

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

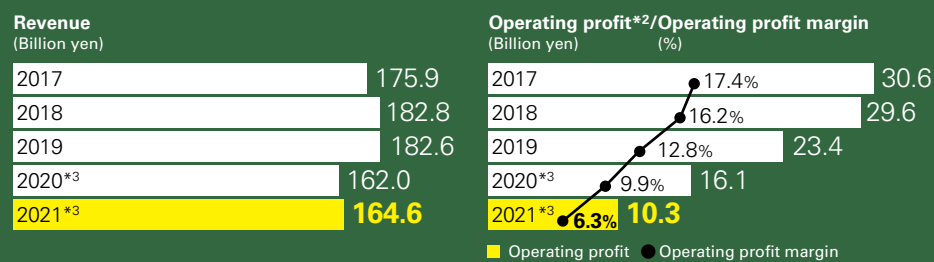
Please explain the reasons and background for the decline in the profitability of the Japanese businesses.

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 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.

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.2

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. 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.

Q.3

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

A 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

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

Positioning of J-LFG

Our sole mission

MSV

Maximization of Shareholder Value

J-LFG

Our shared identity

Purpose

Business Philosophy
Prosper Together
Powerful Partnerships
Science + Imagination