



Ramanathaswamy temple,
Rameswaram Tamil Nadu, India

Buyback of India Businesses from Wuthelam Group

Reentry into India market with sustained strong growth

August 29, 2023
Nippon Paint Holdings Co., Ltd.

1. Executive Summary

- ▶ Our Board of Directors approved today buyback of two India businesses, NPI and BNPA^{*1}, of the three businesses (European automotive business and India businesses) that were divested to Wuthelam Group in August 2021. NPAE^{*2} is not included in the scope
- ▶ Decision to sell the businesses in 2021 was backed by the need for drastic restructuring and reinforcement of businesses caused by external factors, i.e. existing competition, pandemic, raw material price increases, emergence of newcomers etc., while maintaining options to exploit opportunities in the growth market of India. The agreement accompanied call option for NPHD to buyback the transferred businesses
- ▶ The two India businesses have successfully undergone measures, such as drastic management structural reforms and strategic promotional activities. The businesses now have good prospects for sustained profitable growth after losses incurred. NPI, notably, achieved a significant market share gain and a positive operating profit in the decorative paints market in the focused two southern states in India. Its strong brand recognition offers a significant growth potential in the future
- ▶ We obtained an independent third-party evaluation report and reached an agreement with Wuthelam Group at prices conducive to MSV. The transaction, scheduled for completion in the 1H of 2024, are expected to be EPS accretive from Year 1

2. Overview of the Transaction

Overview of companies to be acquired

- ▶ NPI (Nippon Paint (India) Private Limited)
 - Strong presence with No.2 position in decorative paints in two states (Tamil Nadu and Karnataka) in southern India
 - FY2022 Revenue: INR 21.29 bn (JPY 37.04 bn), EBITDA: INR 0.13 bn (JPY 0.23 bn)
- ▶ BNPA (Berger Nippon Paint Automotive Coatings Private Limited)
 - An India-based automotive coatings business joint venture with Berger (Wuthelam Group 51%; Berger 49%)
 - FY2022 Revenue: INR 2.58 bn (JPY 4.5 bn), EBITDA: INR 0.16 bn (JPY 0.27 bn)

Acquisition price and schedule

- ▶ Acquisition price
 - NPI : INR 6.97 bn (JPY 12.18 bn) *Transfer price in August 2021: INR 6.11 bn (JPY 9.0 bn)
 - BNPA: INR 1.31 bn (JPY 2.29 bn) *Transfer price in August 2021: INR 1.25 bn (JPY 1.83 bn)
- ▶ Closing

Scheduled for 1H FY2024 (subject to the approval of the Indian authorities)

Financial impact

- ▶ EPS accretive from the first year
- ▶ Fully financed through existing cash and new debt facilities

Reviewing process

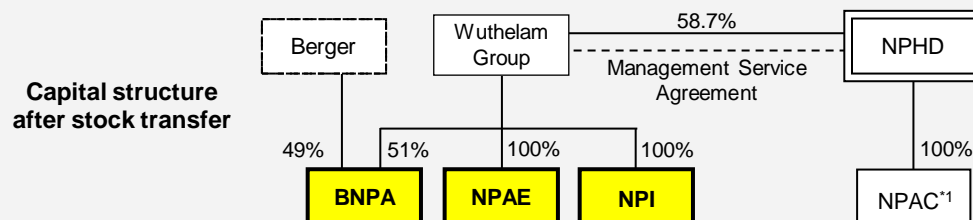
- ▶ Established a special committee consisting of three Independent Directors and reviewed the transaction from the perspective of protection of minority shareholders' interests and MSV
- ▶ Chairman Goh did not participate in the deliberation and resolution at the Board meeting

3. Background and Relevance of the Transaction

Transfer to Wuthelam Group

(announced on August 10, 2021)

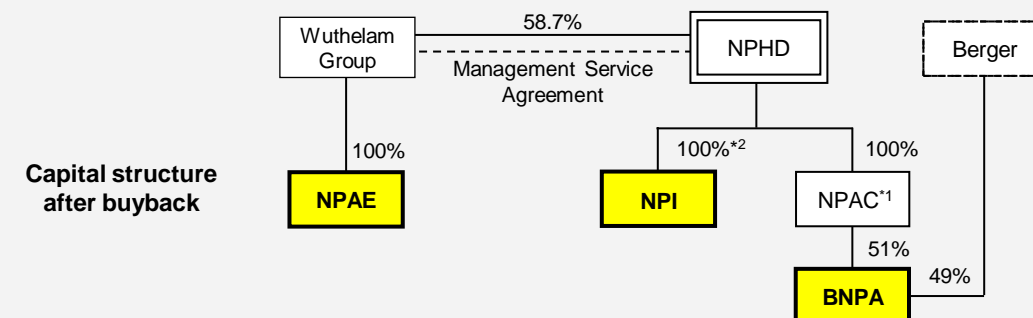
- ▶ **Summary**
Transfer of NPI, BNPA, NPAE to Wuthelam Group
- ▶ **Background and relevance**
 - Although Europe and India remained important markets from a strategic perspective, business environment had changed dramatically due to factors including the pandemic and raw material inflation
 - Given the challenging business environment, drastic measures and significant additional investments were considered necessary for medium- and long-term corporate value enhancement
 - Risk mitigation enabled by having Wuthelam Group bear additional investments and costs for restructuring in the short term
 - Agreement included call options for NPHD to buy back the transferred businesses
 - NPHD was to continue to support management, second management teams, and monitor business operations



Buyback from Wuthelam Group

(announced today)

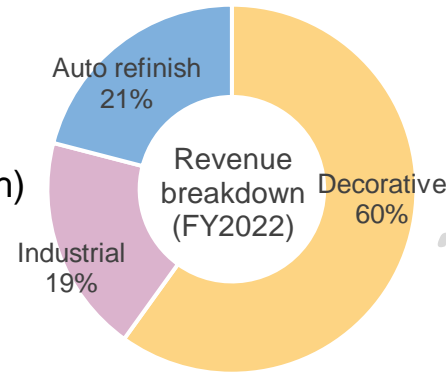
- ▶ **Summary**
Buyback of NPI and BNPA from Wuthelam Group (NPAE is excluded from this transaction)
- ▶ **Background and relevance**
 - NPI and BNPA have achieved revenue growth and profitability improvements faster than anticipated when they were transferred
 - These companies have potential for sustainable earnings growth and profitability improvement without significant investments in the future
 - We have concluded that exercising the call options at this time would be the optimal decision from the perspective of MSV



4. Overview of Companies to be Acquired

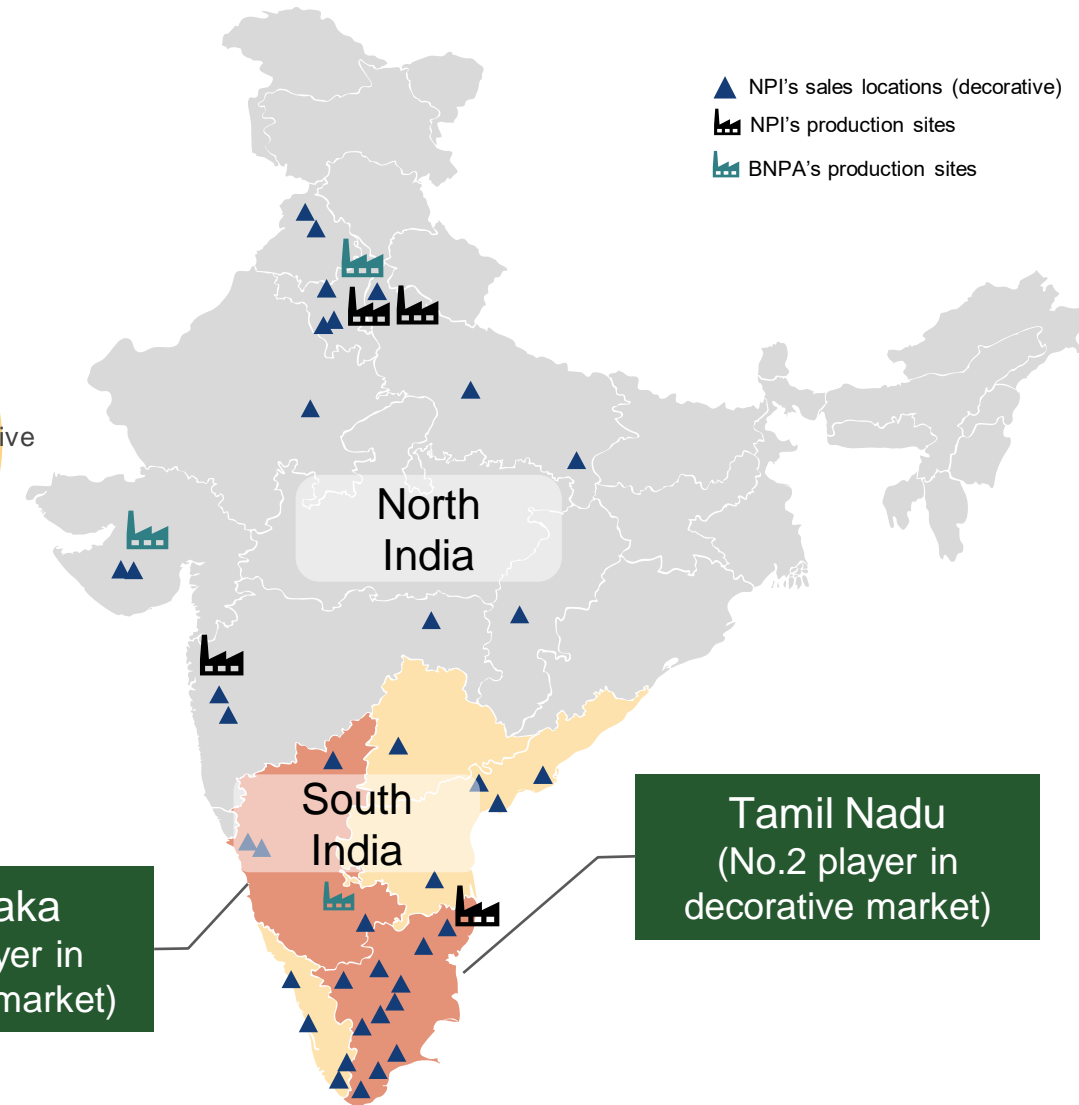
NPI

- ▶ A company operating the decorative, industrial, and auto refinish businesses
- ▶ Strong presence in decorative paints with No.2 position in two states (Tamil Nadu•Karnataka) in South India
- ▶ Strong brand awareness in these two states
 - 99% in Tamil Nadu & 85% in Karnataka
- ▶ Sales locations
 - 9,000 stores (decorative), 10,500 stores (auto refinish)
- ▶ Production sites: 4 factories
 - 1 each for decorative, industrial, and 2 for auto refinish



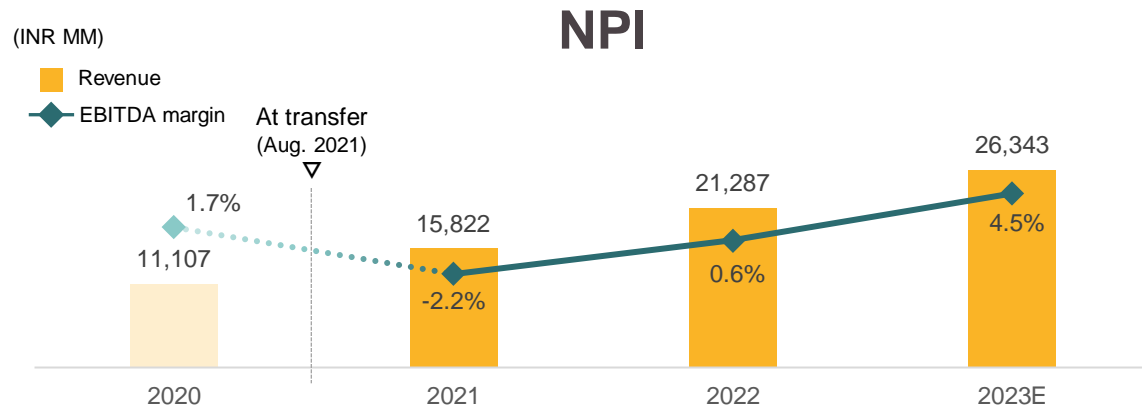
BNPA

- ▶ A company operating in the 4W & 3W automotive coatings industries
- ▶ No.4 position in the Indian automotive coatings market
- ▶ Key supplier to Japanese and other OEMs
- ▶ Top supplier to most Tier1 & Tier2 parts manufacturers
- ▶ Production sites: 3 plants
 - 2 main plants with full capabilities and 1 plant with color matching capability



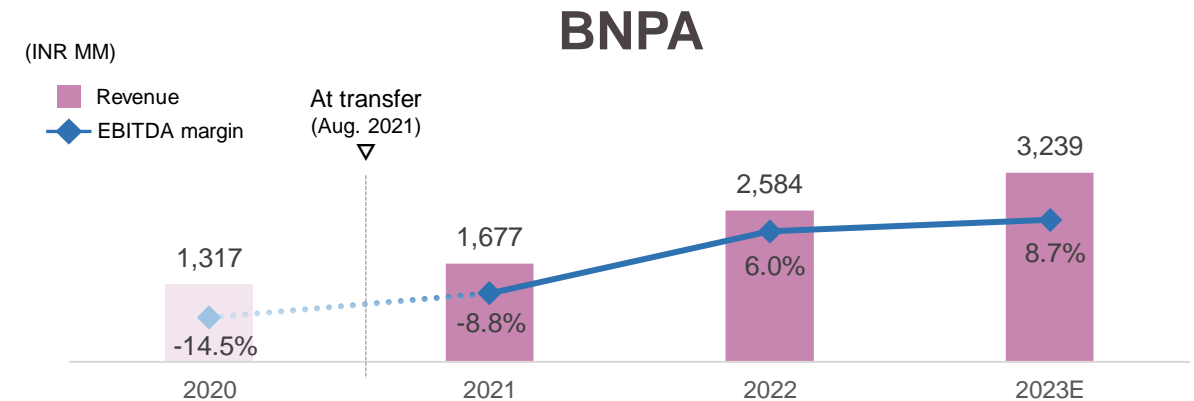
5. Performance of Companies to be Acquired

Achieved sales growth and profitability improvements faster than anticipated at the time of transfer



Major growth factors

- ▶ Decorative
 - Market share gains of Tamil Nadu and Karnataka due to strategic investments in sales promotion activities
 - Higher share of sales at distributors due to sales incentive programs
- ▶ Industrial
 - Higher sales due to several new business wins (both Domestic & Export)
- ▶ Auto refinish
 - Higher sales due to new OEM approvals, customer loyalty programs, channel expansion and business expansion to UAE market and M&A entry into the agencies business
- ▶ Entry into the agencies business
- ▶ Secured profitability through multiple price increases to respond to raw material inflation



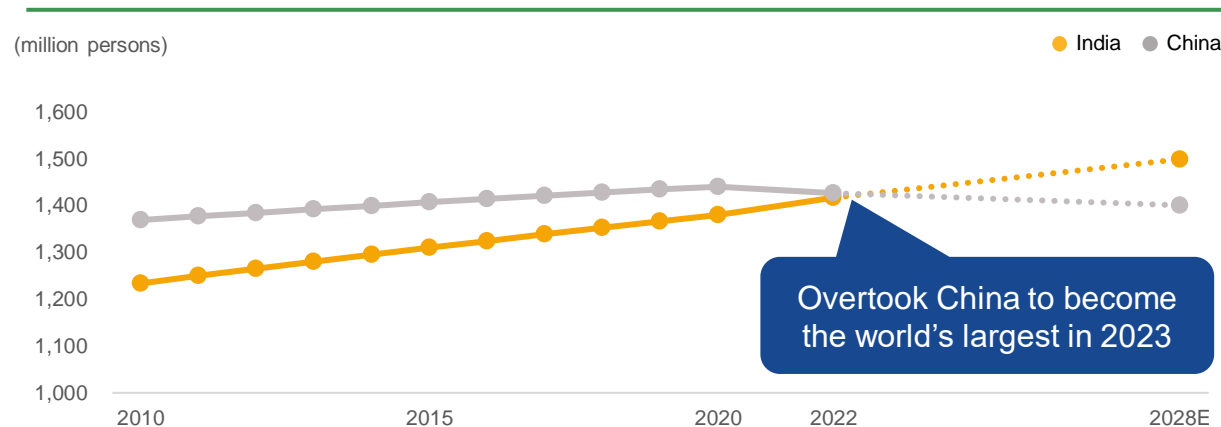
Major growth factors

- ▶ Sales growth and profitability improvements due to price increases
- ▶ Profitability improvements due to lower costs of procurement and manufacturing
- ▶ Reviewed the efficiency of all business processes
- ▶ Implemented organizational restructuring to accommodate business needs
- ▶ Local management teams adopted NIPSEA-style management
- ▶ Unified operations with NPI including system integration

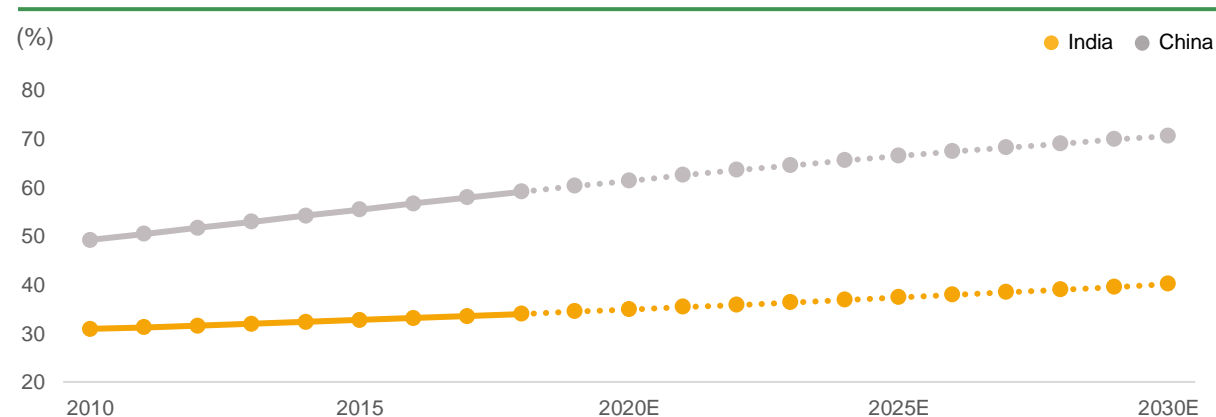
6. India Market: Macroeconomic Data

Became the world's largest population country in 2023 with prospects for urbanization, growth of per-capita GDP and disposable income

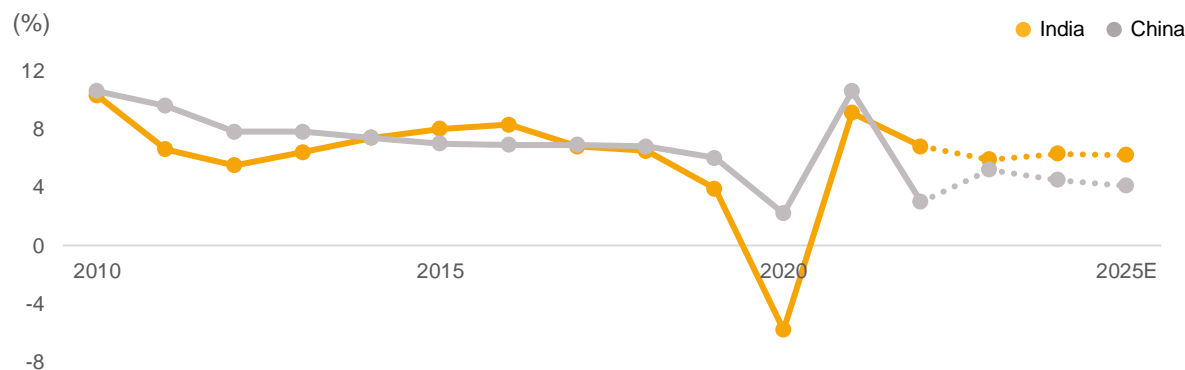
Population*1



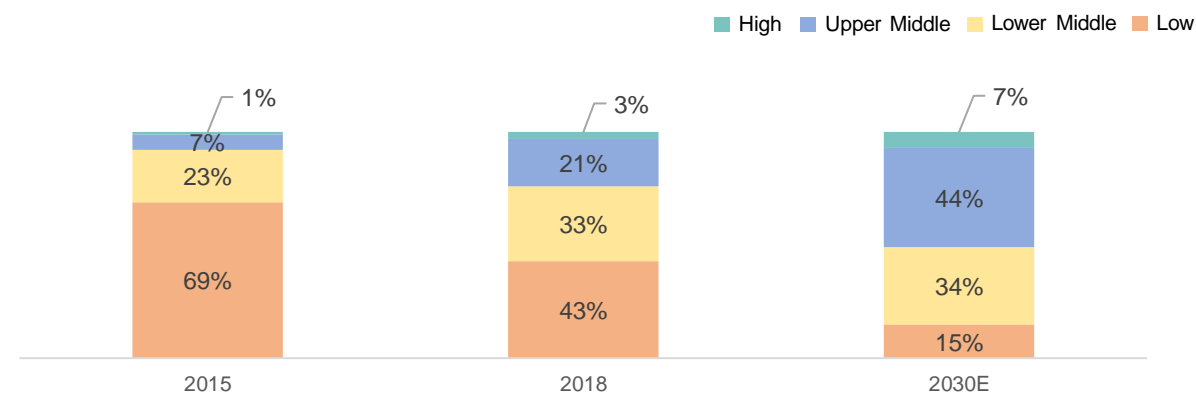
Urbanization rates*2



GDP growth rates*3



Income bracket breakdown*4

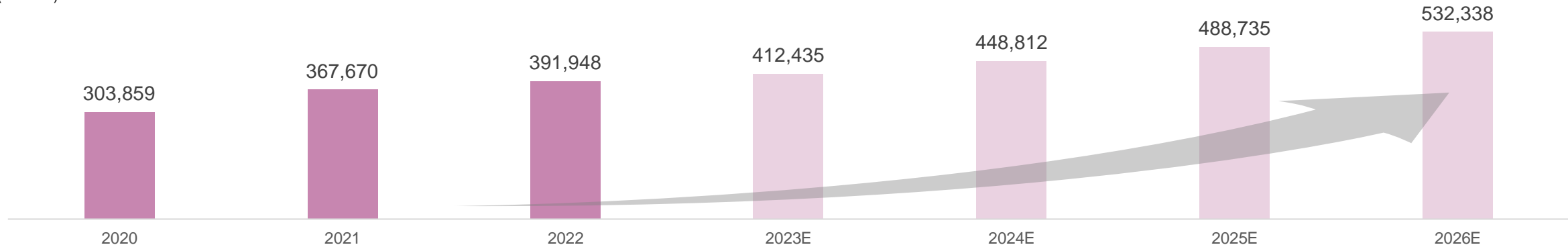


7. Paint Market in India (1) : The Entire India

The Indian paint market has achieved double-digit growth annually for the past 20 years with potential for strong growth at CAGR of c. +10%

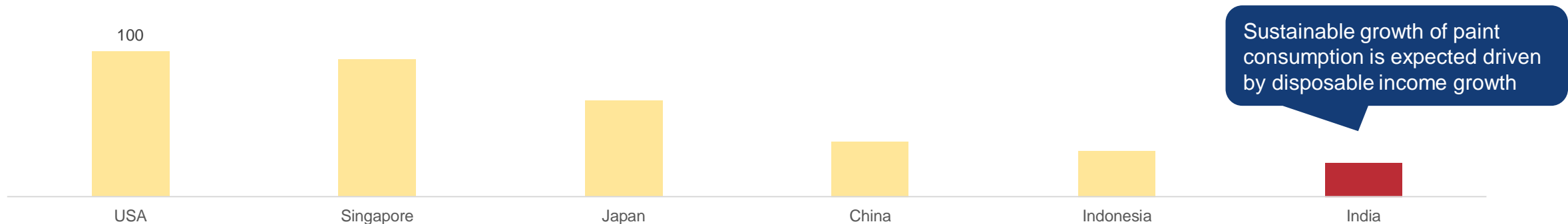
Decorative paint market value*1

(INR MM)



Per-capita paint consumption (2019)*2

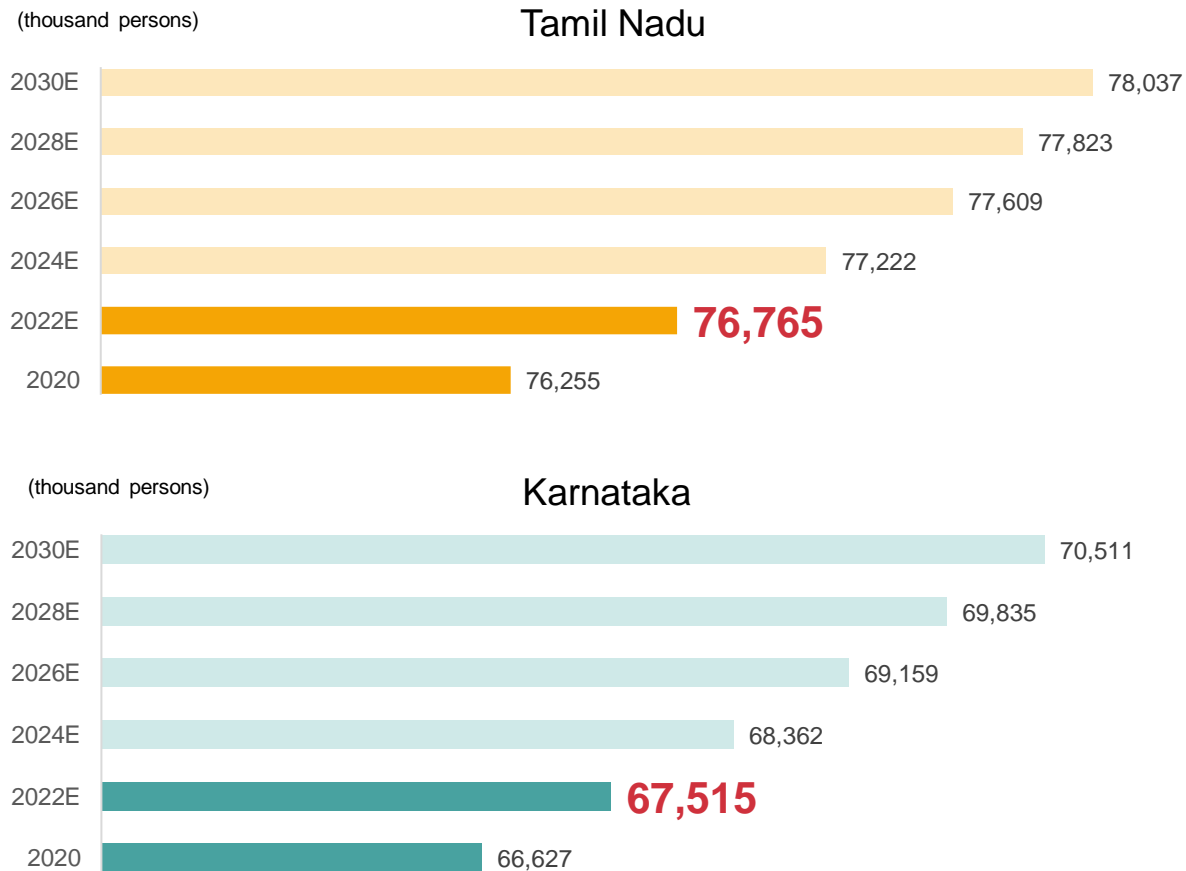
Figures are indexed with USA as 100



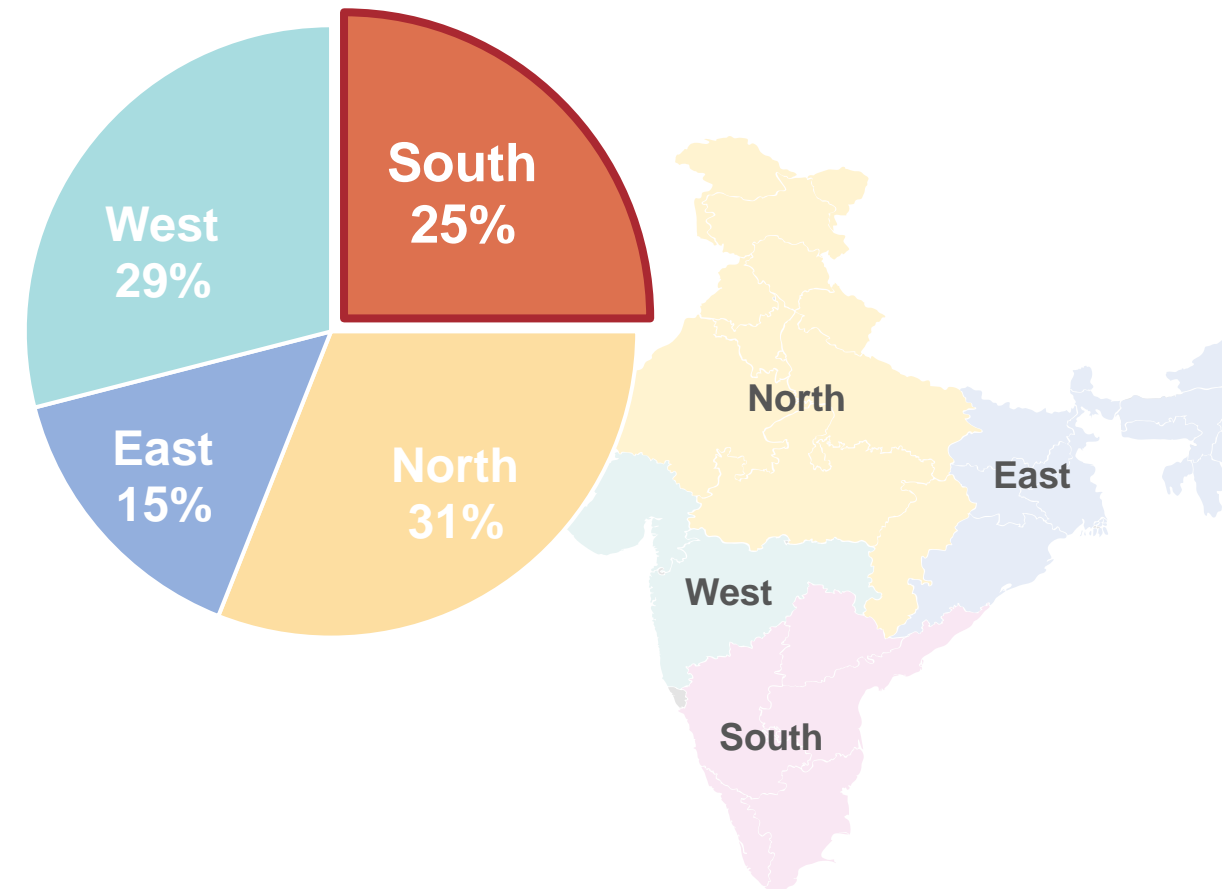
7. Paint Market in India (2) : The Southern Areas

The market is immense with c. 140 million people in two southern Indian states alone, offering huge growth potential

Population growth in two southern India states^{*1}



Market structure of decorative paints market (by region)^{*2}



7. Paint Market in India (3) : The Entire India by Business

Decorative paint market

- ▶ The paint segment grows at 1.5 – 1.8 times the GDP growth which provides enough scope for growth
- ▶ The repainting cycle is shortening over the past 10 years following the growth of disposable income and young population, and is expected to continue to shorten
- ▶ The Indian paint industry has been witnessing a gradual shift in the preferences of people towards water-based emulsions with added features and technology

Automotive coatings market

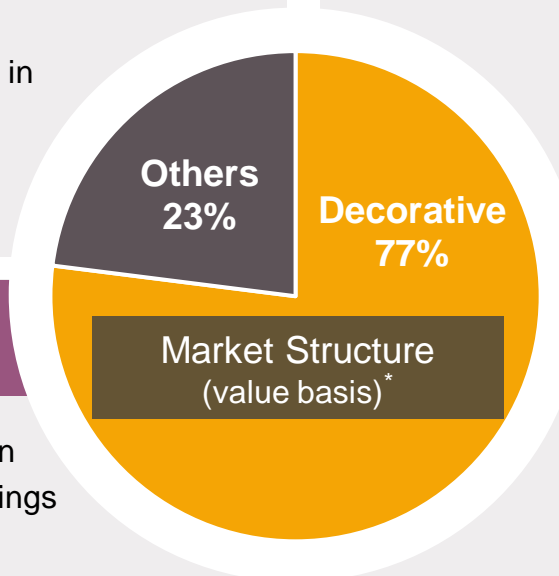
- ▶ The automobile sector is one of the most important foundations of the Indian economy, accounting for more than 7% of the country's GDP.
- ▶ India overtook Japan to become the third largest by sales volume in 2022 with potential for further growth driven by population growth and other factors
 - ▶ With a population of almost 1.4 billion and growing, India is expected to have 300 million additional cars on the road by 2040
 - ▶ EV Investments are underway offering India the potential to become the world's largest EV Hub by 2030

Industrial coatings market

- ▶ With the push for infrastructure development and urbanization progress, demand growth is expected to continue in coil coatings and 2W automotive business
- ▶ Huge market potential in 2W automotive and 2W EV as India is the largest manufacturer of 2W automotives in the world
- ▶ Government of India is backing infra projects in India which provides for huge potential in protective coatings segment

Auto Refinish paint market

- ▶ Automotive market expansion into smaller cities & towns resulting in growth in demand for AR products
- ▶ Shortening of lead times for painting resulting in need for fast curing higher productivity coatings; Push for waterborne products by OEMs in their respective OEM aftermarket
- ▶ Growth of railway business and commercial vehicle business due to infrastructure development surge
- ▶ Entry of large number of local and multinational companies in AR market resulting in growing competition



8. Medium- and Long-term Strategy for India Businesses

Further strengthen our presence in the fast-growing Indian market, mainly in the decorative business



**Revenue Growth
Expectations**

**CAGR
c. 15%+**

Decorative

- ▶ Achieve No.1 market share in two southern Indian states (Tamil Nadu and Karnataka)
 - Strong focus on brand building activities and expand the channel networks to penetrate all tier towns in the current focused states
 - Increase shop share in the existing customers
 - Strengthen operational capabilities through enhanced production capacity, improved supply chain management & create environment for ease of doing business
 - After reaching dominant position in the current focused states, plan to expand to adjacent states in southern India
- ▶ Expand agencies' market share in each area including the two southern states of India
- ▶ Strengthen competitive advantage through broad product lineup in combination with SAFs

Industrial

- ▶ In the CCL business, focus on growth of export business from India. Focusing on the East African region, strengthen business in the African market. Plans to expand to Turkey, Europe, etc. in cooperation with Betek Boya
- ▶ In the Auto Parts business, focus on the fast-growing field of electric motorcycles

Auto Refinish

- ▶ Expanding manufacturing footprint and capacity in India and Middle East with holistic and new design supply chain. Focus on digitalization and robotics
- ▶ Expansion of industrial business opportunities in wood, light industrial, commercial vehicles and trains
- ▶ Focus on M&A and exports (expanding into Africa, Europe & Central Asia)

Automotive

- ▶ Aiming to become No.3 player by 2023 end
- ▶ Expand existing businesses in OEM business and focus on the EV market

9. Establishment of Special Committee

Special Committee was set up for detailed review to ensure the protection of minority shareholders' interests

Reviewing Process

- ▶ The transaction constitutes a transaction with the Wuthelam Group, our major shareholder, and falls under a transaction with a controlling shareholder
- ▶ To ensure the protection of minority shareholders' interests, the transaction was reviewed by our highly independent and objective board as well as special committee comprising three independent directors with expertise, which reported that the acquisition would not be disadvantageous to minority shareholders
- ▶ From the perspective of protecting minority shareholders' interests and MSV, the Wuthelam Group also agreed to our exercising the right to buy back (call option) at this time
- ▶ After four Special Committee meetings, our Board of Directors unanimously resolved and approved the transaction on August 29, 2023

Transaction Value

- ▶ The transfer price (August 2021) and acquisition price of the target companies are as follows

Transaction Value*

	Transfer price		Acquisition price	
	(INR bn)	(JPY bn)	(INR bn)	(JPY bn)
NPI	6.11	9.0	6.97	12.18
BNPA	1.25	1.83	1.31	2.29
Total	7.36	10.83	8.28	14.47

*The exchange rates applied for the transfer price and the acquisition price are those at the time of each transaction agreement.

(Reference) FX rate at the time of
Transfer 1INR=1.5JPY / Acquisition 1INR=1.74JPY

- ▶ Chairman Goh of NPHD, who concurrently serves as the representative of the Wuthelam Group, did not participate in the deliberations and resolutions of the NPHD board of directors' meetings regarding this transaction
- ▶ Chairman Goh did not participate in any discussions or negotiations regarding the transactions on behalf of NPHD, and NPHD and Wuthelam Group agreed on the timing and price of the transaction under the reviewing structure that ensures the protection of minority shareholders' interests

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