such, there could be a differential in growth. And while we don't talk in detail about statistics in the third to fourth tier city, but at this present point in time, the competitor has a large, bigger share of the revenue in the third to sixth tier cities versus Nippon Paint. And there was also a question on since Nippon Paint is focusing on the third to sixth tier cities in the past year, have we made progress? Yes, all the signs are very promising. We are beginning to engage the customer base there and we definitely believe that we have grown market share, but it is still very early days to say we are gaining it at the expense of our key competitor or other competitors. I would think that the latter is probably the easy picking. And also considering that the past 18 months has been a very difficult operating environment in China, not from the standpoint of us but also that of many of our competitors, especially the smaller regional competitors, which had suffered from input price increases. They also suffer from sometimes stock outages because in a supply constrained world, oftentimes the bigger players get access to stock to a larger extent than the smaller players. And we also see smaller regional players having liquidity issues from a collection standpoint. All in all, there are a smaller number of players in China today than there were, say, 18 months ago. So we are picking up some of the share from players who have either shrunken or disappeared. So I will say that it will be a more interesting conversation when we re-engage in a year's time to see whether we have made even further progress. At this point in time, I will say that we have made progress, and we are actually maybe even fortunate that we have started this process more than a year ago because we really made up for a little bit on what we actually see in the much lower growth in the first and second tier cities because of this COVID environment.

Q2	Just to understand, usually, you know, where you are number one, in terms of market share, you lead in terms of pricing. Would that be the reverse for tier 3 to 6 cities? And also, you know, just to understand with regards to the competitor, do they typically at least

	until, you know, tier 1 or tier 2 cities, do they usually follow the need in terms of when you do your price increases?
A2	**Wee Siew Kim** Well, definitely when we are strong, we feel a lot more confident in pushing through price increases. But it is also not true that that we follow in terms of price increases even for third to sixth-tier cities in China. And mainly because in many of these markets (third to six-tier cities), we offer slightly different products, and the product range is different. So as such, we try to differentiate ourselves from other parts of China and differentiate ourselves from our competitors. In many instances, I would say that we probably are a little bit more aggressive in setting price increases. And I do believe that that action is probably underpinned by the amount of investment we put into the brand all these years. So we believe that the brand certainly commands certain attributes that attracts a following. We believe this following may not easily forsake us just because we have to make a living by putting through the price increases.

◆ Questions by Participant 5

Q1	Your sales persons in China seen any changes regarding improvement of credit situation?
A1	**Wee Siew Kim** Well, over the past year, even in the new bill property developer side, our customer base is also changing. If you look back, say, 4 or 5 years ago, the flavor of the day which we are also guilty jumping on the bandwagon, was the property market in China, and that is the new property developers which was consolidating very quickly. So as such, the top 30 developers got bigger and bigger. And if you want to be a player in China new built market, you got to have a very good inroad into the top 30. Many paint manufacturers, Nippon Paint included, focus on building relationships and business space with all this top 30 developers. With the push on deleveraging, many of the top 30 are actually rapidly deleveraging. Some of them are in significant trouble which they are trying to work through. As a result, our business with them are now on a more restrictive basis as we watch our credit exposure. But in the meantime, we still have to grow and our growth now is in the smaller players, who are more regionally based and on a tighter credit basis. We are also looking beyond the traditional residential into mixed development and non-residential development type projects. We are also working very closely with not only the developers, but also the construction companies, the providers, so they are becoming our partners in terms of being our customers. So as such, the customer base in our property site, or what we call the project site, is actually changing. I would say that those changes will contribute positively in the longer run in that our growth will be on a basis of a more diverse base of customers. In the meantime, we stay engaged at whatever is a prudent level with the bigger boys. And when the bigger boys bounce back, they know that we have been there for them, and they can also fully understand that we have to be very prudent in our current level of business engagement. So I

	think the positive outcome from this episode, if ever I want to see a tiny sliver lining of optimism, is that all the paint players have their hands burnt and going forward, we have all learn something from Indonesia on rational competition.

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