Chapter 3

Medium- and Long-term Growth Strategy

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PHOTO: SINGAPORE / REFLECTIONS AT KEPPLE BAY
### Path of growth strategy through establishing a stable portfolio based on region and business

#### Survival Challenge Program I & II
**(Released in May 2015)**

**Basic Policy:**
- Establish a solid profitable structure
- Turn into a growing company - (Shift to a structure that can earn profit from the market)

**Basic strategy:***
- Reform the cost structure/Expand sales and profit of existing businesses/Create new markets
- Reinforce sustainable growth and the profitable business structure in Asia/Reinforce the earnings base in North America

**Challenges:**
- The cost reduction as an emergency measure in the aftermath of the global financial crisis and curbed long-term-perspective investment has resulted in the current aging of facilities and human resources
- Growth in China and Asia through the Asian JVs that were consolidated in 2014

**Achievements:**
- Profitability improved significantly and targets achieved through cost reduction mainly in Japan
- 100% ownership of the Asian JVs and acquisition of the Indonesia business announced

#### Survival Challenge Program III
**(Released in May 2015)**

**Basic Policy:**
- Coatings and its related businesses respectively acquire a leading position (within the top 3 net sales in each business segment) globally

**Basic strategy:**
- Build a foundation to become a "Dominant" in China, the most important market
- Significantly change the business structure to develop business based on Asia and increase the ratio of decorative paints, which have high growth potential and profitability

**Quantitative targets and results**

<table>
<thead>
<tr>
<th>FY2014</th>
<th>FY2017</th>
</tr>
</thead>
<tbody>
<tr>
<td>Net sales</td>
<td>¥250.0 billion</td>
</tr>
<tr>
<td>Operating profit</td>
<td>¥25.0 billion</td>
</tr>
<tr>
<td>OP margin</td>
<td>10.0%</td>
</tr>
</tbody>
</table>

**Challenges:**
- Disintegration of domestic businesses, separation of operating companies by lines of business, and transition to the holding company structure
- Significant earnings growth by consolidating the Asian JVs
- Acquisition of Dunn-Edwards in the U.S. and Bollig & Kemper in Germany
- The plan was underachieved due to the impact of raw material price increases following more stringent environmental regulations in China, as well as the higher yen against major currencies

**Achievements:**
- 100% ownership of the Asian JVs incorporated due to the acquisition of their 100% ownership
- Significant earnings growth by consolidating the Asian JVs and the acquisition of the Indonesia business announced

**Revenue composition by region**

<table>
<thead>
<tr>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$23.7 billion</td>
<td>$26.0 billion</td>
</tr>
<tr>
<td>Americas</td>
<td>$18.7 billion</td>
<td>$17.0 billion</td>
</tr>
<tr>
<td>Other regions</td>
<td>$13.6 billion</td>
<td>$13.9 billion</td>
</tr>
</tbody>
</table>

**NPV stock price +2,827.6%**

**Revenue composition by business**

<table>
<thead>
<tr>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Paint related business</td>
<td>$356.0 billion</td>
<td>$360.0 billion</td>
</tr>
<tr>
<td>Fine chemicals</td>
<td>$159.6 billion</td>
<td>$162.3 billion</td>
</tr>
<tr>
<td>Others</td>
<td>$26.7 billion</td>
<td>$27.6 billion</td>
</tr>
</tbody>
</table>

---

**N-20 (Released in May 2018)**

**Basic Policy:**
- Establish an unparalleled market position in Asia and accelerate growth globally

**Basic strategy:**
- Strengthen the businesses in existing segments
- Accurate separation of the portfolio
- Improve earning capacity
- Enhance the structure of "Global One Team"

**Quantitative targets and results**

<table>
<thead>
<tr>
<th>FY2017</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>¥610.2 billion</td>
</tr>
<tr>
<td>Operating profit</td>
<td>¥85.4 billion</td>
</tr>
<tr>
<td>OP margin</td>
<td>14.0%</td>
</tr>
</tbody>
</table>

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**Steady reinforcement of the organizational foundation for future sustainable growth**

**Achievements:**
- Expansion of business in China, Korea, and Turkey through M&A (UralSibGroup and Betik Boya)
- Establishment of an advanced governance system (the ratio of independent directors increased to 83%, and transition to a Company with a Three Committees Structure)
- Creation of synergy and establishment of top-level management partnerships across group entities based on Poweful Partnerships
- Record revenue and operating profit in FY2020
- 100% ownership of the Asian JVs and acquisition of the Indonesia business announced

**Challenges:**
- The plan was underachieved due to the impact of raw material price increases following more stringent environmental regulations in China, as well as the higher yen against major currencies
- Find new business opportunities through ESG engagement and implement carbon neutral initiatives
- Use DX and acquire competent talents to address the aging of domestic facilities and employees

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**Revenue composition by region**

<table>
<thead>
<tr>
<th>FY2018</th>
<th>FY2019</th>
<th>FY2020</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan</td>
<td>$175.9 billion</td>
<td>$178.1 billion</td>
</tr>
<tr>
<td>Americas</td>
<td>$139.6 billion</td>
<td>$159.6 billion</td>
</tr>
<tr>
<td>Other regions</td>
<td>$139.6 billion</td>
<td>$145.8 billion</td>
</tr>
</tbody>
</table>

**NPV stock price +127.3%**

**Revenue composition by business**

<table>
<thead>
<tr>
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<th>FY2020</th>
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<tr>
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<td>$27.6 billion</td>
</tr>
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</table>

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**Message from Management**

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**Financial and Corporate Information**

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**Corporate Information**

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**Review of the Medium-Term Plan**
Overview of the New Medium-Term Plan (FY2021-2023)

Setting a medium-term milestone towards our long-term goals

The Nippon Paint Group released a three-year New Medium-Term Plan (FY2021-2023) in March 2021. This New Medium-Term Plan was drawn up based on the following three policies.

Firstly, the plan was created with the significant involvement of the management teams of our partner companies. The aim is to clarify accountability and enhance the sense of involvement among our partner companies in order to maximize the Group’s comprehensive power and increase prospects for the plan’s success.

Secondly, we determined our “Purpose” (See page 01) concurrently with the New Medium-Term Plan. The Purpose defines the Nippon Paint Group’s shared “Identity” while respecting management autonomy at partner companies based on their own Mission, Vision, and Value. The Nippon Paint Group, which consists of diverse members, is dedicated to conducting business operations based on the shared values ingrained in the Purpose.

Thirdly, the positioning of the New Medium-Term Plan. In today’s rapidly changing business environment, companies should always look ahead five to ten years. Therefore, we set long-term goals and positioned the Medium-Term Plan as a three-year milestone to achieve those goals.

We will implement the growth strategies in the New Medium-Term Plan in all our operating regions and businesses by mobilizing the Power of Teamwork with our partner companies with the goal of building a powerful base for sustainable growth.

Our Group’s long-term financial targets are to achieve a revenue CAGR in the high single digits beginning in FY2024. Our goal is to exceed the revenue CAGR targets of our major benchmarked competitors of 4-6%. The operating profit and EBITDA CAGR are based on the plan to use additional marginal profit as sales grow in order to increase profit margins, thereby achieving profit growth exceeding revenue growth.

Our milestones for FY2023 are revenue of 1,100.0 billion yen, operating profit of 140.0 billion yen, and EPS (before stock split) of 225 yen. Furthermore, our targets are revenue CAGR of more than 10%, operating profit margin improvement of 2.7 points, and EPS growth of 25%.

Policies for formulating the New Medium-Term Plan

1. Formulating the Medium-Term Plan through proactive involvement of our partner companies

With a focus on maximization of our Group’s comprehensive power to ensure the feasibility of the plan, the Medium-Term Plan was formulated through involvement of our partner companies in the formulation process to create a business plan of the Nippon Paint Group.

2. Setting a shared “Purpose” of our Group

We set the “Purpose” that defines shared “Identity” of the Nippon Paint Group and respects the autonomy and accountability of our partner companies.

3. Setting a Medium-Term milestone based on the long-term perspective

We always look five to ten years into the future and update our management goals according to changes in actual business circumstances. This Medium-Term Plan is formulated to set a three-year milestone.

New Medium-Term Plan (FY2021-2023)

Setting a medium-term milestone towards our long-term goals

2024–

Our long-term vision

Ensuring sustainable growth

• Revenue CAGR in the high single digits
• Profit growth exceeding revenue growth

Financial plan

| Financial plan | FY2020 | FY2021
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>781.1</td>
<td>890.0</td>
</tr>
<tr>
<td>Operating profit¹</td>
<td>86.9</td>
<td>92.0¹</td>
</tr>
<tr>
<td>EBITDA margin</td>
<td>11.1%</td>
<td>10.3%</td>
</tr>
<tr>
<td>EPS (before stock split) (yen)</td>
<td>44.6</td>
<td>67.0</td>
</tr>
</tbody>
</table>

² Estimated based on the number of shares (excluding proration adjustments) after the capital increase on January 25, 2021

CAGR targets (Billion yen)

| FY2023 Targets¹ | FY2021-2023 CAGR targets¹ | FY2024 CAGR targets
<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>1,100.0</td>
<td>25.0%</td>
<td>Profit growth exceeding revenue growth</td>
</tr>
<tr>
<td>160.0</td>
<td>c.13.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>175.0</td>
<td>c.16.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>105.0</td>
<td>c.18.0%</td>
<td>20.0%</td>
</tr>
<tr>
<td>225</td>
<td>25.0%</td>
<td></td>
</tr>
</tbody>
</table>

¹ Before one-time expense
² Non-IFRS. Operating profit = revenue + non-operating income/expense + impairment loss
³ Targets for profit attributable to owners of parent are calculated by multiplying operating profit by effective tax rates

Inorganic growth

Eyeing the potential for non-continuous growth including through M&A

Organic growth

Further solidify our strong growth platform

Regional and Business Strategy

Expand business opportunities through ESG initiatives for sustainable growth

Sustainability Strategy

Further solidify our strong growth platform and proactively address new challenges

M&A Strategy

Aggressively pursue new partners to join our Group taking advantage of the growth potential of the paint market and stability of cash flows

Financial Strategy

Using our strong cash generating capacity to strengthen our financial base and secure funds for growth with M&A and business investment
Overview of the New Medium-Term Plan (FY2021-2023)

Regional and business strategy (overview)

1. High-growth markets such as Asia (including China) and Turkey:
   - Grow profits through revenue expansion while maintaining margins
   - P.53-64

2. Stable growth market of Oceania:
   - Secure revenue and profit growth outperforming the market growth
   - P.65-66

3. Japan:
   - Make investments in updating and streamlining production facilities with a medium to long term perspective. Secure competitive advantage and improve productivity while creating new demand
   - P.73-76

4. Automotive coatings: Assuming recovery of automobile production, aim to increase market share and acquire new customers by capturing customer needs on a global basis and reinforcing technological strengths and quality assurance systems
   - P.71-72

5. Paint-related businesses: Expansion of business into China and the other Asia region by applying the experiences of DuluxGroup’s Selleys, CC and Betek Boya’s ETICS
   - P.53-64

Our Group’s regional and business strategies to achieve the New Medium-Term Plan are outlined below. For more details about the Regional and Business Strategy, see pages 53-76.

1 In the world's largest market of China, we will leverage our strong brand power, distribution network, and alliances with real estate developers to increase our market share and achieve revenue CAGR of approx. 10%. While we expect marketing and other expenses to increase in the ever more competitive environment, we will maintain profit margins by growing revenue.

In Turkey, where population and GDP growth is expected, we will use a multi-brand strategy to increase our market share. We will also strengthen our competitive edge also in Europe and the U.S. By taking these actions, we plan to achieve revenue CAGR of 5-10%.

The paint related business is expanding worldwide with the growing customer need, we see this market as promising. Our Group can use Powerful Partnerships to sell DuluxGroup’s Selleys brand adhesives, Betek Boya’s ETICS and other paint-related products using our Group’s distribution networks.

Group will leverage the marketing capabilities of NIPSEA China and the technological strengths in Japan for rapidly increasing our market share in China. We will steadily strengthen our competitive edge also in Europe and the U.S. By taking these actions, we plan to achieve revenue CAGR of 5-10%.

As described above, our Group expects to achieve revenue growth in all operating regions and businesses with operating profit margin maintained or improved in FY2023. Our Group as a whole expects to achieve best-in-class growth.

Revenue growth projections by business

<table>
<thead>
<tr>
<th>Business Area</th>
<th>FY2020 Revenue</th>
<th>FY2021 Forecast</th>
<th>FY2021-2023 CAGR targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive coatings business</td>
<td>122.9</td>
<td>16%</td>
<td>+5–10%</td>
</tr>
<tr>
<td>Decorative paints business</td>
<td>256.1</td>
<td>56%</td>
<td>+10–15%</td>
</tr>
<tr>
<td>Industrial coatings business</td>
<td>69.2</td>
<td>9%</td>
<td>+10–15%</td>
</tr>
<tr>
<td>Other paints business</td>
<td>54.5</td>
<td>7%</td>
<td>+5–10%</td>
</tr>
<tr>
<td>Fine chemicals business</td>
<td>17.0</td>
<td>2%</td>
<td>+5–15%</td>
</tr>
<tr>
<td>Paint related business</td>
<td>76.7</td>
<td>10%</td>
<td>+5–10%</td>
</tr>
</tbody>
</table>

Revenue growth projections by region

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2020 Revenue</th>
<th>FY2021 Forecast</th>
<th>OP margin</th>
<th>FY2021-2023 CAGR targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Japan (excl. HD expenses)</td>
<td>159.6</td>
<td>16%</td>
<td>+5%</td>
<td>+5–10%</td>
</tr>
<tr>
<td>NIPSEA China</td>
<td>268.1</td>
<td>2%</td>
<td>+10%</td>
<td>+5–10%</td>
</tr>
<tr>
<td>Asia Excepting NIPSEA China</td>
<td>88.5</td>
<td>4%</td>
<td>+15%</td>
<td>+5–10%</td>
</tr>
<tr>
<td>New consolidation (Indonesia/India)</td>
<td>47.4</td>
<td>12%</td>
<td>+5–10%</td>
<td>+10–15%</td>
</tr>
<tr>
<td>Oceania</td>
<td>148.3</td>
<td>10%</td>
<td>+5%</td>
<td>+10–15%</td>
</tr>
<tr>
<td>Americas</td>
<td>70.1</td>
<td>1%</td>
<td>+5%</td>
<td>+13.0%</td>
</tr>
<tr>
<td>Other (Betek Boya)</td>
<td>36.2</td>
<td>1%</td>
<td>+5%</td>
<td>+13.0%</td>
</tr>
<tr>
<td>Total</td>
<td>781.1</td>
<td>8%</td>
<td>+5%</td>
<td>+13.0%</td>
</tr>
</tbody>
</table>

*4 Tanshin basis
*5 Local currency basis
*6 Robust figures

As described above, our Group expects to achieve revenue growth in all operating regions and businesses with operating profit margin maintained or improved in FY2023. Our Group as a whole expects to achieve best-in-class growth.

Revenue growth projections by business

<table>
<thead>
<tr>
<th>Business Area</th>
<th>FY2020 Revenue composition (as % of total)</th>
<th>FY2021 Forecast</th>
<th>FY2021-2023 CAGR targets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Automotive coatings business</td>
<td>16%</td>
<td></td>
<td>+5–10%</td>
</tr>
<tr>
<td>Decorative paints business</td>
<td>2%</td>
<td></td>
<td>+10–15%</td>
</tr>
<tr>
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<td>9%</td>
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<td>+10–15%</td>
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<td>7%</td>
<td></td>
<td>+5–10%</td>
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<td>Fine chemicals business</td>
<td>2%</td>
<td></td>
<td>+5–15%</td>
</tr>
<tr>
<td>Paint related business</td>
<td>10%</td>
<td></td>
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</tr>
</tbody>
</table>

Revenue growth projections by region

<table>
<thead>
<tr>
<th>Region</th>
<th>FY2020 Revenue composition (as % of total)</th>
<th>FY2021 Forecast</th>
<th>FY2021-2023 CAGR targets</th>
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</thead>
<tbody>
<tr>
<td>Japan (excl. HD expenses)</td>
<td>16%</td>
<td></td>
<td>+5–10%</td>
</tr>
<tr>
<td>NIPSEA China</td>
<td>2%</td>
<td></td>
<td>+10–15%</td>
</tr>
<tr>
<td>Asia Excepting NIPSEA China</td>
<td>9%</td>
<td></td>
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</tr>
<tr>
<td>New consolidation (Indonesia/India)</td>
<td>7%</td>
<td></td>
<td>+5–10%</td>
</tr>
<tr>
<td>Oceania</td>
<td>2%</td>
<td></td>
<td>+5–15%</td>
</tr>
<tr>
<td>Americas</td>
<td>1%</td>
<td></td>
<td>+10–15%</td>
</tr>
<tr>
<td>Other (Betek Boya)</td>
<td>1%</td>
<td></td>
<td>+13.0%</td>
</tr>
<tr>
<td>Total</td>
<td>10%</td>
<td></td>
<td>+13.0%</td>
</tr>
</tbody>
</table>

*4 Tanshin basis
*5 Local currency basis
*6 Robust figures

Revenue figures in the above table do not add up to the total revenue in FY2020 because the total revenue excludes the effects of new consolidation (Indonesia/India) but includes revenue for automotive coatings, etc. in Other region that is not shown in the table. Total revenue in FY2023 onwards will include both new consolidation effects and revenue for automotive coatings, etc. in Other region.
Nippon Paint China was first established in 1992 and has risen to the fore as a respected leader in the coating industry. Since its inception, it has steadily expanded its reach across China in tandem with the country’s rapid economic and social growth. Driven by a commitment to harnessing innovative technology to produce coating solutions, Under his leadership, Nippon Paint China has achieved more than double digit growth for the past 10 consecutive years.

China’s housing reforms in 1998 led to a huge wave of real estate activity, with 20 billion square meters of commercial housing sold since. However, as the dust settled post-housing boom, growth rates have slowed, resulting in excess housing stock. The current estimated area of available commercial projects totals 1.7 billion square meters. There has been an increase in construction of new residential buildings, with developers rushing to launch projects to shore up revenue amidst tight financial conditions. Notably, many of these new buildings feature move-in ready units that require no repainting and renovation - a trend that has gained traction since a 2017 policy was introduced by China’s Ministry of Housing and Urban Rural Development, requiring 30% of all newly built residential properties to be fully renovated by 2020.

At the same time, opportunities have arisen from the large base of mature housing estates across the country. Recent government initiatives encouraging refurbishment of these estates have sparked huge demand for home renovation products and services.

At the heart of this strategy is a focus on continuous brand building and upgrading. Nippon Paint created a brand mission that taps into customer demands - Refreshing a Beautiful Living Space. It portrays the spaces in which we reside—i.e. spaces for working, living, fitness and entertainment—as indicators of a good life.

The brand mission conveys the message that a refreshed living space represents a new vision and a change of mindset. Such an approach has paid off - in April, Nippon Paint and Wood Coatings both took the top spot in the 2021 C-BPI® Industry Brand Power Index, a brand ranking and analysis report by the rating authority Chnbrand. Being selected as No. 1 brand in the wood coatings category for nine consecutive years is testament to the recognition and trust we have gained from our consumers.

Nippon Paint also aims to build comprehensive user experiences to ensure we remain the first choice for all home improvement needs. We launched our “Beyond Paint” strategy in 2014, drawing from our in-depth understanding of customer demands. At the heart of this strategy is a focus on diverse, high-quality product lines and integrated services. We innovate a wide range of products that go beyond coating materials, offering top quality and environmentally friendly base and auxiliary materials such as putty, waterproofing products, silicone, tools and more.

Furthermore, we provide one-stop solutions by integrating services into our repertoire. For example, we launched our refresh service in 2011, which appeals to customers because they outsource the painting work to us. The service, which emphasizes customer

**Market growth rate (decorative: overall)**

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>Revenue</td>
<td>9.482</td>
<td>10.50</td>
<td>11.05</td>
<td>12.50</td>
</tr>
</tbody>
</table>


**Our growth strategy for FY2021-2023**

Focus on continuous brand building and upgrading

2. Strive to build and enrich high quality product lines, integrating product systems into customer needs

3. Expand scope from selling products to selling services, underscoring our transformation from a pure paint manufacturer/seller to a total coatings solution provider

4. Expand market share in the repainting and renovation market

5. Embrace digital strategies and data-driven business transformation

We have pinpointed several key measures to generate growth in the DIY Market from 2021-2023. These are:

1. Focus on continuous brand building and upgrading

2. Strive to build and enrich high quality product lines, integrating product systems into customer needs

3. Expand scope from selling products to selling services, underscoring our transformation from a pure paint manufacturer/seller to a total coatings solution provider

4. Expand market share in the repainting and renovation market

5. Embrace digital strategies and data-driven business transformation

Unlike brands and products in other industries, paint is an industry without a logo; consumers are not likely to show paint buckets after using paint products. As such, building brand recognition in the coatings industry requires a different approach. In 2020, Nippon Paint created a brand mission that taps into customer perceptions of lifestyle and identity, themed “Refreshing a Beautiful Living Space.” It portrays the spaces in which we reside—i.e. spaces for working, living, fitness and entertainment—as indicators of a good life.

The brand mission conveys the message that a refreshed living space represents a new vision and a change of mindset. Such an approach has paid off – in April, Nippon Paint and Wood Coatings both took the top spot in the 2021 C-BPI® Industry Brand Power Index, a brand ranking and analysis report by the rating authority Chnbrand. Being selected as No. 1 brand in the wood coatings category for nine consecutive years is testament to the recognition and trust we have gained from our consumers.

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Furthermore, we provide one-stop solutions by integrating services into our repertoire. For example, we launched our refresh service in 2011, which appeals to customers because they outsource the painting work to us. The service, which emphasizes customer
convenience and now allows them to repaint more frequently, amplifies our role in the consumer journey and has become the word-of-mouth choice for more than 600,000 households.

Repainting services

We also hope to capitalize on a growing home renovation market, triggered by national policies prioritizing the transformation of mature real estate. At the Politburo meeting on 17 April 2020, a measure was proposed to actively expand investments to implement the renovation of old communities. Over the past two years, the Chinese government encouraged renovation of the nearly 160,000 mature housing communities across the country, spanning an estimated 4 billion square meters. We see this as an important market opportunity as our DIY product system and repair services ease the burden for consumers keen to repaint and renovate their homes. This allows us to expand our market share, creating a viable revenue stream that offsets dwindling sales from traditional business (i.e., relying on sales from walk-in customers).

Several factors, including the COVID-19 pandemic and the digital revolution, have also been significant drivers of change and growth. In 2020, the pandemic devastated the construction industry. As such, would-be homeowners have turned to an emerging trend of home improvement instead of purchasing new homes. Many of them were born in the 90s, making them a generation of digital natives who have fully embraced online consumption. Hence, Nippon Paint is actively exploring a dual-channel online and offline approach, combining customer touchpoints to maximize engagement.

While physical stores remain the cornerstone of the consumer experience, we will explore building a digital second-floor format of intra-city shopping, smart shopping malls, and painting clubs to drive a new growth curve for the brand. We have also launched successful digital initiatives such as a strategic partnership with Taobao, which saw Taobao top two sales ambassadors selling our products via livestream during last year’s 817 Super Brand Day sale. As we recognize that big data is the future of commerce, we will use its new insights to better understand our customers, terminals, and markets, as well as enhance our own company operations.

Real estate developers have consistently strengthened their market presence over the years. According to a research report studying China’s real estate developers, both the top 100 and top 1,000 developers have seen a year-on-year increase in market share. The Top 100 real estate developers saw a substantial increase of 26.4% market share from 2015-2019, while the Top 10 real estate developers an increase of 11.3% over the same period. The numbers only continue to grow; last year, the sales market share of the Top 100 developers rose to 63.2%.

Therefore, it has become imperative to foster deeper cooperation with real estate developers and their project stakeholders, making Nippon Paint as their go-to for innovative projects that lead the pack in terms of quality and variety.

In March 2020, the Chinese government initiated a raft of construction projects categorized as “new infrastructure” projects. This will involve investment of more than $40 trillion, which will go towards constructing 5G base stations, UHV electrical grids, intercity high-speed railways and urban rail transit, charging piles for new energy vehicles, big data centers and internet infrastructure. These technology-driven projects will require structures built with higher functionality and resilience, which is where we see great opportunity for us to establish our presence.

Regional and Business Strategy

Project Market features and outlook

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Message from Management

Capital and Business Model

Middle- and Long-Term Growth Strategy

Sustainability Information

Financial and Corporate Information

Top 100 real estate developer’s market share

2015

2020

35.1%

63.2%
Project Growth strategy for FY2021-2023

Although real estate developers comprise the majority of our customers, we have identified a gap in the market space that is ripe for exploration. Our Project Division seeks to forge relationships with the real estate industry’s numerous ancillary businesses – including contractors, architecture, and engineering firms, or home improvement companies – to fill this market gap.

In order to do so, we aim to consistently improve our product range and product systems. As such, our Project Division innovates high-quality and comprehensive product lines to meet a broad range of customer demands. We continue to expand our product line beyond coatings offerings, providing substrate products, auxiliary materials, and energy-saving insulation products as well. These products are complemented by efficient systems and fast-track delivery services.

By building a platform that integrates customer acquisition with delivery processes, and establishing strong relationships with distributors and construction companies, we provide partners with all-round support, mechanized construction and delivery standards, among others, to achieve an overall technological leadership, high quality standard, improved efficiency, and cost effective solutions.

Strengthening cooperation with our customers is a crucial pillar of our growth strategy. Nippon Paint recognizes that our B-end customers have a unique set of requirements; hence, to satisfy this category of customers, we must ensure our products, services and technologies meet their needs. To this end, we have embraced the theme “Drive change, stabilize and move fast,” which will underpin our efforts to meet demands. We will implement process improvements and make necessary organizational changes to optimize product development, sales, service and supply chains. The more dynamic and streamlined we are as an organization, the greater our competitiveness, and the greater value we will be able to offer our clients.

NP Project, the power of refresh Five dimensions of brand support

Creating an integrated innovation approach to product and service offerings

Integrating supply and apply for efficient resources and providing high standards of service

Promote green solutions to protect the environment

Integrated architectural product line

Heat preservation and energy saving

Ground Professional floor coating systems with multifunctions as well as environmental friendly inorganic interior wall coatings

Wall High performance, multi-functional for both exterior and interior wall coating system

Auxiliary base A multiplier based professional complementary system

China’s Three Super Airports

Nippon Paint China drew from vast experience in spearheading major industrial and public construction projects to provide insulation, interior and exterior wall coatings, and decoration panels for three of China’s super airports – namely Beijing Daxing International Airport, Shanghai Pudong International Airport and Chengdu Tianfu International Airport.

In providing solutions and systems to these airports, we took into account safety, durability, aesthetic value and environmental sustainability. The terminal, as a public area where passengers are concentrated, needs a building space that is flame-resistant, anti-mildew and antibacterial, and have good water vapor permeability. We also balanced function with form, as we installed epoxy grindstone floors in the terminals, which was an attractive, long-lasting and environmentally friendly flooring option.

As a public transportation hub with huge traffic flow, the top and wall decoration materials in the building space had to be built with fireproof interior wall products. Taking Beijing Daxing Airport as an example, a parking lot on the north side of the airport with a capacity of over 4,000 cars consists of three floors above ground and one basement. The fire safety performance of the parking lot determines the safety of the personnel in the airport. To maximize safety, we utilized Nippon Paint inorganic interior wall coatings with excellent resistance to combustion during airport construction.

China Zun Building

Nippon Paint also brought its expertise to the construction of China Zun Building. Located in the core of Beijing’s CBD, this iconic structure is also the city’s tallest. As Beijing has the highest seismic fortification requirement of all major cities in China, the construction of China Zun required careful planning of structure and form, and the right coatings solutions to boast.

Our Project Division team provided China Zun with an integrated full-system solution, stable quality coating products and efficient construction services. We designed a complete system of coating solutions that ensured durable, anti-cracking exterior walls, environmentally friendly and flame-resistant interior walls, and non-fiber dust floors.

External cracking, water leakage and weather damage are all significant concerns for such a towering skyscraper; hence, we provided exterior wall coatings that would take all these risks into account. The building’s exterior is partially coated with Nippon Paint elastomeric textured coating, covering the wall with a safe and durable protective finish. The elasticity of the paint film allows the coating to expand and contract along with the structure when temperature changes occur.

Nippon Paint also equipped China Zun with long-term durability. The low-emission paint film can prevent external water penetration from corroding the concrete and wall base layer, and reduce the Hidden danger of water seepage. Additionally, China Zun is crowned by an atrium that requires highly weather-resistant coatings due to its extreme elevation. Here, Nippon Paint China utilized water-based fluorocarbon metallic paint, which not only creates an elegant metal texture effect for the space, but also provides excellent resistance to weather, water and general wear and tear. This coating will allow this part of the structure to withstand exposure to the elements for over 20 years and reduce maintenance frequency.

Our interior wall coatings used in China Zun contain almost no organic components and are naturally “Class A” flame resistant. The quality and the rate of heat release are extremely low, which can effectively block contact between open flame and the substrate.
PT Nipsea Paint and Chemicals

PT Nipsea Paint and Chemicals is Indonesia’s leading manufacturer of paints and coatings under the Nippon Paint brand. Dominant in the Automotive OEM coatings business, Nippon Paint is also the market leader in the decorative paints segment and well loved by Indonesian consumers for over 50 years. The company employs over 6,600 staff and is headquartered in Jakarta with a wide sales network covering over 40 locations across the country.

Corporate data
Employees: 6,600
Headquarters: Jakarta, Indonesia
Ownership Ratio: 100.0%

Profile
Budi Fianto Buna has been the President Director since 1990. Prior to that, he began his career as an HR & Payroll Executive, rose through a succession of leadership roles across areas including sales, marketing and general management. He was one of the pioneering team members who spearheaded the company’s growth in the Indonesian market. Under his leadership, both Trade Use and Industrial涂装 solutions secured the number 1 position in market share for Decorative, Industrial OEM and Motorcycle coatings businesses. Budi obtained his degree in 1976 from a private university in Indonesia.

Market features and outlook

Despite pandemic conditions, the market remains stable with a growing GDP forecasted at an average rate of 4% year-on-year. With a population of circa 270 million and a majority of productive-age, the market has the right demographics to maintain a positive demand trajectory.

In Indonesia, we have 100% distribution coverage across major cities, servicing a network of 30,000 dealers, a cumulative total spend of USD430 Billion on infrastructure alone by 2024. GDP forecasted at an average rate of 4% year-on-year to strongly contribute to our revenue growth in the next 3 years.

Over the past year we have continued to grow our business through a 3-pronged strategy:
1. Enhancing distribution and reach
2. Growing adjacent businesses
3. Expanding into new sales channels

We aim to double the number of stock points from the existing 40 to 80 within the next 3 years. This coupled with our extensive network of 10,000 computerized Colour Creations Machines (CCM) by 2023 will allow us to service even the most remote of areas in Indonesia.

While Indonesia’s renovation and repair market projects a positive growth trajectory, we will continue to leverage the Nippon Paint Group’s strength to build a product portfolio that goes beyond just paint. This includes the introduction of paint accessories, tools, SAF, waterproofing, etc. into our existing channels. The diversification of our portfolio and increased focus on adjacent businesses is expected to strongly contribute to our revenue growth over the next 3 years.

As we look to build a sustainable and resilient business structure to maximize value for all our stakeholders, we will continue to make steady investments in brand development. Through our enhanced product innovation and customer centric services, we hope to deliver the most compelling value proposition for customers, creating a Top of Mind recall for the Nippon Paint in Indonesia.

Growth strategy for FY2021-2023

• Heavy investments in brand building to maintain ‘Top-of-Mind’ positioning for our products and customers
• Increase the distribution of our computerized Colour Creations Machines (CCM) and drive product penetration in all product segments in our retail network
• Proactively open new sales channels and distribution locations with a continued focus on strengthening partner and distributor relationships
• Expand e-commerce business to capture demand from online sales initiatives and channels

Performance 2

Nippon Paint Holdings Integrated Report 2021
Wang Chyang
Managing Director
PROFILE
Wang Chyang is the Managing Director of the Nippon Paint Singapore Group, which comprises Myanmar, Singapore, Vietnam and Sri Lanka. In his 35 years with the company, Wang has successfully integrated new businesses and markets into the Group, expanding the footprint of Nippon Paint Singapore in the region. Wang is also concurrently the head of Group Protective Coatings (PC) and is responsible to grow the protective coatings business in Asia. Wang’s innovative leadership style allows him to strategize effectively and keep the team motivated to achieve unified goals, driven strongly by NPSA values.

Market features and outlook
For Nippon Paint, Singapore is primarily a decorative paints market split equally between retail and project channel.

The retail channel for Singapore is driven by Nippon Paint’s strong dealership network and local retail partners. With our increased efforts in expanding our distribution via other networks including online channels, we will keep nurturing our e-commerce business, to drive further revenue in this segment.

With Singapore’s legislation that requires external walls to be repainted within a specific number of years, we foresee a stable demand for our decorative paints for repainting projects both in the public and private sector. As the local government continues to work on infrastructure projects, we expect to see a further increase in demand for materials within the public construction sector. This indicates an overall positive outlook for Nippon Paint in both the decorative paint and the protective coating segments.

A broadened product portfolio and continuous focus on brands, coupled with the acceleration of infrastructure projects as Singapore recovers from the impacts of the pandemic, will drive profitability for the Group in the coming year.

Growth strategy for FY2021-2023
To retain our market dominance and drive consistent business growth in Singapore, our key strategies include:

1. Maintaining our market position for the decorative paint segment while simultaneously growing our business adjacencies.
2. Building a customer-centric approach and engagement programs for our business partners.
3. Providing value-added services for our trusted and loyal customers.
4. Engaging with our customers on online channels and steadily growing our digital presence.
5. Being a market leader in the decorative paints segment with known reputation for high quality products, this segment continues to drive revenue for Nippon Paint in Singapore. To sustain market demand for this segment, we will continue to build awareness for our innovative products like VirusGuard through digital media advertising, online promotions, and other commercial initiatives.

Complementing the decorative paint segment, we have diversified our product portfolio to include SAF, painting accessories, and other value-added services like professional painting to provide a full range of products, tools, and services for renovation services. With improving accessibility to quality products and services under the Nippon Paint brand, we foresee these initiatives to deliver positive outcomes.

In 2020, Nippon Paint formed an important integration with Selleys SAF, leveraging our wide network of dealers and existing customer base, we will drive demand for this segment by launching our SAF products like "Liquid Nails" Adhesive, "5601" silicone sealants and "No More Gaps" Primer to trade customers and at dealer shops.

As we strive to provide more value-added services to our customers, we will continue to enrich our existing network of painters through loyalty programs and training sessions, where they can connect with each other, learn new skills, and deliver excellence to our customers.

In terms of our other business segments like building materials, we remain focused on driving further growth by leveraging our strong network of designers and contractors and building in-house logistics capabilities at our service centers.

Lastly, diversifying our portfolio into adjacent businesses will be key in gaining a larger share in Singapore’s paint and coatings industry. With that, we will continue to build awareness for our floor coatings, painting tools, Selleys SAF products and construction chemicals and improving competencies within this segment.

Delivering quality customer experiences through innovation and diversification will outline our overall business growth as we establish a stronger stronghold in this region.
Nippon Paint Malaysia

Moving forward, we remain focused on driving consistent growth for Nippon Paint in Malaysia while ensuring that we are able to successfully meet the changing preferences of our customers.

Key pillars that outline our business strategy include:

1. Driving market dominance in the decorative paints business segment.
2. Expanding offers and services to provide customers with complete solutions.
3. Making steady investments in enhancing brand awareness for innovative products via new channels.

Nippon Paint has always been a leading market player in the decorative paint and consumer product segment, underpinned by our innovative and high-quality products. As housing projects come to revitalize communities and new homes in Malaysia, we will continue to drive awareness for our paints and coatings solutions. Through our commercial initiatives we hope to achieve at least 50% mind awareness for our brand amongst homeowners by the end of 2023.

Taking into consideration the rise in demand for wellness and sustainable products, Nippon Paint has unveiled several innovative products that have gained a positive reputation amongst our customers. This includes our anti-viral offerings like Nippon VirusGuard, which provides protection against the novel coronavirus as well as our environment friendly products like Green Choice and Child Wellness Range. With consumer preferences shifting to sustainable choices, we anticipate our innovative product range to deliver positive revenue outcomes.

While strengthening our business on the customer front, we will continue to deliver new technologies and solutions for our business partners. This includes driving distribution of our Colour Creations Machines (CCM) from 63% to 70% by the end of 2023 and increased product penetration across all segments.

As we work to become a complete solution provider for customers, we will continue to diversify our portfolio and expand into new business segments to include waterproofing and construction materials for our project customers. We will simultaneously also improve our offerings in the adjacent SAF segments to provide end-to-end home solutions for our customers, made possible through our acquisitions of Selleys and Vital Technical. With expansions as such, we expect to see a higher brand penetration into new segments in the near future.

While expanding our business offerings, we expect to see a broader market penetration in driving revenue and profitability via our e-commerce platforms and online initiatives. As popularity for online service providers continues to increase, we hope to extend our online offerings to include other value-added services like painting services, etc. into this platform.

Market features and outlook

- Malaysia’s economy is expected to rebound in the latter half of 2021, and stabilize by 2022.
- As infrastructure, construction and affordable housing projects are expected to revive post pandemic control, demand for products in the paint and decorative paint segment is expected to rise.
- Rapid digitalization efforts and strong growth of e-commerce channels enables Nippon Paint to expand product penetration directly to customers.

Market growth rate (decorative: Malaysia)

<table>
<thead>
<tr>
<th>Year</th>
<th>Market share</th>
<th>Market growth rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>42%</td>
<td>+8.1%</td>
</tr>
<tr>
<td>2021</td>
<td>44%</td>
<td>+8.1%</td>
</tr>
<tr>
<td>2022</td>
<td>45%</td>
<td>+8.1%</td>
</tr>
</tbody>
</table>

Performance (Malaysia, overall)

<table>
<thead>
<tr>
<th>Year</th>
<th>Revenue (Billion JPY)</th>
<th>CAGR (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2020</td>
<td>22.6</td>
<td>+5.1%</td>
</tr>
<tr>
<td>2021</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Growth strategy for FY2021-2023

- Continue investments in brand building initiatives.
- Strengthen Nippon Paint’s position as a market leader in the decorative paint segment.
- Continue to expand customer base into wellness segment.
- Develop e-commerce business to drive profitability via online platforms.

Message from Management

Yaw Seng Heng
Group Managing Director

Message from Management

Yaw Seng Heng has been a part of the Nippon Paint Group for close to three decades and is known for being a pivotal leader who embodies the company’s spirit of entrepreneurship and innovation. He has led Nippon Paint Malaysia Group to achieve multiple successes from overseas expansion to moving into new locations including Pakistan, Bangladesh and Turkey and managing the operations of SAF in India, Indonesia and Vietnam under his purview. Under Nippon Paint Malaysia Group was also able to expand beyond paint & coatings segment such as SAF through integration with Selleys and the latest acquisition of Vital Technical.

Established in 1976, Nippon Paint Malaysia has grown in leaps and bounds and today, has emerged as a significant market leader within the paint & coatings industry with presence in Pakistan, Bangladesh, Philippines, Thailand and Indonesia as a global leader in paint & coatings technologies. Nippon Paint Malaysia prides itself as being a true coatings solution provider with a multi-segment product portfolio serving several sectors including automotive, industrial, marine and home repair solutions.

NIPPON

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Malaysia’s economy is expected to rebound in the latter half of 2021, and stabilize by 2022.

As infrastructure, construction and affordable housing projects are expected to revive post pandemic control, demand for products in the paint and decorative paint segment is expected to rise.

Rapid digitalization efforts and strong growth of e-commerce channels enables Nippon Paint to expand product penetration directly to customers.

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Message from Management

Patrick Houlihan

Chairman and Chief Executive Officer

DuluxGroup

DuluxGroup is a marketer and manufacturer of premium branded products that enhance, protect and maintain the places and spaces in which people live and work. We put consumers and customers at the heart of everything we do, and we deliberately focus on attractive and well-structured market segments that deliver consistent growth and strong returns.

Our existing home renovation and repair markets in Australia and New Zealand, which account for approximately two-thirds of DuluxGroup revenue, are expected to continue providing resilient, profitable growth. The fundamentals underpinning these markets are generally positive, including stable GDP growth, low interest rates, relatively strong consumer confidence and buoyant discretionary retail spending. We anticipate markets will return to ‘normal’ growth rates over the medium term, following particularly strong growth during 2020, which resulted from COVID-19 stay-at-home activity.

Our largest product market, decorative paints, historically grows at an average of 5% a year. By continuing to put our consumers and customers at the heart of everything we do, we are well placed to build on our leading positions across market segments.

Growth strategy for FY2021-2023

We remain focused on continuing our track record of consistent growth in our core ANZ businesses whilst ensuring that our Group capabilities assist Nippon Paint Group to accelerate our collective global growth and ambition, with the ultimate goal of maximizing shareholder value.

Our three strategic growth pillars are:

1. Continue to grow our market leading Dulux, Selleys and other home improvement businesses in Australia and New Zealand
2. Contribute to growth of sealants, adhesives & fillers (SAF) and construction chemicals (CC) in the Nippon Paint Group; and
3. Contribute to Nippon Group’s decorative paints and specialty coatings growth, particularly in western markets

Our growth ambitions are enabled by continuing to invest in our core capabilities and priority areas, including premium brands, strategic marketing and consumer engagement through digital channels, innovation and technology; sales capability; retail and trade customer channel focus; and supply chain excellence.

Our growth is underpinned by an experienced and capable workforce and a performance-driven culture. Our employees are united by our shared Values & Behaviors, which guide us to continually find smarter, market leading solutions for our consumers and customers. This is reflected in world class levels of employee engagement. Critically, we are continuing to invest in and develop new skills, capability and talent aligned to our strategic goals.

DuluxGroup is a 103 year old ANZ market leader with regional scale and strong market positions, with the capability to make a meaningful contribution to the global growth ambitions of the 140 year old Nippon Paint Group. Our collaboration is already delivering mutual benefit, and we are well placed to capitalize on the opportunities ahead in our chosen markets, using our collective strengths to maximize shareholder value.

Corporate data

Employees: 3,912
Ownership Ratio: 100.0%

Employees: 3,912
Ownership Ratio: 100.0%
Regional and Business Strategy

2020 summary

Strengths

• Leading company that is customer-centric and has strong reputation and trust among customers

• Broad range and intensive marketing campaigns to support sales in all major growth markets

• Continuous investment in strategic marketing and communication around the globe

Weaknesses

• Like other players, Betek Boya’s business is subject to external factors such as competition, fluctuating raw material costs, and changes in consumer demand

Opportunities

• Drive market opportunities towards environmentally friendly products as focus on health and environment continues to build in the region

• Help to strengthen the Nippon Paint Group’s position in the western DIY market with Betek Boya’s flagship paint brand - Filli Boya. All consumer demand for DIY products continues to increase

Threats

• Prevailing economic conditions have led to cautious consumer buying habits, driving more consumers away from budget segments

• Continue with strong, established multinational companies

Our key growth strategies pillar can be outlined as:

1. Expanding our market share in decorative paints through a multi-brand approach.


3. Expanding brand presence in adjacent geographic areas.

4. Building a customer-centric approach by delivering seamless and unique customer experiences through our marketing and trade channels.

5. Making steady investments in both product and technology through the power of synergy with Nippon Paint.

Growth strategy for FY2021-2023

We remain focused on driving consistent growth in Turkey while strategically ensuring that we are able to expand Nippon Paint’s global footprint and maximize value for all our stakeholders.

Our key growth strategies pillar can be outlined as:

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4. Building a customer-centric approach by delivering seamless and unique customer experiences through our marketing and trade channels.

5. Making steady investments in both product and technology through the power of synergy with Nippon Paint.

We will continue to outline our marketing efforts in the region. The inception of seamless painting service (FH Ulam) and one of a kind ‘New Generation Dealer’ stores designed to accelerate consumer shopping experiences complete the omni-channel experience for our customers. As e-commerce and online engagements seek to grow post pandemic, Betek Boya will continue to explore innovative strategies to better connect with our customers and deliver new experiences for them.

Betek Boya exports its entire product group to more than 30 countries and we aim to grow our market share in selective geographic areas by optimizing and refreshing our product portfolio and distribution channels while simultaneously looking for newer growth opportunities in other markets.
Dunn-Edwards

Dunn-Edwards has been a leading paint supplier in the Southwestern U.S. since 1925, providing a complete line of paint, sundries and equipment to professional painters and do-it-yourself consumers. In the U.S. 95% of all architectural coatings are supplied by the six largest manufacturers. The remaining 5% come from regional and local manufacturers with significant levels of brand loyalty. Based on PaintCare Recycled Paint Program sales data, Dunn-Edwards has an estimated 12% share in California markets, and 10% to 20% in other regions.

Dunn-Edwards is an industry-leading, regional manufacturer that earned its reputation by combining high quality products with unmatched customer service. 2020 was a year full of the unexpected. A global pandemic shut down the economy for a period and the population responded by investing in their homes and taking on renovation projects, thereby increasing the demand for paint products. Our core residential repaint markets are expected to show continued strong demand even as “stay at home” ends, driven by substantial accumulated home equity and low inventory of existing homes. This will benefit both our professional and consumer customer segments.

Commercial activity is increasing but the demand for office space is still weak as companies continue to assess and balance “work from home” versus return to work in corporate facilities. This trend is expected to continue as the economy begins to open. Consumer spending in the home improvement sector remain strong. Expanding our offering to retail customers offers tremendous upside for growth in this important segment. We are guided by a mission of developing products and services with measurable and meaningful performance advantages versus the competition. This philosophy, combined with our focus on meeting customer needs, positions us well across segments and for future growth.

Corporate data
Employees: 1,888
Headquarters: California, USA
Ownership Ratio: 100.0%

Karl Alteggott
CEO

Profile
Karl Alteggott has been the President and CEO of Dunn-Edwards for the past 12 years. After joining the company immediately focused on projects to achieve operational efficiency and provide superior customer service. Under his guidance and support the company conducted a fully-automated manufacturing plant to expand production capabilities, modernize its retail outlets, and launched a Color Advisor program to assist customers with color selection. He holds a B.S. in Engineering from Loyola Marymount University and an MBA from Pepperdine University’s Graziadio School of Management.

Environmental stewardship is a core offering. Our focus on reducing our carbon footprint and responsible behavior and drive new sales opportunities.

Dunn-Edwards retail store model increase efficiencies with stores. The company is taking proactive steps to influence customer behavior and drive new sales growth through channels and to new market segments.

Strengths
• Strategically positioned retail store network and highly trained sales force focused on providing superior customer service
• Diverse portfolio of high-quality and innovative products provides meaningful, measurable performance advantages versus the competition

Weaknesses
• For over 95 years, Dunn-Edwards has successfully focused on serving the professional painting industry. However, continued actions by national brands and changing demographics are impacting brand preferences. The company is taking proactive steps to influence customer behavior and drive new sales growth through channels and to new market segments.

Opportunities
• Develop omnichannel e-commerce solutions to drive sales growth to professionals and consumers alike
• Help to grow the Nippon Paint Group’s position in the United States through channel and product growth initiatives

Threats
• Large marketing and advertising investments by national brands continue to impact brand selection

Market features and outlook
• Raw materials shortages driven primarily by a winter storm impacted the petrochemical industry and have created significant supply volatility, compounded by strong overall demand growth.
• Demand in the residential repaint segment is expected to continue over the “stay at home” ends. This is driven by substantial increases in home equity and low volumes of inventory for sale.
• Commercial activity is increasing but demand for office space is notably weak.
• Strong consumer spending in home improvement provides growth opportunities in this segment

Market growth rate (decorative: USA)

<table>
<thead>
<tr>
<th>Year</th>
<th>CAGR (decorative)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2019</td>
<td>2.4%</td>
</tr>
<tr>
<td>2020</td>
<td>2.5% (forecast)</td>
</tr>
<tr>
<td>2021</td>
<td>4.4%</td>
</tr>
</tbody>
</table>

Market share (decorative/value: USA)

<table>
<thead>
<tr>
<th>Year</th>
<th>2019</th>
<th>2020 (forecast)</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAGR</td>
<td>2.4%</td>
<td>2.5%</td>
</tr>
</tbody>
</table>

Growth strategy for FY2021-2023
At Dunn-Edwards, we remain focused on our strategic growth plans. Our priorities will help build a foundation for the future by growing non-operating profit as a percentage of sales while increasing revenue and market share, with the goal of maximizing shareholder value.

Our three growth targets are:
1. Decrease dependence on and increase efficiencies with stores. The Dunn-Edwards retail store model requires capital investment which must be carefully weighed and considered. Identifying ways to expand service areas without traditional store expansion is essential to invest capital effectively to foster growth, while controlling expenses.
2. Develop new channels. Channel growth through existing and new relationships represent new revenue streams to maximize return on assets through general retailer, dealer, home centers, and online opportunities. Multiple opportunities to define brand and build channels are underway.
3. Deepen segment penetration. Dunn-Edwards is positioned to further grow existing markets and pursue target segments within our core offering. Our focus on professional customers for over 95 years has given us unique insights to help maximize volume out of existing stores and investments.

Complementing Dunn-Edwards growth targets, product innovation is always a key focus for us to meet changing market demands. We continue to invest in our product development capabilities through state-of-the-art facilities and capable workforce. These efforts, combined with our new product pipelines and global collaborations with Nippon Paint Group companies, will bring new and superior-performing products to market.

Environmental stewardship is a central component to the Dunn-Edwards brand. We continue to be on the forefront of environmental issues by examining national and international regulatory actions and aligning with Nippon Paint Group ESG principles and practices. As we move forward, our Environmental Affairs Team is working on proposed strategies to support 2050 zero carbon emission compliance.

Dunn-Edwards success is grounded in our experienced management team, diverse culture, and highly-trained employees. The continued integration of personnel across Nippon Paint Group companies, at all levels of the organization, is building and leveraging our collective knowledge base that will aid in developing capabilities and ultimately solutions to improve how we serve our markets and maximize shareholder value.
Coatings Co., Ltd. (NPAC)
Nippon Paint Automotive
Ownership Ratio: 100.0%
Headquarters: Osaka, Japan

plastic bumpers and interior components.
coatings for auto bodies to coatings for primer, base coat, and clear coat
coatings manufacturer capable of
NPAC is the world’s leading automotive
Director of the Board in August 2021 and has since been leading the automotive coatings business of
Automotive Coatings Co., Ltd. (NPAC) in January 2021. He was appointed President and Representative
Director in 2018, and was appointed Deputy President and Executive Corporate Officer of Nippon Paint
management in the automotive coatings business. He became Executive in 2016 and Managing
College of Economics in 1984. He built his career for nearly 37 years in sales, planning, and
innovations called CASE sweeping
With a wave of technological
achieving GHG emissions neutrality by
Following the global trend for
93 million units in 2023, exceeding the
impact of semiconductor shortages on
reduced automobile production due to
NPAC is also reinforcing its
user satisfaction with our products.
As a result of this, the automotive coatings industry
world are advancing R&D activities to
meet customer needs arising from
The automotive coatings industry is facing major changes on various fronts, which in turn are opening new business opportunities to meet the new needs and serve new customers. At the same time, these developments make it essential that we review our current paint products, paint application processes, and value chains.
Growth strategy for FY2021-2023
NPAC is determined to become the leading company in the automotive coatings industry. To accomplish this, we will identify new customer needs, which are becoming increasingly complex while the auto industry undergoes a major transformation. At the same time, we will enhance our technological capabilities and reinforce our quality assurance system.
In Japan, we will focus on our business for Japanese customers, which is the core area of our business. We will improve our existing coatings and promote next-generation coatings, meeting new needs in the automobile industry by accelerating the development of environmental water-based paint, anti-viral paint, and paint products for the CASE concept. We will also further develop our Premium Color lineup of products with high designability and cost-effectiveness and develop new coating methods.

NPAC is the world’s leading automotive coatings manufacturer capable of seamlessly providing the entire spectrum of automotive coatings from pre-treatment, electrodeposition coating primer, base coat, and clear coat coatings for auto bodies to coatings for plastic bumpers and interior components. NPAC operates in 15 locations in Japan and 22 countries and regions around the world.

Shinji Takedagawa
President & Representative
Director of the Board

Market features and outlook
The automotive coatings industry is currently being strongly impacted by the reduced automobile production due to the COVID-19 pandemic. In addition, the impact of semiconductor shortages on the automobile industry may last until the first half of 2022. However, automobile production is projected to recover to 93 million units in 2023, exceeding the pre-pandemic level in 2019.
Following the global trend for tightening environmental regulations, the Japanese automobile industry is implementing measures aimed at achieving GHG emissions neutrality by 2050 committed to by the government. As a part of this, automotive coatings manufacturers are being asked to develop products with less environmental impact.
With a wave of technological innovations called CASE sweeping to the automobile industry, automotive coatings manufacturers around the world are advancing R&D activities to meet customer needs arising from these innovations.
The automotive coatings industry is facing major changes on various fronts, which in turn are opening new business opportunities to meet the new needs and serve new customers. At the same time, these developments make it essential that we review our current paint products, paint application processes, and value chains.

NPAC has a comprehensive ability to provide the entire spectrum of automotive coatings from pre-treatment, electrodeposition coating primer, base coat, and clear coat coatings for auto bodies to those for exterior plastic components. Customer support system with a global sales network expanding from Asia

NPAC is fortifying its organizational structure to support the entry to the film business while also accelerating the global expansion of the decorative film business for automobiles and broadening its scope to other fields, including industrial coatings and decorative paints. We plan to add coated films to augment its offerings of coatings for films in 2022. NPAC’s existing paint business and the new film business will provide high-quality products meeting the diverse needs of its customers.

We are also mobilizing a full-scale entry into the film business with the aim of establishing it as a new core business. The film market is growing rapidly with the automobile industry’s shift to next-generation automobiles. NPAC has been developing coating technology for films (decorative films) as a new business line since 2015. NPAC is fortifying its organizational structure to support the entry to the film business while also accelerating the global expansion of the decorative film business for automobiles and broadening its scope to other fields, including industrial coatings and decorative paints. We plan to add coated films to augment its offerings of coatings for films in 2022. NPAC’s existing paint business and the new film business will provide high-quality products meeting the diverse needs of its customers.

*1 Source: NIPSEA based on IHS Markit data
*2 NPHD estimate based on 2019 data
*3 FY2020 figures are in JPY; FY2021 figures and CAGR figures for FY2021-2023 are in local currency

Corporate data
Employees: c.1,080 (Japan)
Headquarters: Osaka, Japan
Ownership Ratio: 100.0%
Growth strategy for FY2021-2023

NPIU is refocusing its technologies and services and aiming to remain ahead of the competition. We expect these efforts to drive earnings growth and maintain sufficient supply capacity to support market share growth. In addition, we have an eye to achieving the plans described above as well as market share gains, revenue growth, and profitability improvement that surpass the plans. To achieve this goal, we will aim to generate synergies worldwide with the Nippon Paint Group’s partner companies abroad in fields designed to respond to social needs around the world, such as the development of anti-viral products, in addition to the systematic development of human resource talent who will form the foundation of our businesses, strengthening our competitiveness in the existing markets, and tapping into new markets.

Growth strategy for FY2021-2023

NPIU is focusing primarily on advancing the two initiatives of reforming our business structure and executing ESG-driven management, which we plan to bring to completion in FY2023.

The first initiative is the reform of business structure. The domestic market for our existing businesses has matured and is under intense competition. Under these circumstances, we will realign our business structure and create a high-growth, high-profit business model geared to the market trends and local conditions for each business.

We will establish a solid market position for our core powder coatings business by fully integrating the production, sales, and technology processes to take advantage of the growing demand for environmental and labor-saving products. In the coil coating business, we will aim to maintain a dominant position in the domestic market and collaborate with partner companies to accelerate the expansion in the market for powder coatings. We anticipate ongoing strong growth in the industrial coatings market overseas, particularly in Asia.

We will also invest in DX, IoT, and automation to improve efficiency, advance strategic growth, and enhance profitability in our existing and new businesses.

The second initiative is to execute ESG management. Current environmental measures aimed at reducing greenhouse gas emissions include the energy-saving design and centralized electric power management of the new powder paints facility in the Chiba Plant, our mother plant. The strategy will also advance new business integration tools and systems to facilitate redesigning and constructing seamless business operating processes from order receipt to manufacturing and sales. The human resources strategy includes DX and assign employees to further our globalization using the new Groupwide job-description-type personnel system. These initiatives will transform us into a high-value added, high-management efficiency, and high-profit business, with competitive strength to propel its businesses from Japan to the world.

Nippon Paint Co., Ltd. (NPTU)

NPTU specialises in coatings for general industrial applications (other than automotive coatings) with a mission to contribute to developing industrialised society by offering new value that opens doors to next-generation paint and coatings. The company manufactures and sells paints and coatings for industrial products ranging from building and home exterior materials, home appliances, office furniture, to construction & agricultural machinery, railway and other equipment. The company also sells painting and coating equipment and materials and sells functional materials in the fine chemical field.

NPTU develops, manufactures, and sells decorative paints and products for houses and office buildings, paints for large structures such as bridges and plants, and automotive finish coatings. NPTU boasts the top share in the decorative paints market in Japan by supplying paints with excellent designability and coatings technologies using the largest sales network in Japan.

Growth outlook

We expect private-sector construction investment to decline in FY2020 while the pandemic continues to subdue retail sector appetites for renovation and new construction demand takes time to recover.

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

NPIU specializes in coatings for general industrial applications (other than automotive coatings) with a mission to contribute to developing industrialised society by offering new value that opens doors to next-generation paint and coatings. The company manufactures and sells paints and coatings for industrial products ranging from building and home exterior materials, home appliances, office furniture, to construction & agricultural machinery, railway and other equipment. The company also sells painting and coating equipment and manufactures and sells functional materials in the fine chemical field.

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

NPSU provides pretreatment agents for automobiles, general-use industrial products, steel, and aluminum cans, and functional agents which provide various functions in very thin films such as hydrophobic coatings. The company offers technologies created through industry-academia collaborations to customers in Asia and worldwide.

**Growth strategy for FY2021-2023**
NPSU is establishing sustainable growth and reinforcing its profit structure by applying new technologies to address ESG issues with the objectives of addressing social issues and maximizing its revenue and profit contribution to Group earnings.

In Japan, where we anticipate a shrinking market, we are aiming to achieve sustainable growth through differentiation by offering technologies for reducing environmental impact and lowering running costs and by introducing new products and services, including in new business domains. In our existing business areas, we will improve the value of our products in the market. Strategies include developing new technology systems for reducing CO2 emissions and water consumption to meet customer needs to reduce the environmental impact of manufacturing processes. We will also meet the growing demand for advanced products with improved antirust performance, expansion of coatings. Initiatives in new business fields will seek to establish solid new businesses and will include developing new coating systems, such as antifouling coatings to protect social infrastructure, and material technologies that will contribute to electrification of mobility. In our production activities, we will maintain our solid foundation of safety, quality, and environmental protection while also stepping up the development of human resources. One initiative in this direction was the introduction of a "Production Master System" to visualize and enhance the skills of production site engineers. The system will enable experienced engineers to pass down their expertise, which will strengthen our supply stability and production efficiency of high-quality products. In our logistics operations, we will reduce costs through measures that will include optimizing transport system operations within the Group. In our global businesses, we will strengthen relationships at all levels, from top management to production divisions, with Group companies in China and South Korea specializing in surface treatment field and work together to develop products, promote sales, and improve productivity.

Development and sales promotion activities will focus on enhancing value for customers and accelerating development speed by sharing specific customer needs among the Group to combine our technological strengths and provide solutions. We will also reduce production costs by sharing raw material procurement information. In addition, we will improve the production safety, efficiency, and quality at our Group plants around the world by providing solutions and sharing our experience and expertise. Through these activities, Group companies in China, South Korea, and all regions will seek to boost worldwide sales and profits in the surface treatment market.

**SWOT analysis**

**Strengths**
- High customer responsiveness enabled by developing new product technologies
- Differentiated technologies created in a three-region R&D structure in Japan, China, and South Korea and industry-academia collaborations

**Weaknesses**
- High purchase ratio of raw materials subject to local market conditions, making stabilizing raw material costs an issue

**Opportunities**
- Growing need for eco-friendly products in automotive coatings and other business fields
- Growing demand for high functionality coatings in Asia and other emerging markets

**Trends**
- Shrinking domestic market
- Rising raw material prices

Nippon Paint Marine Coatings Co., Ltd. (NPMC)

NPMC is the Group’s original business and retained its 140th anniversary in FY2021. NPMC manufactures and sells ship paints worldwide and operates a fully integrated supply system from building to repairing ships in Japan and overseas. NPMC is leveraging the Group’s collective strength in R&D to develop and supply advanced environmental products. With value creation driven by SDG- and ESG-oriented management, NPMC aims to become a globally recognized provider of marine paints.

**Growth strategy for FY2021-2023**
The new Medium-Term Plan for FY2023 sets a three-pronged strategy for expanding global businesses, advancing measures to respond to the consolidating shipbuilding industry in Japan, and developing advanced environmental products.

Expanding global businesses will be achieved by strengthening our competitiveness and increasing sales and market share through full-scale development of our FASTAR next-generation antifouling paint. We will also leverage the business base of our joint venture to expand the maintenance & repair (M&R) business in Europe and the Middle East and enter M&R market in Oceania and marine market in Asia. In addition, since antifouling paint will be the key product for expanding our sales and market share, we will strengthen the supply chain management worldwide to ensure a stable supply. We will collaborate with the NPSA Group and other overseas partner companies to optimize our technologies, logistics, production, and raw material procurement to create an operating structure that is resilient to market conditions and contributes to Group profits.

Measures to respond to the consolidation of the shipbuilding industry in Japan will focus on building and strengthening customer relationships as well as on providing strategic products that offer new value and contribute to the shipbuilding industry in Japan. NPMC will focus on developing products that create an operating structure that is resilient to market conditions and contributes to Group profits.

In other areas, we will apply the anti-corrosive technologies we have developed in the marine coatings field to develop products for offshore wind power generation systems, where we anticipate a strong performance for specialty paints and coatings.

**SWOT analysis**

**Strengths**
- Ability to develop products anticipating need for reducing environmental products
- Streamlined manufacturing logistics, and quality control, element functions that leverage the Group’s collective strengths and capabilities

**Weaknesses**
- Business structure with earnings exposure to local conditions due to high proportion of raw materials with high price volatility
- High market share among shipbuilders in Japan but not in China and South Korea

**Opportunities**
- Ongoing long-term growth in global marine transportation volume
- Growing need for environmental paints with tightening environmental regulations and increasing ESG investment

**Trends**
- Changing market conditions and shipowner economic conditions
- Irregular operating schedules and docking delays

**Capital and Business Model**

**Regional and Business Strategy**

**Message from Management**

**Strategy for FY2021-2023**

In Japan, we anticipate declining demand for coatings for automobiles and steel coils, and flat or slightly increasing demand for coatings for general-use industrial products, beverage cans, and aluminum products. We expect overseas earnings to contribute more to our Group earnings, particularly in Asia and other emerging markets.

We project ongoing steady growth in marine transportation volumes. We forecast growing construction demand and rising marine transportation charges to boost paint demand from FY2023.

We are working to develop advanced environmentally friendly products in cooperation with overseas customers, ULSI. NPMC will focus on developing environmentally friendly products together with major overseas customers, explore new business areas and identify development themes for the near future.

We are aiming to gain global recognition as a manufacturer of advanced environmental products and become a trendsetter in competition's existence.
ESG Action Examples

**Business Opportunities**

**Climate change**
- Emission reduction (Scope 1 & 2)
- Promotion of recycling
- Reduction of greenhouse gas (GHG) emissions
- Identification of risks and opportunities

**Resources and environment**
- Waste/energy consumption identification
- Water resources
- Consumption/production/product lifecycle
- Increase the percentage of women in management posts
- Taxation

**Diversity & Inclusion**
- Increase the percentage of women in management posts
- Promotion of gender diversity on upper management team
- Promotion of gender diversity on upper management team

**Safe people and environments**
- Disaster (accident) prevention
- Fatality and injury prevention
- Increased safety

**Growth with communities**
- Promotion of resource efficiency
- Promotion of biodiversity
- Promotion of social contribution activities

**Building a sustainable future**
- Promotion of product recycling
- Promotion of product recycling
- Promotion of product recycling

Commitment of a Corporate Officer in charge of ESG promotion

During the period of the New Medium-Term Plan that started in FY2021, we will further push forward with specific actions based on the ESG agenda linked to materiality. For the response to “Climate change,” we will steadily work to reduce CO2 emissions while shifting to renewable energy and replacing equipment with energy-saving and electric models. In high-growth countries where markets are expanding, we will focus on reducing emissions per intensity to achieve the net zero targets set by each country.

For “Innovation for a sustainable future,” we will contribute to customer needs by providing coatings for offshore wind turbine systems and the next-generation ship bottom antifouling paint FASTAR, since low-footprint products are a very important category in the B2B business. On the other hand, as the global expansion of COVID-19 from 2020 has led to a growing need for paints with anti-viral and anti-bacterial functions, we plan to continue releasing new products one after another under the PROTECTON brand.

In addition, coexistence with local communities is an important theme for our Group’s business operations. For “Growth with communities,” we are accelerating social contribution activities through business on a global scale. For example, we are working with partner companies to formulate specific KPIs for progressing with materiality and the ESG agenda. For initiatives toward “Reduction of greenhouse gas (GHG) emissions,” for instance, we are seriously working to identify issues and measures based on the circumstances in each country and region, as the use of renewable energy and certificates differs among countries and regions.

Yoshiaki Kuroda
Managing Executive Officer and CIO

Nippon Paint Holdings Integrated Report 2021

ESG management system

Placing SDGs and ESG at the core of management, we established the ESG Committee in 2020 to have Group-wide discussions on creating and improving sustainable corporate value, as well as accelerating ESG promotion activities.

Chairperson of the Representative Executive Officer & Co-President, the ESG Committee formulates strategies, policies and action plans regarding the Group’s “vision” based on the perspective of SDGs and ESG, alongside assessing and promoting ESG activities.

In order to progress with our efforts for materiality, which was reviewed in August 2020, we have established working teams that directly report to the ESG Committee and consist of members from major partner companies around the world. The working teams are sharing the situations in various regions where our Group operates, learning from each other advanced cases within our Group, working on setting targets to be achieved on a global basis, and formulating measures suited to the circumstances in each operating region.

Efforts to formulate KPIs

Our Group has operations in 30 countries and geographical locations around the globe. Currently, we are working with partner companies to formulate specific KPIs for progressing with materiality and the ESG agenda. For initiatives toward “Reduction of greenhouse gas (GHG) emissions,” for instance, we are seriously working to identify issues and measures based on the circumstances in each country and region, as the use of renewable energy and certificates differs among countries and regions.

Working teams’ activities

The five working teams established under the ESG Committee, respectively composed of executives and person engaged in actual work from Nippon Paint Holdings and overseas partner companies, are holding global discussions and implementing measures for each topic. The Global Promotion Team 1 shares the progress toward net zero at each location with the theme of “Climate change.” The Global Promotion Team 3 is discussing KPIs and their aggregation for the social contribution activity framework “NIPPON PAINT Group Global Outreach Program” under the theme of “Growth with communities.”
Our Group strengths

- Strong brand power
- Diversified management through Powerful Partnerships
- Contributing to EPS accretion (ROIC > WACC)
- Maintaining sufficient leverage capacity
- Prioritizing debt financing with option of equity-based capital raising
- Sound financial profile from the integration of our Asian operations
- Access to funding capability with a stable currency and market in Japan
- Full-scale leverage of platform capabilities in Asia
- Directed management through

Financial discipline

- Financial discipline

The paint industry is characterized by a sustainable growth potential and a high stability of cash flows. In addition, the recent market environment allows financing at low interest rates. As a result, the paint industry is well positioned for M&As.

The decorative paints market, which accounts for more than 50% of the total paint market, features local production for local consumption. As a consequence, industry players use different business models for different countries including in procurement of raw materials, consumer preferences, distribution networks, and environmental regulations. Paint has low threat of alternative products, and paint products are difficult to substitute to differentiate through technology. Therefore, the keys to success in the paint business are: (1) powerful brand, (2) extensive distribution network, and (3) establishment of operations well versed in local markets. Successful players in the paint industry tend to enjoy a virtuous cycle. Once a player which has acquired the top market share based on the above factors, it is not easy for peer players to overtake the No.1 player’s position, allowing the No.1 player to further gain market share and deliver higher revenue.

Taking advantage of the above features of the paint market, our Group carries out M&A that are characterized by a solid support system for our Group partner companies to enable acquired companies and management teams and employees who work in these companies to deliver their maximum performance in the local market. Specifically, we will retain the management teams of acquisition targets by respecting their autonomy of management even after acquisitions, if they have the above strengths that are key to success. Our Group will support the acquired companies through the following: (1) sharing expertise and best practices of our Group’s partner companies, (2) joint procurement of raw materials, and (3) providing funds for growth investment to further drive growth such as M&As in the local market besides funds for marketing and capital investment. In this way, our Group’s M&As are characterized by strong support for local operations to make the best of the strengths of our local partner companies.

Key acquisition track record of our Group

<table>
<thead>
<tr>
<th>Countries/ regions</th>
<th>Business</th>
<th>Asia region</th>
<th>U.S.A.</th>
<th>Europe</th>
<th>Turkey</th>
<th>Indonesia</th>
<th>Malaysia</th>
</tr>
</thead>
<tbody>
<tr>
<td>Businesses</td>
<td>Decorative paints, Automotive coatings, etc.</td>
<td>Dunn-Edwards</td>
<td>DuluxGroup</td>
<td>Beker Boya</td>
<td>Indonesia business</td>
<td>Vital Technical</td>
<td></td>
</tr>
<tr>
<td>ROE (%)</td>
<td>Nissha 2019</td>
<td>14.0</td>
<td>14.6</td>
<td>23.5</td>
<td>11.2</td>
<td>11.0</td>
<td>10.3</td>
</tr>
<tr>
<td>CAGR (%)</td>
<td>Nissha 2019</td>
<td>13.4</td>
<td>10.5</td>
<td>1.6</td>
<td>4.2</td>
<td>3.1</td>
<td>5.4</td>
</tr>
<tr>
<td>ROIC (%)</td>
<td>Nissha 2019</td>
<td>9.8</td>
<td>9.0</td>
<td>19.2</td>
<td>12.2</td>
<td>11.2</td>
<td>10.4</td>
</tr>
<tr>
<td>M&amp;A-Related (M)</td>
<td>Nissha 2019</td>
<td>28.8</td>
<td>42.7</td>
<td>358.8</td>
<td>358.7</td>
<td>358.6</td>
<td>358.5</td>
</tr>
</tbody>
</table>

Our Group has been expanding globally since 2014 through consolidation of the Asian JV’s and acquisitions of the U.S.-based Dunn-Edwards, Australia-based DuluxGroup, and Turkey-based Beker Boya. In January 2021, we completed the acquisition of 100% ownership of the Asian JV’s and the Indonesia business, thereby further strengthening our ability to capture demand in the high growth Asian markets. As a result, we have achieved significant profit growth, driving Maximization of Shareholder Value (MSV). Our M&A targets are not limited to large-scale companies; rather, we will explore opportunities with medium and small size companies if they will contribute to MSV. For instance, in March 2021, we acquired Vital Technical, a prominent sealant and adhesives manufacturer with the leading market share in Malaysia, in line with our strategy to expand paint related business. In this way, our Group is steadily building the track record of M&As.

Our partner companies have been delivering strong growth after acquisition by our Group. This proves the success of our Group’s unique M&A style of generating synergy by leveraging the strengths of acquired companies.

2021, we pursued new partners to join our Group taking advantage of the growth potential of the paint market and stability of cash flows.

Overview of our M&A strategy

- Decorative paints, industrial coatings
- Paint-related fields, with promoting high efficiency for existing businesses
- Strong brand power
- Highly competent management teams
- Limited workforce reduction

Our Group strengths

- Sound financial profile from the integration of our Asian operations
- Directed management through

Financial discipline

- Contributing to EPS accretion (ROIC > WACC)
- Maintaining sufficient leverage capacity
- Prioritizing debt financing with option of equity-based capital raising

Emphasis on financial discipline

Case examples: Acquisition of 100% ownership of the Asian JV’s and acquisition of the Indonesia business

<table>
<thead>
<tr>
<th>Case</th>
<th>Year</th>
<th>Target</th>
<th>Net D/E ratio(1)</th>
<th>Credit rating(2)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.0</td>
<td>2021</td>
<td>Decorative paints, Automotive coatings, etc.</td>
<td>0.54 times</td>
<td>A</td>
</tr>
<tr>
<td>1.1</td>
<td>2021</td>
<td>Decorative paints, Automotive coatings, etc.</td>
<td>0.46 times</td>
<td>A</td>
</tr>
</tbody>
</table>

- Increased by over 10%, beginning in the year after acquisition
- Nearly tripled in the short term and medium terms from the strong ability to generate cash flow
- Improved due to the strengthened financial position

We pursue M&A within the parameters of financial discipline. We specifically emphasize the following: deals that contribute to EPS accretion, achieve ROIC that exceeds WACC, and maintain sufficient room for financial leverage. Financing for M&A prioritizes debt financing, but equity-based capital raising is an option as long as EPS accretion is achieved. This allows us to carry out M&As constantly without being restricted by shortage of funds.

Promoting M&A by leveraging our Group’s strengths

- Strong distribution network in Asia
- Construction market in a Growth model
- High efficiency management (MPD)
- Advanced technologies / Innovations
- High quality brands / Financing

Net D/E ratio(1) | Shareholders’ equity(3) | Non-controlling interests(3) | Credit rating(2)
--- | --- | --- | ---
0.54 times | ¥699.8 billion | ¥131.4 billion | - |
0.46 times | ¥877.1 billion | ¥5.5 billion | - |

Our Group has significant financial strength and financial soundness, as represented by strong cash flow generating capacity, as well as the net debt to equity ratio of significantly below 1.0 times and the ability to procure low-interest financing in the Japanese capital market. In addition, we have established an extremely solid structure for promoting M&As including sharing and leveraging the strengths of Group partner companies, such as Nissha and DuluxGroup. Our M&A strategy with clear target setting, leveraging Group strengths, and emphasizing financial discipline, have yielded great success for our M&A deals in recent years. We will continue to aggressively pursue M&A for our ongoing growth.

Utilize human resources of acquired companies

Local management teams will continue to execute operations after acquisition
Using our strong cash generating capacity to strengthen our financial base and secure funds for growth with M&A and business investment

Boosting top-line growth to create a virtuous cycle of rising market share and profit margins

The FY2023 financial targets in the New Medium-Term Plan are based on ongoing expansion of our business portfolio to generate organic growth. The targets are challenging, but we believe our Group’s insatiable desire for growth will enable us to achieve them. The core strategies in the plan aim for both organic and inorganic growth through M&A (see “M&A Strategy” on page 79).

Establishing sustainable growth will require aggressive M&A along with capital expenditure and R&D investment for future growth. We will leverage our strong ability to generate cash flow to create the funds for these investments in growth.

Investments to increase marginal profit from revenue growth will be a specific focus. We will also seek to boost operating profit by increasing market share, which will allow us to increase prices at strategic points in time and reduce costs through bulk procurement of raw materials. Over half of revenue goes to raw material costs: as such, reducing the raw materials contribution cost (RMCC) ratio significantly contributes to improving the operating profit margin. We will seek to thoroughly control costs by using our global raw materials procurement capability and our considerable revenue flow, which is roughly one trillion yen annually, to leverage the economies of scale.

Achieving high organic growth

For existing businesses, we will aim to maintain steady growth mainly in China and Asia with the aim of attaining CAGR of around 10%. (See Figure 1.)

For the recently acquired Indonesian business, we will seek to accelerate business growth by capturing the rising demand in the region and increasing market share with a target CAGR of 15%.

We project the combined revenue from the existing businesses and the newly consolidated Indonesian business to grow from ¥890 billion in FY2021 to ¥1,100 billion in FY2023 with a CAGR above 10%. For the overview and details of the Regional and Business Strategy, please see pages 51-76.

Increasing profit through business growth and fixed cost reduction

In FY2021, as shown in Figure 2, we plan to increase spending on supply chain reforms, DX implementation, and infrastructure system development, for an overall investment of around ¥330 billion for debt repayment and M&A (see Figure 3).

We aim to achieve operating profit of ¥140 billion in FY2023, which we will accomplish by increasing profit by ¥40 billion through increased revenue from both existing businesses and newly consolidated businesses and by reducing costs by ¥8 billion. (See Figure 2 (C)).

Boosting cash flow generation ability and allocating capital for growth

The paint and coatings business, in contrast to an industry like semiconductors, has relatively low capital investment requirements without large-scale initial investments or equipment replacement costs. As a result, the paint industry is characterized by very stable cash flows. In addition, the acquisition of 100% ownership of the Asian JVs has eliminated profit outflows, which has significantly boosted our ability to generate cash flow. Our financial strategy is designed to leverage these advantages.

Our financial strategy is to generate around ¥330 billion in operating cash flows over the three-year period from FY2021 to FY2023. We plan to allocate ¥85 billion for dividend payments, around ¥125 billion for capital investment for future growth, and the remaining ¥120 billion for debt repayment and M&A (see Figure 3).

If we do not carry out any M&A and the ¥120 billion earmarked for M&A is allocated to debt repayment, even though net debt will increase in FY2021 from the borrowing of ¥100 billion procured to finance the acquisition of 100% ownership of the Asian JVs, the balance of debt repayment and EBITDA growth would lower the net debt/EBITDA ratio to 1.6 times at the end of FY2023. (See Figure 4.)

Under the new management structure launched in April 2021, we are reexamining the priority level and appropriateness of headquarters expenses and capital investment with the aim of surpassing the financial targets set out in the New Medium-Term Plan. We will make an announcement when the details are determined.

Increasing total shareholder return through EPS growth

Dividend increase including commemorative dividend planned in FY2021

We aim for Maximization of Shareholder Value (MSV) by prioritizing investment for future growth, raising total shareholder return (TSR) through earnings per share (EPS) growth (see page 38), and maintaining financial discipline by pursuing an optimal capital structure with balanced leverage while allowing for temporary higher leverage for strategically important M&As.

As part of our effort to raise TSR, our policy is to maintain steady and consistent dividend payments while taking full account of factors including the earnings trend, investment opportunities, and the dividend payout ratio. We currently aim to maintain a dividend payout ratio of 30% (see page 38).

In FY2021, we plan to pay an annual dividend of ¥10 per share (after the stock split), including the special dividend of ¥1 per share to commemorate the 140th anniversary of founding.

Operating profit gap analysis

(Figure 2) Operating profit gap analysis

<table>
<thead>
<tr>
<th>Year</th>
<th>Operating Profit (Billion yen)</th>
<th>Profit increase from existing businesses and newly consolidated businesses and by reducing costs by ¥8 billion (CAGR c.20%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2023</td>
<td>~330.0 billion yen</td>
<td>~120.0 billion yen</td>
</tr>
<tr>
<td>FY2022</td>
<td>~125.0 billion yen</td>
<td>~85.0 billion yen</td>
</tr>
<tr>
<td>FY2021</td>
<td>~309.0 billion yen</td>
<td>~280.0 billion yen</td>
</tr>
</tbody>
</table>

Changes in net debt/EBITDA

(Figure 4) Changes in net debt/EBITDA

<table>
<thead>
<tr>
<th>Year</th>
<th>End of FY2020</th>
<th>End of FY2021</th>
<th>End of FY2023</th>
</tr>
</thead>
<tbody>
<tr>
<td>FY2023</td>
<td>~175.0</td>
<td>~126.0</td>
<td>~120.0</td>
</tr>
<tr>
<td>FY2022</td>
<td>~170.0</td>
<td>~120.0</td>
<td>~115.0</td>
</tr>
<tr>
<td>FY2021</td>
<td>~165.0</td>
<td>~115.0</td>
<td>~110.0</td>
</tr>
</tbody>
</table>