Medium-Term Strategy Briefing Q&A Summary

April 4, 2024

◆ Questions from Takashi Enomoto, BofA Securities Co., Ltd.

Q1	The Medium-Term Strategy unveiled today adopts a format that deviates from the conventional Medium-Term Plan. Could you confirm if the medium-term growth forecast by asset, which appears on page 19 of the presentation, is intended as a projection for the three-year period up to 2026? Additionally, on page 10 of the presentation, there are consolidated CAGR targets indicating a revenue forecast of approximately +8-9% and an EPS forecast of about +10-12%. Are these figures also meant to represent projections for the three-year period leading up to 2026?
A1	Although the guidance is established for a three-year milestone up to 2026, we expect to be able to meet similar targets even if the timeframe is slightly longer timeframe. We have consistently developed a medium-term plan for each asset level. We anticipate that our current portfolio companies will successfully meet the medium-term growth projections detailed on page 19. We can derive the consolidated numerical targets for 2026 by summing the medium-term management plans for each asset. However, please note that we have intentionally chosen not to disclose these figures in this Medium-Term Strategy.

Q2	Am I correct in interpreting that the revenue growth forecast of approximately +8-9% on page 10 of the presentation corresponds with the revenue growth projections for each asset detailed on page 19? Additionally, it appears that the EPS forecast of about +10-12% accounts for the reinvestment of a portion of margins into growth-oriented initiatives, such as advertising and incentives. Based on this strategy, is it reasonable to assume that there will not be a significant increase in the operating profit margin?
A2	The consolidated CAGR targets presented on page 10 of the presentation reflect some effects of operating leverage. However, as outlined on page 14, we do not anticipate a dramatic improvement in the short term. Currently, our focus is on growth through the strategic reallocation of margins towards reinvestments aimed at gaining market share and establishing dominance.

Q3	You anticipate growth in market share across all regions. Could you elaborate on the degree of certainty associated with the expansion of market share in each region?
A3	We believe that achieving our long-term goals requires consistently targeting growth that outpaces the market, essentially focusing on expanding our market share. Accordingly, we have set our internal targets higher than those disclosed. The nature of our businesses is such that a higher market share facilitates further expansion. Given that many of our assets already hold a strong position in their respective regions, we anticipate sustained growth in market share moving forward.

	On the other hand, in regions like India, we have focused our efforts on two southern states in an attempt to surpass a formidable market leader. However, with competition intensifying, we recognize that the path ahead will be challenging. In the U.S., Dunn-Edwards has successfully achieved consistent growth and profitability in a specific region. Outperforming national market leaders is not our objective. While our strategies for expanding market share vary across different regions, we are confident that utilizing the diverse brands within our Group will empower our assets to maintain growth.

◆ Questions from Yasuhiro Nakada, JPMorgan Securities Japan Co., Ltd.

Q1	You are committed to Maximization of Shareholder Value (MSV) through enhancing earnings per share (EPS) and price-earnings ratio (PER). However, your strategy appears ambiguous as it focuses on future EPS growth without plans for share repurchases. Reviewing the movements of your stock price over the past three years, I identify three distinct phases. The first phase began with a sharp increase following the August 2020 announcement of the "Acquisition of Asian JV Stake and Indonesia Business." The second phase saw a sustained downward adjustment through January 2022, correcting an earlier excessive rise. The third phase, post-January 2022, showed a trajectory consistent with historical trends until the summer of 2023. Since then, despite an overall rise in the broader market, your stock price has trended downwards. This trend appears to be diverting your efforts from achieving your goal of MSV. I would like to understand your company's perspective on its stock price performance over the past three years. Do you attribute this primarily to misunderstandings in the capital markets, or do you believe there are other contributing factors? Additionally, given your expectations for future EPS growth, are there scenarios in which you might pivot your strategy towards share buybacks, instead of focusing solely on EPS expansion, to better achieve your overarching goal of MSV?
A1	MSV, or Maximization of Shareholder Value, is a function of both EPS and PER. To achieve MSV, both factors must be maximized. Our emphasis on expanding EPS arises from the recognition that focusing solely on "corporate value enhancement" might justify suboptimal investment decisions. Merely increasing the size of the company could potentially improve corporate value while undermining shareholder value. Therefore, we consider new share issuances beneficial only when they contribute to an increase in EPS, which in turn supports MSV. Moreover, PER reflects the capital markets' expectations of this EPS growth. Our strategy to achieve MSV involves enhancing both EPS and PER effectively. If our sole focus were on EPS expansion, a viable strategy might involve share buybacks to decrease the total number of shares, thereby increasing the EPS. However, given our dissatisfaction with the current stock price level, while our capital is unlimited, the appeal of issuing new shares at this price is diminished. So, instead of pursuing equity financing, we are opting to maintain a robust cash

	reserve and utilize debt financing. While share buybacks might offer a short-term boost in EPS, we see greater, more sustainable opportunities for EPS growth through asset acquisitions. Therefore, our strategy to maximize EPS centers on growth-focused investments, such as mergers and acquisitions (M&A). Continual share buybacks, funded by our generated cash flows, could potentially enhance our PER. However, we recognize a link between growth potential and PER. Our objective is to demonstrate to the capital markets our capability to consistently increase EPS through strategic asset accumulation as part of our steadfast pursuit of growth. We expect this strategy to ultimately result in a higher PER. Although we cannot control the PER, we acknowledge that various factors influence our current stock price level. Feedback from the capital markets has raised concerns about our operations in China, which account for approximately 35% of our total business portfolio. We have consistently communicated the strong growth potential and cash-generating capabilities of our business in China. However, the challenging economic conditions there may be causing some hesitancy among investors, given the significant share of our operations in that market. Additionally, while China's growth potential was highly valued in 2020-2021, its recent economic issues seem to be adversely affecting investor sentiment. We have established a consolidated medium-term CAGR target of approximately +8-9% for revenue growth and +10-12% for EPS growth. Our analysis indicates that the analysts covering our company might be slightly undervaluing our growth potential. We anticipate a long-term increase in per-capita GDP for countries with substantial populations, including China. This economic growth, combined with the robust demand in the paint market, underscores significant growth opportunities. Considering the strong prospects for an economic recovery, we expect our long-term growth potential to bolster investor confidence, potentially enhancing our PER. Consequently, our goal is to continuously strengthen trust in our management. While we can predict EPS growth with considerable certainty, PER reflects the collective outlook of the capital markets. Therefore, we are committed to improving our communication with market participants.

Q2	While share buybacks for short-term EPS growth aren't central to your strategy, if the capital markets fail to recognize the value of your Asset Assembler model, could occasionally demonstrating flexibility help shift market perceptions?
A2	Although mergers and acquisitions are our primary focus for capital allocation, we remain flexible and attentive to the capital markets. In exceptional circumstances, we might contemplate a share buyback, particularly if the PER approaches ten times. Essentially, we aim to select the most effective use of funds to maximize the EPS, depending on the situation.

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

Q1	On page 16 of the presentation, you highlighted concerns like the market's risk perception regarding China and the underestimation of your growth potential, which must be addressed to enhance the PER. Could you detail specific initiatives and future strategies you plan to implement to improve market evaluations and maximize PER?
A1	While our Asset Assembler model is not ostentatious, we represent a group of stable companies. I believe we are uniquely committed among public companies to maximizing EPS and PER in the medium term, and by extension, MSV. Our challenge has been in fully conveying our appeal, which leads to our key strategies: broadening our investor base, enhancing the liquidity of our stock in the market, and continuously strengthening our track record in mergers and acquisitions. We exclusively pursue mergers and acquisitions that offer low risk and attractive returns, after meticulous evaluation. Our approach is highly risk-averse, ensuring that our acquisitions are extremely low risk. There may be a disconnect between how the market perceives us and our conservative management policy, which contrasts with the bold image often associated with M&A activities. Therefore, our goal is to consistently enhance our track record in mergers and acquisitions to establish a market reputation as a company that reliably increases EPS through M&A activities. Additionally, we aim to showcase that we can achieve organic EPS growth of +10-12% and have the capacity to further compound EPS through strategic mergers and acquisitions. Although we cannot pinpoint the exact reason our stock price has not kept pace with our consistent EPS growth, we believe it may be due to insufficient communication of our management strategies. This is the purpose of today's investor briefing. We highly value your insights and feedback as investors and are eager to hear your perspectives.

Q2	In other words, are you planning to use your track record to convince the capital markets?
A2	We are confident that if our EPS continue to grow consistently, our stock price will follow. While we can't forecast the specific heights our PER might reach, we believe that our stock price will remain stable as long as EPS growth is maintained. We take pride in our ability to deliver resilient results, even in the extremely challenging conditions of the past three years. We believe that the capital markets underestimate our collective strengths, including our Co-President structure, majority shareholder, Board of Directors, and our exceptional partner companies. Today, I have endeavored to clearly and comprehensively articulate our strengths, aiming to enlighten not only those familiar with our Group but also potential investors who are interested in learning about us.

Q3	On page 19 of the presentation, the trajectory of your operating profit margin in 2026 serves as a benchmark for medium-term growth projections. Could you extend this analysis to offer a precise target for the consolidated operating profit margin in 2026?

A3	As our business portfolio evolves, we anticipate significant changes by 2026 compared to the present landscape. Hence, establishing a precise target for that year might not align well with the flexibility of our Asset Assembler model. Optimal margins conducive to revenue growth vary across regions, and amalgamating them into a singular figure oversimplifies the complexity of our operations. We pride ourselves on the diversity and adaptability of our strategies, and imposing uniform targets could impede the organic growth potential inherent in each region.

◆ Questions from Atushi Ikeda, Goldman Sachs Securities Co., Ltd.

Q1	In the paint industry, we've observed a decline in large-scale M&A activity compared to previous years. Nevertheless, I commend your company's skill in orchestrating strategic acquisitions of exceptional assets like DuluxGroup, Cromology, JUB, and Alina, all acquired at favorable valuations. While I recognize that each acquisition is unique, I'm interested in understanding the key factors contributing to your success in M&A execution. Furthermore, am I correct in assuming that your focus for inorganic growth remains primarily within the decorative paints sector? It seems that to make a substantial impact on your performance and stock price, larger-scale acquisitions may be necessary compared to previous endeavors. I'd appreciate hearing your insights on this matter.
A1	Take the acquisition of DuluxGroup, for example. At the time of our decision to acquire them, DuluxGroup was a publicly traded company. Our primary focus wasn't to engage in a bidding war with competitors but rather to assess if our offer could provide greater value than what DuluxGroup could achieve independently. Ultimately, the decision rested with DuluxGroup's management team. While there was potential for competing bids to emerge, fortunately, none did. This serves as an example of our very smooth acquisitions. On the other hand, the acquisitions of Betek Boya in Türkiye and Alina in Kazakhstan involved private companies. In these instances, we did face competition. However, we found that our approach of avoiding standardization resonated with individual or family owners. For instance, we extended financial assistance to Betek Boya, enabling them to entirely repay their high-interest borrowings, some exceeding 20% annually. Additionally, we offer the option to license the Nippon Paint brand to companies joining our Group upon their request. This approach allows us to provide tailored and flexible support that caters to the specific needs of each acquired company, fostering their continued growth while preserving their unique legacies. We believe these factors not only contribute to the successful execution of our acquisitions but also facilitate smooth post-merger integration processes at the companies we acquire. Moreover, our status as a Japanese company affords us specific advantages in M&A transactions. In addition to the previously mentioned advantage of low interest rates, our track record demonstrates that our Japanese heritage plays a crucial role in building trust and confidence in our commitments. Moving forward, our primary focus lies in striking a balance between risk and

	return rather than imposing limitations on our acquisition targets based on geographical location, size, or industry sector. While we maintain interest in decorative paints, we're also actively seeking compelling opportunities in other sectors such as industrial coatings and adjacencies areas, provided their valuations are attractive. We can confidently assert that our acquisition targets are essentially boundless, contingent upon thorough assessments to determine if these companies can effectively leverage our Asset Assembler platform, including evaluating the capabilities of their management teams. While the decorative paints sector presents relatively lower risk and strong cash generation, we won't confine ourselves solely to this arena but will instead remain open to exploring M&A prospects across diverse sectors.

Q2	In your presentation, you indicated a low necessity for acquiring companies in the decorative paints sector in the U.S. However, a significant U.S. paint manufacturer has recently announced a restructuring of its decorative paints business, which, from an external viewpoint, could be seen as a rare opportunity. Recognizing that valuation would be a crucial factor, I'm curious to know if this is an opportunity you might consider exploring, weighing it against various considerations. Would you be able to provide insights into this matter to the extent possible?
A2	I would like to refrain from commenting on individual cases. In the U.S. market, our presence currently amounts to a 2.5% share. However, this market landscape is defined by a handful of dominant players alongside numerous smaller local paint manufacturers, predominantly private entities. The paint industry in this market operates on a localized production model catering to local demand, characterized by relatively modest capital expenditure needs, fostering sustainable business operations. Conversely, a paint manufacturer in Northern California recently suspended operations due to asbestos litigation. Dunn-Edwards, which operates in a nearby market, is poised to expand by acquiring stores, talent, and market share. This strategy allows Dunn-Edwards to grow organically within the US market, where significant opportunities exist. Therefore, it's clear that Dunn-Edwards has not faced ongoing drops in profitability or market share. On the contrary, they have successfully maintained revenue and profit growth in their West Coast-centered market. In this context, there is no pressing need to engage in merger and acquisition activities in the U.S., an approach that is consistent with our strategy to pursue MSV.

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

Q1	The declining PER appears to signal the capital markets' significant apprehensions regarding risks associated with China. Given that your company operates in China, and particularly within the real estate sector, this could amplify these concerns. This perspective was supported by various conversations I had with U.S. investors last month. Under these conditions, has your Board of Directors thought about reassessing

	and possibly reorganizing the portfolio to mitigate exposure to assets subject to political and economic instabilities, such as by divesting from your operations in China?
A1	No discussions of this nature have taken place. Although we recognize the concerns from the capital markets, our business portfolio naturally includes some uncertainties. Notably, our operations in China contribute substantially to our EPS. As we have mentioned before, we are not under any pressure to increase our investments in China. This division is self-sustaining, able to independently produce cash flows and yield satisfactory dividends, as well as reinvest in its operations. Consequently, there is no pressing need for us to contemplate divestment. While divestment might enhance our PER in the short term, our strategic goal is to promote growth in China and other regions, while pursuing mergers and acquisitions. We are unlikely to engage in mergers and acquisitions in China. As we expand our business through M&A in other regions, the relative share of our operations in China may decrease. Nevertheless, there is no strong incentive to deliberately scale down our presence in China. Although reducing our operations there might temporarily improve our PER, our primary focus is on long-term MSV and maximizing EPS. Therefore, we are not contemplating a reduction in our China operations.

Q2	For example, you previously transferred your India operations to Wuthelam Group and later repurchased them. Is a similar approach under consideration now? I view your partnership with Wuthelam Group as a strength of Nippon Paint Group. Could you share your insights on this strategy?
A2	Wuthelam Group is not used for off-balance sheet transactions. Should we transfer our China operations to Wuthelam Group, the cost to repurchase them would likely be higher than the initial sale price, resulting in a financial loss for us. In contrast, our India operations which were running at a loss; this sale increased our EPS and provided necessary funds, making it a financially sound decision. However, our China operations are currently profitable and generate substantial cash flow. Selling them now would likely mean a lower valuation, and repurchasing them after the Chinese market recovers would be at a higher valuation. Given these considerations, I do not view this as a viable course of action.

◆ A question from Participant A

Q1	You noted that reinvestment is essential until dominance is achieved, but could you specify your current market position in each region?

A1	The appendix of the presentation details the market share transition by asset. For example, NIPSEA China holds a 25% market share in the TUC segment, positioning it as the market leader based on our estimation. We assess that competitors ranked second and third hold market shares in the high single digits. Therefore, we haven't attained dominance in this market yet. DuluxGroup has secured a commanding position in the market, capturing a 50% share based on sales volume. As the company primarily deals in premium products, it is likely that their market share in terms of value is even higher. We anticipate DuluxGroup's revenue to grow by 5% through a combination of 2-3% volume growth in a largely stabilized market and a 2-3% rise in sales from price increases, with inflation expected to be around 2%. Despite a potential 2-3% rise in fixed costs, we expect DuluxGroup's revenue could increase by +6-7% due to the benefits of operating leverage. Dunn-Edwards may not be the market leader, but we are committed to pursuing growth through strategic investments. In Indonesia, we hold a 19% market share, positioning us as a close contender for the top spot alongside a formidable local competitor. Given the highly competitive nature of our rival, we identify a substantial opportunity for growth by aiming to capture a significant portion of the remaining 60% market share. Given this context, it may not be feasible to anticipate substantial margin improvements from the operating leverage effect over the next three years. Nonetheless, as outlined earlier, we are aiming for a consolidated compound annual growth rate (CAGR) of +8-9% in revenue and +10-12% in earnings per share (EPS), which suggests that the operating leverage is functioning effectively. Despite these positive indicators, we believe that now is not the opportune moment to further amplify the leverage effect.

◆ Questions from Shunta Omura, UBS Securities Co., Ltd.

Q1	My question is about your M&A strategy. You mentioned there were instances where you considered but ultimately did not pursue acquisitions. What were the reasons they didn't meet your criteria? Additionally, could you share insights into the countries or regions and the scale where you plan to conduct M&A in the future? Have you considered the companies recently acquired by your competitors as potential targets?
A1	I would like to refrain from commenting on individual cases. Various types of mergers and acquisitions exist. For example, the strategy varies depending on whether it's a bolt-on acquisition, meant to enhance existing businesses, or an acquisition aimed at establishing a new presence. In the context of bolt-on acquisitions, a pivotal consideration is whether our partner company in that region is interested in the target company. Kazakhstan represented a new region for us, but the acquisition of Alina aligns with the bolt-on acquisition model. Following the inclusion of Betek Boya in Türkiye into our Group, they expressed an interest in pursuing opportunities in Kazakhstan. Over a span of four years, they established a sales company and deepened their understanding of the local market. Throughout this timeframe, we realized that while Kazakhstan presents promising opportunities in the paint and dry-mortar sectors, the market's emphasis

	on local production for local consumption posed logistical challenges for exporting from Türkiye. The dilemma boiled down to whether to establish local production or await an opportunity to acquire a local company. We conducted a comprehensive assessment, considering various factors such as the competitive landscape, valuation, business stability, and the quality of the management team. Crucially, the proactive approach and determination of both the Turkish and NIPSEA teams were pivotal. They were dedicated to achieving positive outcomes, even if it required incorporating the success of this acquisition into their incentives. Conversely, in regions where we lack nearby operations, we perceive a heightened risk when contemplating the acquisition of a relatively small or mediocre-sized company. This risk is particularly pronounced when management heavily depends on one or two individuals, and there's no overarching corporate structure. The further the target region is, the stronger our apprehension towards the deal. If this concern is mitigated, we also evaluate whether the target company has a robust management team, including potential leaders from the next generation. Given these criteria, we've identified several companies that don't align with our standards. These include instances where we've proposed a final price but opted not to proceed, as well as cases where we determined early on that it would be challenging to pursue further. Our commitment lies in acquiring quality assets at fair prices, which often leads to instances where a potential target fails to meet our criteria or is priced too high based on our assessment. Conversely, there are potential targets under consideration that exhibit promising potential, and we're currently deliberating on the best approach to finalize these prospective deals.

Q2	How do the size and number of acquisition deals you're presently contemplating differ from previous periods? Furthermore, could you offer some insights into the scale of these prospective deals?
A2	There's been little change from the previous status quo. We remain consistently occupied with scrutinizing potential deals.

◆ Questions from Ryokichi Kondo, CoatingMedia Co., Ltd.

Q1	I would like to inquire about the Japan segment. Earlier, you mentioned the appointment of a CCO to centralize sales activities across the segment and the efforts to unify resin development and production. Do you believe that reorganizing the Japan segment and consolidating it into a single entity would enhance effectiveness? Additionally, if there is an ideal organizational structure you envision for the medium to long term as part of your management integration strategy, could you please provide more details?
A1	Some voices within our company suggest that reconsolidating into a single entity might be beneficial. However, both Co-President Wee and I believe that such a step is premature at this moment, and we have not decided whether to pursue this path in the future. The paint business remains fundamentally profitable, and the strategy of “bunshaka”—splitting the company according to business lines—has proven advantageous by increasing transparency in accountability and bolstering

	the commitment of each partner company's leader to their specific numerical targets. We intend to preserve these benefits. Within our existing organizational framework, I believe it is crucial to actively work towards breaking down organizational barriers and silos. As we promote the concurrent assignment of roles, it becomes essential to dismantle these obstacles. When we establish the necessary mechanisms and environments, they prove to be effective. Co-President Wee and I are jointly concerned about the risks associated with hastily reintegrating the Japan segment into a single entity without first establishing this mindset firmly within the organization. Doing so prematurely could lead to numerous complications. There are areas within the Japan Group that need enhancement. To tackle this, we are initially focusing on motivating our leaders, including the CCO and the head of the resin center, to break down organizational barriers and silos. We recognize that if leaders are unable to overcome these silos, it is unrealistic to expect their teams to do so. Consequently, we have concluded that implementing changes incrementally, rather than all at once, is often more effective. As for the potential consolidation into a single company in the future, no decisions have been made yet.

Q2	Despite the potential advantages and disadvantages, is there a consensus within the organization that it will be reconsolidated into a single entity through initiatives such as the establishment of a CCO and others?
A2	I have not made any explicit statements suggesting that we will consolidate the organization into a single company. However, we are moving towards unifying our operations under the internal slogan "One NIPPE". Initiatives like the establishment of the CCO, the resin center, and the concurrent roles of the head of the resin center as President of our automotive business, all support this unification effort. We frequently emphasize "One NIPPE" across the organization. As their responsibilities widen, our leaders are increasingly motivated to develop more successors.

Q3	Will you continue to uphold the benefits associated with leaders' commitment to numerical targets, as previously mentioned?
A3	That's correct. While we do consider short-term numerical targets, our focus isn't limited to cost-cutting at the expense of long-term sustainability. Consequently, we will make the necessary investments to ensure the long-term viability of our business entities. Additionally, our policy actively aims to reduce unnecessary meetings and personnel assignments.

◆ Questions from Naoki Ozawa, Chemical Daily Co., Ltd.

Q1	I would like to inquire about capital expenditures. With growing demands for sustainability, have there been increases in R&D and capital expenditures, both in scale and as a proportion of total spending, compared to the past three years?

A1	Although there are regional differences, capital expenditures have remained relatively stable globally. Focused primarily on the paint and coatings industry, our capital expenditures currently represent about 3% of revenue. As we anticipate continued revenue growth, the absolute value of capital expenditures is expected to rise modestly. Nevertheless, we do not foresee any substantial changes in this percentage going forward. In Japan Group, capital expenditures may see a slight uptick due to the construction of the Research Institute and the upgrading of aging facilities. However, our strategy is to keep these investments at a practical level rather than committing to overly large expenditures, thereby ensuring sustainability.

Q2	You mentioned that capital expenditures vary by region. Could you specify the regions where the capital expenditures are particularly high?
A2	I cannot pinpoint a specific region, but generally, the decorative paints sector demands lower capital expenditures. Considering that over 60% of our Group's revenue is derived from this sector, areas focused primarily on decorative paints tend to have reduced capital investments. While Australia's DuluxGroup usually experiences lower capital expenditures, some of its Sealants, Adhesives, and Fillers (SAF) facilities are becoming outdated. Consequently, after evaluating the costs of maintenance versus renewal, we have opted to build new factories, which will temporarily raise our capital expenditures. Japan Group is another region where capital expenditures are comparatively high. We plan to make prudent use of our existing facilities while implementing necessary upgrades. Additionally, we find that the investment needs tend to be slightly greater in the B2B sector.

◆ A question from Participant B

Q1	If the capital markets fail to fully grasp the concept of MSV, have you considered privatization, possibly through a Management Buyout (MBO) or similar strategies, to better focus on enhancing corporate value? Has this option been discussed by the Board of Directors?
A1	Our company is singularly focused on Maximization of Shareholder Value, which places shareholders at the bottom of the stakeholder priorities, as our sole mission, rather than pursuing overall corporate value maximization. That being said, while a Management Buyout (MBO) has never been on our agenda, we are committed to MSV with a long-term outlook. This commitment is twofold: firstly, we view equity financing as a crucial strategy for future mergers and acquisitions, though we will not pursue this at the current stock price. Secondly, our majority shareholder, Wuthelam Group, which is both an asset management and a family-owned company, underscores the importance of maintaining our company's market listing to ensure liquidity.

End