

Presentation for Institutional Investors (FY2020) Q&A Summary

February 21, 2020

◆ Questions: Shinobu Takeuchi, SMBC Nikko Securities Inc.

Q1	You said that using M&A for growth will depend on other companies as well. Do you have priorities in terms of regions or business sectors?
A1	<p>On a global scale, one target is the decorative paint sector. As you know, we acquired DuluxGroup and Betek Boya in 2019. Decorative paint is the main business for both companies. This is a very important market because it will be one of the fastest growing categories.</p> <p>That said, our global presence is growing very rapidly in market sectors other than decorative paint. We will consider opportunities in these other sectors if the acquisition would contribute to maximizing shareholder value.</p>

Q2	If your conditions are fulfilled, is there a possibility of targeting European or U.S. automotive coatings manufacturer, for example?
A2	Automotive coatings are about 10% of global demand for paint. There are other growth categories in particular decorative paint and our plan is to seek opportunities in business sectors with sufficient growth potential.

Q3	Regarding the possibility of making the Asia joint venture a wholly owned subsidiary, which is on page 30, how would you prioritize this compared to other M&A activities?
A3	<p>As I explained earlier, the Board of Directors will discuss this subject after we convert to the Company with Three Committees following the March general meeting of shareholders. We already own 51% of the Asian joint venture. We need to carefully examine the issues from the standpoint of management concerning the conversion of the joint venture to a wholly owned subsidiary.</p> <p>For example, if the joint venture is wholly owned, I will become responsible for our workforce of more than 9,000 in China and their families. The directors will have to thoroughly discuss this matter, including the need for actions from the standpoint of finance as well as a wide range of other matters.</p> <p>Although these discussions are necessary, I would also add that the current structure with our 51% ownership and 49% owned by Wulthelam creates some issues. In other words, the Asian business is not wholly owned, so if we do everything possible for this business, such as supplying our technologies to raise earnings, only 51% of those earnings will revert to Nippon Paint Holdings.</p> <p>We would like to make the decision including above matters after the Board of Directors has thoroughly examined this idea after April 2020.</p>

Q4	I believe that you have already held discussions about making the Asian joint venture a wholly owned subsidiary. Are you resetting these discussions to the starting point so that, after the March general meeting of shareholders, the new directors can start thinking about this proposal once again from the beginning?
A4	We will discuss methods for making the Asian joint venture a wholly owned subsidiary. It is not accurate to view this as going back to the beginning. If we take this step, I believe that we must do so only after performing a meticulous examination of all issues.

Q5	When you talked about keeping leverage at a suitable level, there is the possibility of the number becoming preeminent and this would depend on each acquisition, but how much do you think you can allow leverage to increase?
A5	Answering with numbers is difficult, so I will use credit ratings to explain. Our basic thinking is to have a credit rating of single A. However, as with the Sherwin-Williams' Valspar acquisition I mentioned on page 44, we would consider increase in leverage, or have our credit rating downgraded temporarily if we have a significant opportunity we cannot miss and that it will play a key role in creating our future, with leverage or our rating returning to prior level later on.

◆ Questions: Takashi Enomoto, Merrill Lynch Japan Securities Co., Ltd.

Q1	Is there a possibility of a change in NIPSEA's 39% ownership of Nippon Paint Holdings? Furthermore, is there a possibility that NIPSEA strengthens its control and have change in your management structure?
A1	<p>I think a change in NIPSEA's current 39% ownership is possible. But I do not know what the new percentage would be. However, I think there is little possibility of a decrease and more a possibility of an increase.</p> <p>Even if this percentage increases, I do not think there would be a drastic change in our management.</p> <p>In particular, the change in our Board of Directors from 11 to 9 members and an increase in independence and objectivity is to be noted. We made this decision after discussing with NIPSEA Representative Goh Hup Jin and obtaining his understanding about the need to protect minority shareholder rights.</p> <p>According to Mr. Goh, although he is a major shareholder, he very much wants management that increases shareholder value for both major and minority shareholders. As long as Mr. Goh retains this stance, I think there will be no big change in our management.</p>

Q2	In the Asian joint venture, I believe that you have no ownership at all in Indonesia. You have many options, such as raising ownership to 100% or 51%. What is you thinking about this?
A2	There are excellent prospects for economic growth in Indonesia, so I would like to include this company into our consideration.

Q3	<p>You said that the novel coronavirus outbreak has reduced factory operating rates in China. Your competitors are obviously feeling the same effects of this crisis. How do your operating rates compare with those of competitors?</p> <p>For example, weaker companies are likely to fall behind when normal operations are restarted. Would this cause your market share to rise faster? Or would there unexpectedly be no market share growth because of a few barriers or other reasons?</p>
A3	<p>According to NIPSEA China, “Companies with cash will win, so from this standpoint a number of companies will become weaker due to competition. When this happens, we will increase our market share or we may acquire a company. We believe this situation should occur.”</p> <p>NIPSEA China is already the leading paint manufacturer in China and further receives strong support from us. I often hear from NIPSEA China that they are extremely confident about their ability to capture market share and heighten their stature. I hope they are correct.</p>

◆ Questions: Atsushi Ikeda, Citigroup Global Markets Japan Inc.

Q1	<p>Regarding M&A, I have a very good understanding of growth, stability and the attractiveness of the paint market. I also think that the low interest rate business climate is extremely favorable for M&A activity. However, valuations are increasing and you suddenly announced impairment losses in the automobile coatings business of India and Europe. I have a feeling that the battlefield of your business operations is too broad.</p> <p>Also, I have the impression that your senior management is like an investment company because very few executives have a sound knowledge of the paint business. Can Nippon Paint Holdings thrive as an investment company like Berkshire Hathaway?</p> <p>Finally, I would like to know how you plan to ensure the effectiveness of governance. I think you are using the management system shown on page 21 very well. What are your thoughts about this subject?</p>
A1	<p>First, regarding the question about becoming an investment company, I think it is one of our options. I am not a paint specialist and may need to learn more. But according to Mr. Goh Hup Jin, paint is a business that is relatively easy to understand. This differs from industries like diversified chemicals and semiconductors. I indeed think the paint business is easier to understand. But I also believe that business operations should be conducted primarily by</p>

operating companies specializing in paint and that we should be involved as a holding company.

At Berkshire Hathaway, Mr. Warren Buffett says that there are only two things the company does. One is the selection of the CEO. The other is decisions about capital and finance, including capital allocation. I think that our management will gradually change as the holding company performs these two roles.

Now our operations in Japan are divided into five business units. We need an oversight/control function for these operations. This was precisely the role of the former Nippon Paint. The presidents of Nippon Paint prior to the switch to a holding company structure were doing this job. Now it is my job.

Fortunately, our company has an excellent culture. For example, there are many outstanding people who have been teaching me many things. I want to make this company, centered on our people in Japan, an organization where it is easy to do their jobs and that can grow consistently. Only then can we advance to the next step.

Next is your question about overseas governance and the impairment losses. Growth of the economy of India slowed considerably in 2019. I think monetary and economic policies were major causes to the slowdown. When banks stop approving auto and home loans, for example, we must adopt a conservative view towards the Indian economy. This is why we reexamined the future profitability of our operating company in India. Posting an impairment loss is not the result of something bad. Instead, this action originates with a reduction in the outlook for the future. As a result, we made the decision to record an impairment loss.

It is a similar situation at Bollig & Kemper in Europe. Every year, we review the five year outlook and the most important factor when formulating this plan is the outlook for the automobile industry, especially for the operations of European and Japanese automakers. As you are aware, in 2019 there were decreases in automobile sales and production. We performed a conservative revision of the five-year outlook. The result was the decision to record an impairment loss.

My career includes time in the financial sector. I believe finance requires conservative responses to changes, so this time we decided to post these impairment losses. We are not shutting down both companies. The business plan used as the premise for these losses at each company represents the bottom line. We have decided to formulate separate plans that call for even better performance.

In the new plans, we are deploying a large volume of human resources, including engineers. In this sense, I think that these impairment losses will have a positive effect on our performance in the future.

Q2	<p>I would like to hear more about your regional and sales channel strategies in China for increasing your share of the DIY market. Your current share is high at 36% and your goal of 40% is within sight. On the other hand, for example, if you decided to increase sales in Tier 3 and Tier 4 cities in order to raise your share to 50%, wouldn't this cause a big decline in your profitability?</p> <p>Regarding sales channels, I think that both exclusive and non-exclusive paint shop provide painting services for their customers. Do you plan to use digital technology for internet sales in order to increase your market share?</p>
A2	<p>First, I will talk about segmentation. Right now, Top, Tier 1 and Tier 2 cities account for majority of our DIY sales and there are activities for extending sales to Tier 3. The Chinese government is performing guidance in many ways concerning the functions of Tier 2 and Tier 3 cities. Our actions need to be consistent with this guidance. We are thinking about a variety of measures for extending operations beyond Top, Tier 1 and Tier 2 cities. For example, we may operate paint stores in mid-range regions of China.</p> <p>Regarding digital technology, there is already a company called iColor that has started a service that allows people to use a website to buy paint. Unfortunately, this business is not going that well. Therefore, we will use a somewhat different method. Rather than simply buying paint, DIY customers often want to combine these purchases with painting, picture painting and other services. Although there are internet services for buying paint, these services do not match these needs of customers. This is why we are thinking about a different approach.</p>

Q3	<p>Could your market share goal in China five or 10 years from now increase to 50%?</p>
A3	<p>Our operations in China are envisioning to increase a market share as you said. Nippon Paint Holdings has told our China managers that we are not satisfied with the current market share. I think we should be pleased if we can raise the market share to 50%.</p>

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

Q1	<p>On page 35, which is about factory investments in Japan to increase productivity, what is your timeline for making these investments? Also, how much do you plan to spend? I think these investments will include factory reorganizations, consolidations of production lines and other actions. Please provide as much information as you can.</p>
A1	<p>A past interview article with Mr. Tado included the statement that, at that time, we had started to consider a plan that would consolidate the eight major factories in Japan into three locations. Eastern Japan would have the Tochigi Factory. For central Japan we would buy land to build a factory in Okazaki to take over the operations of several nearby factories. Western Japan</p>

	<p>manufacturing would be centralized at the Okayama Plant. From our past discussions, we concluded that these actions would require investments of almost 100 billion yen.</p> <p>Now, while incorporating the previous process, we have decided that there is a need to do more than simply consolidate factories. We must also seamlessly link procurement, manufacturing, inventories, sales and all other activities. Therefore, we have made a small change in the objective of these investments. We still plan to use three factories as the base for our operations in Japan. However, we have restarted our planning work in order to somewhat increase the breadth of these investments.</p> <p>At our Chiba Factory, we are constructing a powder factory that is not included in the plan for three main factories. We decided that we should utilize the land formerly occupied by the Chiba Factory. I think we need to think about our actions based on the number of product categories. Therefore, I cannot say how much our investments will be in 2020. I think this will instead be a year for planning our upcoming investments.</p> <p>From the standpoint of finance, we will not simply construct buildings, buy machinery and then depreciate these assets as they are used. We are considering many types of financial schemes. For example, we may sell land and lease it back or use conventional leases. We will select the best methods based on how they will affect our financial position. We have a team of about 20 people to study all these issues. Supply Chain Planning Department is performing studies and submits reports directly to me.</p> <p>For these reasons, we have not yet reached any conclusions about the timing or amounts of these investments.</p>
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Q2	Will these investments in Japan require about 10 years to complete? Please explain the schedule, if possible.
A2	<p>Our previous plan probably would have required 10 years. But I think this pace is too slow. In China, factories have been constructed in only one or two years. Construction times in Japan and China are very different, yet we will take our actions carefully and steadily while taking into consideration all factors. How can we use the world's best machinery and other equipment at the lowest possible cost? How can we combine the approximately 800 to 900 types of paint made in small quantities at our factories? And so on.</p> <p>I plan to start dividing our actions into phases as soon and approve, instead of creating phases only after an entire initiative has been finalized.</p>

Q3	Do you plan to reduce your workforce?
A3	A workforce reduction is not part of our plan. There will be natural attrition as our workforce ages. Therefore, we must implement our plan for investments in Japan faster than the pace of this attrition.

Q4	Does that mean you are adapting to the natural attrition of your workforce?
A4	Rather than adapting or responding, we must keep up with this attrition.

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

Q1	My impression is that you are more proactive than in prior years concerning governance and M&A. For example, in the past your goal was to keep the net debt-EBITDA multiple below two. Now you have increased this somewhat. Your review of the manufacturing network in Japan is another example. On the other hand, my understanding for China and other existing businesses is that your actions are an extension of current strategies. One example is the plan to sell products from Australia in China. Is this correct?
A1	Concerning whether or not our operations in China are an extension of past strategies, we will definitely make changes in response to changes in the structure of our markets, as I explained earlier. In the past, mainly in the DIY segment, condominium interiors were painted on site after the completion of construction. Now a new so-called Project business model is emerging in which building components are painted prior to construction and then delivered to the construction site. Consequently, if there is a shift in the business style of Chinese construction companies, which are our customers in this Project sector, it is vital that we change as well accordingly. I am certain that NIPSEA is capable of responding to such changes very skillfully. Therefore, we are not simply continuing to do business as in prior years.

Q2	In the Americas and Europe (Others) businesses, your profit margins are lower than in China and you are effectively losing money in Europe. You are talking about M&A, but what are your plans for restoring the health of existing businesses? You posted impairment losses but I have the impression you are not thinking about withdrawing from these regions. Please explain the actions you plan to use for rebuilding operations in regions and business sectors with low profitability.
A2	The operating margin is one indicator of low profitability. As you pointed out, for example, the operating margin of Dunn-Edwards in the United States is low, but its business model is nothing at all like our operations in China. Dunn-Edwards sells paint at its own stores that have paint blending equipment to obtain the desired characteristics. This business model naturally results in significant fixed expenses. We do not intend to continue using this business model in its current form, and I explained that we were talking about the possibility of switching to a different model. At the same time, sales volume at Dunn-Edwards needs to

	<p>be taken into consideration. Also competitors in California, which is the primary market for Dunn-Edwards have similar margins. Therefore, from the standpoint of markets, I think people will have to acknowledge the environment and current level of profitability.</p> <p>That said, I do think improvement of our Americas and Europe businesses is one of our important management issues.</p>
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◆ Questions: Shuhei Nakamura, Goldman Sachs Japan Co., Ltd.

Q1	<p>The chart on page 11 shows that you rank fourth worldwide. What is your goal for your global market share? Also, your FY2019 operating margin was 12% to 13%. What is your stance concerning the balance between increasing market share and maintaining profitability?</p>
A1	<p>We are number four now, but we want to become number one at some point. I believe that we cannot succeed in the world of M&A unless we have this aggressive mindset. As you saw on page 11, the left side of the pie chart for other companies is black (occupied by the other companies.) There are many opportunities here. I want everyone at our group to dream of the day when we become number one.</p> <p>Our operating margin is now about 13% and has recently decreased slightly. One of the causes is our acquisitions of companies with lower operating margins. On the other hand, for our existing businesses, I think we need to ask ourselves whether or not we are really making the investments that we should for the future. Whatever actions we take, I want to do what is necessary to keep our operating margin at the present level.</p>

◆ Question: Tomomi Fujita, Morgan Stanley MUFG Securities Co., Ltd.

Q1	<p>Regarding the maximization of shareholder value, which is on page 36, please explain what forms of value you plan to provide for shareholders. There are many possibilities, such as EPS, the growth rate, dividends and the ROE. Your ROE is somewhat low in comparison with the returns of global companies. Since you are emphasizing EPS, I have the impression that you would accept an increase in the number of shares somewhat as long as EPS is increasing. Please explain your thinking about the ROE and other aspects of the efficient use of capital.</p>
A1	<p>Using capital efficiently is extremely important. I believe ROEs an indicator that can be altered by arbitrary actions. As $EPS \times PER = \text{stock price}$, our fundamental policy is to focus first of all on EPS accretion.</p> <p>We do not believe that merely increasing our market capitalization is sufficient. Raising the number of shares issued in of itself could increase market capitalization. Naturally a higher market capitalization can be the result of either a higher stock price or a larger number of shares issued so we have to focus on raising the value of each share rather than relying on the</p>

	number of shares issued. This is why we are placing priority on EPS as our performance indicator.
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	Of course, we are also keeping an eye on other performance indicators. EPS is indeed our highest priority, but we use the analysis of other indicators as well for the management of our group.
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