

Message from CEO



Tetsushi Tado

President & CEO
Nippon Paint Holdings Co., Ltd.

Profile

Tetsushi Tado was born in Hiroshima Prefecture in 1952. After graduating from Faculty of Economics at Doshisha University, he joined a medical equipment trading company and later a foreign ship engine manufacturer. In 1983, he started working at the Nippon Paint's subsidiary, Nippon Bee Chemical Co., Ltd. (presently Nippon Paint Automotive Coatings Co., Ltd.) mid-career and had been involved in sales ever since. Then in 2006, he was appointed as Director and Executive Officer, and oversaw the restructuring of a local North American subsidiary in 2007. He was appointed as president of Nippon Bee Chemical in 2009, and entitled an additional title, Director and Senior Executive Officer of Nippon Paint, in 2013. Following the transition to a holding company structure in October 2014, he was appointed as President and CEO when the Group was reorganized based on business segments into a new four company structure in April 2015.

Pictured at the Company Museum

Dedicating to the challenge of becoming a “Global Paint Major”

Fortifying our partnership with the Wuthelam Group

Nippon Paint Group has supported the development of domestic and overseas industries and lifestyles as an comprehensive paint manufacturer throughout the course of its 135 year history, beginning with its founding in 1881.

In October 2014, we transitioned to a holding company structure to promote optimal management and enhance the independence of our business operations. To ensure solid growth in the Asian region, in December 2014 we deepened our 50 year partnership with the Singapore’s Wuthelam Group (hereafter “Wuthelam”) and consolidated the majority of our joint ventures in Asia that sprung from our partnership by converting them to subsidiaries.

The catalyst to consolidate our Asia businesses was the fall 2008 financial crisis.

It is not an exaggeration to say that the crisis period was the greatest danger we faced since our founding, and it was necessary to undertake drastic measures for our survival. For six years, starting from FY2009, the Group worked as a team to develop a resilient profit structure and build a sound management foundation.

To quickly advance the growth strategies developed by this foundation, rather than separately pursuing growth in Japan and in Asia, a consensus was reached to collaborate with our partner Wuthelam to leverage our respective strengths and expertise, and through the maximization of our competitive advantages, strive to become a leading global manufacturer. That is, we resolved to walk hand-in-hand in the pursuit of global growth, resulting in a unique business scheme for which there is no global precedent.

This strategy has allowed us to solidify our position as the largest paint maker in Asia while further deepening our relationship with Wuthelam. Presently, both companies are completely united in an effort to “grow together while securing a foothold in the Asia market.”

Mid-term Management Plan Launching “Survival Challenge: Stage III”

The consolidation of some of our Asia businesses resulted in a dramatic improvement in sales to ¥535.7 billion and an operating income of ¥71.4 billion in FY2015. In terms of scale, it was a year of significant growth. That said, I believe that we are presently merely in a state of transition, and are still far from achieving what we view as our ideal state.

In April 2015, to facilitate faster and more dynamic decision-making and business management in line with the growth models for different regions and businesses, we divided and realigned our core businesses into four business domains. Under a holding company structure, Nippon Paint embarked on a new start built around four business companies that focus on specific fields: automotive paints, Industrial-use paints, trade-use paints, and surface treatments.

Furthermore, the company launched a medium-term management plan dubbed “Survival Challenge: Stage III” (hereafter “SC III”) with FY2017 as its final year. Although SC III targets sales of ¥700.0 billion and operating profit of ¥105.0 billion, its main priority is to transform Nippon Paint into a “Global Paint Major.” We have been striving to put in place the foundation to realize this ambitious target throughout the three years of the medium-term management plan.

Further strengthen our position in the Chinese market

One of the most important priorities among the growth strategies outlined in SC III is “strengthening our position in the Chinese market.” Although there are indications that economic growth in China is slowing, GDP growth remains above 6%, a high level. This means China will continue to be a highly attractive market. Earnings growth at our China businesses has exceeded GDP growth in recent years: sales in the previous fiscal year (local currency basis) grew 14%; this number, which exceeded the country’s growth rate, affirmed the robustness of our China businesses.

Going forward, our China businesses will mainly focus on implementing three initiatives.

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First, expanding market share. Last year, we increased our market share to 29% of the DIY market (housing interior paint), and as part of our plans to boost our share to 40% by 2020, we will expand our sales channels to include 3,900 exclusive stores and 62,000 multi-product stores by FY2018.

Second, develop the capability necessary to offer one-stop service. We believe that the Chinese market is showing an increasing preference for “quality and service,” rather than “price,” and we plan to offer comprehensive services that range from interior design, paint selection and coating specification and other consulting to process and construction management and after sales services. We already have 44 “antenna shop” stores in China offering such services, including in Shanghai, and plan to increase the number of these stores to 115 by the end of this fiscal year. These stores enable us to reach customers and quickly respond to market changes as they can gauge changes in customer needs.

The third is to be responsive to Chinese environmental regulations. Our production capacity in China is set to peak in 2017, and we plan to reconstruct our production facilities while adhering to the environmental regulations. Our integrated, local and specialized plants are all part of our overall production supply chain in China, and we plan to increase our integrated plants from five to seven, and specialized factories from 17 to 25 by FY2018.

Proactively pursue M&A to compete globally

We have set aside ¥300.0 billion for M&A aimed at expanding our businesses and plan to proactively pursue M&A opportunities.

M&A is not solely aimed at expanding sales as our overall goal is to enhance corporate value. Presently, we are examining targets that complement existing businesses and that will produce synergy in Asia, with a particular interest in opportunities in China.

Of course, a business structure heavily oriented to China poses certain risks. As such, we are also interested in expanding our businesses in international monetary blocks that are not sensitive to fluctuations in the Renminbi. This strategy will allow us to develop a robust business structure that achieves a balance between China and other regions.

In January 2016, we converted Bollig & Kemper GmbH & Co. KG (B&K), a German automotive OEM coatings manufacturer, to a wholly-owned subsidiary. We had strengthened our relationship with B&K through jointly setting up an automotive paint distributor in China and other initiatives. This move provides us with a solid foothold in Europe and is part of

our efforts to become a paint maker that competes globally.

Following an initial investment in B&K in 2013, Nippon Paint has gradually acquired more shares in the company over several years, helping to facilitate its conversion to a wholly-owned subsidiary. B&K’s consolidation is an incremental step in our efforts to increase our understanding of the European market and businesses. Europe has a long history and even though Japan also operates according to capitalist logic, initiatives may still stall. We believe it is important to take meaningful steps forward to benefit from globalization that is shaped by actual conditions.

Though Nippon Paint Group will continue to focus on services for Japanese automobile manufacturers, the reality is that Japanese automobile manufacturers combined make up only approximately 23% of global production. The remainder comprises European and North American manufacturers. In light of this fact, we will aggressively exploit opportunities in markets that offer the possibility of increasing our market share.

Utilize the capabilities and experience of each employee

Nippon Paint Group will strive to enhance collaborations among the group, and will continue to focus on our human resources strategy to maintain our competitive edge.

In April 2016, we established a Diversity Promotion Unit within the Human Resources Department, and aim to increase the number of women in key positions by 10% by 2025. At the same time, we will continue to proactively recruit non-Japanese employees and utilize the capabilities and experience of each employee as we work to create a personnel recruitment system that places employees in suitable roles. It is no easy feat to transform the disposition of Japanese people to make them more global-oriented as Japanese people are almost natural introverts and do not easily interact with different cultures. Nevertheless, we believe it is critical to break out of the prototypical group-think mindset and take up the challenge of becoming a “Global Paint Major.”

Furthermore, we will continue to promote younger bring out new ideas at our businesses. We launched project teams in April 2016 headed by leaders in their forties that will work to optimize the operations of both the entire Nippon Paint Group and business divisions at each of our companies. We set up specific teams to “revamp production,” “upgrade our operations management systems,” and “strengthen our governance framework,” which are initiatives that are relevant across the entire Group. We have set a one year target to achieve these initiatives, with team leaders working alongside the heads of each group company and various functional

departments as they undertake the responsibility of transforming the group.

By promoting capable personnel of achieving these objectives, we aim to change the mindset of our company. We will create a corporate culture that encourages each person to take his/her own initiatives, and will continue our efforts to build an organization capable of competing globally.

The qualities of a Global Paint Major

The Nippon Paint Group's overarching goal, beyond pursuing the present medium-term management plan, is to become a company that stands shoulder-to-shoulder with top Global Paint Manufacturers boasting significantly more than ¥1 trillion in sales. However, this does not simply mean pursuing higher sales, but must be achieved after cultivating an environment that gives us a competitive edge in terms of management efficiency, management strategy, corporate culture, organizational structure as well as employee guidelines and other areas. These are the requirements the Nippon Paint Group must satisfy to become a Global Paint Major.

The Nippon Paint Group was founded 135 years ago. There are several thousand companies in Japan that were founded more than 100 years ago, but I wonder how many these time-honored companies have made the commitment to expand globally. We do not wish to be a company that only finds value in existing. It is therefore important to

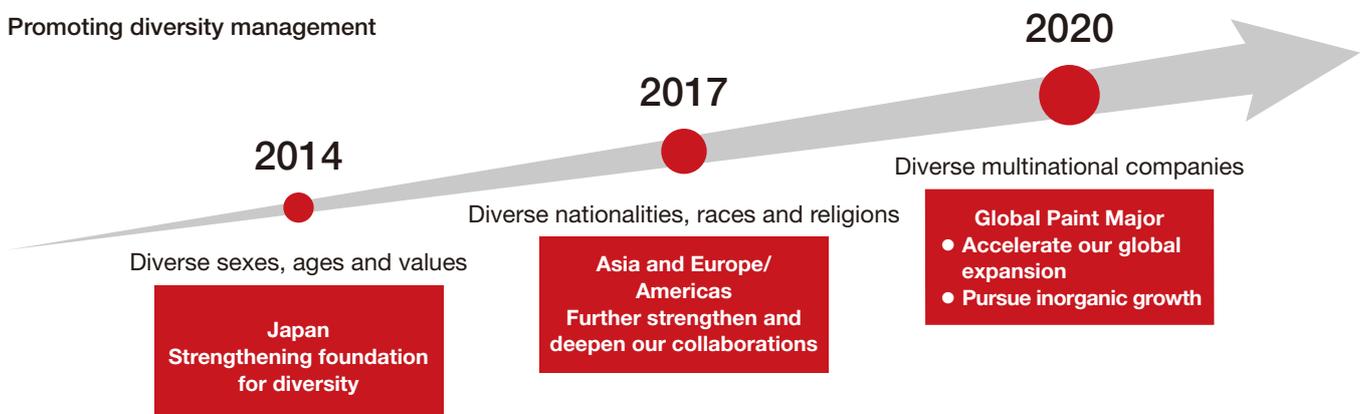


enhance our corporate value and maximize our potential.

There will be no turning back once we assume a global posture, nor do we plan on turning back. We envision a never-ending battle and are making the necessary preparations.

The Nippon Paint Group is working as a single unit as it strives to foster new growth and further enhance corporate value. We therefore ask for the continued consideration and support of our investors and shareholders.

Promoting diversity management



Create diversity that is not observable (intellectual diversification) using diversity that is observable, such as age, sex and nationality.