

# Feature Article

## Growth Strategy for Rapidly Growing Repainting Market in China



**Eric Chung**  
CEO,  
Nippon Paint China

PROFILE

Eric Chung is the CEO of Nippon Paint China, currently heading all its business units in Greater China. He held managerial roles in two subsidiary companies of Master Kong Holdings Co. Ltd. before joining Nippon Paint China in 2007. Armed with a clear business vision, he has spearheaded company-wide transformation in areas of corporate strategy, image, branding and product technology. He has also expanded Nippon Paint's scope, overseeing its evolution from paint manufacturer to a provider of overall coating solutions. Under his leadership, Nippon Paint China has achieved more than double digit growth for the past 10 consecutive years.

### 1. Growth opportunities and potentiality of repainting market in China

#### China's property market has entered the era of stock housing

Under the influence of the "Domicile Not Speculate" policy, China's Property Market has plateaued. In 2021, China's property development investment made up 25.2% of total fixed asset investment, down by two percent points from 2020. In terms of construction scale, from 2005 to 2015, Compound Annual Growth Rate (CAGR) of property development investment was 20%, CAGR of project commencement was 8.5%, CAGR of housing transaction was 8.8%, and CAGR of project completion was 6.5%. From 2016 to 2021, these 4 indicators dropped respectively to 7.5%, 3.5%, 2.7% and -0.9%. It is estimated that in the next two decades, annual transaction volume of new property will drop to below 1B m<sup>2</sup>, down 40% from its current level.

Sustained policy control has led to a decline of new property transaction volume, and consequently increasing the proportion of stock housing gradually in the property market. It is estimated that stock property

housing will reach 350M units by 2025, and 420M units by 2030. As a key indicator of the arrival of stock housing era, since 2016, Resale Housing has made up over 40% of China's total housing transactions. In 2021, Resale Housing transaction was 41% of the total transaction.

China's Tier 1 cities have crossed over into Era of Stock Housing. Beijing's resale housing transactions are close to 70% of total property transaction, while in Shanghai it stands at 60%, while for Shenzhen and Guangzhou they are at approximately 50%. For Tier 2, 3 & 4 cities, resale housing transactions have made up over 30% of total property transactions and are also steadily increasing.

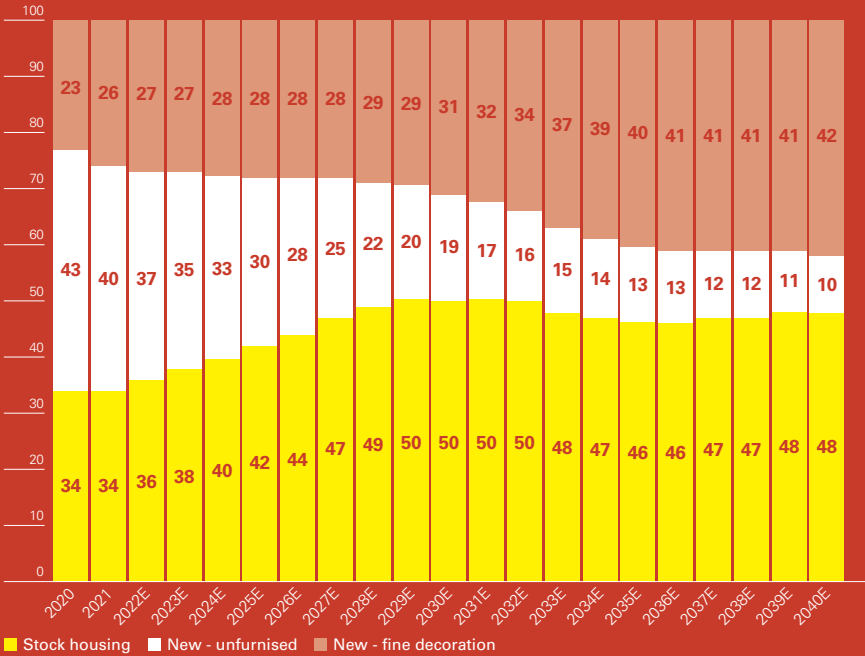
The 1998-2008 period was known as the Golden Decade of China's property market. Judging from the repair and maintenance cycle of 10-15 years, a large amount of stock housing has reached or exceeded the "Refreshing" threshold. Repainting of stock housing is set to overtake new property to become the key support for demand for home decoration. By 2025, it is estimated that renovation of stock housing will make up 42% of total demand of housing renovation. By 2030, this ratio will rise to over 50% of total renovation.

### Stock housing era, coupled with government policies, pushes repainting to highs

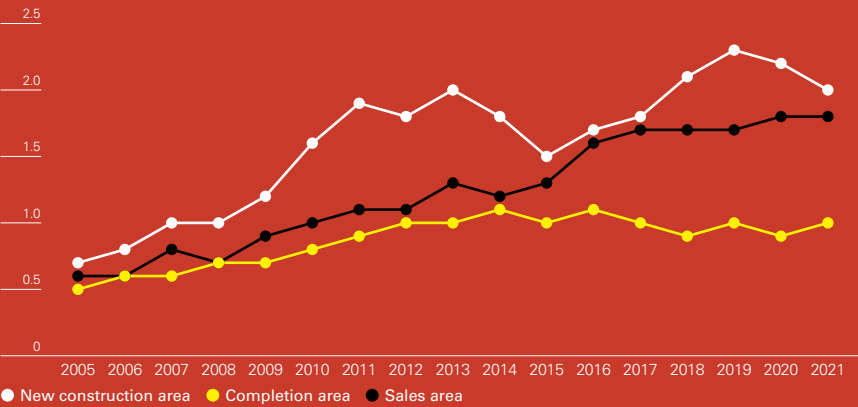
In 2020, China's State House issued a Guide on Upgrading of Aged Housing Estates in Cities and Townships, which categorized the upgrading of aged housing estates into an initiative of social security housing and entitled it for subsidies from central government. The 14th 5 Year Plan, formulated in 2021, stipulates that housing estates completed before the end of 2000 will be upgraded within the 14th 5 Year Plan period. "City Upgrading" has been escalated to be a national strategy.

The 219,000 housing estates targeted for upgrading are estimated to have 4Bm<sup>2</sup> in construction area and bring about investment of 4 trillion RMB. The resulting market potential for construction materials will amount to 240B RMB, of which 40B will be in construction paint and coatings.

### Renovation demand (%)



### Property investment development (Billion square meters)



Project urban redevelopment: Shanghai Balin Community renovation



Project: Beijing Chaoyang Hospital redevelopment

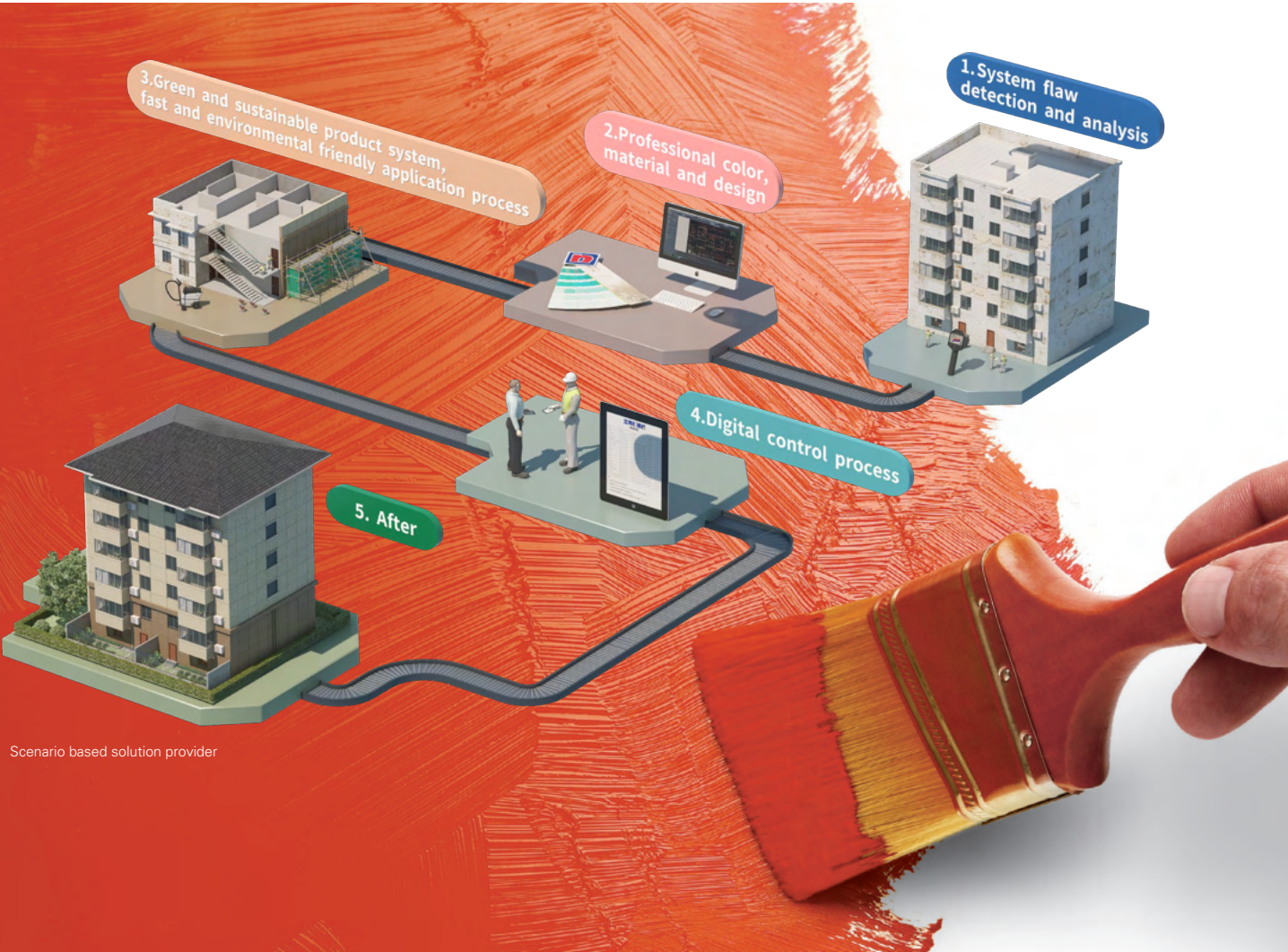


Project urban redevelopment: application on-site





NP exclusive store



Scenario based solution provider

## 2. Business strategy that responds to the Chinese repainting market

Nippon Paint China adopts “Refresh and beautify the living spaces” as its corporate mission, and has a vision “To construct with technology a most valuable eco-system, to become the leader in paint and coating total solutions.”

It is also in the value system of Nippon Paint China, to Enable Customer’s Achievements, to Lead through Innovation, to Cooperate for Winning, and to Encourage Drive to Succeed.

As the leader of China’s paint and coatings industry, Nippon Paint China is actively responding to China government’s 14th 5 Year Plan, and drive the contribution of paint and coatings industry in City Upgrading,

infrastructure upgrading, refreshing of aged housing estates and improvement of living environment.

Nippon Paint China aims to develop its business in repainting by exploring opportunities through Urban Revitalization Design, Scenario based solutions, Product technology upgrade, Service model innovation, Green and Carbon-friendly transformation & information system support, to deliver products, solutions and services which fulfill requirements of the country, customers and business partners.

As there are different emphasis in the needs of individual consumers and construction project customers, Nippon Paint China has tailored repainting strategies to these two domains.



NP refresh service wall polishing



NP refresh service exterior wall paint spraying

### Retail Strategy

#### Focus on core business & core cities, strive for sustained growth

1. Focus on Art paints, to satisfy demand in consumption upgrade and individualized needs
2. Focus on high-potential cities, enhance efficiency to ensure high-yield

#### Uplift existing renovation model (Refresh)

1. Leverage on E channel: deep exploration of homeowners’ needs, increase penetration of renovation through Refresh

#### Improve on Net Promoter Score (NPS)

1. Close-loop management of post-sale services, with enhanced service standards and delivery standards, setup supplier management and appraisal system

#### Multi-faceted innovation to drive growth

1. Business model innovation: Explore partnership system and find growth drivers
2. Eco-system innovation: form alliances in renovation with fellow producers of construction materials, collaborate with leading companies
3. Product innovation: develop product solutions for key scenarios in renovation, such as bathroom, window, balcony, exterior wall, sunroom, basement, rooftop

### Project Strategy

#### Organization: form Upgrade project team

1. Form Upgrade project team, to coordinate strategies, plans and execution of upgrading, to streamline process of product offering, solutions, delivery and quality assurance

#### Channel: establish regional centers of competency and Upgrade partners

1. Establish centers of competency in sales regions, to develop technical and application expertise in supporting Upgrade
2. To recruit Upgrade partners & jointly manage project leads, promotion and development

#### Provide scenario-based products and solutions

1. Cloud-based, digitalized & smart systems for complete management of Upgrade projects
2. Establish partnership in Upgrade
3. Scenario based products & solutions



# Growth Strategy Deployment in High-Growth Countries (Indonesia and Türkiye)

## Market features and characteristics in high-growth countries (Indonesia and Türkiye)

The Indonesian and Turkish markets have proven resilient, having endured the impact of the COVID-19 induced recession and are now emerging as one of the top players in their respective regions. These countries are similar in many ways. They boast a sustainability-minded youth population – Indonesia’s median age (as of 2021) is 31.1 whereas Türkiye is 32.2. This in turn has facilitated the growth of a strong middle class to sustain aggregate supply amid a boom in the retail internet economy. It is unsurprising since both countries have high levels of internet penetration – Indonesia at 73.7% and Türkiye at 82% – and are active players in the internet economy, especially e-commerce.

In 2021, compared to previous year, e-commerce volume rose by 69% in Türkiye and the ratio of e-commerce to general commerce was 17.7%. On the other hand, Indonesia’s 202 million strong internet users contributed US\$70 billion to the country’s burgeoning digital economy in 2021 with forecasts indicating that this will more than double by 2025. This is music to the ears of those of us in the coatings industry. Coupled with strong growth figures – Indonesia (4%) and Türkiye (11%) – and rising post-pandemic income, there has been a noted uptick of product sales.

Much of this has also been undergirded by similarities in cultural motivations pertaining to home renovations. In the aftermath of a prolonged lockdown and COVID-19 movement restrictions, there has been a stated increase in hygiene awareness, prompting many to refurbish their homes and repaint them. In Indonesia, the repainting cycle has been found to be between 1.5-2 years compared to 2-3 years in Türkiye.

## Growth strategy in Indonesia

Indonesia remains a vibrant market, and PT Nipsea is optimistic about our strategic growth outlook and focuses on delivering consistent results in this market. In line with this aspiration, our growth strategy is nested in three aspects – strategic industries, technological capacity and social media marketing.

One of the main areas for opportunities in the industrial segment is in automotive manufacturing. As more Indonesians recover from the economic effects of the pandemic, the return to the new normal will be coupled with a spike in car production, sometime beginning this August. This is a corollary to a growing middle-class segment with significantly higher wages than during the pandemic period, who will be its primary source of demand. As a result, there will be a surge in demand for automotive coatings as manufacturers race to meet the growing urbanization and travel needs of this segment of society.

The rise in technological capacity will also prove to be a gamechanger for the paint industry. The computerized colour tinting machine (CCM) is one such example. Where

previous color mixers were done manually and were limited in choice of colors, this machine is able to tint up to 10,000 colors from just a handful of neutral bases in just over three minutes. These improvements have had a marked impact on efficiency and quality which has resulted in more satisfied consumers. PT Nipsea is also the first paint company to give a 100% Colour Accuracy and Colour Consistency Guarantee for all our CCM machine tinted products.

In terms of product marketing, it makes prudent business sense to leverage Indonesia’s tech savvy population and gear towards social media marketing. Online activities and partnerships with social media celebrities have done plenty to enhance Nippon Paint’s social media presence and overall public brand awareness. There is an opportunity to drive acceptance of our premium segment of decorative paints as well as our “Vinilex” line of paints (7 differentiated sub-products) which have a strong lead in the middle-income segment. By focusing on an online marketing approach and an aggressive distribution plan, we are then able to elevate the Nippon Paint brand name which translates to greater transactions of the products in the Premium and Middle-income segments.



**Budi Fianto Buna**  
President Director,  
PT Nipsea Paint and Chemicals

### PROFILE

Budi joined PT Nipsea Paint and Chemicals Indonesia in 1970 and has been the President Director since 1990. Prior to that, Budi, who 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 Use divisions 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.



**Tayfun Küçükkoğlu**  
General Manager,  
Betek Boya

### PROFILE

Tayfun Küçükkoğlu is the General Manager of Betek Boya Group. He has held various roles within Betek Boya, where he was a founding member in 1988 and is currently part of the Board of Directors since 1995. He also co-founded and helped make Filli Boya the market leader in 2001. He is acting as a pioneer member of the ETICS category in Türkiye. Küçükkoğlu is part of the founding committee at the Paint Manufacturers Association (BOSAD) established in 2003. Between 2015 and 2017, Küçükkoğlu served as the Chairman of the Board of Heat, Water, Sound and Fire Insulators Association (İZODER). Other positions he has helmed includes being the Chairman of the Board of Directors at IMSAD (Construction Materials Industry Association) since 2020.

## Growth strategy in Türkiye

Leveraging its continued excellence in the Turkish market, Betek Boya remains steadfast in expanding its footprint in the market and delivering value to all our stakeholders. To that end, our goals are focused in the areas of expanding the External Thermal Insulation Composite System (ETICS) sector, developing a customer-centric approach to business and synergizing with investments in industrial coatings.

In addition, ETICS, which contributes up to one third of our revenue from paint, is ripe for further expansion into the Turkish market. With its 22.5 mm sqm annual ETICS supply in 2021, Betek Boya is the solid market leader, four times bigger than competitors in Turkish market and also has a leading position in Euro region.

As more home improvements are expected in the coming months, the demand for thermal insulation will skyrocket, leaving a huge potential for us to maximize. This is made even more pertinent as 40% of energy expenditure in the country comes from buildings as opposed to industry, and 80% of energy consumption from heating and cooling. With its thermal comfort and health-protecting features, thermal insulation allows for energy saving up to 60%. To use energy efficiently is to protect the world and the future of our children. Thermal insulation has a critical role in environmental health and anti-global warming.

As a flagship paint brand Filli Boya has the highest brand Top-of-mind score in all customer groups. The New Generation Dealer System and “Filli Ustam” painter loyalty programs are the most important



features that differentiate experience-oriented interactions/strategies from the sector. Thanks to all these innovative strategies, it is the company with the highest and most efficient distribution scores and the widest painter loyalty platform.

The development of a customer-centric approach to our business is a natural continuation of Betek Boya’s multi-brand strategy which has been in place since 1993, delivering solutions to all consumer needs in all socio economic segments. This strategy has helped propel us into building the largest product portfolio among any local and multinational paint manufacturers in the country and further augment the portfolio, allowing us to compete better with rivals in the region.

By consistently investing in this strategy,

we do not allow any aggressive competition to gain place in the market. We place the customer at the core of our business in order to build positive experiences and foster long-term relationships which empowers our leadership further.

Industrial coatings is one aspect of business with immense synergy with cutting edge technology providers which allows us to stand head and shoulders above our counterparts in the same market. Our investments in this sector afford us the ability to provide coatings that protect against corrosion, UV light, and water – among others. This is complemented by adherence to strict protocols pertaining to sustainability measures which ensures that while we improve technologically, we do so in a manner which minimizes harm to the environment.

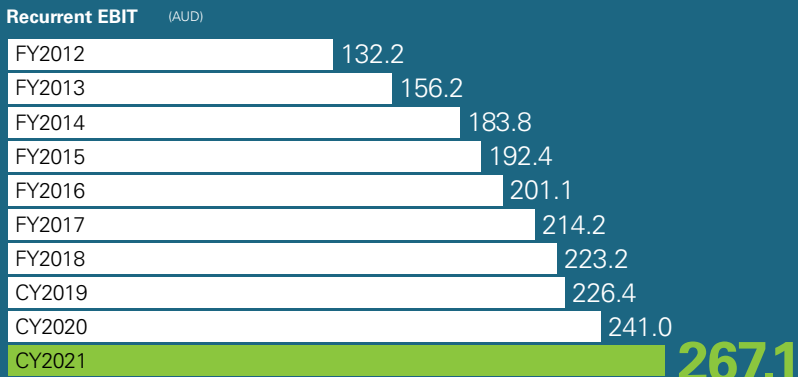


# Strategy for Mature Markets (Australia, New Zealand, PNG and Europe)



Dulux has been voted the most trusted paint brand in Australia for the last 10 years in a row.\*  
\* Reader's Digest 2022

## DuluxGroup - Track Record of Consistent Profit Growth



DuluxGroup Limited is an Australian company that owns the Dulux® trademark in Australia, New Zealand, Papua New Guinea, Samoa and Fiji only and the Cabot's® trademark in Australia, New Zealand, Papua New Guinea and Fiji only. DuluxGroup Limited is not associated with, and has no connection to, the owners of the Dulux® and Cabot's® trademarks in any other countries, nor does it sell Dulux® and Cabot's® products in any other countries.

DuluxGroup aims to continue delivering consistent, profitable growth by focusing on three strategic growth pillars:

1. Extending our market leading positions in the Pacific - Australia, New Zealand and Papua New Guinea (PNG);
2. Leveraging capability for growth into the mature European paint and coatings market; and
3. Leveraging capability for growth into global sealants, adhesives & fillers segments

### 1. Extending DuluxGroup's market leading positions in the Pacific

From its heritage dating back to 1918, DuluxGroup has evolved to become a leading marketer and manufacturer of premium branded products that enhance, protect and maintain the places and spaces in which people live and work. This is espoused in our core purpose - "Imagine a Better Place."

In relatively mature ANZ markets, DuluxGroup has invested in and leveraged its market leadership position and regional scale in well-structured market segments to deliver consistent and profitable growth.

In Australia and New Zealand, approximately 75% of DuluxGroup's business is comprised of Dulux paint & coatings and the Selleys sealants, adhesives & fillers businesses. They are complemented by other home improvement segment businesses Yates, B&D Group and Lincoln Sentry, which are each profitable market leaders.

DuluxGroup has also operated in Papua New Guinea since 1968, where it replicates its core Dulux and Selleys offers.

DuluxGroup's largest product market, decorative paints, historically grows volume at approximately 1% per year, and market leader Dulux has consistently grown value



### Patrick Houlihan

Chairman and Chief Executive Officer, DuluxGroup

### PROFILE

Patrick joined DuluxGroup in 1989 and has been CEO since 2007 and also Chairman since 2019. Prior to becoming CEO, Patrick progressed through a succession of senior leadership roles across areas including R&D, sales, marketing and general management. Patrick is also the Chairman of the Murdoch Children's Research Institute, on the Board of the Australian Government's Industry Innovation and Science Australia, on the Advisory Council of St Mary's College at The University of Melbourne and is a member of the Australian Institute of Company Directors. He also represents DuluxGroup on the Business Council of Australia and Manufacturing Australia. Patrick holds a Bachelor of Science (Hons.) and an MBA.

ahead of that, at an average of 5% a year over the past two decades. With strict margin and cost discipline, DuluxGroup has a strong track record of flow-through to profit, with year-on-year EBIT growth over many years.

### Success underpinned by investment in, and focus on, the fundamentals

DuluxGroup's track record of consistent delivery has been underpinned by putting consumers and customers at the heart of everything we do, and by an evolving strategic focus whereby we:

1. Leverage and continue to invest in our core capabilities across our market leading businesses, particularly:
  - our premium brands,
  - consumer-led insights, innovation and marketing, and
  - growth through our retail and trade customer channels by focusing on service and experience.
2. Focus on well-structured markets and market segments that deliver consistent growth and strong returns, with an emphasis on the relatively stable existing home renovation and maintenance markets, typically 65% of Group revenue.

3. Focus on product categories that are premium branded – where consumer trust, quality, continuous innovation and supply chain excellence drive competitive advantage.
4. Continue to foster our strong culture, which is reflected in world-leading employee engagement levels and is underpinned by our Values and Behaviors and also recruiting, developing and retaining a diverse and talented workforce.

### Organic growth supported by value generating M&A

Organic growth will be driven by ongoing investment in the fundamentals that have underpinned success to date. More specifically:

- generating increased participation in the renovation and repair market through strong marketing and innovation, including increased do-it-for-me services to consumers;
- increasing consumer engagement through digital platforms;
- promoting omni-channel and optimization of logistics for the trade/professional market; and

- focusing on premium brands, innovation and customer service with key retail partners

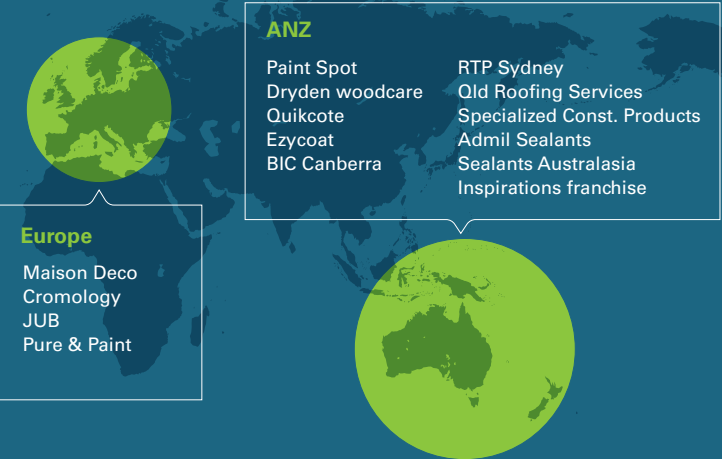
In the last three years, growth in DuluxGroup's existing businesses has been complemented by a number of bolt-on, earnings-accretive, acquisitions in ANZ.

Recent examples include: extending Dulux's reach into direct trade customer channels with the addition of "Paint Spot" outlets to Dulux's trade store network; growing technical capability for Selleys with the addition of Admil silicone sealants and adhesives; and Dulux's growing position in the roof restoration systems market with the acquisition of QRS Roofing Supplies.

Future bolt-on opportunities will continue to be focused on enabling the core strategies of DuluxGroup's strategic business units, while contributing to overall earnings growth.

To support growth, we will continue to invest in skills, capability and leadership development to ensure an engaged, motivated and committed workforce enabled to deliver on our growth ambitions.

## Complementing organic growth with strategic M&A 2019-2022



DuluxGroup continues to invest in its company Trade supply chain and distribution network.



2. Leveraging capability for growth into the mature European paint & coatings market

DuluxGroup established foothold positions in European decorative paints markets with the acquisitions of Craig & Rose in the UK in 2016 and Maison Deco in France in 2019, followed by niche, eco-friendly, French brand Pure & Paint in 2020. With these relatively small-scale acquisitions, DuluxGroup has leveraged its expertise in premium brands and consumer-led marketing and innovation, along with its retail channel management capability, to progressively grow its presence in European Big Box consumer retail, complemented by other channels including online.

**Cromology and JUB – a strong platform with scale and capable management to enable growth**

The acquisition of major market leaders French-based Cromology and Slovenian-based JUB provides the market position and regional scale needed to drive DuluxGroup and Nippon Paint Group’s growth ambitions in European decorative paints markets. They each have premium brands, leading market positions across western and central Europe respectively, capable management teams, local market know-how, strong trade and retail distribution, well-established manufacturing assets and supply chain capability.

Cromology and JUB, along with Maison Deco and Craig & Rose, provide DuluxGroup a substantial European decorative paints platform from which to deliver ongoing growth in the world’s second largest decorative paints market (after China).

Symmetry with DuluxGroup – consumers, customers and market dynamics

Europe, like Australia, is a mature market where delivering consistent, year-on-year, organic growth is underpinned by ongoing investment in the core fundamentals of premium brands, consumer-led marketing and innovation, customer service and supply chain excellence.

DuluxGroup is the natural owner for

Cromology and JUB. They have much in common in terms of their respective consumers (do-it-for-me and DIY), customers (Trade/own stores, Big Box and independent) and competitive landscape. While there are large global decorative paint market players in Europe, DuluxGroup already competes with many of these players in ANZ and has done so for many years.

Over time, we see compelling growth opportunities leveraging the product portfolio, technology, marketing and innovation, procurement and customer channel management capability of DuluxGroup along with the global scale and resources of the wider Nippon Paint Group.

DuluxGroup’s European “partner companies” – Cromology, JUB, Maison Deco and Craig & Rose – will drive European decorative paints growth over the medium to long term, including through leveraging DuluxGroup’s core capabilities, which have delivered above-market, profitable growth in Australia, New Zealand and PNG for many decades.

Enabling our European partner companies to drive organic and inorganic growth through:

- **Customer channels** – grow share in trade customer channels (e.g. omni-channel trade fulfillment) and continue to build a meaningful presence in DIY consumer retail (e.g. step-up Big Box presence) over time.
- **Product category extensions** – leveraging the wider DuluxGroup and Nippon Paint Group technology and product portfolio, including specialty coatings (e.g. wood, metal, concrete and texture coatings), ETICS and SAF.
- **Geographic extensions** – focusing on

adjacent markets with similar market and consumer dynamics.

3. Leveraging capability for growth into global sealants, adhesives & fillers segments

DuluxGroup has successfully grown into paint adjacent categories in ANZ, most notably with its market leading Selleys sealants, adhesives & fillers (SAF) business.

DuluxGroup is now collaborating with NIPSEA Group, to help build a material, sustainable and market leading SAF business in Asia through transferring our Selleys capabilities including consumer insights, marketing, product, technical and supply chain expertise. We will continue to focus on this collaboration, building on its success to date.

Further, DuluxGroup aims to grow into global SAF segments in markets where structures are similar to Selleys ANZ experience and where we know we can successfully compete. Given DuluxGroup’s European expansion in paint related distribution networks, we will continue to explore options to add local SAF businesses to generate growth in paint adjacent categories.

In doing so, we will focus on opportunities offering premium established brands, local product, locally compliant technology, strong supply chain capability, distribution reach, management talent and deep SAF experience. DuluxGroup will look to leverage its capability, including in Big Box retail, to generate long term sustainable growth.



Cromology

Loïc Derrien

Chief Executive Officer



Corporate data

Employees

3,184

Headquarters

La Defense,  
Paris, France

Ownership ratio

100%

Cromology geographic presence and market position

Cromology is Europe’s fourth largest decorative paints company and a market leader in Western Europe, where it is in the top three in Italy, France, Spain and Portugal. With a portfolio of premium brands, broadly marketed through its extensive company store network, it is well positioned for growth opportunities into other customer channels, as well as adjacent product and geographic segments.



SWOT analysis

Strengths

- Leading market positions – top #3 in France, Italy, Spain, Portugal and Morocco
- Premium brands across a broad product portfolio
- Capable management
- Strong manufacturing footprint
- Extensive trade market distribution reach including 390 company owned stores throughout Europe

Opportunities

- Build on strong trade position, leveraging DuluxGroup capability e.g., omni-channel fulfillment
- Step up retail channel position including Big Box presence
- Leverage Cromology’s significant scale to expand the product portfolio using DuluxGroup and Nippon Paint Group capability
- Extend geographic reach
- Bolt-on M&A

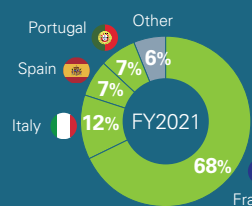
Weaknesses

- Like most companies, there are ongoing challenges from volatile raw material and other input costs. However, Cromology has demonstrated excellent cost and margin discipline in recent years
- Low consumer retail channel presence

Threats

- Markets are relatively mature, low growth
- Compete against larger global players
- Current disruption in global supply chains and volatility in energy markets, exacerbated by conflict in Ukraine

Geographic revenue mix



Performance\*1,2 (Billion yen)

Revenue

FY2020 83.3  
FY2021 91.9

Operating Profit (ex IFRS16)

FY2020 5.8  
FY2021 8.2

JUB

Sašo Kokalj

President & CEO



Corporate data

Employees

774

Headquarters

Ljubljana,  
Slovenia

Ownership ratio

99.83%

JUB geographic presence and market position

JUB has acquired a market leading position in interior paints and ETICS in central Europe, especially in the former Yugoslavia, and is strengthening its position in other central European countries, particularly in paints, leveling compounds and ETICS segments.



SWOT analysis

Strengths

- Strong market positions
- Premium brands, backed by strong R&D capability
- Capable management with excellent market know-how
- Broad product portfolio, including in-depth ETICS capability
- Extensive distribution

Opportunities

- Step-up its position in Big Box retail, leveraging DuluxGroup capability
- Extend product portfolio and geographic reach over time
- Well positioned to benefit from ongoing economic maturity in Eastern European markets
- Platform to launch wider DuluxGroup product portfolio, including SAF and leveraging Betek Boya’s portfolio, over time
- Broadening DuluxGroup’s ETICS capability

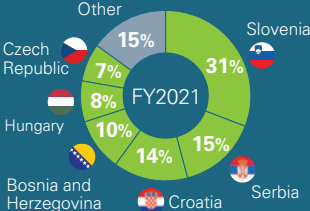
Weaknesses

- Smaller procurement scale, and will benefit from wider group buying power
- Like most companies, there are ongoing challenges from volatile raw material and other input costs, which will be managed through with margin discipline

Threats

- Current disruption in global supply chains and volatility in energy markets, exacerbated by conflict in Ukraine

Geographic revenue mix



Performance\*1,2 (Billion yen)

Revenue

FY2020 15.6  
FY2021 17.2

Operating Profit (ex IFRS16)

FY2020 1.8  
FY2021 1.5

\*1 Exchange rate applied: EUR 1=JPY 132.79 \*2 FY2020 and FY2021 results are unaudited pro forma figures



# Q&A with Co-President Wee about Actions for Improving the Profitability of the Japanese Businesses

Nippon Paint Group regards improving the profitability of the Japanese businesses as one of its management challenges. To tackle this challenge, we are implementing structural reforms based on the Co-President setup along with cooperation from our overseas partner companies. On this page, Director, Representative Executive Officer & Co-President Wee Siew Kim talks about challenges at Nippon Paint Group and the actions to overcome these difficulties.



**Wee Siew Kim**  
Director,  
Representative Executive  
Officer & Co-President

## Q.1

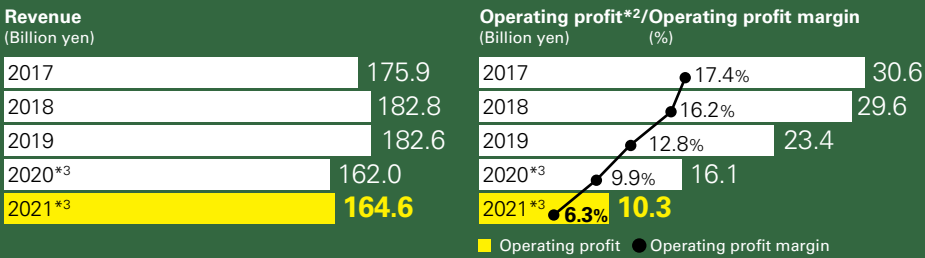
Please explain the reasons and background for the decline in the profitability of the Japanese businesses.

The business landscape of today is very volatile. A global pandemic, international conflicts, disruption in supply chains, inflations and talks of a looming recession all have an impact on business operations.

In Japan, the changes that we are seeing in our operations and business can be partly attributed to external factors such as decrease in automobile production and increase in raw material prices. From a more management analysis, a fundamental factor that has impacted the business is *bunshaka*

or company splits along different lines of business in 2015. The concept of splitting the Group into its operating companies based on lines of business (automotive coatings, decorative paints, industrial coatings, and surface treatments) has proven to be beneficial to the Group. However, *bunshaka* caused partner companies to lose a sense of collaboration and that has affected the business operations in the long run. This also comes with several other considerations such as the capabilities of the partner companies to function independently,

Operating performance of the Japan segment\*1



\*1 Figures for FY2017 are based on JGAAP and figures from FY2018 to FY2021 are based on IFRS  
\*2 HQ expenses are allocated to Adjustments from FY2020 onwards.  
\*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 Wuthelam Group (announced on August 10, 2021) and the change in accounting policy regarding cloud computing agreements beginning with FY2021 4Q

appropriate operational framework and the right investments in human resources to sustain the business successfully.

The total revenue of the Japan Group is approximately 160 billion yen, with revenue at each partner company accounting for about 40 billion yen. Therefore, individual partner companies cannot afford to adequately invest in manufacturing facilities, operational systems, and human resources. We also observed that with the business split, individual organizations focused on their own facilities, logistic networks, warehouses etc. which resulted in a bloated

cost structure and operational inefficiencies.

Based on our analysis, this has become a major factor for undermining our competitiveness and profitability, as partner companies are often unable to make the right investments in areas that need further growth and expansion such as people development.

However, with our firmly established Asset Assembler model that has allowed the wider Group to sail through a chaotic business landscape, we are confident in revitalizing our Japan business and operations with a steadfast focus on innovation.

The second pillar is to transform the Japan Group's technology and innovation offerings. The Japan Group has constantly supplied high quality and innovative products to customers. To ensure that innovation across the Group continues to grow, we need to make adequate investments in our resources such as skilled engineers and people who display excellent technical capabilities. Continuous investment in human resources is a priority for the Group, not only in Japan but across all our other markets. Currently, we are re-examining our investments in human resources and working to build an agile and capable leadership team that has both technical abilities and management skills. This we believe is an important step to reinvigorate the innovation pipelines.

In the Phase 3 of our cost structure reforms, one of our focus areas will be to build a next generation leadership team for the Japan Group. This will include identifying top performing employees and enabling them to become executives over the next 2-3 years. This will not only introduce new ideas and philosophies within the management teams but will be a big step in introducing cultural reforms in Japan. We are already in process to create a tailored program at Nippon Paint Automotive Coatings (NPAC) where we select candidates for leadership training across areas such as production, quality, sales & marketing, technology, and development and give them the support they need to become next-generation leaders. We will also roll out similar programs across our partner companies to drive further growth for our Japan Group.

## Q.2

What specific actions have you taken to improve profitability in the Japanese businesses?

In contrast to the paint and coatings market overseas where we are seeing continued growth, the Japanese paint and coatings market has shown decline over the past decade. Due to the market landscape in Japan, it therefore becomes important to build a cost and operating structure that is aligned with this mature market, requiring a management approach that might be different from other regions.

To continue the growth of our Japanese business and to enable profitability, we are currently looking at two major growth areas. Firstly, for our Japan business we will drive more focus on the marine coatings and automotive coatings businesses where we have identified prospects for positive structural changes in April 2021. Taking this into consideration, our immediate task was to restructure the two businesses for a recovery in their profitability and growth potential. In fact, we have reviewed the Japanese operations and merged the industrial and marine coatings businesses placing them under the leadership of Takeshi Shiotani, who will now serve concurrently as the President of Nippon Paint Industrial Coatings (NPIU) and Nippon Paint Marine Coatings (NPMC). Mr. Shiotani has established a proven track record and we are confident that his leadership and strong abilities will bring a positive transformation to the NPMC business.

In his expanded capacity, he will ensure the implementation of best practices for cost management and sales distribution in the industrial coatings business with a laser focus on improving the business financials.

Secondly, we have also launched eight task forces to lead discussions and implement reforms after identifying issues to be addressed based on themes such as production, quality, and SG&A expenses, to eliminate the adverse effects of *bunshaka*. The key mission of the task forces is to drastically restructure and streamline the cost structure of the partner companies. We already have the results of the analysis necessary for achieving our goals. As part of Phase 1, every partner company will implement reforms based on the results of analysis, led by project implementation teams set up by the individuals in charge of the partner companies, over the next six to nine months.

The Phase 2 of cost structure reforms, which started in June 2022, has two pillars. The first is the consideration of reversing some measures implemented with the company split. For instance, agendas under consideration include integrating part of factories of each partner company and their supply chains in several locations in Japan that will improve efficiency of the Japan Group as a whole.

Eight task forces for profitability improvements of Japanese businesses

Production/ Quality	1. NPAU Production TF
	2. NPTU Production TF
	3. NPIU Production TF
SG&A	4. NPIU & NPMC SG&A TF
	5. NPAU SG&A TF
	6. NPTU SG&A TF
Finance	7. BSC TF
Marine coatings business	8. NPMJ TF

Q.3

What actions are you going to take to change the corporate culture and employee mindset?

As I have mentioned previously, change is inevitable. For us to move forward, we must embrace change and work towards gaining excellence. In our growth forward, Japan will play a pivotal role in our growth transformation. One key area for transformation within Japan is letting go of conventional work approaches and leveraging a more transparent management style that gives everyone the confidence to share their thoughts and opinions.

In this manner, the mindset change that we are bringing about in Japan is very similar to NIPSEA Group's Lean for Growth (LFG) culture that ignites a spirit of growth within employees and gives them the ability to speak out and the courage to respond to change and agility.

In fact, we have even carved out a Japanese version for future action guidelines and mindset change called J-LFG that localizes the concept of our regional values in a manner that can be implemented to bring about the cultural and mindset changes needed for the Japanese business to achieve its next stage of advancement and innovation.

Six months into the implementation of J-LFG, I visited our office and factories in the Japan Group and took the time to speak with the employees there. It gives me great happiness to see that only within 6 months, employees can understand the significance and importance of J-LFG. One of the key concepts of J-LFG is to reduce redundancies and focus on tasks that create value for our customers. This will help us to constantly

look forward, increase communication and breakthrough the silos and hierarchy of conventional management styles, allowing the organization to bring out the diversity and strength of each employee. I am looking forward to seeing how J-LFG will positively steer the ship forward in Japan and to share those successes with the wider Group.



NPAC Hirakata Office

Overview of J-LFG

J-LFG (Lean For Growth)

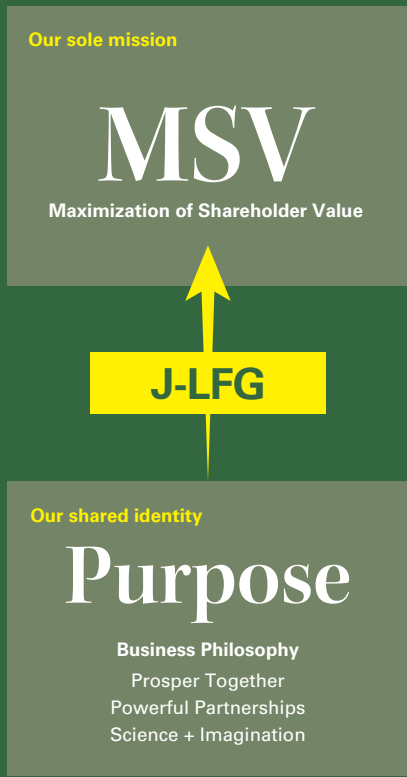
We provide higher added value to our customers than competitors with speed. All employees are committed to positive and lean efforts for Maximization of Shareholder Value (MSV) regardless of the business environment, allocating the extra resources thus created to actions for driving growth.



VITALS – six values and behaviors underpinning LFG

<b>Vigilance</b>	<b>Keep your eye on the prize</b>	Be prepared, be responsive, ever ready
<b>Insatiable appetite</b>	<b>Hunger for more</b>	Be ambitious, eliminate complacency
<b>Teamwork</b>	<b>Work as one</b>	Be strong together, be collaborative, no silos
<b>Agility</b>	<b>Sense &amp; respond fast</b>	Be nimble, outwit the competition
<b>Leanness</b>	<b>Back to basics</b>	Be value-driven, be tenacious, make every bite count
<b>Stamina</b>	<b>Can't stop, won't stop</b>	Be relentless, be resilient, unending quest

Positioning of J-LFG



Strategy for Next-Generation Technologies in the Transforming Automotive Industry

Structural changes in the automotive industry and impact on coatings

Unprecedented transformation taking place in the automotive industry

The automotive industry is undergoing the biggest change ever since its commencement. This change has created numerous business opportunities and prompted paint manufacturers including ourselves to revisit their conventional products, application processes, and supply chains.

Carbon neutrality is one of the biggest themes in the industry. To meet increasingly stringent environmental regulations globally, many automobile manufacturers have prioritized environmental impact reductions, including achieving zero CO<sub>2</sub> emissions, as a key agenda as they look ahead to 2050.

Carbon neutrality initiatives of automobile manufacturers are focused mainly on reducing CO<sub>2</sub> emissions from two sources: emissions from manufacturing and other activities within the company (Scope 1 and 2) and emissions across the supply chain outside the control of the company, ranging from material procurement to sales and the disposal of products (Scope 3).

Procuring alternative energy and simplifying manufacturing processes are some of the measures car makers are considering in order to reduce Scope 1 and 2 emissions. In the paint application process, they are looking to shorten the process and use alternative coating technologies to replace current coating application.

To reduce Scope 3 emissions, the automotive industry is economizing and increasing the efficiency of resources by shifting to new energy vehicles (electrification) and promoting car sharing services in order

to reduce CO<sub>2</sub> emissions throughout the whole process of sales, use, and disposal of the vehicles.

In addition, a paradigm shift is occurring in the industry, often represented by Connected, Autonomous, Shared, and Electric (CASE) and Mobility as a Service (MaaS). These shifts are expected to change the structure of the automotive industry demonstrated by new entrants from outside the industry in addition to current major players.

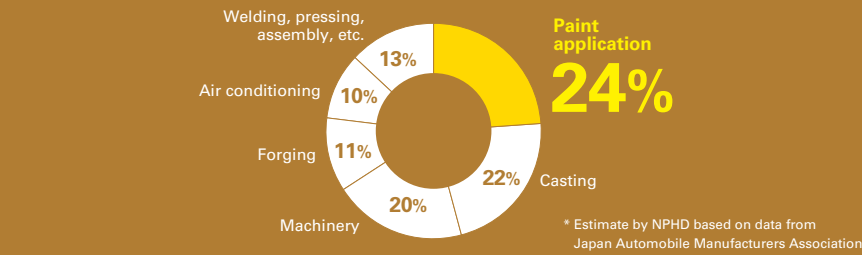
Changes in the paint and coatings spurred by evolution in the automotive industry

The automotive coatings industry is undergoing a significant transformation in line with changes in the automotive industry.

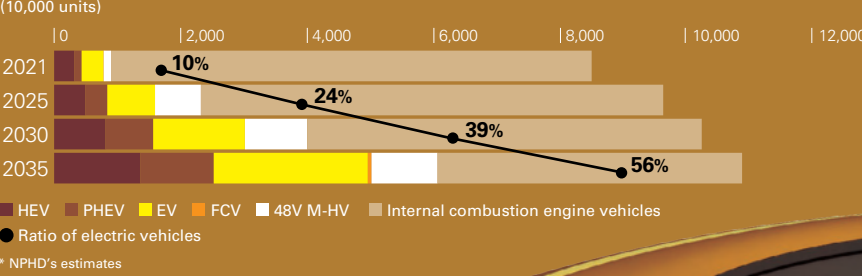
The emergence of new needs are opening up numerous business opportunities. In other words, the future growth of paint manufacturers, including ourselves, will depend on whether we can break away from our conventional thinking and provide new value to our customers.

Carbon neutrality initiatives in the automotive industry are requiring paint manufacturers to speedily respond to such moves. In expanding our business opportunities, it is critical how quickly we serve our customers and help solve the problems they are facing. For instance, revisiting paint production processes and selection of raw materials, as well as developing environmentally friendly coatings which consume less energy in paint

CO<sub>2</sub> emissions in the automobile manufacturing process



Automobile sales by powertrain type





booth and drying furnaces.

Although CASE and MaaS may have only a limited direct impact on coatings itself, such shifts create various growth potential. In the electric vehicle segment, current car makers are expanding their business domains to fit to the new environments while totally different enterprises enter the sector, generating new markets for us to increase our sales and market share.

Automobile manufacturers, which are our existing customers, are pushing out the boundaries of their business beyond automobile manufacturing and into peripheral areas. This offers paint manufacturers new business opportunities that are not bound by our conventional business scope.

With advancing vehicle performances, the possibilities for value added by coatings are also expanding. For example, NPAC is developing decorative films that are transparent for light emitted by sensors, which are vital for self-driving vehicles and other applications. As the sharing economy grows, we also anticipate a change in end-user needs regarding vehicles, colors and functionalities such as coatings with vivid colors and coatings that can easily change car body appearance depending on users' preferences. The possibilities to be exploited are endless. In this environment, providing solutions to emerging needs in the new era as coatings technology specialists will give us the most critical competitive advantage.

Research and development activities at NPAC, aiming towards a global leading company

In the Volatile, Uncertain, Complex, Ambiguous (VUCA) environment, NPAC will continue proactive research and development activities for next-generation technologies. Our aim is to become a global leading company that can provide services and added value as a valuable partner to our customers by both refining the technologies we have accumulated over many years and also producing new ideas.

Research and development activities for next-generation technologies

NPAC is speeding up the shift to next-generation coatings, such as environmentally friendly coatings and coatings with anti-viral property, while also improving our existing products. Our goal is to help create a sustainable society and to respond to customers' needs involving CASE and MaaS. In addition, core technologies we have accumulated since our founding to develop new coating technologies should provide greater added value to our stakeholders.

Decorative film technology, one of our focus areas, can provide design flexibility that cannot be achieved through conventional coatings. Moreover, this

technology is expected to help automobile manufactures cut back CO<sub>2</sub> emissions (Scope 1 and 2). Although our focus with the film technology has been on automotive interior Center Information Displays, film application is now considered to be a realistic option in exteriors, which are becoming more multi-functional, as well as in non-automotive applications. We see our decorative film as a technology that will allow us to constantly tackle social issues while meeting customers' needs. NPAC successfully launched functional decorative films covered with our coatings in February 2022. Further business development will be conducted to sell these films without restricting our scope to these activities to customers within Japan or in the automotive industry, in order to make decorative films one of our core businesses. Apart from film, NPAC is also a developer of in-mold coating technology, which is a direct coating process that does not require a paint booth or a drying furnace.

Our business is on a global scale. Therefore a global collaboration platform where our members provide technical assistance and exchange information is one of the key areas we are reinforcing. This enables us to respond more quickly to the needs of our customers around the world.



Shinji Takedagawa  
Representative Director & President,  
Nippon Paint Automotive Coatings Co., Ltd. (NPAC)

PROFILE

Shinji Takedagawa joined the former Nippon Paint Co., Ltd. after graduating from Rikkyo University College of Economics in 1984. After 38 years of experience in sales, planning, and management in the automotive coatings business. He transferred to Nippon Paint Automotive Coatings Co., Ltd. following its launch in 2015. Appointed as Managing Director in 2018 and the Deputy President and Executive Corporate Officer in January 2021. Current position from August 2021 and has since been leading the automotive coatings business of Nippon Paint Group. As the President of NPAC, he has the goal of driving growth of the company to become a global leading company in the automotive coatings industry as the most trusted partner for its customers.

Aiming to Improve Profitability and Strengthening Our Global Business Structure

Automotive production is continuing to decline, due to the influence of the pandemic and parts shortages such as semiconductor chips. The paint industry is also impacted by the ongoing price increases and unstable supply of raw materials and logistics bottlenecks.

Actions for improving profitability

We must rise to the challenge of improving profitability in the current market environment with rising prices of raw materials and sluggish car production. In order for us to become a growing company even in such harsh conditions, productivity improvement and optimization are key areas we are working on.

Against the backdrop of the structural changes in our industry, we must break away from the conventional business approaches. In fact, our operational process improvement is in progress across the company, pushing us to think outside the box. For instance, rigorous improvement activities are underway with the goal of streamlining operations. Examples include a bottom-up initiative where we solicit areas for improvements within the company and launch projects to tackle issues, the realignment of production and sales frameworks

from a long-term perspective, and the consolidation of inefficient operations. For issues that require discussions among several divisions over the long term, cross-divisional projects are being formed in which measures for reform are being discussed on a daily basis.

In order to cope with rising raw material prices and manufacturing costs caused by numerous external factors, we are taking actions such as cost reduction activities and implementing an optimal procurement and production system from a global perspective. Our goals are to eliminate concerns about supply challenges and improve profitability. Adjusting selling prices in accordance with market conditions has also been one of our key initiatives.

Strengthening our overseas business infrastructure

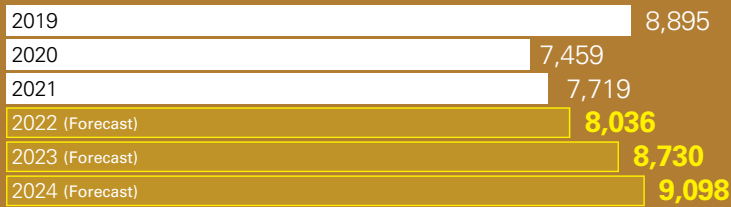
In accordance with our strategy to integrate our business entities in Asia, in May 2022, NPAC has completed the integration of business entities in China. Aiming at creating synergies and reinforcing foundation, operations are integrated in China and other Asian countries where we anticipate a rapid growth. As new energy vehicles are increasingly accepted in Asia, we aim to quickly raise our market share by leveraging our extensive distribution

and technical network without missing any opportunities that occur in the transformation of the automotive industry.

In the Americas, management structure was changed in April 2022, instituting the post of Chairman, who is responsible for overseeing operations throughout the Americas, including Mexico and Brazil. These measures have established a framework for creating synergies in the Americas while maintaining autonomous management in each country. In 2023, a new factory is slated for completion in Chattanooga, Tennessee, USA. The new factory, which is designed for energy conservation and advanced automation for next-generation manufacturing, will enable us to expand market share through unified activities throughout the Americas, strengthening existing businesses and shifting to local production of electrodeposition coatings.

NPAC strives to improve our global market presence and expand our businesses. By reinforcing our global network, we seek to be the best partner to our customers operating on a global scale.

Global automobile production\*  
(10,000 units)



\* IHS Markit



Design creation by decorating film  
(plate finish, auto body colors, patterns,  
matte finish, glossy finish)