Overview and Updates on Medium-Term Plan (FY2021-2023)

Viability of our Asset Assembler model reaffirmed

As we completed Year 2 of Medium-Term Plan (FY2021-2023) (MTP) in FY2022 and entered its final year in FY2023, we reaffirmed the viability of our Asset Assembler model for pursuing MSV. Despite the dramatic changes in the business climate for our Group compared to when we formulated MTP in March 2021, our existing businesses showed resilience and achieved solid growth and all our excellent assets acquired with low financing cost are contributing significantly to EPS accretion. We will continue to pursue growth based on our Asset Assembler model with the goal of achieving MSV.

FY2021-2023 financial plan

(Billion yen)

			FY2023 Guidance		
	FY2021 Results*3	FY2022 Results	MTP guidance (Mar. 2021)*4	February 2023 updates*5	CAGR target for FY2024 onwards
Revenue	998.3	1,309.0	1,100.0	1,400.0	High single digits
Operating profit	87.6	111.9	140.0	140.0	Profit growth exceeding revenue growth
OP margin	8.8%	8.5%	c.13.0%	10.0%	
EBITDA*1	120.4	159.9	175.0	190.0	
EBITDA margin	12.1%	12.2%	c.16.0%	13.6%	
Profit attributable to owners of parent*2	67.6	79.4	105.0	98.0	
EPS (yen)	29.41	33.82	45.00	41.73	

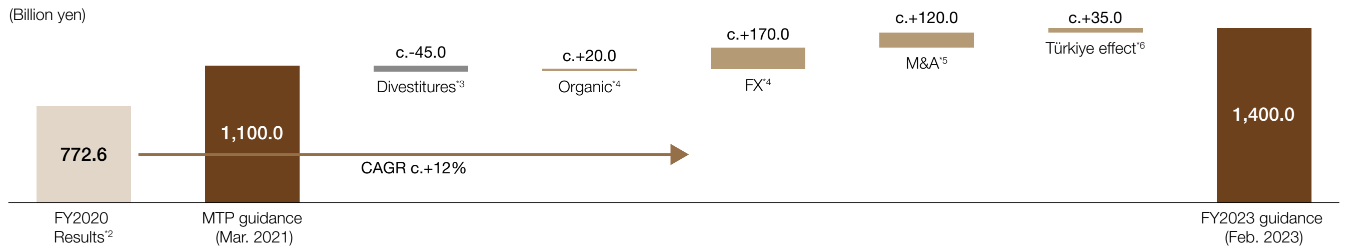
*1 EBITDA: Operating profit + depreciation and amortization + impairment loss + gain on negative goodwill
*2 Targets for profit attributable to owners of parent are calculated by multiplying operating profit by effective tax rates
*3 Continuing operations basis
*4 Exchange rate assumptions: USD/JPY 106 yen; RMB/JPY 15.7 yen; AUD/JPY 75 yen; naphtha price: 40,000 yen/kl
*5 Exchange rate assumptions: USD/JPY 125 yen; RMB/JPY 19 yen; AUD/JPY 90 yen; naphtha price: 72,000 yen/kl

Analysis of differences between MTP guidance (Mar. 2021) and FY2023 guidance (Feb. 2023)

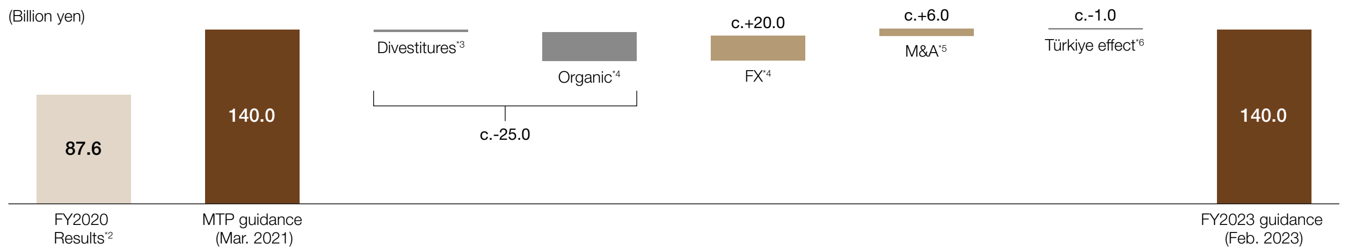
Our FY2023 revenue guidance is JPY1,400 bn. This is more than JPY300 bn higher than MTP guidance despite the negative impact of divestitures, due to higher-than-expected revenue growth at existing businesses except the Turkish business, the weaker yen, the acquisitions of Cromology and JUB, and the overall effect of Türkiye including the application of hyperinflationary accounting. Operating profit guidance is the same as MTP guidance at JPY140 bn. We believe that the positive effects of the yen's depreciation and M&A will largely offset the negative effects of divestitures and the high cost of raw materials on existing businesses and the effect of Türkiye.

Despite the challenging business environment, we have achieved organic revenue growth that exceeded our expectations. Coupled with contributions from M&A, we expect the steady growth to continue in FY2023.

Change factors contributing to FY2023 revenue guidance*1



Change factors contributing to FY2023 operating profit guidance*1



*1 All figures are rough estimates and reflect changes in factors from MTP guidance as of March 2021.
*2 Continuing operations basis and after retrospective adjustments to reflect a change in the accounting policy regarding cloud computing agreements. Nippon Paint (India) was an equity-method affiliate in 2020
*3 Including Nippon Paint (India)
*4 Excluding Türkiye
*5 Only includes Cromology and JUB
*6 Changes in yen-based assumptions including organic growth, FX, and hyperinflationary accounting

Analysis by region

Based on the analysis by region, we expect revenue growth that exceeds MTP guidance in most regions due to pricing actions and market share gains. Strong revenue growth is expected, notably at NIPSEA China driven by market share gains due to higher-than-expected growth in the TUC market and at Malaysia Group, Singapore Group and Thailand Group in NIPSEA Group driven by pricing actions and growth in the adjacencies business. Revenue growth at DuluxGroup excluding newly consolidated Cromology and JUB was driven by pricing actions and bolt-on acquisitions (those aimed at complementing and strengthening existing businesses) in the adjacencies business. In our Turkish business, we expect higher revenue growth than our MTP guidance despite the impact of hyperinflationary accounting, driven by pricing actions as well as market share gains achieved through the successful implementation of the brand promotion strategy.

We expect operating profit in most regions to be in line with MTP guidance. However, we expect that operating profit in Japan Group and NIPSEA China will be below MTP guidance.

MTP guidance (Mar. 2021)

Revenue (Billion yen)	Revenue FY2020 Results (Tanshin)	FY2021-2023 CAGR target (in LCY)
Japan	159.6	c.+5%
NIPSEA China	268.1	c.+10%
Asia Except NIPSEA China	88.5	+5–10%
New consolidations (Indonesia/India)	47.4*1	c.+15%
Oceania (Pacific*2)	148.3	c.+5%
Americas	70.1	+5–10%
Other (Betek Boya)	36.2	+10–15%

February 2023 updates

Revenue (Billion yen)	FY2021 Results (Tanshin)*3	FY2022 Results (Non-GAAP)	YoY	FY2023 Guidance (in LCY)
Japan	174.0	184.2	+5.8%	c.+5%
NIPSEA China	379.1	395.1	+4.2%	+5–10%
NIPSEA (NIPSEA Except China)*4	103.8	119.5	+15.1%	+0–5%
Betek Boya (Türkiye)	49.2	123.6	+151.3%	c.+30%
PT Nipsea (Indonesia)	39.5	45.8	+15.9%	c.+15%
DuluxGroup (consolidated)	176.2	187.3	+6.3%	+5–10%
Cromology (Europe)	–	–*5	–	+5–10%
JUB (Europe)	–	–*5	–	+5–10%
Americas	76.4	83.1	+8.8%	+0–5%

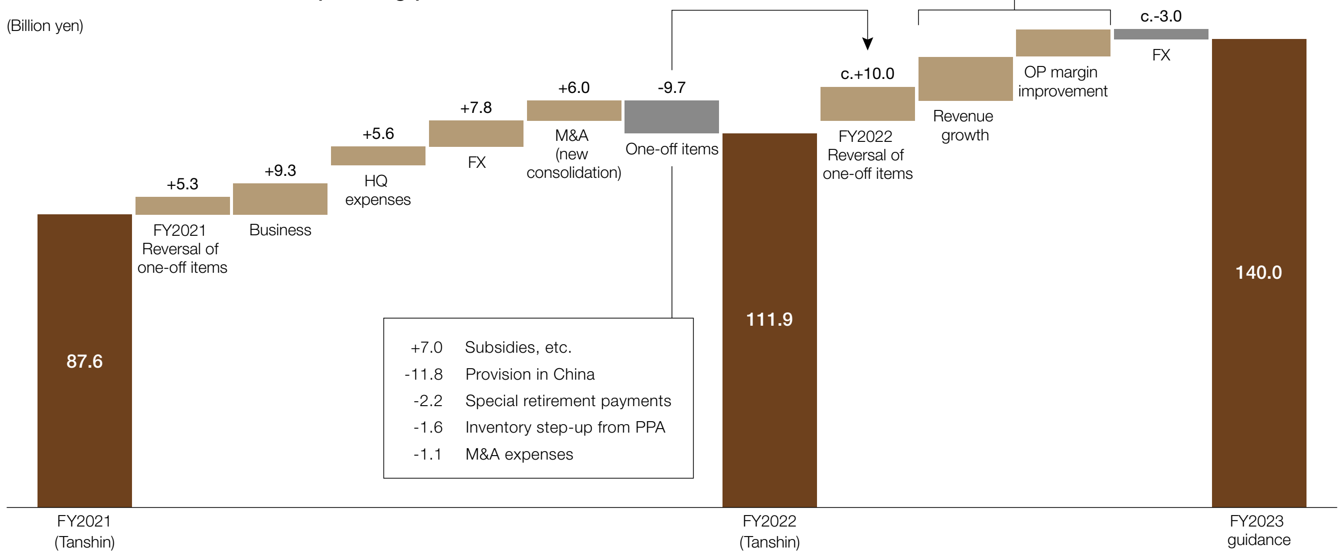
*1 Unaudited pro forma figures
*2 Australia, New Zealand and Papua New Guinea
*3 FY2021 results have been revised retrospectively following the change in reportable segments beginning with FY2022 1Q
*4 Figures after deducting Betek Boya and PT Nipsea from the total for NIPSEA Except China
*5 Cromology was newly consolidated in January 2022 and JUB in June 2022 and are not included in Non-GAAP FY2022 results

Towards FY2023—the final year of MTP

We have a generally negative outlook for the market environment in FY2023. However, we will aim for steady revenue growth in every region through market share gains despite slow market growth as well as a full-year contribution from pricing actions. We expect an increase in operating profit, despite the negative effect of FX because of the initial assumption of a stronger yen in FY2023, due to revenue growth, margin improvements due to pricing actions, and the absence of one-off items such as a credit loss provision in China and special retirement payments.

After taking all these factors into account, our FY2023 guidance is revenue of JPY1,400 bn, operating profit of JPY140 bn, profit of JPY98 bn, EPS of JPY41.73, and annual dividends of JPY13 per share. We plan to maintain a dividend payout ratio of a little over 30% with a dividend increase for the third consecutive year.

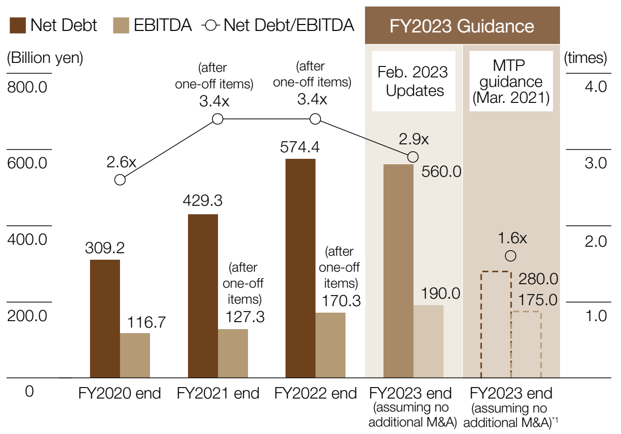
Illustration of FY2021-2023 operating profit



Financial position

Net Debt/EBITDA remained unchanged at 3.4 times through to the end of FY2022 due to an increase in EBITDA despite an increase in interest-bearing debts resulting from the acquisition of Cromology and JUB. However, Net Debt/EBITDA at the end of FY2023 is expected to decrease to around 2.9 times assuming no additional M&A activity. In terms of capital allocation, operating cash flows over the three years of MTP are expected to be approximately JPY30 bn below MTP guidance. However, capital expenditures and dividends are expected to be in line with MTP guidance.

Net Debt/EBITDA trends



*1 Includes the impact of full integration of the Asian JVs and acquisition of Indonesia business
*2 Continuing operations basis

Capital allocation

(Billion yen)		FY2021-2023 Forecast		
		Feb. 2023 Updates		MTP guidance (Mar. 2021)
	FY2021-2022 Results	FY2023 Forecast	FY2021-2023 Forecast	FY2021-2023 Guidance
+) Operating CF*2	182.6	120.0	c. 300.0	~330.0
-) CAPEX*3	76.0	55.0	c. 130.0	~125.0
-) Dividend*4	49.3	30.0	c. 80.0	~85.0
Total	57.3	35.0	c. 90.0	~120.0
-) M&A (net cash of acquired companies)	293.4	–	c. 290.0	Debt repayment M&A

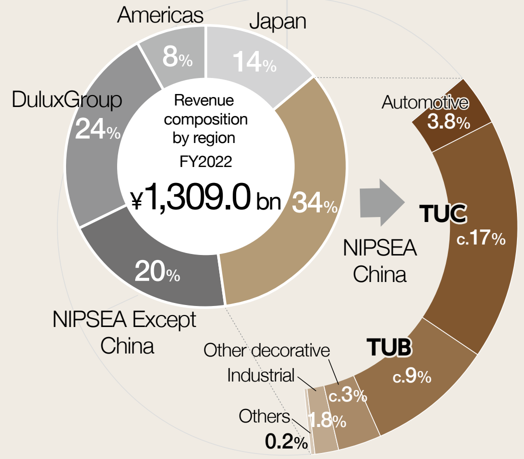
*3 Excluding CAPEX on leased assets. FY2021-2022 results are Tanshin basis (continuing operations)
*4 Total dividend payments (including some payments in the following fiscal year or afterward)

The Impact of China's Macroeconomic Data on the Earnings of Nippon Paint Group

Stock market players are paying attention to the trends of macroeconomic data relevant to our Group's Chinese decorative paints business (TUB/TUC). As a result, NPHD stock price tends to fluctuate more on news flow rather than based on our earnings results.

Although there is some correlation between the performance in the TUC and TUB businesses and certain real estate market data, we believe that there is not a simple correlation between China's macroeconomic data and our Group's consolidated earnings results based on the following analysis: (1) Revenue growth in the TUC and TUB businesses has been outpacing the real estate market data almost over the entire period and (2) TUC revenue accounts for c. 17% of the consolidated revenue and TUB revenue accounts for c. 9%.

For your reference, the analysis of trends in the TUC/TUB business performance by NIPSEA China's management is provided below. Please note that NIPSEA China uses multiple indicators for benchmarking and uses the results of multifaceted analysis of these indicators in their marketing activities.



The trends of TUC/TUB businesses based on comment from NIPSEA China's management

TUC revenue growth has been significantly outpacing growth of commercial and residential property sales areas

One of the strengths of NIPSEA China's TUC business is its dominant market share and the leading position in the Tier 0 as well as Tier 1-2 cities. These metropolitan areas are characterized by a higher percentage of commercial and residential property sales areas and quicker market recovery compared to Tier 3-6 provincial cities. Due to these reasons, TUC revenue growth tends to be higher than growth of property sales areas.

The high revenue growth in the TUC business is also attributable to NIPSEA China's extensive distribution networks, a large number of CCM (computer color matching) machines installed, high brand awareness and quality.

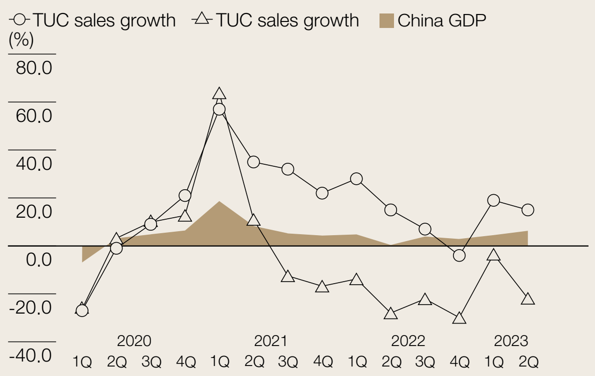
By taking into consideration the arrival of the era of stock housing and our market share gains in provincial cities, we expect that the TUC business will continue to achieve growth that outperforms competitors.

TUB revenue growth has been outpacing the new residential construction areas

Since March 2020, TUB revenue growth has constantly been outpacing growth of new residential construction areas. This strong performance is attributable to (i) working with more financially stronger real estate developers, (ii) growing contribution from non-real estate developers e.g. healthcare, industrial, infrastructure (iii) growing contribution from decoration companies and contractors and (iv) pushing non paint segment growth e.g. substrates and construction chemicals.

We expect that the TUB business will remain on a steady growth track due to the arrival of the era of stock housing and by focusing on the development of six key channel businesses. (▶ See page 90.)

TUC (QoQ)



TUB (QoQ)