

# Acquisition of Asian JV Stake and Indonesia Business Presentation Summary August 21, 2020

**Acquisition of Asian JV Stake and Indonesia Business**  
**~Establishing Dominance in Asia to Pursue Global Growth~**

August 21, 2020  
Masaaki Tanaka (Chairman, President & CEO)  
Nippon Paint Holdings Co., Ltd.

Thank you very much for attending this press conference despite the short notice. I am Masaaki Tanaka, President and CEO of Nippon Paint Holdings.

Today I will explain about the 'Acquisition of Asian JVs and Indonesia business' we announced earlier.

Amid the unpredictable COVID-19 pandemic, we decided to hold this presentation via webinar. We would appreciate your understanding of this decision.

## Today's Agenda

1. 100% Ownership of Asian JV

2. Acquisition of Indonesia Business

3. Synergy Creation

4. Financial Impact

5. Future Strategies

Today, I will explain the following five items.

- ① 100% Ownership of Asian JV
- ② Acquisition of Indonesia Business
- ③ Synergy Creation
- ④ Financial Impact
- ⑤ Future Strategies

Please allow me to begin by giving the main points of the transaction. As a result of the transaction, the Wuthelam Group will become our major shareholder, with a shareholding ratio of 58.7%. But this is not a transaction in which the purpose of the Wuthelam Group was to acquire Nippon Paint Holdings or make it a subsidiary; but rather, this transaction is the mere result of our negotiations to procure from the Wuthelam Group the capital required for Nippon Paint Holdings to achieve further growth.

Accordingly, there is a possibility that the Wuthelam Group's stake in Nippon Paint Holding can decline if we decide to carry out public offerings, etc. in the future. Mr. Goh Hup Jin says he will accept it. Following the transaction, the ratio of voting rights of the Wuthelam Group will increase to nearly 60%. However, we have already established a corporate governance structure that allows us to protect the interests of minority shareholders. I will

go into the details on this later, but we have shifted to a Company with Three Committees structure, nominating two-thirds, or six independent outside directors to the nine positions available on the board.

From the Company's management perspective, the Asian JVs, which will become our wholly-owned subsidiaries as a result of the transaction, have a total of 16,000 employees. Following the acquisition of the Indonesia business, more than 6,000 employees will join our Group. Our working hand-in-hand with Mr. Goh Hup Jin is necessary to firmly support the employees who engage in our Asian operations in various parts of the region, as well as working together with them toward further growth of the Group. We will strive to ensure the growth of the Nippon Paint Holdings Group while maintaining a close communication with Mr. Goh Hup Jin, who will continue to be our important partner going forward.

## Introduction (1)

- ✓ **NPHD agreed with Wuthelam to increase its stake in Asia JVs to 100% and acquire its Indonesia business**
- ✓ **This agreement will bring our 60-year-long partnership to perfection and build a strong foundation for accelerated growth**
- ✓ **Profit attributable to shareholders to increase by c. 60%<sup>(1)</sup> and EPS by 10% or more<sup>(2)</sup>**
- ✓ **Structure to strengthen balance sheet allowing for future growth**

**Transaction enables full capture of growing Asian businesses, realizing substantial profit increase, minority shareholder protection, and maximization of shareholder value (MSV)**

Let me give you a summary before I elaborate on each item.

“Achieving 100% ownership of Asian JV”, which Nippon Paint Holdings and the Wuthelam Group agreed to today, was something that has grasped the attention of investors and the media for many years.

Also, we decided to acquire the Indonesia Business that has both growth potential and profitability. I will elaborate on the significance and benefits of these transactions today.

Nippon Paint Holdings and the Wuthelam Group have evolved our partnership through a joint venture for nearly 60 years, and consolidated the Asian JVs in 2014. By achieving a 100% ownership of the Asian JVs, we will bring our partnership to fruition, allowing us to reinforce the management bases of the two companies that were integrated in name and reality. Based on this new management structure, we will further accelerate growth of the Group.

According to the simulation based on certain assumptions, the acquisition will increase profit attributable to the parent company by approx. 60% and EPS by more than 10%,

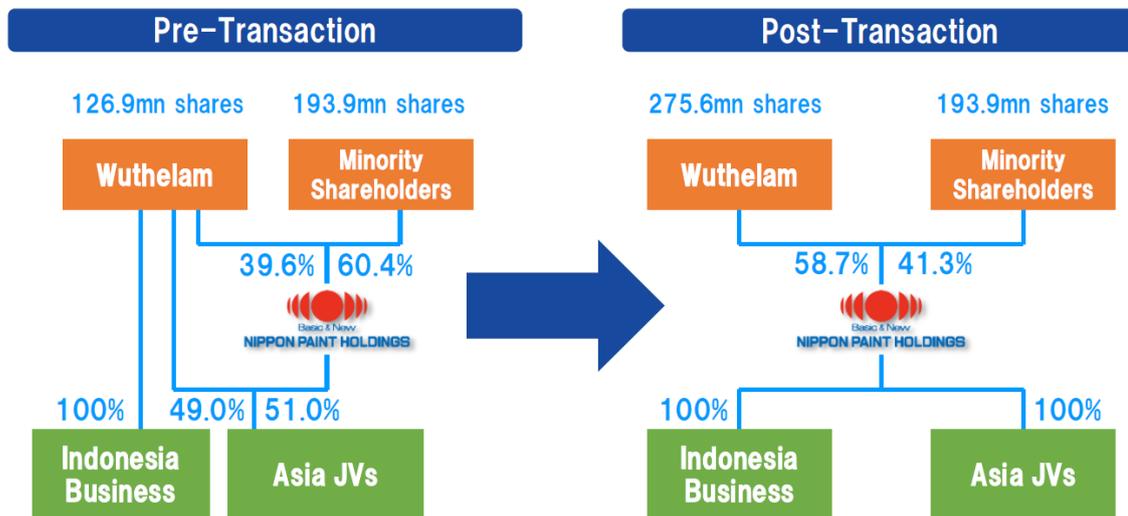
making it also sufficiently attractive from the perspective of protecting the interests of minority shareholders.

In addition, increasing capital through a third-party allotment will allow us to reinforce the financial base to accelerate M&A activities in the future, and we believe this is an extremely ideal structure.

In light of all this, the acquisition will contribute to the "Maximization of Shareholder Value."

## Introduction (2)

Transaction will simplify the ownership structure and resolve the potential conflict of interest between the major and minority shareholders



Next, I will explain about the capital ownership structure before and after the transaction.

Prior to the transaction, the Wuthelam Group held 39.6% of NPHD's shares, a 49% stake in the Asian JVs, and a 100% stake in the Indonesia business. This ownership structure had been criticized for being complex with outflows of profits from the Asian JVs, which are the engine of the Group's growth, and a possibility of interest conflicts in terms of governance.

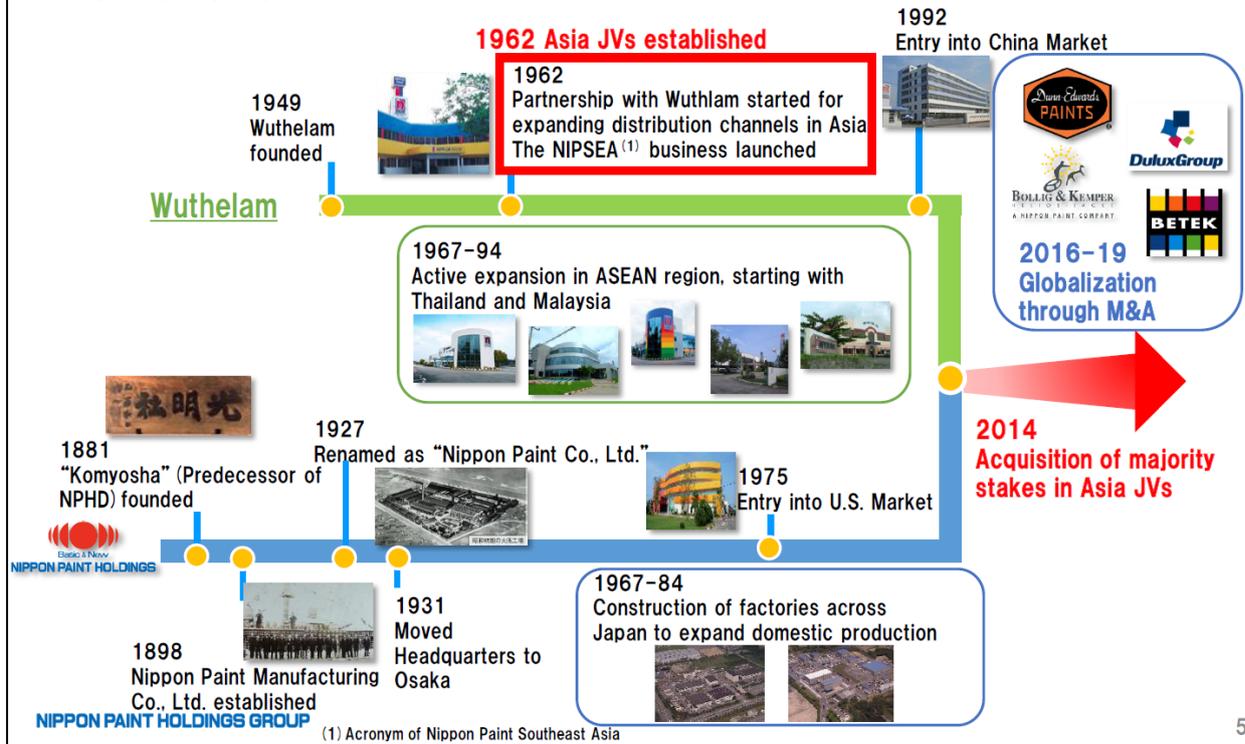
After the implementation of this transaction, the Wuthelam Group will own 58.7% of our shares and NPHD will hold 100% of the Asian JVs and the Indonesia business, so that the ownership structure will be simplified and easy to understand.

As a result, the interests of major and minority shareholders will be perfectly aligned, and Maximization of Shareholder Value ("MSV") will be a shared objective for both the Wuthelam Group and minority shareholders.

For minority shareholders, while the ratio of voting rights per share will decrease, earnings per share (EPS) will increase, which is an important point of the transaction.

# History of Strategic Partnership with Wuthelam (1)

Our partnership with Wuthelam dates back nearly 60 years/ Driver for global expansion after acquiring majority stake in 2014

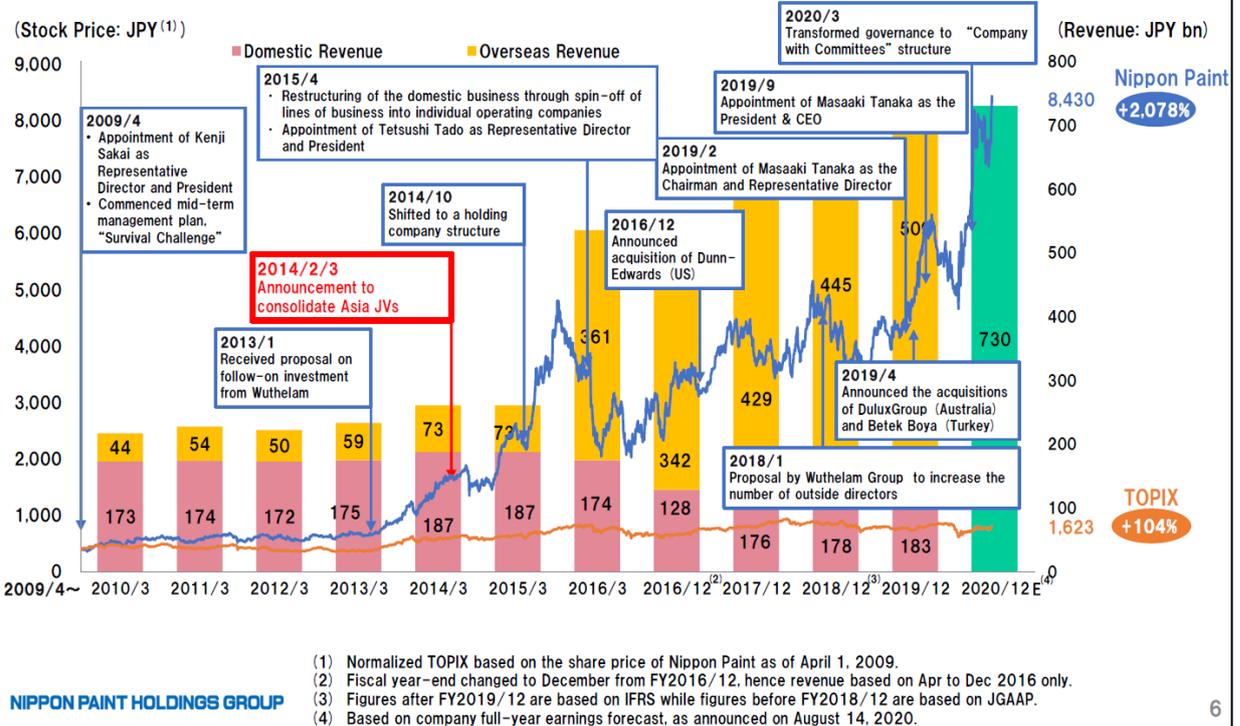


Before going into the specific details of the transaction, I would like to explain again the history of the strategic partnership between NPHD and the Wuthelam Group.

Nippon Paint and the Wuthelam Group established a joint venture in Singapore in 1962 and have successively acquired top market shares in Malaysia, China and other Asian countries. Initially, we were investing minority stakes in each joint venture; however, in 2014, concluded a strategic agreement to consolidate the Asian JVs. As a result, our sales grew from 250 billion yen to over 600 billion yen, and we have subsequently promoted further expansion of global operations through M&As.

## History of Strategic Partnership with Wuthelam (2)

Business expanded after acquiring majority stake in 2014  
Share price increased nearly 22x over the past 10 years



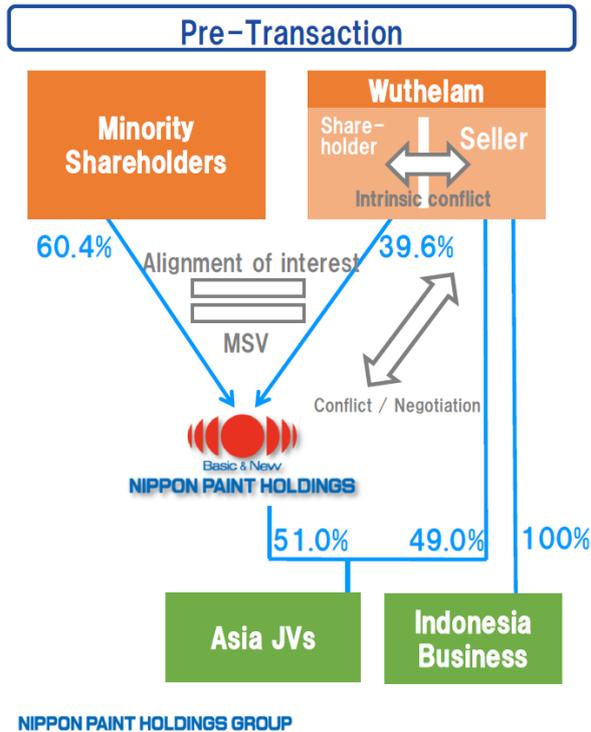
Based on this strategic agreement, the Wuthelam Group underwrote a third-party allotment that increased its equity stake in Nippon Paint Holdings from 14.5% to 39.6% in 2014, and as a result of promoting the expansion of the Group’s global operations, our stock price has increased by an astounding 20-fold over the last 10 years. The benefits that our minority shareholders have enjoyed from this strong partnership between Nippon Paint Holdings and the Wuthelam Group are something that are not seen in other Japanese companies.

Mr. Goh Hup Jin, the representative of the Wuthelam Group, graduated from the University of Tokyo Faculty of Engineering with a degree in chemical engineering and is well-versed in technologies. He is also very knowledgeable about the global paint industry and has an extremely broad network of connections in the industry. In addition, Mr. Goh Hup Jin is a wonderful entrepreneur who has launched the Chinese business from scratch and nurtured its development to become one of the leading paint companies in China. He also has top-notch knowledge in finances, with his MBA at UCLA.

Director Goh’s big decision in selling all of the paint businesses that the Goh family had developed over two generations will continue to make him be our important business partner who will provide support and guidance to NPHD. I believe his support is an important asset for our future development.

## Addressing the Perceived Conflict of Interest

### Intrinsic conflict within Wuthelam both as seller and buyer



- Wuthelam’s current 39.6% ownership in NPHD is aligned with interest of minority shareholders. Wuthelam and NPHD have pursued MSV together and achieved steady gains in NPHD share price
- However, intrinsic conflict of interest exists: Wuthelam as a seller would seek to sell Asia JV shares at high price; as NPHD’s shareholder, it would look to acquire JV shares at its low
- Under NPHD’s management policy predicated on “protection of minority shareholder interest,” the transaction was reviewed by NPHD’s highly independent and objective board as well as special committee comprising 3 independent directors with expertise, which reported that the acquisition would not be disadvantageous to minority shareholders
- Wuthelam decided to sell its shares at relatively low valuation, with high expectations for NPHD’s future growth and recognition that minority shareholder protection and their understanding are essential for NPHD’s future growth and maximization of shareholder value

In proceeding with this transaction, some pointed out concerns that the Wuthelam Group stands as both the seller and the buyer, in which a conflict of interest could arise. That is to say, the Wuthelam Group is in a seller’s position that aims to sell its 49% stake in the Asian JVs and its 100% stake in the Indonesia business at the highest price possible, while at the same time it is also in a buyer’s position that seeks to buy those stakes at the lowest price possible as a NPHD shareholder.

To give you more details, the Wuthelam Group already owns 39.6% of NPHD’s shares, for which its interests are aligned with those of other minority shareholders whose total shareholding amounts to about 60%.

On the other hand, the Wuthelam Group is also in the seller’s position as the owner of a 49% stake in the Asian JVs and a 100% stake in the Indonesian business.

We have been aware of such conflicts for some time, and we put in place a proper governance structure in the course of considering the transaction. As we explained at the investor presentation on February 21, under our management policy predicated on ensuring the protection of the interests of minority shareholders, we shifted to a Company with Three Committees structure with the approval at the general meeting of

shareholders held in March this year, and adopted a new board of directors' structure based on independence and objectiveness, nominating six independent outside directors to the nine positions available on the board. In addition, we had the details of the negotiations examined by a highly professional special committee comprising persons with practical expertise in M&A. Moreover, if I may add, Director Goh was very understanding during the whole process of changes in our governance structure, which enabled us to smoothly put the new structure in place.

Furthermore, the Wuthelam Group chose not to sell its 49% stake in the Asian JVs and its 100% stake in the Indonesia business to us at the highest price possible for cash but to use the proceeds of the sale to make additional investments in NPHD. This shows that the Wuthelam Group has high expectations and confidence in the NPHD Group's future growth.

After recognizing the importance of understanding minority shareholders, as it is essential for our growth and Maximization of Shareholder Value ("MSV"), the Wuthelam Group has decided to sell the businesses at a considerably low valuation even from the standpoint of NPHD, who is in the buyer's position, giving consideration to securing the interest of minority shareholder, i.e. a double-digit increase in EPS.

## Ensuring Minority Shareholder Protection

Special Committee established under new governance system reviewed the transaction in detail

### Reviewing Structure <sup>(1)</sup>



(1) Having a special interest in the transaction, Goh Hup Jin did not participate in the related board meetings.

I have mentioned earlier that we have thoroughly examined the transaction with an adequate structure based on our management policy of protecting the interests of minority shareholders. Specifically, we formed a special committee consisting of three independent outside directors. The special committee met a total of eight times so far and has held deliberations, examining the negotiations from the viewpoint of protecting the interests of minority shareholders and maximizing shareholder value.

Also, the board of directors held a total of seven meetings and deliberated on the negotiations based on the report drawn up by the special committee.

During this period, we took the position of negotiating with the Wuthelam Group from the viewpoint of "protecting the interests of minority shareholders," which culminated in today's agreement.

Both the special committee and the board of directors concluded that the terms and conditions of the transaction ensure the sufficient protection of the interests of minority shareholders.

I believe that this is due to Director Goh, who will continue to be our important partner going forward, and his decision in making a huge concession in view of enhancing our future growth potential.

## Transaction Overview

### Acquisition of the remaining shares in Asia JVs and 100% Indonesia business

<b>Purchase Price</b>	<ul style="list-style-type: none"> <li>■ Total purchase price will be ¥1,285.1bn based on NPHD's Aug. 20 closing price of ¥7,970               <ul style="list-style-type: none"> <li>■ Asia JVs will be purchased for ¥1,049.6bn, with Wuthelam subscribing to 131.7mn NPHD new shares through third-party allotment                   <ul style="list-style-type: none"> <li>- Implied PER 44.4 x (2019/12A)</li> <li>- Cf. NPHD PER 60.1 x (2019/12A<sup>(1)</sup>)</li> </ul> </li> <li>■ Indonesia business will be purchased for ¥235.5bn, comprising ¥135.5bn to be subscribed for 17mn NPHD new shares through third-party allotment and ¥100bn in cash                   <ul style="list-style-type: none"> <li>- Implied PER 29.9 x (2019/12A)</li> </ul> </li> </ul> </li> </ul>
<b>Financing</b>	<ul style="list-style-type: none"> <li>■ ¥100bn of the total consideration will be paid in cash</li> <li>■ The remaining amount of Claim for Payment of Consideration<sup>(2)</sup> will be contributed to NPHD as payment-in-kind for the issuance of the total 148.7mn new shares to Wuthelam through third-party allotment (Wuthelam shareholding will be 58.7% after the transaction)</li> <li>■ Cash payment will be funded with cash on hand and with external loans</li> </ul>
<b>Review</b>	<ul style="list-style-type: none"> <li>■ NPHD's Board is to receive Special Committee's report (conflict of interest review with Wuthelam as major shareholder)</li> </ul>
<b>Closing</b>	<ul style="list-style-type: none"> <li>■ Closing scheduled for Jan. 1<sup>st</sup>, 2021, subject to regulatory approvals and other conditions</li> </ul>

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(1) Earning contribution of acquired Dulux and Betek are annualized (See P42). Calculation based on Aug. 20 closing price of ¥7,970.

(2) In exchange for a contribution in kind consisting of the Claim for Payment of Consideration (equivalent to ¥1,185.1bn)

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The page shows the outline of the transaction. The total purchase price will be 1,285.1 billion yen.

Of this, 1,049.6 billion yen will be considered for the acquisition of the Asian JVs, which will be settled by issuing 131.7 million new NPHD shares through a third-party allotment at 7,970 yen per share. At this purchase price, the Asian JVs are valued at implied PER of 44.4 times based on the FY2019 results. Compared to our PER of 60.1 times based on the FY2019 results, the valuation is relatively undervalued considering that the Asian JVs are our growth driver and account for over 50% of our profits.

The consideration for the acquisition of the Indonesia business was 235.5 billion yen, which will be settled by issuing 17 million new NPHD shares through a third-party allotment at 135.5 billion yen and 100 billion yen in cash. At this purchase price, the Indonesia business is also undervalued compared to our PER and PER of peer companies at implied PER of 29.9 times.

Regarding financing arrangements, we will allot 148.7 million new NPHD shares to Wuthelam through a third-party allotment. As a result, the ownership ratio of the

Wuthelam Group in NPHD will increase to 58.7%. We will use cash on hand and external borrowings to prepare 100 billion yen to be paid in cash.

Closing of the transaction is scheduled on January 1, 2021, which is subjective to the fulfillment of conditions including the approval by the relevant authorities. This coincides with the start of the new medium-term management plan currently being formulated.

## Strategic Rationale

### Establishing a dominant “Asia x Construction” model



The strategic significance of this transaction is to establish a dominant No.1 position with our “Asia x Decorative Paints” business model, and to further accelerate global growth in the future.

Achieving a 100% ownership in the Asian JVs has a major benefit in allowing us to integrate the minority interests of more than 20 billion yen in the Asian JVs, which currently accounts for more than 60% of the Group’ operating profit. Also, as I explained earlier, the transaction will simplify the capital ownership structure and allow a complete alignment of the interests between major shareholders and minority shareholders, making the governance structure simple and easy to understand.

The Indonesia business, which commands the No.1 share in the Indonesia market with high growth potential and an operating profit margin of more than 30%, can expect to contribute immediately to the Group’s profits after acquisition. In addition, the Indonesia business is run by a highly experienced management team with a strong track record, posing a very low PMI (Post Merger Integration) risk.

In terms of synergy creation, we will further evolve “spider web management,” which I have been advocating. We can expect sales growth and profitability improvement as the

transaction will smooth the way for global integration of operations in the industrial coatings and automotive coatings fields.

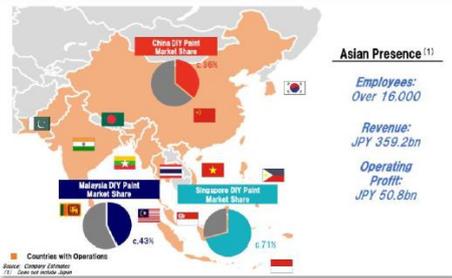
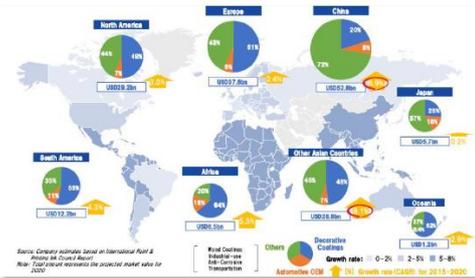
In terms of "EPS accretion and building a strong foundation," the transaction, according to the simulation, will result in around 60% increase in profit attributable to owners of the parent company and more than 10% in EPS, which will greatly benefit minority shareholders. In addition, capital reinforcement achieved through a third-party allotment will strengthen our balance sheet, paving the way for acceleration of proactive management going forward, including investments in domestic production bases, product development with an eye to resolve social challenges, and M&As.

# Our Position in the Fast-Growing Paint Market

Leading position in China/Asian region, the largest growth market



Paint market is expected to grow larger globally



Asia (including China) has the largest market, commanding high growth rates

Operating in 15 geographical locations including China, Malaysia, and Singapore

This slide was extracted from our presentation for institutional investors on February 21 of this year.

The key points are ① from a global perspective, the paint market is expected to grow at a fast pace driven by global population growth; ② the Asian region, including China, has particularly a high growth potential; and ③ we have already established a dominant No.1 position in Asia.

## Benefits from Acquiring 100% of Asia JVs

Acquisition of remaining minority interests in Asia JVs allows to fully capture the profit that represents over 60% of NPHD's operating profit

Pro-forma basis (Unit: JPY bil)

	FY2018	FY2019			Simple sum of DGL and Betek annualized + Asia JVs <sup>(2) (3)</sup>
	Actual	Actual	DGL and Betek annualized and consolidated <sup>(1)</sup>	Impact of transaction <sup>(2) (3)</sup>	
<b>Revenue</b>	<b>627.7</b>	<b>692.0</b>	<b>803.3</b>		<b>C. 827.3</b>
Asia JVs revenue <sup>(1)</sup> (% of total revenue)	386.7 (62%)	390.1 (56%)	390.1 (49%)	+C. 24.0	C. 414.0 (C. 50%)
<b>Operating profit<sup>(4)</sup></b>	<b>86.5</b>	<b>78.1</b>	<b>88.6</b>		<b>C. 89.6</b>
Asia JVs OP <sup>(1)</sup> (% of total OP)	54.5 (63%)	54.7 (70%)	54.7 (62%)	+C. 1.0	C. 55.7 (C. 62%)
<b>Profit attributable to parent<sup>(4)</sup></b>	<b>45.4</b>	<b>36.7</b>	<b>42.5</b>		<b>C. 64.9</b>
Asia JVs profit attributable to parent <sup>(1)</sup> (% of total profit attributable to parent)	22.3 (49%)	23.3 (63%)	23.3 (55%)	+C. 22.3	C. 45.6 (C. 70%)

(1) See page 42 for details on the impact of full-year adjustment/consolidation of DGL and Betek.

(2) Figures are from management accounts, without consolidation adjustments.

(3) Revenues and operating profit include NPI and NMC as consolidated subsidiaries (formerly equity-method affiliates).  
(Figures from management accounts only. Net profit of NPI and NMC are not reflected). Net profit only reflects existing consolidated subsidiaries. Estimated impact based on fiscal 2019 results.

(4) One-time cost items associated with the transaction are not included.

This page summarizes the presence of the Asian JVs within the Group and how much the acquisition of its 100% ownership will contribute to the Group's profits.

This page also serves as the basis for my explanation later on, so I would like to spend some extra time on explaining it.

The left two columns show the FY2018 and FY2019 actual results, which have been reported in the financial statements. As you know, the Asian JVs, in which NPHD holds a 51% stake, have already been consolidated, and their revenue and operating profit are entirely consolidated into the Group's financial results. Of these earnings items, the Asian JVs contributed to about 60% in both revenue and operating profit in FY2018, while they contributed to about 56% in revenue and 70% in operating profit in FY2019.

On the other hand, only 51% of the equity interest in the Asian JVs is consolidated into the Group's profit attributable to the parent company. In FY2018, the Asian JVs accounted for approx. 50% of the Group's profit, while in FY2019, they accounted for approx. 63% of the Group's profit.

However, since DuluxGroup and Betek Boya were consolidated during FY2019, the actual results in the second column from the left reflect the actual results of DuluxGroup and Betek Boya only for 4 months and 6 months, respectively. Unless we show pro-forma figures prepared by consolidating the full-year results of DuluxGroup and Betek Boya, the contribution of the Asian JVs from FY2020 onwards will be overrated.

Therefore, we showed in the middle column the FY2019 actual figures adjusted for full-year consolidation of DuluxGroup and Betek Boya indicated as "DGL and Betek annualized and consolidated." DuluxGroup and Betek Boya are our wholly-owned subsidiaries, so reflecting their annualized figures will reduce the pro forma contribution ratio of the Asian JVs to 49% of revenue, 62% of operating profit, and 55% of profit in FY2019.

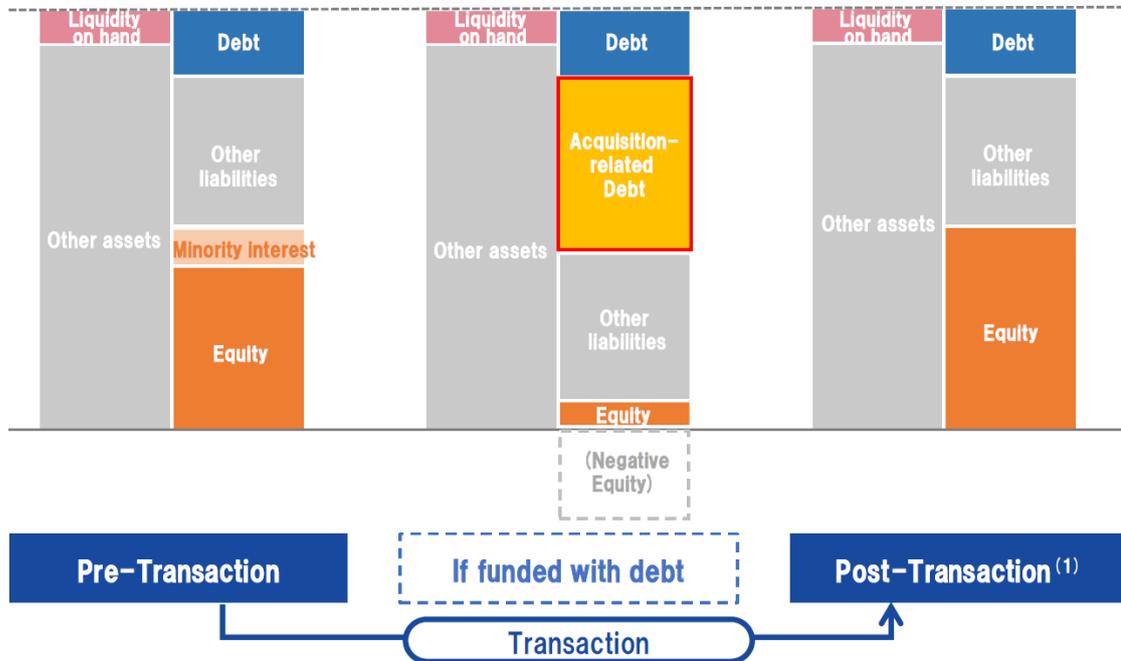
The next column shows the impact of this transaction. The Indonesia business is not included here. I mentioned earlier that revenue of the Asian JVs is entirely consolidated into the Group's revenue. Meanwhile, we will newly consolidate Nippon Paint (India) and NIPSEA Management Company in Singapore, which are currently 50%-owned equity-method affiliates. Consolidation of these companies will altogether add approx. 24.0 billion yen in revenue and approx. 1.0 billion yen in operating profit to the Group's results. On the other hand, profit will increase significantly, approx. by 22.3 billion yen, due to the consolidation of 49% share of profit belonging to minority shareholders that have been flowing out.

The rightmost column shows the simple sum of the annualized DuluxGroup and Betek Boya figures and the Asian JVs. As you can see, just by incorporating minority interests in the Asian JVs will boost the Group's profit by about 53% to 64.9 billion yen.

We updated our full-year forecast for FY2020 at the financial results announcement last week, with revenue of 730 billion yen, operating profit of 66 billion yen, and profit of 28 billion yen, which are lower than the figures adjusted for full-year consolidation of DuluxGroup and Betek Boya shown in the middle column. This is due to the impact of COVID-19 this year, and it should be noted that the figures in the middle column are pro forma figures that are adjusted for FY2019 on a simulation basis to show the relative impact of this transaction.

## Scheme Features

Capital reinforcement through third-party share allotment avoiding equity impairment, building stronger financial base



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(1) The above is illustrative covering only the acquisition of consolidated subsidiaries of Asia JVs. The transaction will include some Asia JV entities which are not consolidated

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This page shows the scheme we used for the acquisition of 100% stake in the Asian JVs. Some of you may wonder why we chose not to use interest-bearing debt to finance the transaction.

This is a transaction in which consolidated subsidiaries become wholly owned subsidiaries, with an amount equivalent to goodwill deducted from equity capital. Therefore, if the purchase price is financed entirely by interest-bearing debt, equity capital would be significantly impaired, and in some cases, it would fall into negative equity. Accordingly, we need to increase our capital base in light of our future growth.

In addition, although there was an option of carrying out public offerings, we determined that public offerings would compare unfavorably against a third-party allotment because the public offerings are subject to market conditions and involves uncertainty in terms of the number of shares issued, etc., and furthermore, new shares are generally offered at a discount from market value.

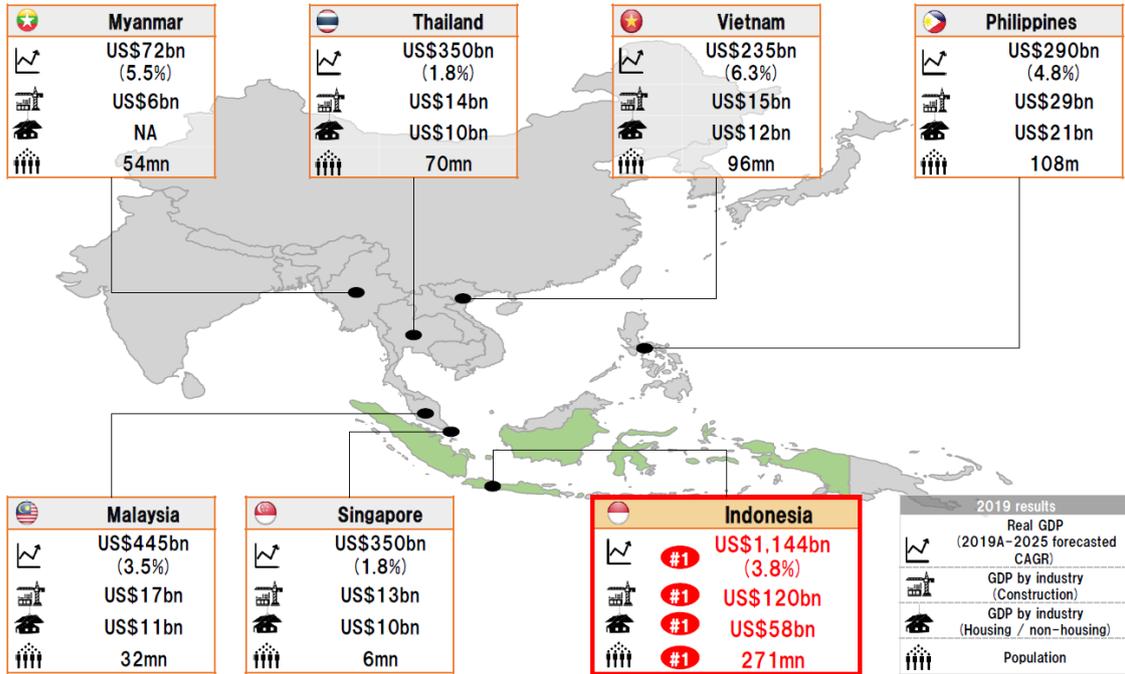
We have determined that capital reinforcement through a third-party allotment would be an ideal structure that will not only allow us to certainly strengthen our balance sheet but would also enable us to fully control the cash flows of the Asian JVs, thereby creating a

strong financial base for considering various strategic measures including M&A in the future.

As I mentioned at the beginning, the Wuthelam Group will become our major shareholder with a 58.7% shareholding as a result of our capital policy; not that we initiated the negotiations with the Wuthelam Group's acquisition of a 58.7% stake as its aim.

## Indonesian Market (1) Positioning in Southeast Asia

With population of 270mn, Indonesia is the largest economy in ASEAN with high growth potential

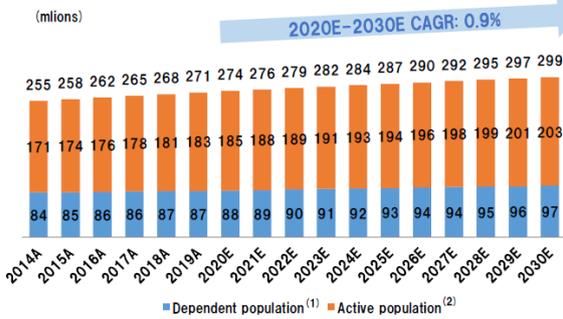


Next, let me explain about the acquisition of the Indonesia business. First, I will give the positioning of Indonesian market in Asia. With a population of 270 million, Indonesia is the largest economy in ASEAN with a strong construction demand and a high economic growth potential.

## Indonesian Market (2) Population and GDP Growth

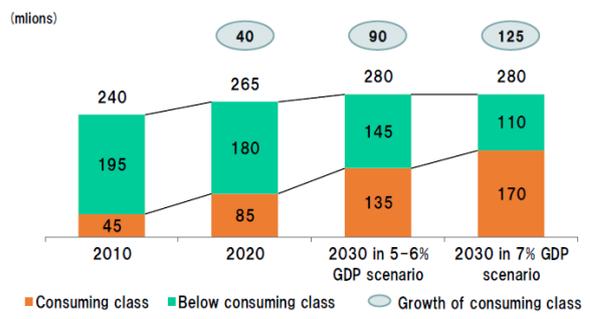
Per capita GDP exceeded \$4,000 in 2018 with continuing growth momentum

### Indonesian population



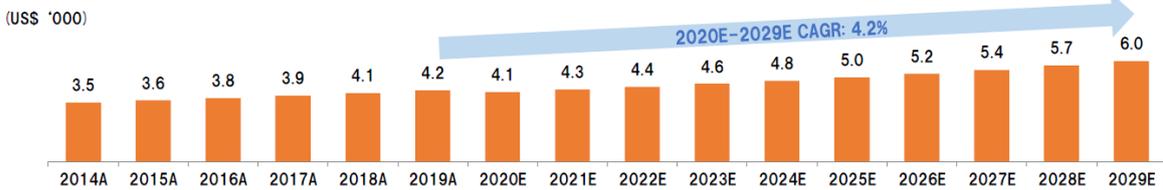
Source: Fitch Solutions, UN Statistics Division

### Expanding Consuming Class (3)



Source: McKinsey

### Per capita GDP trend



Source: IMF, Fitch Solutions, UN Statistics Division

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- (1) "Dependent population" refers to population less than 15 years old or more than 65 years old.
- (2) "Active population" refers to labor force or workforce population between 15 years old and 65 years old.
- (3) "Consuming class" defined as individuals with an annual net income of above \$3,600 on purchasing power parity basis.

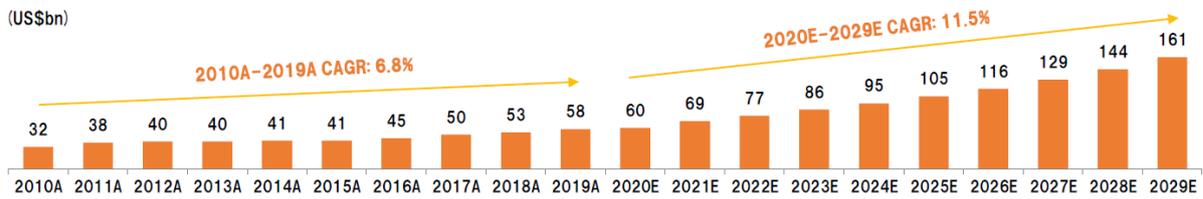
Following the steady growth in population, particularly in the productive-age population, Indonesia's per capita GDP exceeded \$4,000 in 2018. Generally speaking, when GDP per capita exceeds \$3,000, the consumer market for automobiles and other products is expected to expand rapidly, with people's primary needs (clothing, food, and housing) being met. Judging from the development process of other countries, the general tendency is that consumption will explode after GDP exceeds \$3,000. As a result, a high economic growth will continue until GDP per capita reaches \$10,000.

Combined with the growth of the middle income segment, we expect to see further growth in the paint market, particularly in the premium segment.

## Indonesian Market (3) Construction Market/Government Policy

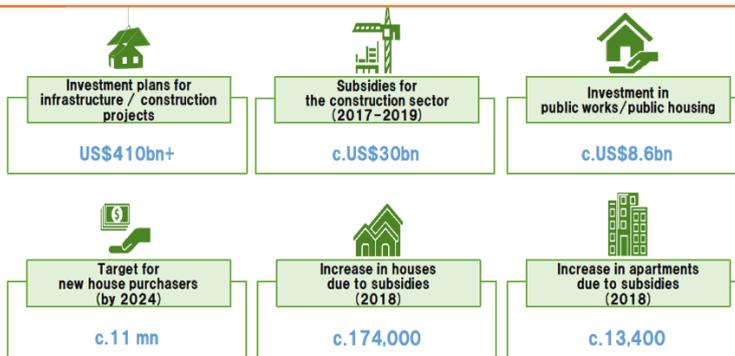
Paint demand to show steady growth driven by infrastructure investment

### Construction demand (housing/non-housing)



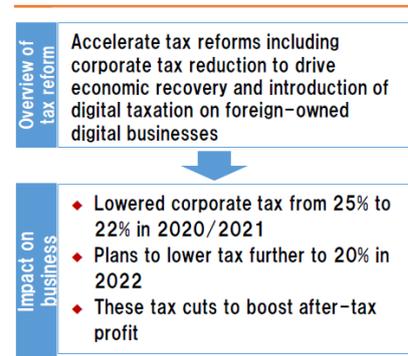
Source: Statistics Indonesia, Fitch Solutions

### Government policy for the paint/coating sector



Source: Modor Intelligence, Jakartapost  
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### Tax reforms



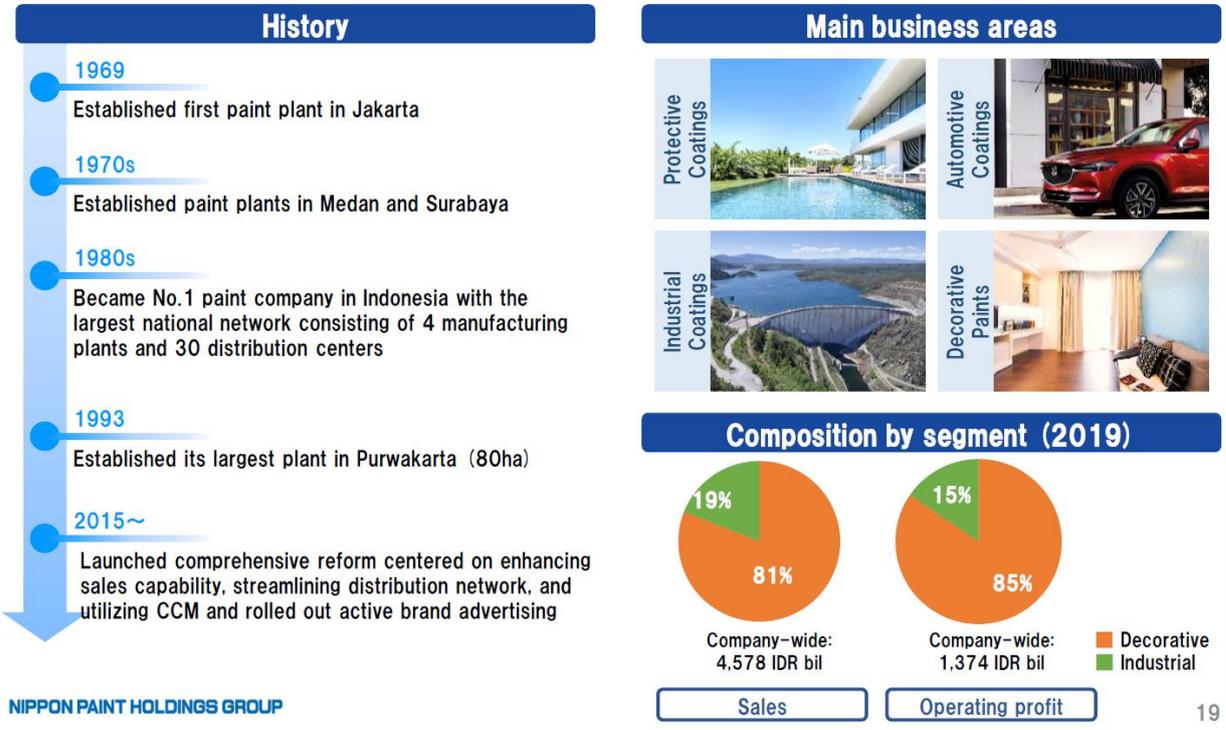
Source: JETRO

The construction market is also expanding in proportion to the growth in population and the consuming class, with an annual average growth rate over 10 years through 2019 was 6.8%, while that over the next decade is expected to grow rapidly by 11.5%.

In addition, the Indonesian market is considered to be an extremely attractive market with high growth potential, due to the government's investment in infrastructure and reduction of corporate income tax. This reduction in tax rates will contribute directly to the EPS accretion in the future.

## Indonesia Business (1) History and Overview

Maintained leading market share in Indonesia for c.40 years



The following is an overview of the Indonesia business, which will be acquired in the transaction.

Since its first paint plant was established in Jakarta in 1969, it has been a market leader in the paint industry in Indonesia.

The decorative paints business is the mainstay of the company, accounting for approx. 80% of its sales composition. The company also engages in other industrial coatings businesses that deal with paints and coatings for automobiles, motorcycles, and automotive parts.

The business has been enjoying a steady increase in sales, particularly since 2007, thanks to the introduction of CCM (Computer-Aided Color Matching) systems and other measures to strengthen our sales capabilities.

## Indonesia Business (2) Financial Information

Excellent business with high profitability and growth

		(IDR bil)			
		FY2016	FY2017	FY2018	FY2019
Revenue	Decorative	3,021	3,244	3,747	3,710
	Industrial	1,046	947	921	868
	Consolidated	4,101	4,191	4,669	4,578
Revenue growth	Decorative	-	7.4%	15.5%	(1.0%)
	Industrial	-	(9.5%)	(2.7%)	(5.8%)
	Consolidated	6.60%	2.2%	11.4%	(1.9%)
Operating income	Decorative	-	1,029	1,160	1,162
	Industrial	-	304	261	212
	Consolidated	1,331	1,334	1,421	1,374
Operating margin	Decorative	-	31.7%	31.0%	31.3%
	Industrial	-	32.1%	28.3%	24.4%
	Consolidated	32.5%	31.8%	30.4%	30.0%
Net income	Consolidated	1,043	1,013	1,045	1,022

Decorative business increased market share despite shrinking market in 2019 due to presidential election

NIPPON PAINT HOLDINGS GROUP ※Figures are calculated based on management report

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As you can see here, the income statement for the Indonesia business for the past four years showed steady growth, notably in the decorative paints business, until FY2018.

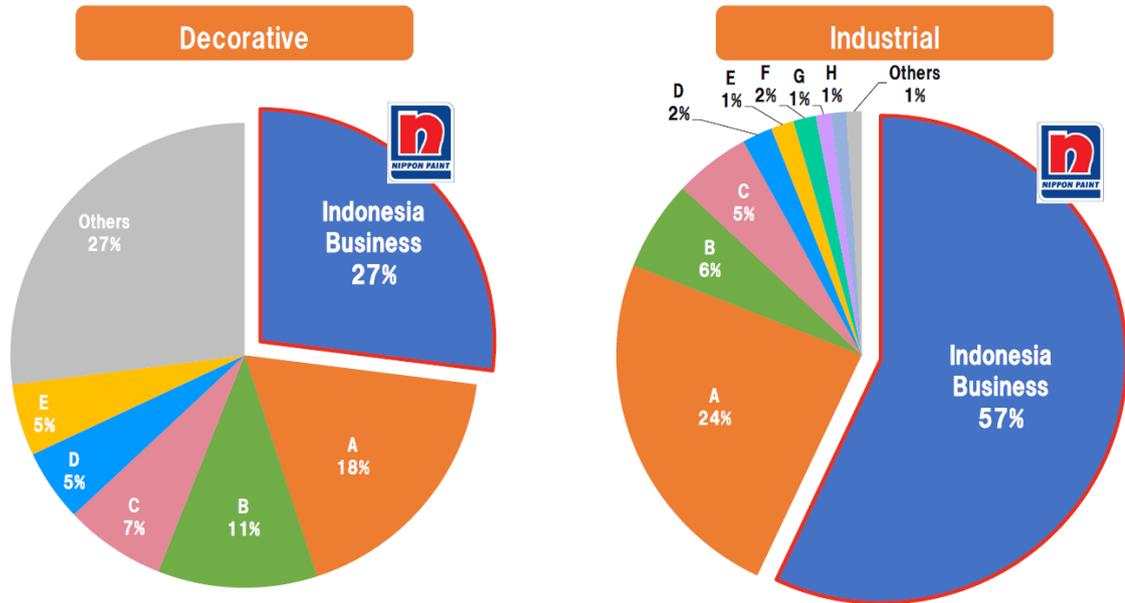
In FY2019, sales were 4.6 trillion rupiah (approx. 35.3 billion yen: 1 rupiah @ 0.0077 yen (average rate for FY2019)) and operating profit was 1.4 trillion rupiah (approx. 10.6 billion yen: 1 rupiah@0.0077 yen (average rate for FY2019), and operating profit margin was extremely high at 30%, with our share in the decorative market growing despite a dip in the market due to the effects of the presidential election.

The earnings in the Indonesia business are projected to decrease due to the impact of COVID-19, but we believe that from 2021, when we complete its acquisition, the earnings of the Indonesia business will be back on the high growth path over the medium to long term, taking into consideration Indonesia's high economic growth potential.

## Indonesia Business (3) Market Share

“Nippon Paint” is already the #1 brand in Indonesia, recognized as the “Top-of-Mind” brand

### Indonesian Paints Market Share (2019)



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Source: Nippon Paint estimates

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In the Indonesia business, we hold the No.1 market share in both decorative paints and industrial coatings.

The “Nippon Paint” brand, a trusted brand with a Japanese tradition, has maintained a dominant No.1 share for more than 30 years.

## Indonesia Business (4) Production and Distribution Network

Overwhelming competitive advantage with three production bases and c.40 distribution centers covering the entire country

### Distribution/sales centers (1)

### Business transformation through CCM (2)



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- (1) Old Medan plant built in the 1970s was rationalized to optimize the production
- (2) Computerized Color Matching.

In addition to the brand strength, the Indonesia business has maintained its No. 1 market share over the long term through its production bases and sales networks covering all of Indonesia.

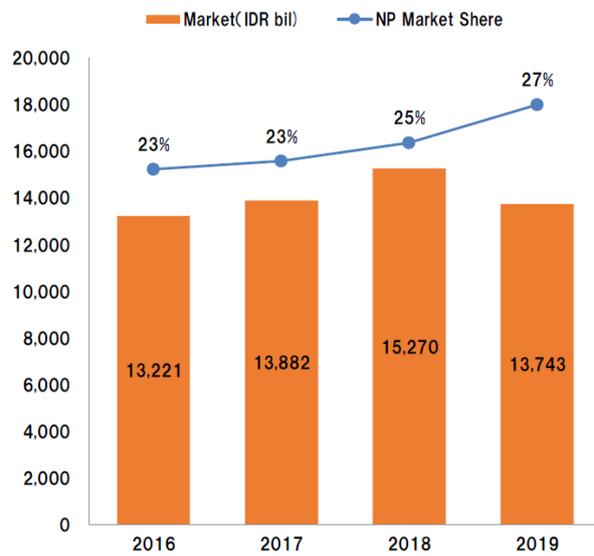
Indonesia has land spread out across a large area, and the key to success in this market, as with China, is the distribution and sales bases that can supply products across the country in a timely manner.

As mentioned earlier, the CCM (Computerized Color Matching) system is the so-called automated color toning machine, and the system has already been installed at almost all the main paint stores in the Indonesia business. We will continue efforts to install the CCM systems at our paint stores in Indonesia. In addition, we will increase the number of CCM support personnel that are not available to our competitors, as well as utilizing more than 3,000 sales personnel, to further enhance our competitive edge. With the introduction of the CCM systems, the variation of colors available has increased dramatically, leading at the same time to reduced inventory requirements. As a result, according to our plan, this will enable us to further differentiate ourselves from other companies and rapidly expand our market share.

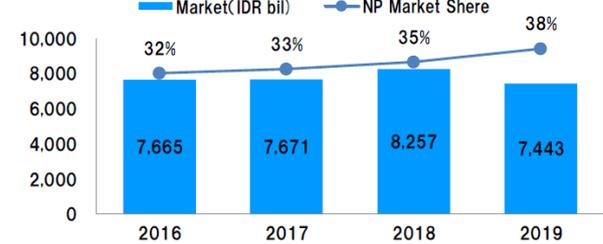
## Indonesia Business (5) Solid Position in Decorative

Focusing on the expanding premium market while maintaining leading position in the economy market

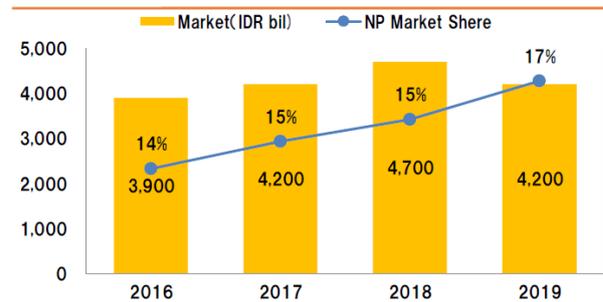
Decorative paint market/NP Market share <sup>(1)</sup>



Economy Segment /NP Market share <sup>(1)</sup>



Premium Segment <sup>(2)</sup> /NP Market share <sup>(1)</sup>



(1) Shares based on sales value.  
 (2) The premium segment in Indonesia is defined as price above 50,000 IDR per Liter and pack size (1L, 2.5L and 20L).  
 Source: Nippon Paint estimates

The Indonesian decorative paints market was 15.3 trillion yen (approx. 117.6 billion yen: 1 rupiah@ 0.0077 yen; average rate for 2019) in 2018. Despite the slight market contraction in 2019 due to the presidential election, we are steadily gaining market share in the face of the challenging market environment impacted by COVID-19.

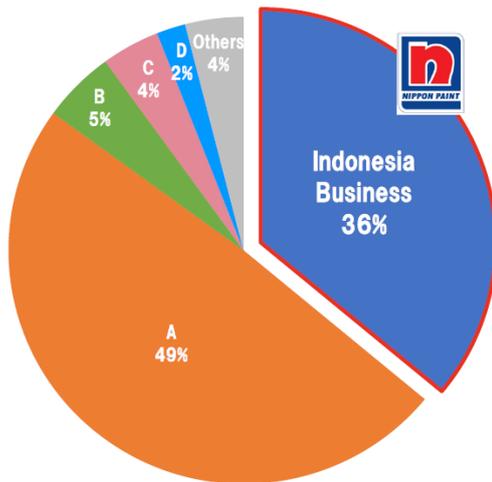
The decorative paints market is broadly divided into the premium segment and the economy segment. The premium market is defined as high-function coatings of at least 50,000 rupiah (385 yen) per liter. The economy market is general-purpose products of 50,000 rupiah (385 yen) per liter or less. Until now, the Indonesia business has increased its share mainly in the economy market, commanding a 38% market share in 2019.

Meanwhile, in accordance with the increasing number of people in the consuming class, we have started focusing on the premium market, which has grown rapidly in recent years, and have steadily increased our market share. In the Indonesia business, our acquisition target, we have been slightly behind the competition in the premium market due to our focus heretofore on the economy market. In the future, we plan to further increase our sales and market share in the premium market by strengthening our premium product lineup, utilizing CCM systems, and leveraging our extensive sales networks, with an eye to achieving the kind of growth that we have achieved in China.

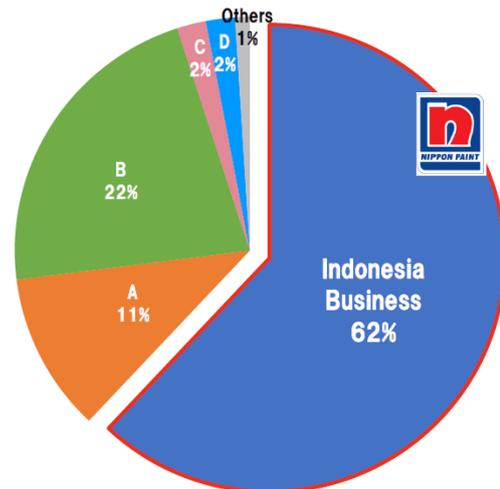
## Indonesia Business (6) Strong Customer Relations in Industrial

Leading market shares in the automotive OEM and motorcycle coatings markets, leveraging strong customer relationships and superior cost control

Market shares in Automotive OEM market (2019)



Market Shares in Motorcycle market (2019)



The industrial market consists mainly of automotive OEM coatings and motorcycle coatings, which together account for approx. 75% of the market. The size of the industrial market is smaller than that of the decorative paints market, but this market also is expected to expand as the Indonesian economy grows.

In the Indonesia business, our market share is 36% for automotive coatings and 62% for motorcycle coatings. However, as Japanese paint manufacturers have a strong presence in the automotive coatings market in Indonesia, we come in second in this market. On the other hand, we have already established a dominant position in the motorcycle coatings market. Our advantages are our "long and sound relationship with local management and staff" and "sales teams with deep experience in the technical fields."

After the acquisition, we will immediately strengthen the collaboration in the industrial coatings field in Indonesia with the automotive coatings, industrial coatings, fine chemicals, and many other fields in the Japan segment.

## Indonesia Business (7) Established Management Team

NIPSEA-style management team with minimum post-merger integration risk



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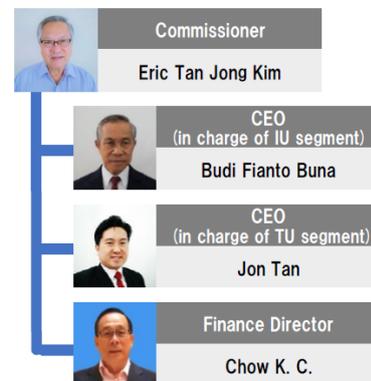
### Decorative

Potential to replicate success in China with NIPSEA expertise

### Industrial

Collaboration with NPHE to grow auto and other paint businesses

⇒ Competent management team with above capability



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The strength of the Indonesia business lies not only in the brand power and the production system and sales channels, but also in the excellent management team who are very familiar with the Indonesian paint market.

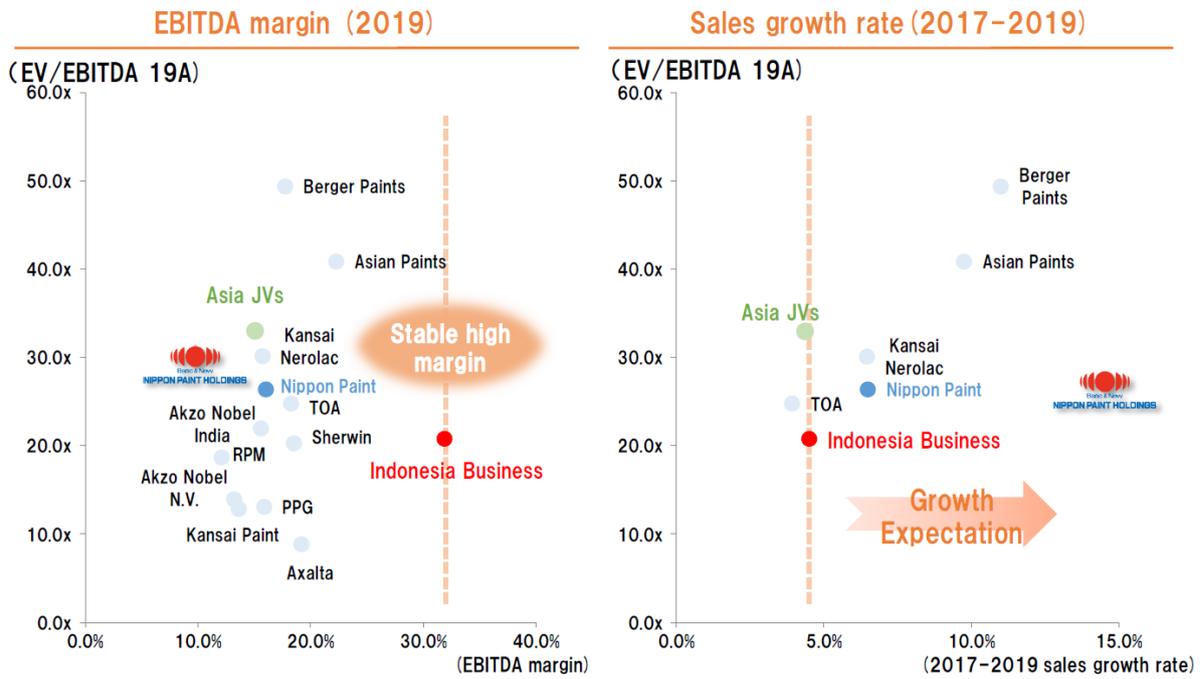
Commissioners Mr. Eric Tan and Mr. Budi Fianto Buna, for example, have more than 50 years of experience in the paint business in Indonesia. Mr. Jon Tan, head of decorative paints, was transferred to Indonesia a decade ago after gaining experience in NIPSEA China and has since been demonstrating strong leadership in promotion of CCM system and other areas.

The management team practices the management approach they learned from NIPSEA China. In addition, they receive support in business management from the NIPSEA Malaysia Group. Considering these, I believe that we can replicate in Indonesia the business model with which NIPSEA China succeeded in the decorative paints business in China.

Accordingly, although this is a large-scale acquisition of over 200 billion yen, I can say that the PMI risk is extremely low, and have high expectations that they will become part of our spider web management.

## Indonesia Business (8) Relative Valuation

Acquisition of highly profitable business with growth potential at an attractive price



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Source: FactSet data as of 8/19/2020. (1 month Average)

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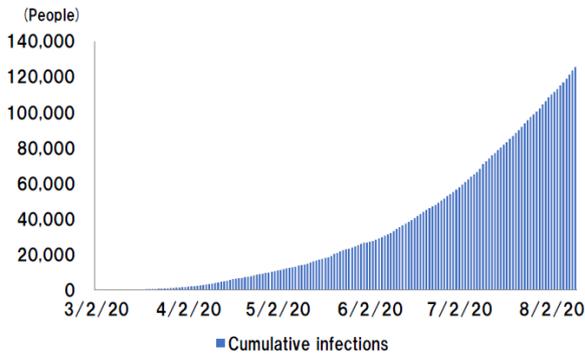
With regard to valuation, EBITDA margins of the Asian JVs are consistently higher than those of Asian Paints and Berger Paints.

In terms of the sales growth rate, we were able to reach an agreement at a very attractive price given the future growth of the Indonesian paint market.

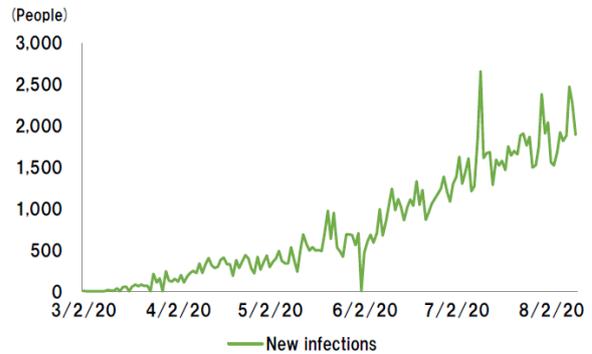
## COVID-19 Figures in Indonesia

With expansion of COVID-19 infections continuing, Indonesian government has announced various economic stimulus programs

Cumulative infections



New infections



### Indonesian initiatives to mitigate the impact of COVID-19

The Indonesian government has announced initiatives to mitigate the impact of COVID-19

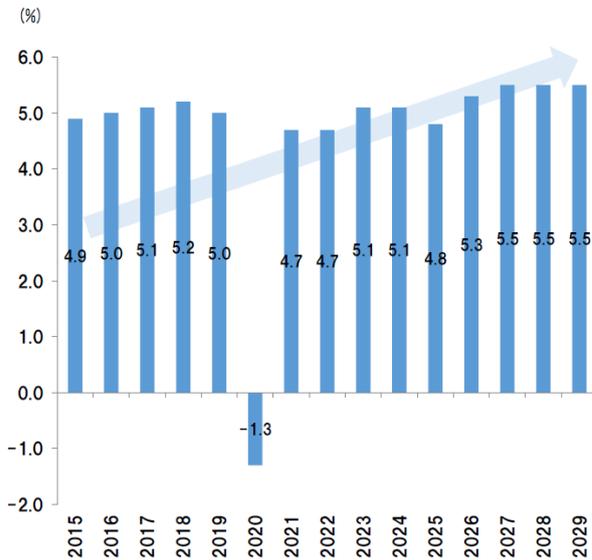
- Triaging medical care
- Subsidies for permanent employees and abolition of withholding tax
- Supporting sectors heavily impacted by the pandemic
- Relaxing the fiscal deficit cap
- Financial/macro policies

Regarding the situation of the COVID-19 pandemic in Indonesia, although the number of infected persons per day is still on the rise, the Indonesian government has taken measures to mitigate the impact, and we will pay close attention to the developments.

## Impact of COVID-19 in Indonesia

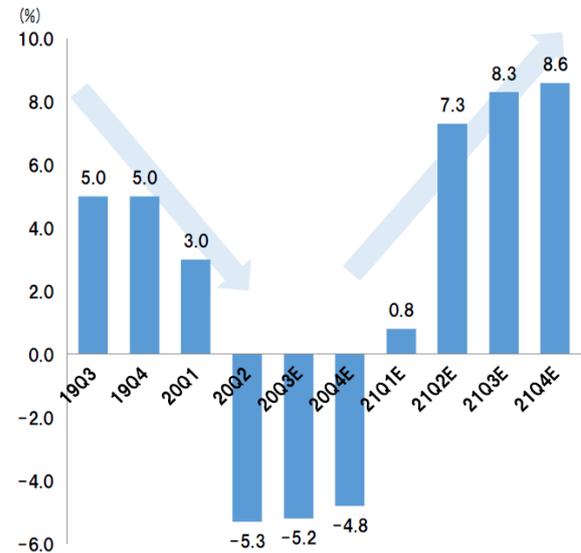
Real GDP growth expected to return positive from 1Q of 2021

Real GDP growth rate (annual)



Source: BMI Research.

Real GDP growth rate (YoY)



Source: Nomura.

The real GDP growth rate of the Indonesian economy is projected to turn negative in FY2020 due to the impact of COVID-19. However, we expect the impact of COVID-19 to gradually ease and the real GDP growth rate to turn positive from 1Q of FY2021. Our decision to acquire the Indonesia business was based on its growth potential from a long-term perspective. Seeing that the paint demand does not evaporate due to the impact of COVID-19, we believe that some time lags in demand can be recovered sufficiently.

## Synergy Creation (1)

Generating synergies through “Spider Web Management” (i.e. organic collaboration among our partner companies)



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Now, let me turn to explain about synergy creation.

We believe that there are largely four synergies expected to be generated through the acquisition of the Asian JV stake and the Indonesia business. Our management style has been based on "spider web management," in which excellent partner companies cooperate autonomously with each other to generate synergies, rather than "radiation type management," in which all bases are linked to the Head Office in Japan, which makes all important decisions. Through this transaction, we will welcome the Indonesia business to join our partner companies and further deepen our collaboration with the Asian JVs.

Regarding synergy 1, we will acquire 100% ownership of the Asian JVs, which will allow us to integrate the interests of minority shareholders, which have previously been flowing out. Accordingly, we will be able to optimize the allocation of resources including investments globally. We believe that the Asia business will continue to be the driving force for the Group's growth. Therefore, preventing profit and cash outflows early on will benefit our current shareholders in the future.

In addition, since 49% of cash generated and other management resources of the Asian JVs are attributed to our joint venture partner, we had a tendency of pursuing partial

optimization of management resources. In this situation, collaboration does not always work well if only one side makes profits. However, the transaction will allow us to pursue total optimization of management resources.

What I would like to make clear is that we will strive to create maximum synergies by leveraging the Group's advantages by keeping NIPSEA's advantages as much as possible, while expecting a greater autonomous growth than ever, and strengthening the partnership among the Group companies.

Synergies 2, 3, and 4 are mainly synergies created from the acquisition of the Indonesia business. I will introduce an example of such synergy on the next page

## Synergy Creation (2)

Creating new business opportunities with new regions and expanded management teams



### Global integration of industrial coatings business

- Reorganizing operations by business rather than by region, enabling more efficient decision making and strategy execution
- e.g. Integration of automotive business across regions



### Launch of Selleys brand in Indonesia

- Expanding sales of DuluxGroup's Selleys brand (adhesives, sealants, etc.) through sales channel of NIPSEA Indonesia



### Expansion to other coating areas in Indonesia

- Entering into areas such as coils, construction machinery, and surface treatment through collaboration with industrial and fine chemicals businesses in Japan



### Management know-how sharing through participation of strong management

- Creating new growth opportunities with an addition of management team familiar with the growing market

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(1) Nippon Paint (China) Co., Ltd.

(2) Nippon Paint Automotive Coatings Co., Ltd.

(3) Nippon Paint Industrial Coatings Co., Ltd.

(4) Nippon Paint Surf Chemicals Co., Ltd.

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These are our four business opportunities. Some of them have already been under consideration, while others are still ideas or possibilities. In any event, we believe that many synergies can be generated through spider web management.

① Regarding "global integration of industrial coatings business," as I mentioned earlier, when a 49% stake is held by another shareholder, it can hinder smooth integrated operations. We believe that the industrial coatings business will enjoy faster decision-making and execution considering relationships with customers if more integrated on a business axis basis, while the decorative paints business focuses on local production for local consumption based on a regional axis. For example, this transaction will allow us to consider integrating the automotive coatings business, which has in some cases historically been competing within the Group globally. For instance, we sometimes have Nippon Paint Automotive Coatings' subsidiary and NIPSEA' subsidiary competing in China. We have similar cases in other countries. After the transaction, we will be able to consider integrating such operations.

② Regarding the "launch of Selleys brand in Indonesia," Australia-based DuluxGroup has excellent sealants and adhesive products. They sold the Selleys brand operations in China to NIPSEA China. NIPSEA China have already started sales activities for the Selleys brand

products with sales off to a good start. Also, we believe it is worth considering the launch of the Selleys brand in Indonesia.

③With regard to the "expansion to other coating areas in Indonesia," we are considering collaboration, or partial integration with industrial and fine chemicals businesses with advanced technological capabilities in Japan. We believe that our full-fledged entry into areas such as coils, construction machinery, and surface treatments will have significant benefits.

④Finally, we believe that by welcoming the management team of the Indonesia business to our spider web management, we will be able to share our management know-how and create new business opportunities. For example, the demand for antiviral coatings that can mitigate the spread of the COVID-19 infection, which we are currently focusing on, may increase around the world. . The spread of our spider web management will directly lead to the expansion of such business opportunities.

## Financial Impact (1) Income Statement

Profit attributable to parent will increase by c. 60% and EPS by 10% or more

Pro-forma basis (Unit: JPY bil)

	FY2019			
	Actual	DGL and Betek annualized and consolidated <sup>(1)</sup>	Impact of transaction <sup>(2)</sup>	DGL and Betek annualized + Impact of transaction <sup>(2)</sup>
Revenue	692.0	803.3	+c. 59.0	c. 862.0
Operating profit	78.1	88.6	+c. 12.0	c. 100.0
Operating margin	11.3%	11.0%	+c. 0.6 %	11.6%
Profit attributable to parent	36.7	42.5	+c. 60% <sup>(3)</sup>	
NPHD EPS (JPY)	114.5	132.6	+10% or more <sup>(3)</sup>	

(1) Refer to page 42 for details of DGL and Betek Boya adjustments to annualized basis.

(2) Revenue represents a simple sum including the sales of equity-method affiliates (Asia JVs) to be consolidated and the sales of Indonesia business. Operating profit is not considering amortization of intangible assets. Estimated impact is based on fiscal 2019 results.

(3) Intangible amortization (Pre-PPA) and acquisition related interest cost are considered, but excludes one-time cost items

I will move on to explain about the financial impact of the transaction from this page onward.

This page shows the impact of acquiring 100% ownership of the Asian JVs and the Indonesia business, as well as the impact that reflects the increase in the number of shares issued due to third-party allotment and amortization of interest cost and intangible assets, based on the FY2019 actual figures, in the same manner as in page 13.

The first column from the left shows the actual results for FY2019. EPS was 114.5 yen. The second column from the left shows the pro forma, annualized earnings figures for DuluxGroup and Betek Boya as in page 13. On a pro forma basis, EPS would be 132.6 yen if the transaction is not reflected.

The next column shows the impact of the transaction. In addition to the impact of acquiring 100% ownership of the Asian JVs, the impact of consolidation of the Indonesia business is reflected. The Indonesia business is highly profitable, and its consolidation will boost the operating margin.

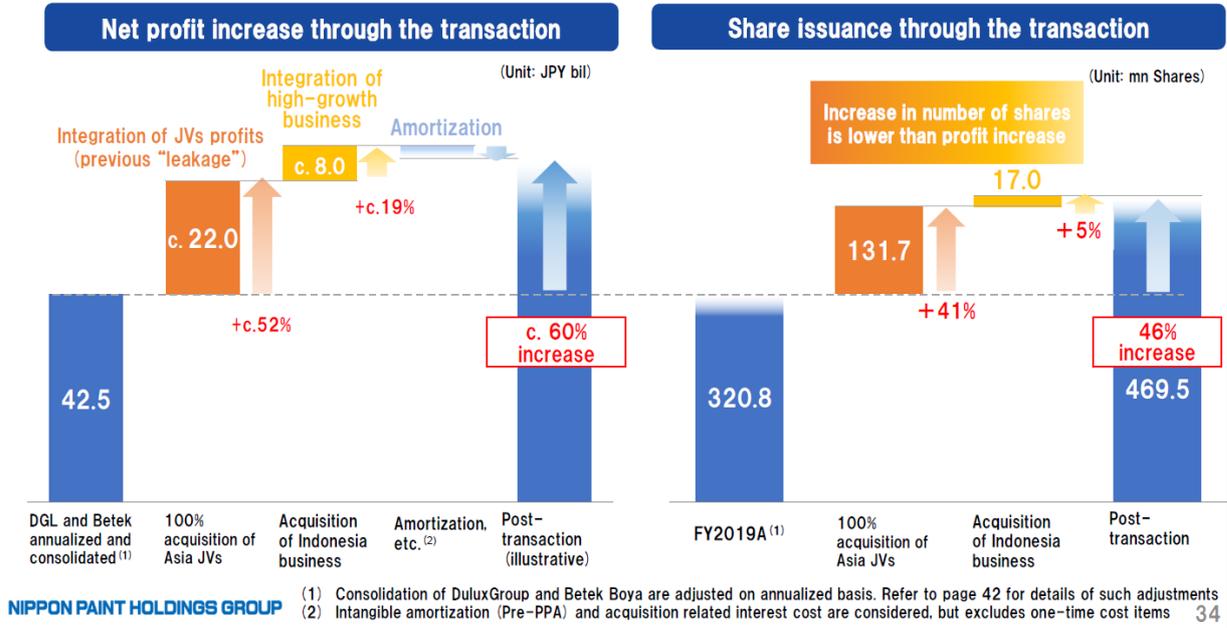
Figures in the red boxes in the lower part of the table show that we can achieve an approx. 60% increase in profit, even when amortization of intangible assets and interest and other costs associated with consolidation are taken into account, compared to the figures shown in the second column from the left.

This page also shows that EPS, in the bottom row of the table, will increase by more than 10%.

## Financial Impact (2) Pro-forma Profit and New Share Issuance

Profit increase greater than share count increase, delivering EPS accretion

Significant EPS accretion expected from year one through JV stake consolidation, coupled with future EPS upside from growth investment in the Indonesia business

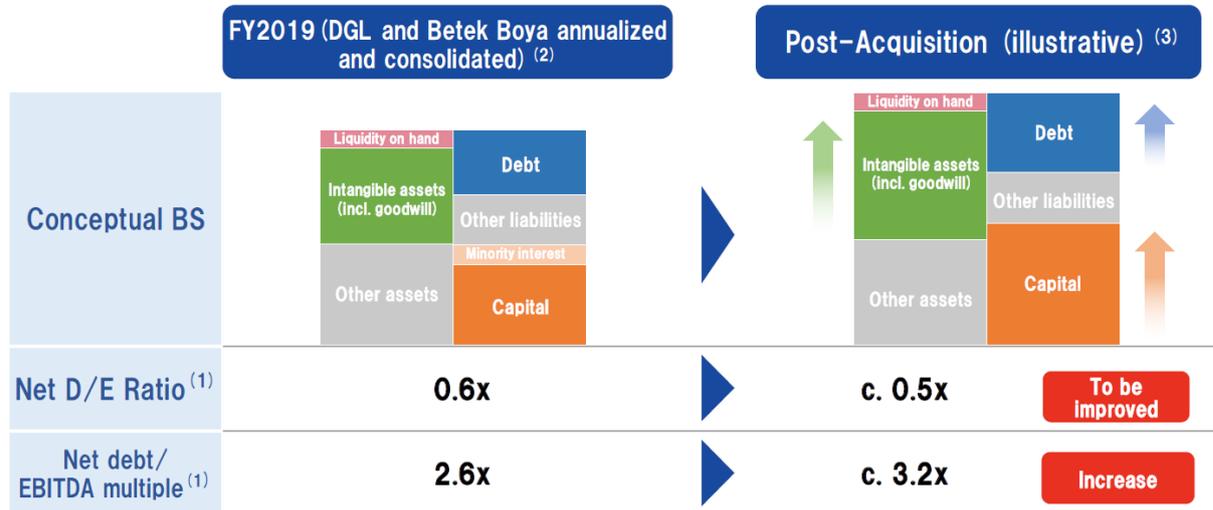


This page illustrates the financial impact of the transaction explained in the previous page. On a pro forma basis based on the FY2019 actual figures, profit will increase by about 60% even after amortization of costs, as shown on the left side of this page, while the number of shares will increase by 46%, as shown on the right side of this page, resulting in an increase of EPS.

## Financial Impact (3) Balance Sheet

Net D/E ratio to improve via capital reinforcement for stronger balance sheet

Financial capacity secured for next M&A opportunity for MSV realization



(1) Net Debt = long term loan + other financial liabilities - cash and cash equivalents - other financial assets (current). EBITDA = Operating income + Depreciation and amortization

(2) Refer to page 42 for details of DGL and Betek Boya adjustments to annualized basis.

(3) Conceptual BS is based on the full-year forecast announced on August 14, 2020, adjusted for the impact of this transaction. EBITDA is calculated by taking into account the consolidated full-year effect of DGL and Betek Boya for FY 2019 and Indonesia business results for FY2019. One-time cost items associated with the transaction are not included.

Similarly, we prepared a pro forma illustration for the balance sheet. As I mentioned earlier, if we had financed the transaction entirely with interest-bearing debt, our capital base would have been impaired significantly. But we will be able to reinforce our capital base by choosing to implement a third-party allotment instead, as well as improving the D/E ratio.

On the other hand, the net interest-bearing debt to EBITDA multiple will rise slightly. This is because the EBITDA of the Asian JVs is already incorporated entirely on a consolidated basis, so the transaction will basically result in an increase in EBITDA only by the amount of EBITDA of the Indonesia business.

However, the projected net interest-bearing debt to EBITDA multiple of 3.2 times after the transaction is considered enough to adequately maintain our financial health and ensure financial capacity for M&As in the future, taking into consideration factors such as the stability of cash flows in the paint business, the effect of commanding full control of cash flows of the Asian JVs as I mentioned earlier, and the market environment allowing financing at low interest rates.

## Future Strategy (1) Invest in Japan for Improved Productivity

NPHD is currently undergoing thorough supply chain reform, incorporating BCP with new normal as a premise

### Building a digital supply chain

- Examining ways to visualize and enhance productivity by drawing on best practices of overseas partner companies

- Promoting the SC dashboard



- Promoting work sophistication through digitization

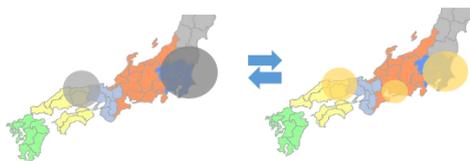


Enabling remote work through paperless operations.  
Reducing heavy tasks

### Reconstruction of supply chains

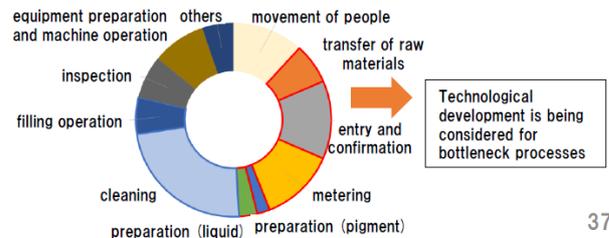
- Promoting realignment of Japanese production bases based on SC, BCP, etc.

- Examining manufacturing centers based on SC and BCP



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- Sophistication of manufacturing processes also considered



Finally, I would like to go into three points regarding future strategies. My explanation thus far has focused on overseas business expansion, while at the same time I am aware of the critical importance of improving productivity and strengthening technological capabilities in the domestic businesses. We will not only respond to the population decrease in the Japanese market but also make solid investments based on my view that the Japanese market has potential for development.

As specific examples, we are working on realizing digital supply chains and promoting the restructuring of supply chains, about which I briefly mentioned in the presentation for institutional investors held in February this year. NIPSEA China, our partner company, has constructed a dashboard that provides real-time information on the production and delivery status of factories across China, allowing for monitoring of the current status of production and delivery. The advantage of spider web management is its ability to deploy such practices (know-how) in Japan as well, and we are working on the visualization of productivity and sophistication of operations.

## Future Strategy (2) Development of Antiviral Products

### Upgrading R&D and product supply to resolve social issues

#### Enhancement of open innovation activities

- Entered into an industry-academic cooperation agreement with The University of Tokyo in May 2020
  - Opening a seminar “Creation of Innovative Coating Technology” to discuss on societal cooperation (starting October 2020)
- Leverage every technology in the group to expand cooperative efforts with universities, research institutions, and other companies going forward



Right: Masaaki Tanaka, Chairman of the Board, Representative Executive officer, President & CEO, Nippon Paint Holdings Co., Ltd.  
Left: Makoto Gonokami, President, The University of Tokyo

#### “Perfect Interior Air Clean”

- Nippon Paint’s antiviral / antibacterial paints are the first of their kind, and the only emulsion paints certified by the Photocatalysis Industry Association of Japan (PIAJ)
- Rapid increase in inquiries and uses by hospitals, schools, nursing homes, dance studios, and more



On sale since October 2017  
Free provision to hospitals, public facilities, dance studios, etc. (June 2020)

The second point is our active development of anti-viral products. In May, we concluded a co-creation agreement with the University of Tokyo, and announced the launch of a joint research based on three themes including coating technologies with antiviral functions and the establishment of social cooperation course. We have already begun joint research on antiviral technologies.

The Perfect Interior Air Clean is an antibacterial and antiviral coating developed by applying photocatalytic technology developed by the University of Tokyo in 1972. It is the first of its kind and only emulsion paint certified by the Photocatalysis Industry Association of Japan. The product has recently been widely covered in TV news, and inquiries about this product from hospitals, public facilities, dance studios, etc. are rapidly increasing.

## Future Strategies (3) Further Growth through M&A

### Promoting M&A to maximize shareholder value

#### Basic Principles of M&A

- Constant review of deals in pipeline
- Earning a return higher than capital cost and delivering EPS accretion
- Priority setting with financial discipline maintained
- Synergy creation through “spider web management”
  - Respecting autonomy of acquiring companies
  - Sharing growth opportunities, including technology, among partner companies
  - Synergies realization through strong talent acquisition
  - Sharing best practices



The third point is growth through M&As. Our M&A strategy is to carry out acquisition of companies to further enhance spider web management. In other words, we aim to acquire competent talents and strong brands as well as businesses through M&As. After acquiring the companies, we basically respect the autonomous management of the acquisition targets and share opportunities for growth among group companies through technology sharing, etc., thereby enhancing corporate value of the Group as a whole.

## Summary

### c.60% profit increase and 10%+ EPS accretion, ensuring protection of “minority shareholders’ interest”

- Achieving significant profit increase by incorporating earnings of fast-growing Asia JVs and Indonesia business
- Capital reinforcement with EPS accretion, ensuring protection of minority shareholders’ interest

### Strong partnership continues with shared common goal of “Maximization of Shareholder Value”

- Based on strong partnership cultivated for nearly 60 years, NPHD will accelerate its growth through streamlined governance structure to further pursue global growth opportunities
- Full alignment of shareholders’ interests to be achieved, enabling further acceleration of “maximization of shareholder value”

### Establishing Dominance in Asia to Pursue Global Growth

Before concluding my presentation, I will briefly summarize the impact of this transaction.

First, this transaction will allow us to strengthen our financial base while sufficiently protecting the interests of minority shareholders. In addition, I believe that the transaction will enable a significant increase in both profit and EPS.

Second, this transaction will allow us to build stronger strategic partnership with the Wuthelam Group, establishing a structure for pursuing Maximization of Shareholder Value (MSV) as one in name and reality.

This structure will allow us to establish a dominant No.1 management structure in Asia, and together with Mr. Goh Hup Jin, we will strive to achieve further growth under this new structure.

Thank you for your attention.

End