Aiming to achieve MSV by executing our medium- and long-term management strategy based on Asset Assembler model

Nippon Paint is implementing its medium- and long-term management strategy based on Asset Assembler model for pursuing MSV. On this page, Yuichiro Wakatsuki, Director, Representative Executive Officer & Co-President, explains the approach and direction of this unique management strategy along with the competitive advantages concerning M&A, financial and capital management strategy.

Q1 Please explain Group management strategy based on Asset Assembler model.

We are implementing a strategy of expanding businesses by going beyond paint and coatings into adjacencies (Paints+e) over the medium and long term. (See “Message from Co-President Wakatsuki” on page 17.) Our goal is to maximize EPS and PER by leveraging this unique business model that sets us apart from competitors.

Asset Assembler model is a model in pursuit of MSV which gives us a competitive advantage to accelerate growth at our existing businesses and additional businesses through new M&A deals. The key point of this model is that our outstanding management team of every partner company can pursue autonomous growth within our Group through proactively leveraging various resources in our worldwide platform, such as technical capabilities, an extensive distribution network, purchasing power, know-how, and powerful brands, rather than being imposed from Nippon Paint headquarters. This will allow the Group to acquire a broad range of businesses through M&A.

Asset Assembler model is structured to produce synergies for growth at both existing businesses and newly acquired companies, which are different from the Western-style cost-cutting synergies model. This has resulted in accelerated earnings growth at these companies than prior to joining our Group.

Generally speaking, not a few overseas M&A deals by Japanese companies result in impairment losses a few years after the acquisition. However, all our acquisitions after FY2019 when we started to conduct M&A in a more aggressive manner, have delivered better-than-expected results. This is due to the successful leverage of the five strengths underpinning Asset Assembler model. Let me explain the key points of our M&A.

Paint and coatings industry is characterized by sustained growth potential and stable cash flow generation. In addition, companies can procure funds at lower interest rates in the current financial market in Japan compared to prior years. As a result, the market environment for M&A is very favorable.

The decorative paints market, which accounts for more than 50% of the total paint market, is characterized by local production for local consumption. In particular, the adjacencies area including SAP (Sealants, Adhesives & Fillers) and CC (Construction Chemicals) can produce significant synergies due to overlaps with the characteristics of the paint and coatings market. Examples include the importance of distribution channels and brands for high entry barriers in the paint and coatings market.

As shown in the diagram on page 35, Nippon Paint Group as a whole will become larger and stronger as we build up earnings, brands and the knowledge of newly acquired companies on top of driving steady growth of existing businesses.

Q2 Please explain the competitive advantages and strengths of the M&A strategy of Nippon Paint.

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This unique model is backed by the following strengths:

1. Focused on paint and adjacencies with significant market opportunities.
2. Attractive risk-return profile of paint and adjacencies arena.
3. An assembly of talented management and strong brands.
5. Advanced governance. We will leverage these strengths for maximizing EPS and PER. (See “Strengths Underpinning Our Business Model” on page 35.)

For information about specific actions and the growth strategy for each region and business, see “[Feature Article] Medium- and Long-Term Business Strategy That Reflects Regional Characteristics and Structural Changes in Markets” on page 61.

Key points of the M&A strategy

**1) Return on invested capital after one-off expenses 2) Strong top leverage cost of capital**
The successful leverage of the five strengths in a more aggressive manner have delivered accelerated earnings growth at synergies model. This has resulted in Western-style cost-cutting synergies for growth at both existing features. Due to these characteristics, the Paint and coatings, and particularly environmental regulations.

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