Aiming to achieve our FY2023 revenue and operating profit targets through revenue growth and margin improvement

Building the foundation of Asset Assembler model

In the first year of our three-year Medium-Term Plan (FY2021-2023), we made progress on the establishment of Asset Assembler model for accelerating growth through the existing businesses and M&A. While accelerating autonomous growth of Group partner companies, we are aggressively pursuing growth through M&A in the paint and adjacencies businesses. At the same time, we are developing the foundation for even faster growth, as well as clarifying roles and reinforcing governance with the smaller headquarters at the holding company. We will continue to relentlessly pursue growth over the medium and long term based on Asset Assembler model.

Financial plan for FY2021-2023

(Billion yen)

	FY2021 Results*3	Feb. 2022 Forecast: FY2022 Forecast	Mar. 2021 Forecast: FY2023 Targets*4	Mar. 2021 Forecast: FY2021-2023 CAGR Targets*4	Mar. 2021 Forecast: FY2024 CAGR Targets
Revenue	998.3	1,200.0	1,100.0	10.0%+	In the high single digits
Operating profit	87.6	115.0	140.0	25.0%	Profit growth exceeding revenue growth
Operating profit margin	8.8%	9.6%	c.13.0%	c.+2.7pt	
EBTIDA*1	120.4	–	175.0	20.0%	
EBITDA margin	12.1%	–	c.16.0%	c.+1.8pt	
Profit attributable to owners of parent*2	67.6	81.0	105.0	25.0%	
EPS (yen)	29.41	34.49	45.00	25.0%	

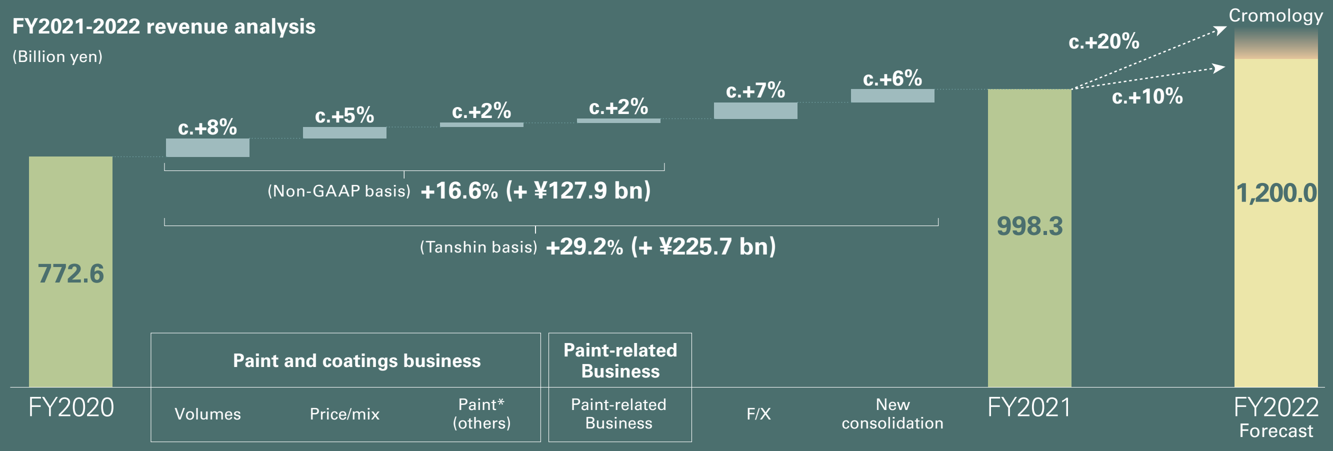
*1 EBITDA: Operating profit + depreciation and amortization + impairment loss + negative goodwill
*2 Targets for profit attributable to owners of parent are calculated by multiplying operating profit by effective tax rates
*3 Figures for FY2020 onwards have been retrospectively adjusted due to the classification of the European automotive coatings businesses and the India business as discontinued business following the transfer of these businesses to the Wuthelam Group (announced on August 10, 2021) and the change in accounting policy regarding cloud computing agreements beginning with FY2021 4Q
*4 Exchange rate assumptions: USD/JPY is at 106.0 yen; RMB/JPY is at 15.7 yen; AUD/JPY is at 75.0 yen; naphtha price: 40,000 yen/kl

FY2021-2022 revenue

Revenue reached a record high in FY2021 despite the pandemic, due to higher selling volumes and an improved price/mix, coupled with the effects of exchange rate fluctuations and new consolidation of the Indonesia business. Our strong performance in FY2021 reaffirmed the strengths of our high market share in all operating regions globally and our business model that respects the autonomy of Group partner companies. In FY2022, we forecast revenue growth of around 20% based on continued autonomous growth and contributions from M&A. Our plan is to achieve our Year 3 revenue target in the Medium-Term Plan of 1,100 billion yen one year early.

FY2021-2022 revenue analysis

(Billion yen)



* Products included in the Paint and Coatings Business such as semi-finished products and fine chemicals with unit price and volume significantly different from paint products. Disclosed separately from volumes and price/mix in the above graph to provide more rational data

FY2021-2022 revenue/growth rate

(Billion yen)

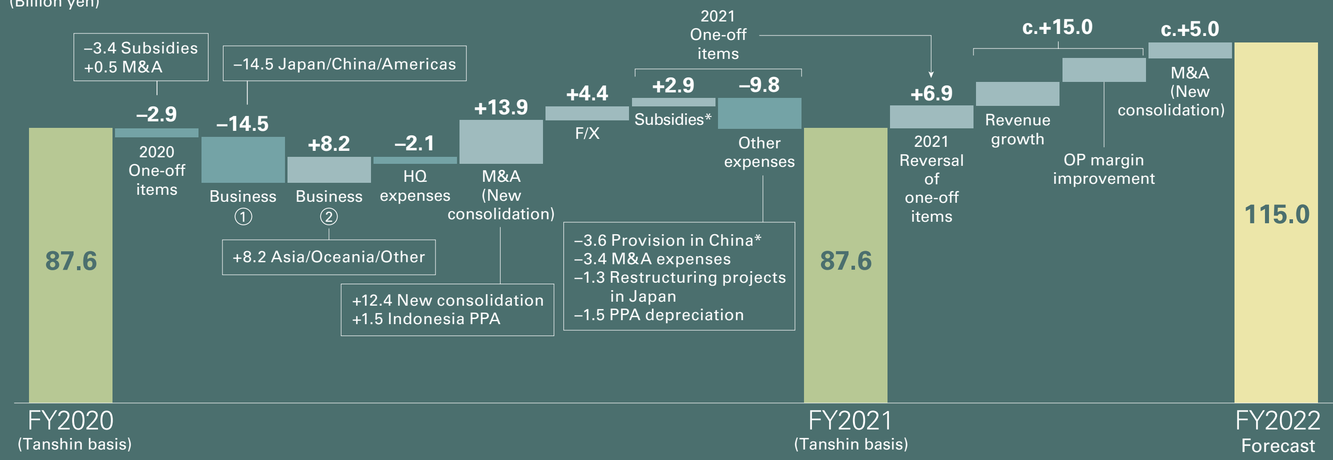
	FY2021 Results (Tanshin basis)	FY2021 Growth rate (In local currency)	Feb. 2022 Forecast: FY2022 Targets (In local currency)	Mar. 2021 Forecast: FY2021-2023 CAGR Targets (In local currency)
Japan	164.6	+1.6%	+10–15%	c.+5%
NIPSEA China	379.1	+27.3%	+10–15%	c.+10%
Asia (excepting NIPSEA China)	151.1	+74.9%	c.+10%	+5–10%
New consolidation (Indonesia)	39.5	+25.3%	c.+15%	c.+15%
Oceania	176.2	+5.9%	c.+5%	c.+5%
Americas	76.4	+4.9%	c.+10%	+5–10%
Other (Betek Boya)	49.2	+65.3%	+10–15%	+10–15%
Total	998.3	—	1,200.0 (Tanshin basis)	1,100.0

FY2021-2022 operating profit

We were unable to achieve a satisfactory operating profit in FY2021 due to raw material price increases and supply chain disruptions. However, we effectively achieved operating profit growth after excluding one-off items, backed by solid earnings growth in Australia, Türkiye, and Asia except China, along with the contribution from the newly consolidated Indonesia business. There were also significant savings of headquarters expenses compared with the initial plan as we moved towards the smaller headquarters at the holding company. For 2022, we forecast around 30% operating profit growth from efforts to improve margin by increasing selling prices and reviewing SG&A expenses, on top of the effects of higher revenue.

FY2021-2022 operating profit analysis

(Billion yen)



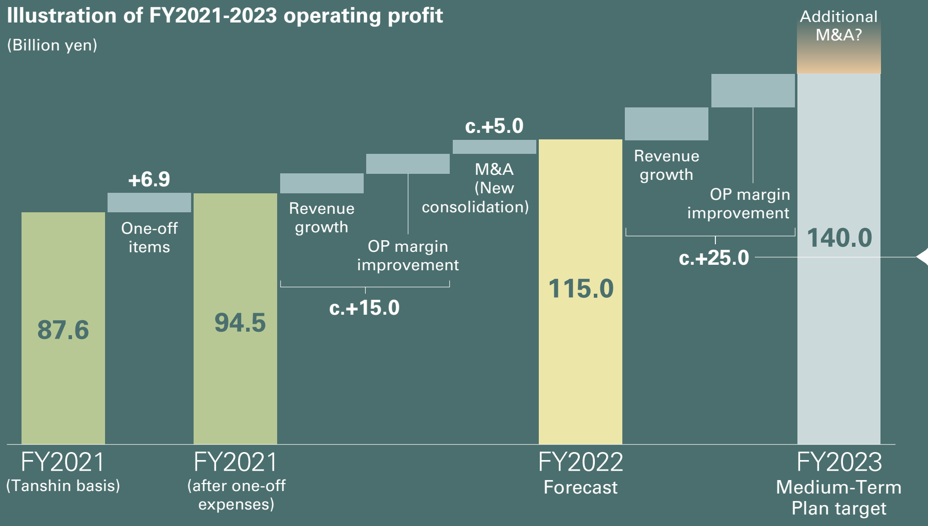
* Calculated using the exchange rate applied in FY2021

Towards FY2023—Year 3 of the Medium-Term Plan

We assume that we can achieve organic growth with operating profit margin in the high single digits to low teens in FY2022 and beyond by increasing our market share based on solid paint demand centered on Asia including China. If the raw material price inflation settles by the end of FY2022, we see good prospects for achieving our Year 3 operating profit target in the Medium-Term Plan of 140 billion yen even without an additional M&A deal, thanks to a significant contribution from margin improvement in FY2023, achieved through selling price increases.

Illustration of FY2021-2023 operating profit

(Billion yen)



Road map for achieving operating profit improvement of c. ¥25.0 bn from FY2022 to FY2023

(e.g. 1)
+10% revenue + +1.0pt OP margin

+10% revenue = ¥1,320.0 bn

10% OP margin = +¥12.0 bn
+1.0pt OP margin = +¥13.2 bn
+ c. ¥25.0 bn

(e.g. 2)
+15% revenue + +0.5pt OP margin

+15% revenue = ¥1,380.0 bn

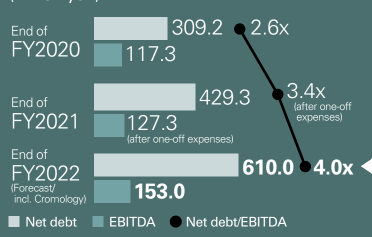
10% OP margin = +¥18.0 bn
+0.5pt OP margin = +¥6.9 bn
+ c. ¥25.0 bn

FY2021 financial position

Looking at our financial position, interest-bearing debts are expected to increase toward the end of FY2022 due to the acquisitions of Cromology and JUB. However, we have maintained a long-term credit rating of A from R&I based on our ability to stably procure funds in yen. Operating cash flows underachieved our plan due to higher raw material prices. However, we maintain our target for a dividend payout ratio of 30% while maintaining capital investments for continuous revenue increase and growth.

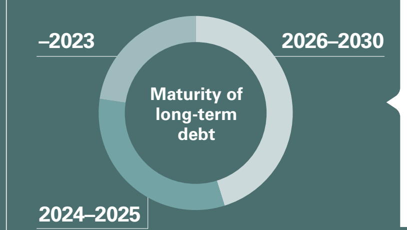
Net debt/EBITDA trends

(Billion yen)



As of end of FY2022, expect interest-bearing debt to increase due to borrowing of funds for the acquisition of Cromology and JUB.

Status of debt



- Stable yen-based funds
- Average maturity at 5.0 years
- Average interest rate at 0.4%
- Long-term credit rating of A (R&I)

Capital allocation

(Billion yen)

	FY2021 Results
+) Operating CF*	70.2
–) Capital expenditure*	49.5
–) Dividend	23.5
–) M&A (net cash of acquired companies)	98.8

* Amounts for continuing operations

Operating cash flow lower than expected due to higher raw material prices. Maintain capital expenditure aimed at continuous revenue increase and business growth. Aim to maintain a dividend payout ratio of 30%.

Capital expenditure

(Billion yen)

	FY2021 Results*	FY2022 Forecast
Japan	8.3	10.0
NIPSEA China	20.2	17.0
Asia (excepting NIPSEA China)	5.1	7.0
Oceania	4.3	5.0
Americas	8.2	6.0
Other	3.4	5.0
Total	49.5	50.0

* FY2021 results are on a Tanshin basis (amounts for continuing operations). Japan segment includes CAPEX at NPHD.

Focus on capex for new facilities and expanding production capacity in Asia and other regions with strong revenue growth, while Japan requires more renewal and maintenance capex. Overall capital expenditure to sales ratio to be c. 5%.

Actions for Profit Margin Improvement: Raw Material Price Increases and Our Responses

In order to achieve our Year 3 operating profit target in the Medium-Term Plan of 140 billion yen, we are taking actions such as strategic price increases and continuous reviews of SG&A expenses to respond to raw material prices that have moved up significantly and remained elevated due to the Ukraine crisis and other reasons. As a result of these actions, the operating profit margin is starting to recover.

Raw material prices

Crude oil and naphtha prices have increased following US and UK bans on Russian oil imports, coupled with continuing disruptions in international logistics and intermittent problems at some factories. Raw material prices increased further during the first half of FY2022.

Crude oil/ naphtha	Crude oil and naphtha prices have increased beyond our assumptions at the start of FY2022 due to US and UK bans on Russian oil imports. These prices are unlikely to decline within the next few months or so.
TiO_2	The price of TiO_2 has increased further due to continuing ore price increases, logistics disruptions, and supply-and-demand imbalances. The Ukraine crisis may cause the cost of TiO_2 to increase even faster.
China	Raw material production and logistics have continued to be impacted by production restrictions and China's zero-COVID policy, coupled with electricity shortages.

Our responses in the first half of FY2022

With the high cost of raw materials impacting our operations worldwide, we are continually taking actions such as raising selling prices, procuring alternative raw materials, and reviewing SG&A expenses.

Selling price increase	We have been raising selling prices in the decorative paints business in major operating regions since 2Q FY2021. We have also conducted price negotiations in the automotive and industrial businesses while maintaining sound relationships with customers.
Procurement of alternative raw materials	Our R&D and production divisions in all operating regions are sharing information and knowhow about ways to procure alternative raw materials.
Review of SG&A expenses	We are reviewing SG&A expenses in all operating regions, which resulted in 1 pt reduction in the consolidated SG&A expense in FY2021, to 29.5% from 30.5% in FY2020.

Selling price increases in major operating regions (decorative paints)

● Price revisions of all products ▲ Price revisions of some products

	2021 1Q	2021 2Q	2021 3Q	2021 4Q	2022 1Q	2022 2Q
China (DIY)		●		●	▲	▲
China (Project)				▲	▲	
Singapore		●	●	●		●
Australia			●			●
Americas		●		●	●	
Japan			●			●

Road map for improving the OP margin

Our guidance for FY2022 announced in February 2022 assumed that the Japan naphtha price would remain above ¥60,000 through 1H FY2022. However, raw material prices have increased beyond our assumptions due to rising crude oil and naphtha prices caused by US and UK bans on Russian oil imports. We will continue to raise selling prices to keep up with raw material price increases, which we expect will result in continuous and gradual improvement of the operating profit margin. However, margin improvements may be delayed depending on crude oil and naphtha market developments. We are well positioned to restore the operating profit margin over the medium and long term through continuous selling price increases.

Raw material prices and OP margin