

We aim to become  
a real global company  
as a "Global Paint Major"



Tetsushi Tado

President & CEO  
Nippon Paint Holdings Co., Ltd.

## The State That the "Global Paint Major" Aims to Be

### Completion of the Mid-term Management Plan "Survival Challenge III"

Nippon Paint Holdings Group announced its new management philosophy in January 2018. In consideration of the current situation where overseas employees represent more than 85% in the Group, we updated the management philosophy without losing our DNA in the previous philosophy with an aim to share common awareness among all Group employees not only in Japan but also worldwide through the new philosophy.

As to our mid-term management plan "Survival Challenge," we have completed the stage III-1 for the years 2015 to 2017. Following the six years of Stages I and II, in which we worked to establish a sustainable profitable structure, the three years from 2015 to 2017 was positioned as the first part of Stage III, targeting net sales of 700 billion yen and an operating margin of 15% or more in fiscal 2017. As a result, we almost reached the target net sales when the influence of exchange rates was excluded but failed to meet the target operating margin in fiscal

2017 with the impact of soaring prices of raw materials due to environmental regulations in China and other reasons although the target was met in fiscal 2016.

In the meantime, we have established a strong regional portfolio based on Asia, which is a growing market, as a result of the consolidation of joint ventures that we developed in Asia as well as commitment to the expansion of our business through M&A and other measures mainly in China. In America, we set up a business portfolio with focus on construction paints, which have high profitability and growth potential, as a result of the acquisition of Dunn-Edwards Corporation as a consolidated subsidiary.

We increased our market share in the strategic businesses and regions and also promoted the establishment of growth bases in the new structure after the consolidation of our Asia businesses while sowing seeds for growth, such as M&As that are expected to increase our profit in the future. Thus, we proudly consider that we made significant achievements during those three years.

### Key Initiatives of the medium-term management plan "N-20"

1. Strengthen the businesses in existing segments
2. Accelerate expansion of the portfolio
3. Improve earning capacity
4. Enhance the structure of "Global One Team"

## To become a leading company committed to continuously creating new values

The demand for paints in the world is currently estimated to be worth 15 to 16 trillion yen and expected to nearly double to around 30 trillion yen by 2030. This growth is led by Asia, especially China. It is obvious that China is important with the largest market and highest growth potential. To exploit the increasing demand for paints and survive the competition, we have to adapt to any changes. Nippon Paint Holdings Group aims to become a "leading company committed to continuously creating new values" as the state we would like to be in 2030 and launched the medium-term management plan "N-20" to meet the target of establishing a position that is high enough to compete with global top companies by 2020 as a step to achieve the goal.

In the medium-term management plan "N-20," we position the period from 2018 to 2020 as "3 years for growth acceleration" and strive to establish an overwhelming position in Japan and other Asian countries, our home region, as a global paint major from Asia to accelerate our growth worldwide. We aim to achieve net sales of 750 billion yen and an operating margin of 14% (based only on existing businesses and excluding new acquisitions, etc.) in 2020, the final fiscal year for the plan.

The reorganization of the global paint industry, as well as oligopoly controlled by the top manufacturers, is making steady progress and the speed of such market reorganization toward oligopoly is expected to become faster than ever. In any case, we have to establish a system and position to compete globally by 2020 in order to reach the goal in 2030 while the market is further expanding. Under such circumstances, Nippon Paint Holdings Group aims to establish an overwhelming position through the comprehensive strengthening of its existing businesses in Asia, in which we have conventionally operated and expanded our businesses, under the current medium-term management plan.

Meanwhile, in the regions outside Asia, we will work to enhance the earnings bases of our existing businesses. In addition, in Europe and the United States, we will seek the establishment of a regional headquarters (RHQ) system and stabilization of its operation in order to further enhance the system in the geographical segments.

## Strengthening of the existing segments to thoroughly achieve the medium-term management plan starting in 2018

We have identified the key initiatives to thoroughly achieve the medium-term management plan "N-20." Especially to "strengthen the businesses in existing segments," we will further enhance and expand our core businesses in China and other Asian countries, in which we already have a large share.

For example, we will take measures to further disseminate the Nippon Paint China brand in China and the Nippon Paint brand in other Asian countries. As exemplified by the woodworking paint business for coating furniture at factories in China, which was consolidated in 2017, we will flexibly respond to market and demand changes such as lifestyle changes. We assume that the tightening of environmental regulations in China will give the Nippon Paint Holdings Group a unique opportunity to create an overwhelming competitive advantage. Since the Group owns high technological capacity for water-based paints, which are representative of eco-friendly products, we believe that we can solidify our leading position through the strengthening and acceleration of the development of new products and differentiation from competitors. We will also pay attention to regions other than Asia, in which we will enhance earnings bases of automotive paint and other existing businesses. With respect to the three main businesses, we will enhance the promotion of the automotive paint business not only with Japanese customers but also with non-Japanese customers more aggressively. Through this initiative, we continuously try to increase our share in order to become a global supplier for non-Japanese customers including European, US, and Chinese manufacturers while winning the largest share on a global scale for Japanese customers. For industrial-use paints, we will work to increase our share with coils and transportation equipment as the core business segments and also aim to establish an overwhelming position in the powder coatings business, which has high demand.

We will also introduce our unique management model (NN model), which drives our growth in Asia, globally so that we can establish a solid cooperative system and implement the management at a higher speed in each region and each business and optimize the resource allocation.

## Future challenges and targets for ESG management

To achieve the state we would like to be in 2030, we have set targets from the perspective of ESG for the realization of a sustainable society along with the sustainable development of the Nippon Paint Holdings Group. Those targets are set as priority management issues and incorporated into the strategy of the current medium-term management plan "N-20." We will implement the initiatives to meet the targets steadily to help expand the businesses and profits as well.

Firstly, on the "E" (environmental) aspect, since paints are used in every scene of our life, we will work to create and disseminate products that address environmental problems in the areas related to all businesses handled by our Group including automotive, construction, industrial, and marine coatings and surface treatments. We will also help reduce the use of energy and substances of concern both in the paint production process of our Group and in the coating process at the plants of our customers.

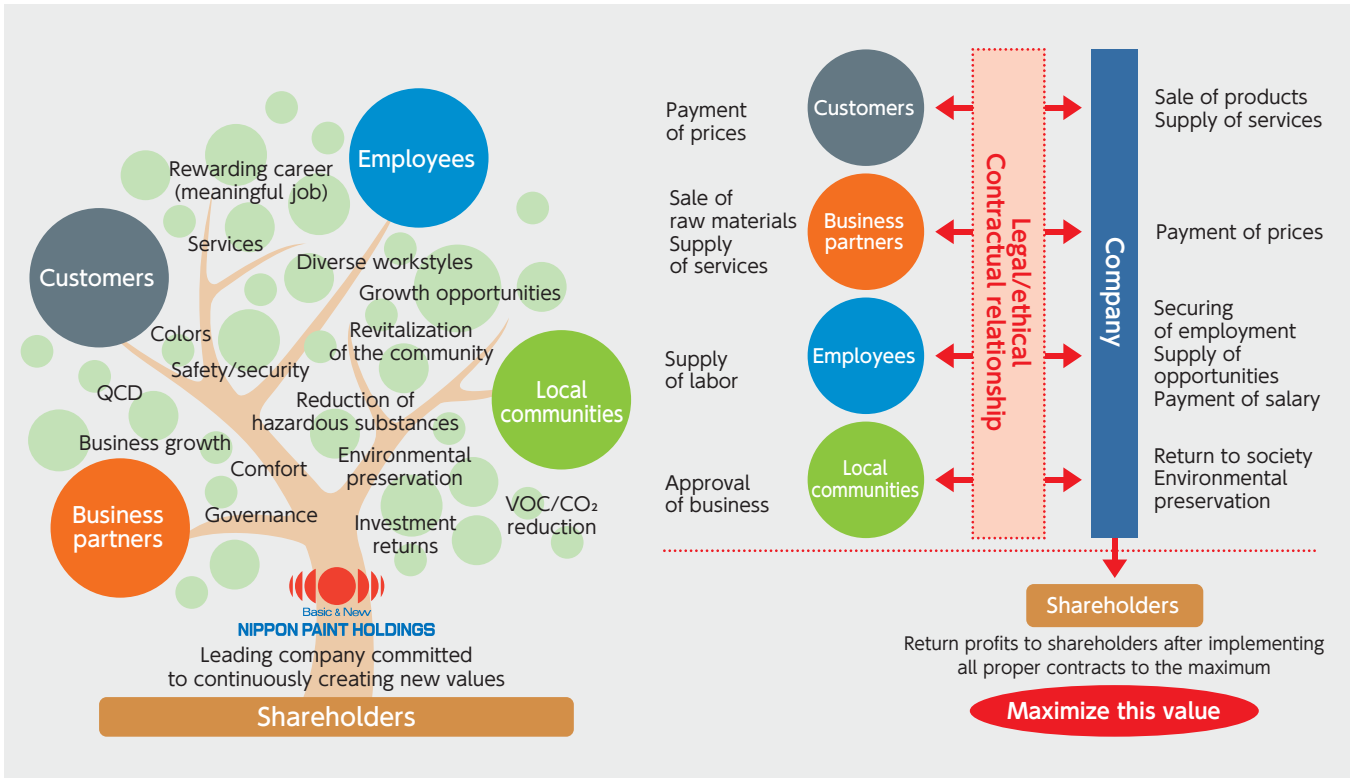
Next, on the "S" (social) aspect, as the Group has diverse human resources with different nationalities, cultural and living habits, specialties, and experience levels, we aim to develop corporate culture where the expertise and experience of each person can be utilized for the decision making process and work approaches and everyone can work with a sense of security. Lastly, on the "G" (governance) aspect, we will set up a governance system that can address global competition by sharing the management philosophy and establishing the RHQ system. In 2014, we transitioned to a holding company structure to include our joint ventures in Asia in the scope of consolidation, which expanded our organization and made a vast majority of our employees have foreign citizenships. As a "compass" showing the direction of the company to such diverse employees, we took one year to re-establish our management philosophy in 2017 and started to promote the dissemination of the new philosophy composed of Mission, Vision, Value, and Way in 2018. The state that our Group would like to be in 2030 and the state that we should be in 2020 are based on this management philosophy and we consider that the global dissemination of the philosophy is also significant for group governance and compliance.

## Work style reforms to achieve the medium-term management plan

Nippon Paint Holdings promotes the development of culture, system, and mechanism to ensure that each employee takes responsibility for their own growth and can independently select their work styles to carry out their jobs, as well as the establishment of a cycle where the growth of employees leads to the growth of the company.

To seriously move the company forward, while changing our organization, we also set up a Corporate Reforming Steering Committee as a company-wide project to promote this, and further established working groups under the umbrella of the steering committee to work on issues such as the "penetration of management philosophy," "promotion of CSR/ESG management," and "work style reforms and improvement of labor productivity." Work style reforms and the improvement of labor productivity are inseparable. It is not enough to build a system only but it is





important to achieve the expected results within certain working hours. We expect each employee to be actively committed to work style reforms, work efficiently to create surplus time, and use it for self-development to thereby enhance their individual abilities and value. The organization can also improve its functions by encouraging employees to work in a flexible manner and taking stock of the duties. We hope to achieve such a virtuous cycle where the improvement of the abilities of individuals leads to the growth of the organization through work style reforms. We are now promoting the establishment of programs that allow employees to select from among diverse work styles to ensure that each employee can independently develop a sense of professionalism and make achievements. They include a program to take holidays for one full week (one-week holiday program) and the flexible working system, which have already been operated in Japan. We have also introduced a system for employees to take annual paid holidays by the hour and implemented the teleworking system on a trial basis. I believe that the company and individuals have to enhance their respective value and spare time to do it and the synergy will consequently reform the culture.

In conclusion, the Nippon Paint Holdings Group aims to provide a bigger fruit, or value, to stakeholders based on the nutrients, or fund, from the shareholders. In general, a company gives value to stakeholders based on various contractual relationships. I recognize that the maximization of the value returned to shareholders is our mission. Our Group strives to become a "leading company committed to continuously creating new values" through all business activities. It means that we are always aware of the maximization of shareholders' value when making management decisions or executing the management strategy. Based on it, the Group will strive to achieve the medium-term management plan with an aim to become a real global company that wins global competition. I ask for your continued support.

*Tetsushi Tado*  
President & CEO