

# Chapter 2

Chapter

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PHOTO:  
Australia / The Ivanhoe Grammar School  
Senior Years and Science Centre  
(Photographer, John Gollings)

# Providing paint and coating technologies solving social issues for 140 years

The Nippon Paint Group has been committed to solving social issues by developing innovative technologies around the world over its 140-year history since we developed Japan's first non-toxic zinc white. The Group mobilizes its comprehensive strength to carry out its common Purpose and pursue its ultimate objective of Maximization of Shareholder Value (MSV) while engaging and responding to the constantly evolving business conditions and changing global environmental and social issues.



## Increasing Need for Domestically Produced Paint

- 1879 Developed Japan's first non-toxic zinc white
- 1880 Successfully produced paint in Japan

## Focus on Meeting Diversifying Paint Demand and Paint Functionality

- 1912 Successfully produced domestic marine coating products
- 1912 Developed Kotaku Urushi (high-gloss Japanese lacquer) paint for railroad cars
- 1920- Developed the first domestically produced alkali-resistant paint and acid-resistant paint
- 1929- Developed synthetic resin paint (for buildings, trains, furniture)

## Increase in Private Demand During Post-War Reconstruction

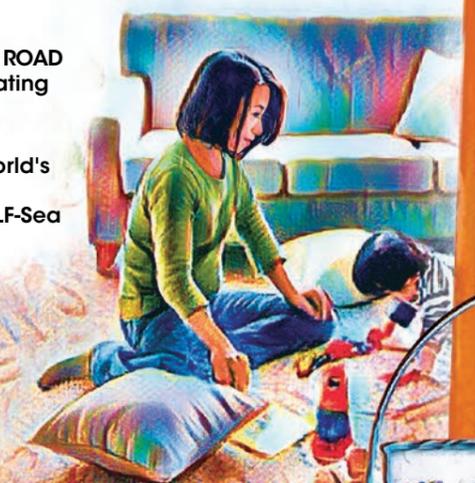
- 1945- Contributed to post-war reconstruction with shift from military to private demand for paint and coating technologies
- 1951- Developed new technologies and products for trains, consumer electronics, office equipment, and other applications

## Japan's Rapid Economic Growth Spurs Growing Paint Demand for Shipbuilding, Consumer Electronics, and Automobiles

- 1960- Introduced new products designed for the shipbuilding, consumer electronics, and automobile industries
- 1965- Constructed a new paint plant, synthetic resin plant, logistics base, and research facilities

## Growing Social and Environmental Awareness and Attention to Corporate Social Responsibility

- 1980- Led the industry in automation and labor-saving installations to address occupational safety and labor shortages at production sites and administrative departments
- 1987 Developed anti-viral and anti-bacterial paint
- 1990 Developed the world's first tin-free antifouling paint Ecoloflex
- 2006 Developed ATTSU-9 ROAD heat shielding coating
- 2007 Developed the world's first low-friction antifouling paint LF-Sea
- 2020 Launched the PROTECTON anti-viral and anti-bacterial paint brand



1880 1890 1900 1910 1920 1930 1940 1950 1960 1970 1980 1990 2000 2010 2020

### Nippon Paint Group corporate action (global)

1881 Nippon Paint predecessor Komyosha founded (Japan)	1918 DuluxGroup established (Australia)	1949 Wuthelam founded (Singapore)	1967-1994 NIPSEA business actively expanded in Thailand and Malaysia, etc.	1988 Betek Boya established (Turkey)	2016-2019 Globalization advanced through M&A Bollig & Kemper (2016), Dunn-Edwards (2017), DuluxGroup (2019), and Betek Boya (2019) acquired
1898 Nippon Paint Manufacturing Co., Ltd. established (Japan)	1919 Bollig & Kemper (now Nippon Paint Automotive Europe) established (Germany)	1962 Pan Malaysia Paint Industries (now Nippon Paint (Singapore) Company) established	1975 Business expanded into the U.S. market (Nippon Paint (USA) established)	1992 Business expanded into the China market (Nippon Paint (China) established)	2021 100% ownership of the Asian JVs and Indonesia business acquired Nippon Paint Group Purpose and New Medium-Term Plan (FY2021-2023) formulated
	1925 Dunn-Edwards established (U.S.A.)	* Partnership begun with Wuthelam to expand distribution channels in Asia; NIPSEA business launched		2014 Holding Company Structure adopted and Asian JVs consolidated	
	1927 Renamed as Nippon Paint Co., Ltd.			2015 Operating companies separated by lines of business	

## Six categories of capital

### Human capital

### Manufactured capital

### Social and relationship capital

### Intellectual capital

### Financial capital

### Natural capital

## Nippon Paint Group management resources

### Human resources/ organizations

### Technologies

### External partners

### Customer base

### Brands

### Financial base

### Nature / environment

## Importance of management resources in value creation

- Diverse human resources and strong organizational capabilities that can accurately recognize social issues and customer needs and promptly provide effective solutions are essential in the paint market, which is characterized by local production for local consumption and a wide variety of uses for paint products.

- Advanced technological capabilities are essential to create innovations that solve social issues and meet customer needs and to enhance our competitive advantage, such as to enable stable product supply.

- Industry-academia co-creation alliances and collaboration with external partners are extremely useful for providing high-quality products and services to customers globally and creating innovations that solve social issues.

- The strong customer base founded on long-term relationships of trust with major customers in our businesses is important for stabilizing earnings and product supply and contributes to improving products and services.

- Customers and consumers place importance on reliability of products and services. The power that our Company and brand names carry is a resource indispensable to operating a wide range of businesses worldwide.

- Achieving sustainable growth requires abundant funds to continue investing in M&A, new technologies, and state-of-the-art production facilities, and hence requires increasing the ability to generate cash flow and a sound financial base.

- Raw materials, electricity, water, and other resources are essential to a paint manufacturer and important to ensure business sustainability.

## Competitive advantages (strengths) of management resources

- Overseas human resources who are well informed about the local markets (29 countries and geographical locations, 23,808 employees, 87% of the total)
- Proactive Diversity & Inclusion initiatives (global percentage of female employees: 24.0%, global percentage of women in management posts 23.8%)
- High-level of employee satisfaction (Japan: 90%) → pages 39, 113.
- Group partner companies worldwide with unique corporate cultures and expertise and high market presence (NIPSEA, DuluxGroup, etc.) → See pages 53-76.

- Core technologies, including paint, material synthesis and dispersion, and interface and surface technologies
- Ability to develop products that help solve social issues
- ① Decorative films meeting the needs of the next-generation automobile industry and decarbonized society → See page 72.
- ② Anti-viral and anti-bacterial paint products → See pages 35, 117.
- ③ High-durability heat shield coatings for road surfaces → See page 26.
- ④ Next-generation environmental antifouling paint → See page 117.
- World-leading production systems, such as incorporating factory automation (China, Australia, etc.)

- Proactive open innovation activities with universities (The University of Tokyo and others), research institutions, and other academic institutions → See page 118.
- Joint development with an automobile manufacturer (Toyota Motor Corporation, etc.) of automotive paint application technologies
- Our 60-year partnership with the Wulhelam Group → See page 29.

- Extensive distribution channels supporting the growth of the Chinese decorative paints business (58,000 stores) → See page 53.
- Strategic relationships with leading Chinese real estate developers → See page 56.
- Stable long-term relationships with leading automobile manufacturers and automotive parts manufacturers in Japan, the US, and Europe → See page 71.
- Strong relationship of trust with customers supporting a high market share worldwide in the BtoB businesses, such as industrial coatings and paint related businesses

- Nippon Paint brand is proof of technological strengths and high quality (global) → See page 29.
- High brand awareness for the LiBang brand (China) → See page 53.
- High consumer rating as "top of mind" decorative paints products in Indonesia → See page 59.
- DuluxGroup boasts outstanding consumer awareness of its brands, such as Dulux and Selleys (Australia) → See page 65.

- Fully leveraging the stable Japanese currency and financial markets to secure financing
- Paint business has low capital expenditure requirements and a high cash flow generation (free cash flow: ¥52.2 bn) → See page 37.
- Established a solid financial base by integrating the Asian operations (net debt to equity ratio: 0.46x, shareholders' equity: ¥877.1 bn)
- \* After reflecting changes due to the acquisition of 100% ownership of the Asian JVs to the amounts on the balance sheet as of the end of FY2020 (unaudited)

- Reduced energy consumption as part of global warming initiatives (in Japan, etc.) → See page 105.
- Advanced production systems that lower environmental footprint (US, Australia, China, etc.)
- Controlled water usage through proper management following voluntary standards (Japan, etc.) → See page 109.
- Responsible care activities for proper management of chemical substances (Japan) → See page 110.
- Reducing environmental impact by developing highly competitive environmental products, such as water-based and antifouling paints and heat shielding coatings → See page 116.

## Major external evaluations

- Selected as a constituent of the MSCI Japan Empowering Women Index (WIN) for the second consecutive year (June 2021)

- Received the GREEN4SEA Technology Award (April 2021) for the antifouling paint AQUATERRAS
- Received the Environmental Technology Award 2020 for technology developed for high-durability heat shielding coating for road surfaces (May 2021)

- Selected as the No.1 paint manufacturer by Chinese real estate developers for 10 consecutive years (March 2021)

- Selected for Best Brand Awareness for Wall Paint in China (China) (January 2021)
- Awarded the 2021 C-BPI (China Brand Strength Index) Gold Brand (April 2021)
- Several DuluxGroup brands recognized as Australia's Most Trusted Brands for 2021 (April 2021)

- Upgraded in R&I's credit rating from A- to A (February 2021) → See page 80, 128.

- Selected as a constituent of the S&P/JPX Carbon Efficient Index (December 2020)
- Selected as a constituent of the SOMPO Sustainability Index for the 10th consecutive year (June 2021)
- Awarded the first China Green Product Certification by CTC (China National Inspection and Quarantine Group) (March 2021)

## Particularly relevant materiality

→ For more details on Materiality, see page 41.

- Diversity & Inclusion
- Safe people and operations

- Climate change
- Resources and environment
- Innovation for a sustainable future

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- Resources and environment
- Safe people and operations
- Growth with communities
- Innovation for a sustainable future

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## Increasing management sophistication and effectively using resources based on Powerful Partnerships

→ For more details on Powerful Partnerships, see page 22.

- Sharing the best practices and expertise of Group partner companies in Japan and abroad (such as to boost market share and advance the ESG initiatives of NIPSEA and DuluxGroup) to achieve appropriate human resource allocation and improve the organizational structure and management efficiency

- Sharing technology by interaction among personnel and technology and research divisions and engineers of the Group partner companies worldwide
- Sharing of the world's latest production technologies and expertise

- Sharing and globally deploying technologies and products developed in Japan through the industry-academia co-creation agreement
- Sharing management advice from the Wulhelam Group within the Group to reinforce management and businesses (such as the latest information on the global paint industry)

- Strengthening relationships with customers by providing detailed support to customers and sharing information throughout the Group about clients with global operations, such as automobile manufacturers

- Developing the Nippon Paint brand overseas, which is proof of technological strengths and high quality
- Sharing products with high brand awareness within the Group and developing them globally (such as deploying Australian Selleys brand products in Asia)
- Conducting the international Asia Young Designer Awards (AYDA) competition for architecture and interior design students in 16 countries and geographical locations in Asia, which receives over 8,400 entries

- Spurring global business growth by actively investing in M&A and state-of-the-art production facilities for Group partner companies around the world due to our solid financial base and financing procurement capabilities

- Reducing environmental impact by sharing with our global Group partner companies the latest paint factory technologies and products that help solve social issues

## Examples of the active use of management resources and generation of synergies

- Driving Maximization of Shareholder Value (MSV) through the development of PROTECTON anti-viral and anti-bacterial paint brand → For more details, see page 35.

# Our strategic partnership boosted the Nippon Paint brand to a dominant position in Asia

Nippon Paint Holdings and the Wuthelam Group have steadily deepened and broadened our partnership since we established the Asian Joint Ventures (NIPSEA business) in 1962. This strategic partnership elevated Nippon Paint to a dominant brand in Asia and was further substantiated in January 2021 with NPHD's acquisition of 100% ownership of the Asian JV. This page traces the history of our Japan-Singapore partnership for 60 years. The Wuthelam Group is now an asset management company engaged in investment activities.

## Maximization of Shareholder Value (MSV)

Boost to Nippon Paint brand power  
Boost to market presence (share gains)  
Boost to returns (sales and profits)

The structure of the Japan-Singapore partnership in the 1960s



**WIN-WIN**

\* The Wuthelam Group now is an asset management company engaged in investment activities.

### Historical background

1963 Malaysia formed	1971 Nixon shock	1975 Fall of Saigon	2001 China accession to the WTO
1965 Singapore declared independence	1972 US-China Joint Communiqués	1978 Japan-China Peace and Friendship Treaty	2007 Vietnam accession to the WTO
1967 ASEAN formed	1973 The fourth Middle East War The first oil crisis	1979 US-China Diplomatic Normalization Iranian Revolution The second oil crisis	2008 Global financial crisis
		1985 Plaza Accord	
		1995 US-Vietnam Diplomatic Normalization	
		1997 Asian currency crisis	

### History of the Japan-Singapore Partnership

**1962**

Partnered with Wuthelam for expansion of distribution channels in Asia and launched the Asian JVs (NIPSEA business) (NPHD ownership ratio: 40%)

Deepened and broadened the 60-year partnership with the Wuthelam Group that culminated in the integration of Asian operations

**2021**

Acquisitions of the Asian JVs and the Indonesia business (NPHD ownership ratio: 100%)

**2014**

Consolidation of the Asian JVs (NPHD ownership ratio: 51%)



### History of the NIPSEA business

**1962**

Jointly established Pan Malaysia Paint Industries (the current Nippon Paint (Singapore) Co. Pte. Ltd.)

**1967**

Entry into the Malaysia market  
Entry into the Thailand market

**1969**

Entry into the Indonesia market

**1970**

Entry into the Hong Kong market (China)

**1976**

Entry into the Philippines market

**1977**

Entry into the South Korea market

**1992**

Entry into the China market

**1994**

Entry into the Vietnam market

**2004**

Entry into the Taiwan market (China)

**2006**

Entry into the India market

**2007**

Entry into the Pakistan market

**2011**

Entry into the Bangladesh market

**2012**

Entry into the Sri Lanka market

**2014**

Entry into the UAE market

**2017**

Entry into the Myanmar market

**2019**

Entry into the Turkey market  
Entry into the Egypt market

## Japan-Singapore partnership aimed at the growth potential of the Asian paint market

### The beginning of our partnership

Our partnership with the Wuthelam Group dates to 1962, when we jointly established Pan Malaysia Paint Industry (the current Nippon Paint (Singapore)). Nippon Paint and the Wuthelam Group agreed to broaden their business exchange relationship to encompass technical cooperation and capital investment, and decided to construct a new factory. The background for the expanded partnership was as follows: ① Southeast Asian nations including Singapore were in a construction boom and had potential to grow into a major paint market, ② Exporting paint from Japan to Southeast Asia was costly and delivery times were slow, requiring Nippon Paint to become more competitive to succeed in this market, and ③ the Singapore government announced plans to impose high tariffs on import paint products in 1961. This was the start of the current NIPSEA (Nippon Paint South East Asia) business.

In the in-house magazine, Chiaki Obata, who was Nippon Paint Senior Managing Director at the time expressed expectations for the new factory, "Pan Malaysia Paint will establish Japan's foothold in the faraway market in Singapore, right on the equator. This area has a potential to grow into a major market, which is a great delight for our Company as well as for Japan's paint industry." Commenting on the impression of the Wuthelam Group, he praised them saying, "The people are hardworking, thoroughly inquire into things, and perform their duties with a sense of responsibility. If we form simplistic assumptions about these people, we will fall behind them." He also left prophetic comments for Nippon Paint employees, "Our playing field is not limited to the narrow market in Japan. We should be competing in the greater global marketplace. That should be our real objective."

The new factory started operations as the first modern factory in Singapore with a site area of 8,000m<sup>2</sup> and



The completion ceremony of Pan Malaysia Paint's new factory (1965)



Japanese engineers dispatched to Singapore and Malaysia



Mr. Goh Cheng Liang (the founder of the Wuthelam Group) commemorating the 30th anniversary of Nippon Paint (Singapore) by cutting a cake in the shape of a paint can



Event celebrating the release of a new product



**Market presence of NIPSEA business**

-  Operating region **22** countries and geographical locations
-  Number of paint factories **95** locations
-  Revenue in Asia (FY2020) **¥356.6** bn
-  Operating profit in Asia (FY2020) **¥55.0** bn

\* Countries where the NIPSEA business has market presence/No.1 market share

## Dominating the Asian market with the Nippon Paint brand and local marketing capability

production capacity of 300 tons per month. The factory's completion ceremony on April 15, 1965 was attended by some 600 people, including senior government officials from both Japan and Singapore, management and employees of Nippon Paint and the Wuthelam Group, and customers. The event was widely reported in local newspapers with comments including "the new factory will significantly contribute to the economic development and friendship of the two countries," and "all Southeast Asian nations have an interest in its success."

### Leveraging mutual strengths to methodically expand across Asia

Nippon Paint first entered the broader Asian market in 1933, and the partnership with the Wuthelam Group enabled us to leverage the strengths of both companies to further that expansion. Nippon Paint has promoted the sales growth of

the Nippon Paint brand products by dispatching Japanese paint engineers to local production sites to provide paint technologies and production know-how, and Wuthelam uses its expertise and network in the Asian market to manage local operations, sales, and marketing. The partnership has also led to expanding operations into Thailand, Malaysia, the Philippines, South Korea, and other countries through the 1970s. In the 1980s, business grew beyond the decorative paints business with the growing Asian operations of Japanese automobile and home electronics manufacturers into the automotive coatings and industrial coatings markets.

In 1992, we expanded into the huge mainland China market and also established operations in Vietnam, India, Sri Lanka, Turkey, and Egypt. We have achieved high growth by actively meeting the brisk paint demand in the rapidly growing Asian market.

The Japan-Singapore partnership between Nippon

## Achieving dominant market position in the Asian market and MSV

Paint and the Wuthelam Group has evolved over the six decades of the NIPSEA business. Nippon Paint Holdings made the NIPSEA business a consolidated subsidiary in 2014 and a wholly-owned subsidiary in January 2021, thereby bringing the partnership to full maturity (See "Discussions by the Board of Directors" on page 89). We plan to further accelerate the development of globally integrated operations.

### Leveraging our Group's unique management resource to achieve MSV

NIPSEA business, which was established through the Japan-Singapore Partnership, now operates in 22 countries and geographical locations and has grown to command No.1 market share in the decorative paints market in five Asian countries and Turkey. This business has grown into a major growth driver of our Group in Asia with revenue of ¥356.6 billion and operating profit of ¥55.0 billion in FY2020.

The NIPSEA business has generated continuous high growth, by establishing a dominant market position based on the powerful LiBang brand and extensive distribution channels to capture the particularly strong market growth in China, where we estimate CAGR for 2019-2024 will be a brisk 5.3% (See "The Global Paint Market" on page 05).

We will continue solidifying our dominant position in the Asian market using the unique management resources of our 60-year partnership with the Wuthelam Group as we seek to achieve Maximization of Shareholder Value (MSV).

# Pursuing Maximization of Shareholder Value (MSV) based on Powerful Partnerships with Group partner companies around the world

**INPUT**

**Management resources**

- Human resources/ organizations
- Technologies
- External partners
- Customer base
- Brands
- Financial base
- Nature/ environment

**Globally integrated operations guided by the Purpose**

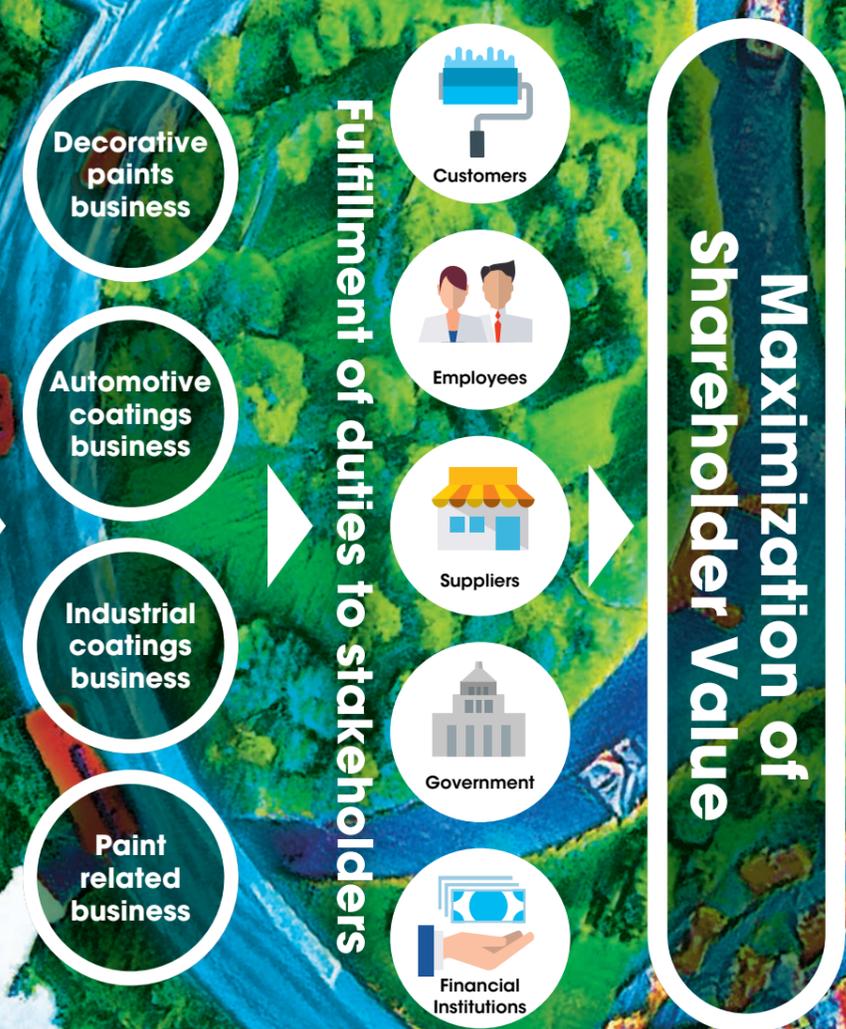


**Sustainability**



**OUTPUT**

**OUTCOME**



→ See "Nippon Paint Group Management Resources" on page 27.

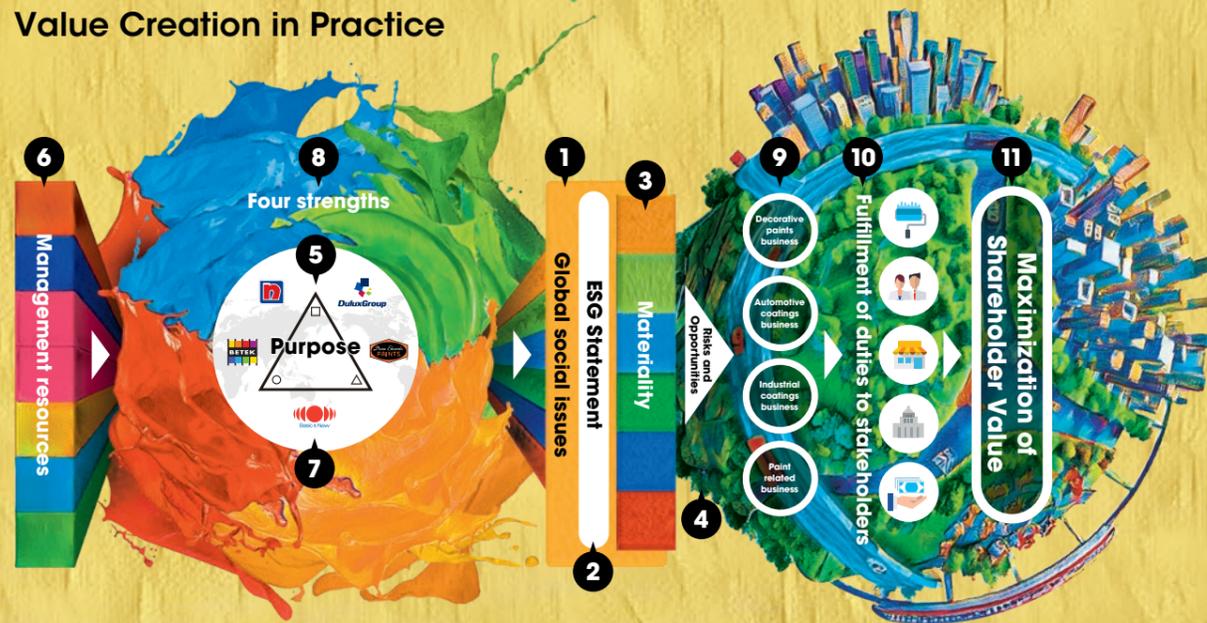
→ See "Purpose" on page 01.  
→ See "Powerful Partnerships" on page 22.

→ See "Four Strengths of the Nippon Paint Group" on page 40.

→ See "Materiality / Risks and Opportunities" on page 41.  
→ See "Sustainability Strategy" on page 77.

→ See "Regional and Business Strategy" on pages 53-76.

→ See "Maximization of Shareholder Value (MSV)" on page 21.



# Driving Maximization of Shareholder Value (MSV) through the development of PROTECTON anti-viral and anti-bacterial paint brand

The Nippon Paint Group has taken steps to help solve social issues, and is addressing serious social needs to respond to COVID-19 such as launching the PROTECTON anti-viral and anti-bacterial paint brand in September 2020.

Using the development of PROTECTON brand as a case example, this page introduces examples in practicing our Group's value creation model (see page 33) aimed to achieve MSV as our ultimate objective based on the Powerful Partnerships with our partner companies around the world.

## Pursuing innovation to solve social issues

PROTECTON anti-viral and anti-bacterial paint brand was specifically developed to address the **global social issue 1** of infectious diseases. Our commitment to addressing social issues is expressed in the Nippon Paint Group's **ESG Statement 2**: "Finding solutions to global sustainability challenges is our responsibility to future generations and is a driving force for our continued growth and success." (See "Roles of Paint and Coatings in Society" on page 03). This brand is also an example of our actions for "Innovation for a Sustainable Future," which is one of our points of **materiality 3** (See "Materiality / Risks and Opportunities" on page 41).

We anticipate that innovation initiatives aimed at solving social issues will lead to the expansion of growth opportunities for our Group as products and services addressing environmental and social issues will make large contributions to both society and our corporate earnings with the expansion of the market for products that help climate change mitigation and adaptation. At the same time, a lack of sufficient innovation ability presents risks of delaying our responses to new markets, which can adversely impact our future business performance (**Risks and Opportunities 4**).

Our Group appropriately understands both the opportunities and risks as we continue focusing on developing products that address social issues, like the PROTECTON anti-viral and anti-bacterial products, to further expand our scope of business opportunities through ESG initiatives (see "Sustainability Strategy" on page 77).

## PROTECTON products created through the power of "Science + Imagination"

Our Group' initiatives to generate innovation are conducted with an emphasis on the **Purpose 5** defining the shared identity of our Group. The Purpose expresses our commitment to "Enriching our living world through the power of Science + Imagination." PROTECTON products embody that Purpose. Their outstanding anti-viral and anti-bacterial technologies were developed by combining our Group's existing paint technologies with the latest photocatalyst technology. The PROTECTON technologies were created by applying "Science."

At the same time, finding the best applications for the superior technologies (Science) requires the ability to use "Imagination" to envision and accurately understand

situations in which society, customers, and end users will use the products. PROTECTON products were designed for the social issues arising from COVID, and were developed for specific situations of creating safe indoor living environments. Based on that vision, we used technology with a visible light responsive photocatalyst that provides strong protection against virus transmission. We are now working to expand the PROTECTON lineup with products for various situations, such as for use in homes, offices, medical institutions, schools, cars, trains, entertainment facilities, and ships.

The PROTECTON technology is an example of the Nippon Paint Group actively leveraging its technological strengths to solve social issues with the aim of making a sustainable and flourishing world and contributing to the creation of wealth.

## Tangible and intangible management resources for the power of "Science + Imagination"

Our Group's diverse tangible and intangible **management resources 6** accumulated through strategic investments are the primary forces behind our power of "Science + Imagination" (See page 27). We develop new technologies used in PROTECTON by making full use of management resources acquired and accumulated over our 140-year history. We also accelerate collaboration and co-creation initiatives with external partners (social and relationship capital) with outstanding expertise and technologies, such as the University of Tokyo (see "Innovation for a Sustainable Future" on page 118) as well as by reinforcing our human resources and organizations (human capital) by developing R&D engineers around the world, while leveraging our sound financial base (financial capital) to procure any necessary financing. In addition, following our Purpose, we are sharing within the Group the expertise and know-how gained while developing the PROTECTON products as we continue to contribute to solving social issues around the world by closely collaborating with **Group partner companies 7** worldwide that are tightly linked together through our Purpose and demonstrating our Group's **four unique strengths 8** (See page 40).



## Driving MSV by fulfilling duties to stakeholders

Since launching of the PROTECTON brand in September 2020, we have been steadily expanding the product lineup **through business 9** and as of July 2021 had introduced five new anti-viral and anti-bacterial products for professional use and DIY/home use. We will continue to expand the lineup of anti-viral and anti-bacterial products for professional and home use that go beyond paint and coatings, and will aggressively market the products to pursue top-line growth. Increasing revenue will increase customer trust in the Company while also **fulfilling our duties to stakeholders 10** by enabling us to provide appropriate payment amounts to our raw material suppliers and employees as well as to contribute to the environment and society. Our ultimate objective of **MSV 11** is to maximize the shareholder value

that remains after fulfilling our duties to our customers, employees, society, and other stakeholders (See page 21).

Our Group is committed to practicing value creation initiatives through the expansion of ESG-driven business opportunities such as the development of PROTECTON products. We will pursue the achievement of MSV after fulfilling our duties to stakeholders based on Powerful Partnerships (See page 22) with our partner companies around the world.

\* The products are not guaranteed to be effective against all or any specific viruses and bacteria. The products also do not exhibit effectiveness for preventing or treating diseases.  
\* The products do not inhibit indoor airborne viruses.  
\* The conditions under which their effectiveness is exhibited vary by product. Actual conditions of use also affect their effectiveness.

For more information about the PROTECTON brand, please see the PROTECTON brand site on our website and NIPPE HOME ONLINE shopping site for paint for DIY use.

PROTECTON brand site:  
<https://www.protecton.jp/en/>



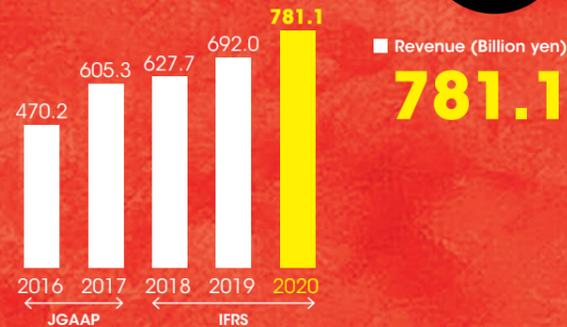
NIPPE HOME ONLINE (Japanese only):  
<https://www.nippehome-online.jp/>



# Financial Highlights

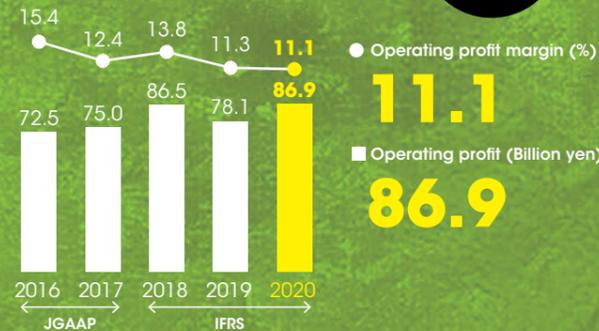
Figures for FY2016 and FY2017 based on JGAAP  
Figures for FY2018 to FY2020 based on IFRS

## Revenue



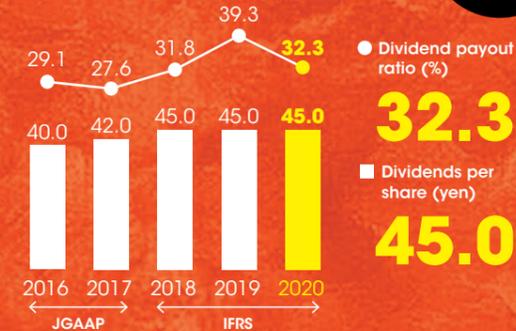
The Nippon Paint Group has grown steadily through the acquisitions of a paint manufacturer in the United States in FY2017 and in Australia and Turkey in FY2019 along with the successful growth of the decorative paints business in China and other Asia. This rapid growth has enabled us to increase revenue for four straight years and, despite the impact of COVID-19, reached a record high for revenue in FY2020.

## Operating profit / Operating profit margin



Group operating profit decreased in FY2019 due to one-time factors, including recognition of impairment loss, but rose to a record high in FY2020 supported by contributions from acquisitions and the growth of the Chinese business. While operating profit increased, the operating profit margin remained flat compared with the previous fiscal year due to a higher ratio of SG&A expenses to sales due mainly to higher personnel expenses associated with the accelerating global growth.

## Dividends per share / Dividend payout ratio (IFRS)<sup>\*1</sup>



Our basic policy is to distribute stable and consistent dividend amounts and aim to maintain a dividend payout ratio of 30%. Following this policy, we maintained our dividends per share distribution at ¥45 in FY2019 despite the decline in operating profit for the year. In FY2020, the dividend payout ratio was 32.3%.

## Return on equity (ROE) / Return on invested capital (ROIC)<sup>\*2</sup>



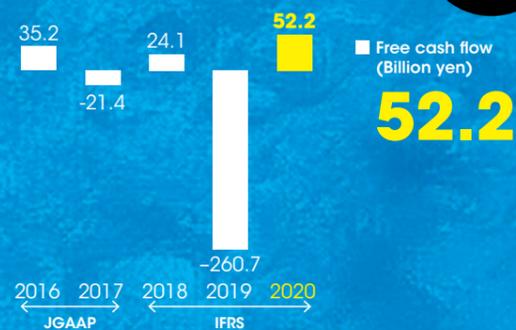
ROE increased to 8% in FY2020 after having declined in FY2019 with the decline in net profit, and we have reestablished ROE in the 7-8% range. ROIC declined in both FY2019 and FY2020 owing to lower turnover of invested capital from increases in interest-bearing debts and shareholders' equity due to M&A activity and the acquisition of 100% ownership of the Asian JVs.

## Earnings per share (EPS)



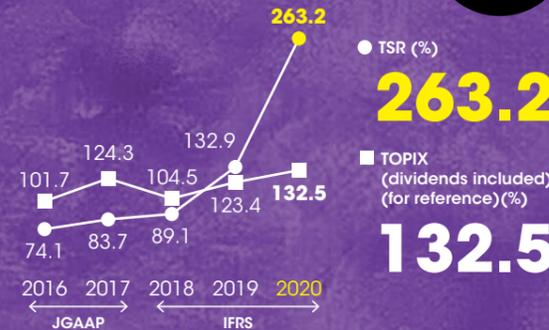
Earnings per share rises or falls roughly in proportion to changes in profit items. EPS fell in FY2019 with the decline in operating profit, but rose significantly in FY2020 as operating profit increased despite the COVID-19 conditions.

## Free cash flow



Capital investment costs in the paint industry are relatively low, and positive cash flow is the norm. Free cash flow FY2017 and FY2019 declined to negative territory due to acquisitions of overseas paint manufacturers. However, our operating cash flow continues to steadily grow each year and returned to a positive cash flow in fiscal 2020.

## Total shareholder return (TSR)



Total shareholder return has been increasing each year in line with the increasing dividends and share prices. Although the dividend amount did not change in FY2019 and FY2020, the solid rise in the share price lifted TSR to around two times higher than TOPIX (including dividends).

## Net debt<sup>\*3</sup> / Net D/E ratio



Due to the relatively low capital investment costs in the paint industry, positive cash flow is the norm, and we continued to have negative net debt. In FY2019, net debt decreased significantly to a positive figure due to the borrowings of funds from financial institutions to finance M&A. The increase in net debt raised the net D/E ratio in FY2019.

\*1 Dividend payout ratio from FY2016 to 2017 is JGAAP-based figures calculated after adjusting for amortization of goodwill. \*2 ROIC (JGAAP): Operating profit after tax / (net debt + total net assets) ROIC (IFRS): Operating profit after tax / (net debt + total equity) \*3 Net debt: Interest-bearing debt (bonds and borrowings (current/non-current) + other financial liabilities (current/non-current)) - liquidity on hand (cash and cash equivalents + other financial assets (current))

# Non-financial Highlights

**Awarded the Gold Brand from a Chinese brand evaluation institution**

**Award winner for five consecutive years**

The ongoing sales growth of our high-quality LiBang brand products since we entered the China market in 1992 has made it the top brand in China. The LiBang brand has won the Gold Brand for five consecutive years in the wall paint category of the C-BPI (China Brand Strength Index).

**Number of countries/regions where the Nippon Paint Group has the No.1 market share in decorative paints**

Year	Number of countries/regions
2016	6
2017	6
2018	6
2019	9
2020	10

**10 countries/regions**

Our Group has long held the top market position in Japan. The aggressive expansion of the NIPSEA business since 1967 has also steadily increased the number of countries and regions where our Group has the top market share. The acquisitions of DuluxGroup and Betek Boya also established us as No.1 in Australia, Turkey, and Indonesia in FY2019.

**Employee satisfaction level (Japan)\*4**

Year	Employee satisfaction level (%)
2016	78
2017	76
2018	82
2019	83
2020	90

**90**

Our Group's employee satisfaction level began rising in Japan in FY2017 and reached a record high in FY2020. Although surveys show that we need to improve in the area of comfortable workplace environments, employee satisfaction is rising for understanding of the Group vision and policies and for employee satisfaction, trust, and sense of comfort in their companies.

**Shipment ratio of water-based paints in the decorative paints business (global)\*5**

Year	Shipment ratio (%)
2016	80.1
2017	82.3
2018	83.8
2019	86.7
2020	87.5

**87.5**

Demand for water-based paints is rising in line with growing environmental awareness and tighter environmental regulations around the world. Our Group is using its technological strengths to actively develop highly competitive water-based paint products, and the shipment ratio of water-based paints is increasing each year.

## Four Strengths of the Nippon Paint Group

### 1 Leading player in the growing paint industry

The paint industry is growing around the world, and we anticipate steadily rising demand as the global population increases. Our Group has the top market share in Asia and is the fourth largest paint manufacturer in the world, but small and medium-sized paint manufacturers represent roughly half of the global market. At the same time, the paint industry is facing increasing issues that can only be addressed by environmental technologies and financial strengths held by large companies. We believe these circumstances provide significant room for the Nippon Paint Group to increase its market share.

**Global market share**  
\* Data compiled by NPHD

**No.1 in Asian market**  
**No.4 in global market**

### 2 Unparalleled market position in Asia and China

Our Group's growth is being driven by our businesses in China and other Asian regions, which account for 46% of consolidated revenue. The Chinese paint market is the world's largest and is expected to continue rapidly growing with an average CAGR of 5.3% from 2019 to 2024. We have been leveraging the strengths of the LiBang brand and our extensive distribution network to generate high growth and establish a dominant market position in this growing market.

**The Nippon Paint Group's presence in Asia**  
**No.1**

### 3 Powerful Partnerships supporting aggressive M&A

Our Group has established a solid structure to support acquired companies and their management teams and employees to bring out their best performance in local operations, taking into account the characteristics of the paint market. We will continue aggressively pursuing further synergies by taking actions including identifying new growth opportunities generated through the collaboration between the acquired companies and the existing Group companies, reducing costs by sharing raw material procurement sources, acquiring competent human resources, and sharing best practices. → See "M&A Strategy" on page 79.

**Effects of the acquisitions of DuluxGroup and Betek Boya (in FY2019)**

Revenue	FY2019	FY2020	YoY
<b>DuluxGroup</b>	1,805*	2,015	11.6%
<b>BETEK</b>	1,518	2,383	56.2%

\* DuluxGroup's revenue for FY2019 is adjusted assuming its fiscal year ended on December 31, 2019.

### 4 Advanced governance

The Nippon Paint Group is building an advanced corporate governance structure to solidify its sustainable growth as a global company. We shifted to a Company with Three Committees structure following approval at the General Meeting of Shareholders in March 2020. Six of the eight Board of Directors members are now independent directors. We will continue working to ensure the transparency, objectiveness, and fairness of the Board of Directors to protect the interests of minority shareholders.

→ See "Corporate Governance Structure and Initiatives" on page 93.

**Ratio of independent directors**  
**75%**

Outside  
Inside

\*4 Surveys by Nippon Paint Labor Union \*5 Calculated as water-based paint shipments divided by total paint shipments in units of 10,000 tons. Data for four companies: Nippon Paint (beginning in FY2016) and NIPSEA (FY2016), Dunn-Edwards (FY2017), and DuluxGroup (FY2019)

# Applying our strengths to items of materiality to solve social issues and create business opportunities

Accompanying the expansion of our overseas operations, we reviewed our materiality in August 2020 based on our policy of integrating SDGs and ESG initiatives into our corporate management.

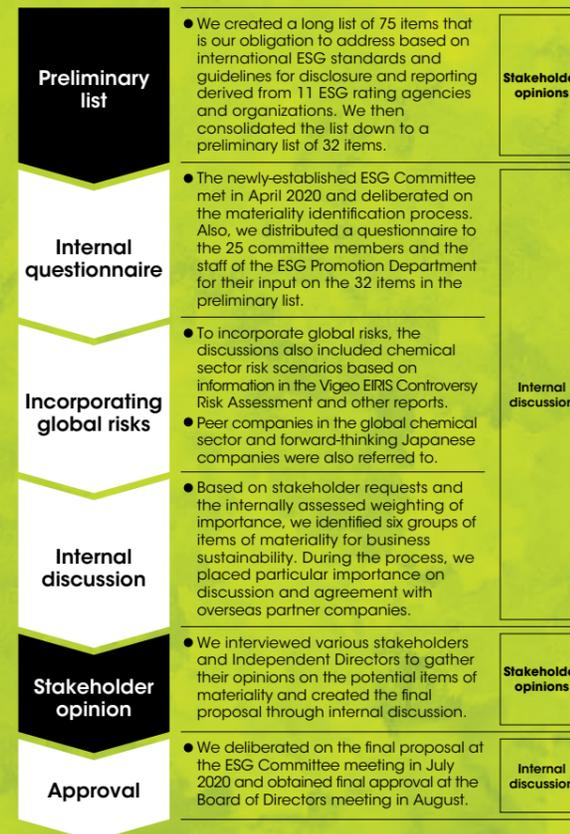
We identified items of materiality by creating a list of material issues which society requires us to address and by referencing international guidelines such as the Global Reporting Initiative (GRI), Sustainability Accounting Standards Board (SASB) as well as items required by ESG research organizations. We then performed quantitative evaluations of each issue and verified their significance in terms of the degree of importance to stakeholders and the degree of importance to our businesses. We engaged external experts to gain objective viewpoints on the issues and held discussions with our partner companies around the world to identify material issues associated with our business model and the business environment. The issues were then designated as our items of materiality.

Cross-functional teams under the ESG Committee were assigned to each materiality to discuss and develop materiality initiatives (See "ESG management system" on page 78). We have started gathering information on important topics and sharing the latest issues and ideas with our Group's partner companies worldwide.

We are applying our Group's technological strengths and actively collaborating with external partners to address social issues. We are also contributing to achieving the Sustainable Development Goals (SDGs) adopted by the United Nations in 2015.

\* Please visit our website for information about our CSR Goals through FY2020 and the progress and achievements in FY2020 at: <https://www.nipponpaint-holdings.com/en/sustainability/about/materiality/>

## Materiality Identification Process



## Materiality map

