Growth Strategy for Rapids-ly Growing Repainting Market in China

1. Growth opportunities and potentiality of repainting market in China

China’s property market has entered the era of stock housing. Under the influences of the “Domestic 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 28%, 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 11 mt, 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 154M units by 2023, and 420M units by 2030. As a key indicator of the arrival of stock housing era, since 2015, 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 3 cities have crossed over into Era of Stock Housing. Beijing’s resale housing transactions are close to 78% of total property transaction, while in Shanghai it stands at 68%, while in 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 ‘renewal’ 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 52% 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 480M sqm 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.
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.

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 is a turn has facilitated the growth of a strong middle-class to maintain a grip on their production, and sometimes 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 Nippon 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 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 “Vinyl” 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 able to elevate the Nippon Paint brand name which translates to greater transactions of the products in the Premium and Middle-income segments.

Growth strategy in Indonesia

Indonesia remains a vibrant market, and PT Nippon is optimistic about our strategic growth outlook and focuses on delivering consistent results in this market. In line with the 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 our production, somet ime 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 Nippon is also the first paint company to give a 100% Colour Accuracy and Colour Consistency Guarantee for all our CCM machine tinted products.

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Growth strategy in Türkiye

Leveraging its continued excellence in the Turkish market, Betek Boya remains staunch 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 in the Turkish market. With its 122 mm expanded ETICS supply at 201, Betek Boya is in the solid market leader, four times bigger than competitors in Turkish market and also has a leading position in Europe region. Each year, ETICS is expected to grow and we 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 “Vinyl” 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 able to elevate the Nippon Paint brand name which translates to greater transactions of the products in the Premium and Middle-income segments.

PROFILE

Budi Fianto Buna
President Director, PT Nippon Paint and Chemicals

“...”

Tayfun Küçükoğlu
General Manager, Betek Boya

“...”


For more information, please contact us at info@nipponpaint.com or +62 21 5383 1100.

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 opportunities with cutting edge technology providers which allows us to stand head and shoulders above our counterparts in the same market. Our approach in this sector is focused on 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.
DuluxGroup aims to continue delivering consistent, profitable growth by focusing on three strategic growth pillars:

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 expressed 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.
2. Leveraging capability for growth into the mature European paint and coatings market; and
   - DuluxGroup has successfully grown into European expansion in paint related adjacent markets with similar market and customer service with key retail and customer channel management capability.
3. Leveraging capability for growth into global sealants, adhesives & fillers segments
   - DuluxGroup’s track record of consistent delivery has been underpinned by putting customers and consumers at the heart of everything we do, and by an evolving strategy for us 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 markets; and
     3. Focus on product categories that are premium branded – where consumer trust, quality, continuous innovation and supply chain excellence drive competitive advantage.

Success underpinned by investment in, and focus on, the fundamentals
- DuluxGroup’s FY 2021 recurring EBIT grew by 5% year-on-year. DuluxGroup has a strong track record of three-year growth with year-on-year EBIT growth for many years.

DuluxGroup has been voted the most trusted paint brand in the world, and its market leadership position and regional scale are underpinned by our Values and Behaviors.

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

Complementing organic growth with strategic M&A 2019-2022
- DuluxGroup’s largest product market, decorative paints, historically grows volume at approximately 1% per year, and market leader Dulux has consistently grown volume ahead of that, at an average of 5% a year over the past two decades. With strict margins and cost discipline, DuluxGroup has a strong track record of three-year growth in profit, with year-on-year EBIT growth over many years.

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

- 1. Extending DuluxGroup’s market-leading positions in the Pacific
- 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

DuluxGroup has been a successful company that is dominant in its market in Australia, New Zealand, Papua New Guinea, and Europe. DuluxGroup is a member of the Australian Institute of Company Directors. DuluxGroup is a member of the Australian Institute of Company Directors. DuluxGroup is now collaborating with NIPSEA Group, to help build a material, not only with its market leading Selleys products, but also with its market leading Dulux products.

To support growth, we will continue to invest in skills, capability and leadership development to create an engaged, motivated and committed workforce enabled to deliver on our growth ambitions.
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 Maisons Dux in France in 2019, followed by acquiring the 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 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 capabilities.

Cromology and JUB, along with Maisons Dux 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-yourself and DIY), customers (Trade/own stores, Big Box and independent) and competitive landscapes. While there are large global decorative paints market players in Europe, DuluxGroup already competes with many of these players in ANZ, and has done so for many years. Over time, we are seeing growth opportunities leveraging the product portfolio, technology, marketing and innovation, procurement and customer channel management capabilities of DuluxGroup along with the global scale and resources of the wider Nippon Paint Group.

DuluxGroup’s European ‘partner companies’ – Cromology (UK), Maisons Dux 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, adhesives & sealants in ANZ, most notably with its market leading (Selleys) sealants, adhesives & fillers (SAF) business. DuluxGroup is now collaborating with Nippon Group’s, 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

Profile

Loïc joined Cromology in 2008, with deep industry experience, including at Hilti France, Signalmide and PPG Architectural Coatings France, before the sale of the European Decorative paints division to Nippon Group. Loïc has engineered significant internal business development and still sits on the Board of the Board of Directors of PPG Architectural Coatings France. Loïc has Engineering degree from École Centrale de Marseille and MBA, and has also a MPA from HEC.

Cromology geographic presence and market position

Cromology is Europe’s fourth largest decorative paints player with small but growing business in the Benelux, especially in the Netherlands. Having been the market leader in Western Europe, where it is a key player in Italy, France, Spain and Portugal, the company is a supplier of premium brands, broadly marketed through a wide range of company store network, it is well positioned for growth opportunities into other customer channels, as well as an established product and geographic segments.

JUB

Sašo Kokalj
President & CEO

Profile

Sašo is the CEO of JUB since January 2013. Since joining JUB in 2003, he has progressed through a series of roles in general management, production and marketing. He is currently an Honorary Associate Professor at the University of Ljubljana, and has a Bachelor of Production Management from the University of Ljubljana.

JUB geographic presence and market position

JUB has a strong niche market leading position in major paints and ETICS in central Europe. Being part of the former Yugoslavia, and in strengthening its position in other central European countries, particularly in paints, leading components and ETICS systems.

Corporate data

Employees 774
Headquarters Ljubljana, Slovenia
Ownership ratio 99.83%

SWOT analysis

Strengths

- Strong market positions
- Premium brands, backed by strong R&D capability
- Competitive management with excellent market know-how
- Broad product portfolio, including 1-depth ETICS capabilities
- Significant distribution

Opportunities

- Step-up position in Big Box retail, leveraging DuluxGroup supply chain
- Extend product portfolio and geographic markets over time
- Well positioned to benefit from ongoing economic activities in Central European markets
- Platform to launch wider DuluxGroup product portfolio, including SAF and leveraging DuluxGroup’s expertise

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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

Q1. Please explain the reasons and background for the decline in the profitability of the Japanese businesses.

A. 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 management analysis, a fundamental factor that has impacted the business is bunsoku 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, bunsoku 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.

Q2. What specific actions have you taken to improve profitability in the Japanese businesses?

A. 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. Currently, coating payments 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 instill profitability, we are currently looking at two major growth areas. Firstly, our Japan business 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 Takahiro Shintani, who will now serve concurrently as the President of Nippon Paint Industrial Coatings (NPIC) where we select candidates for leadership training across areas such as production, quality, sales & marketing, technology, and development and give them the support to become next-generation leaders. We will also roll out similar programs across our partner companies to drive further growth for our Japan Group.

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 bunsoku. 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 3, 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 centralization of reining some measures implemented with the company split. For instance, agendas under consideration include integrating part of the business operations, and adapting the supply chains in several locations in Japan which will improve efficiency of the Japan Group as a whole.
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 greater 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 (J-LFG) culture that ignites a spirit of growth transformation. In this manner, the mindset change that we are bringing about in Japan is very similar to NIPSEA Group’s Lean for Growth (J-LFG) culture that ignites a spirit of growth transformation. 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 barriers 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.

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 the corporate culture and employee mindset.

VITALS — six values and behaviors underpinning J-LFG

Vigilance Keep your eye on the prize
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 value 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 gave 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 barriers 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.

Insatiable appetite Hunger for more

Teamwork Work as one
Be strong together, be collaborative, no silos

Agility Sense & respond fast

Leaness Back to basics
Be value-driven, be tenacious, make every bite count

Stamina Can’t stop, won’t stop
Be relentless, be resilient, unwavering quest

MSV

Maximization of Shareholder Value

Our core mission

Purpose

Business Philosophy
Prosper Together
Powerful Partnerships
Science + Imagination

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 product application processes, and supply chains.

J-LFG 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 CO2 emissions, as a key agenda as they look ahead to 2050.

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, existing paint production processes and selection of raw materials, as well as developing environmentally friendly coatings which consume less energy in paint

CO2 emissions in the automobile manufacturing process

Automobile sales by powertrain type

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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.

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To reduce CO2 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.

With advancing vehicle performances, the possibilities to be vivid colors and coatings that can easily be outwit the competition.

Other applications. As the sharing economy becomes more widespread, new entrants from outside the industry are also expanding. For example, NPAC is diversifying our company from the automotive manufacturing and into peripheral domains to fit to the new environments while making every bite count.

In the electric vehicle segment, current car makers are expanding their business opportunities that are not bound by the traditional sales and 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 past 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 (electricification) and promoting our sharing services in order

Maximization of Shareholder Value

Powerful Partnerships

Science + Imagination

Purpose

Business Philosophy

Prosper Together

Maximization of Shareholder Value
booth and drying furnaces. Although CASE and Maas have only a limited direct impact on coatings and such shifts create various growth potential. In the electric vehicle segment, current car makers are expanding their business domains to fit in 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 wholesale areas. This often 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 to 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 user needs regarding vehicles, colors, and functionalities such as coatings with vivid colors and coatings that can easily change a 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, such as next-generation coatings and coatings with anti-stain property, while also improving our existing products. Our goal is to help create a sustainable society and to respond to customer 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 manufacturers cut back CO2 emissions (Group 1 and 2). Although our focus with the film technology has been on automotive interior Center Information Display, film application is now considered to be a realistic option in exteriors, which are becoming more multi-functional, as well as non-automotive applications. We see our decorative film as a technology that will allow us to constantly tackle social issues while meeting customer 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 ex-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 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.

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-departmental 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 aims to improve our global market presence, not only by expanding our businesses. By reinforcing our global network, we seek to be the best partner to our customers operating on a global scale.