Revision of FY2019 Performance Forecast Conference Call Q&A Summary
January 24, 2020

◆ Questions by Atsushi Yoshida, Mizuho Securities

Q1	Please provide information about the FY2019 results of operations of Bollig & Kemper and Berger Nippon Paint Automotive Coatings, the companies where you posted impairment losses.
A1	We cannot provide this information because we do not disclose respective figures for these two companies.

Q2	How much do you think this impairment loss will reduce fixed cost in FY2020?
A2	We cannot provide specific information about this reduction. However, there will be no significant additional investments at Berger Nippon Paint Automotive Coatings because major investments have been completed. There will be some investments at Bollig & Kemper, but only the investments that are carefully chosen. We believe that depreciation expenses for fixed cost and other items will decrease going forward because the book values of some of our non-current assets were reduced by this impairment loss. We do not foresee any big changes in the workforce or other aspects of the operations of Berger Nippon Paint Automotive Coatings. However, although no official decisions have been made, Bollig & Kemper is currently considering alternative actions that may include measures to achieve the proper composition of its workforce.

Q3	Will Brexit affect Bollig & Kemper's performance in any way, such as due to Honda's decision to shut down its assembly plant in Britain?
A3	Brexit should affect the performance of this company one way or other, but the largest factor of all is Germany. As I stated earlier, we were unable to receive repeat orders involving certain existing vehicle models, and this had a very large impact on revenue and earnings. Therefore, Germany had a much greater effect on the performance of Bollig & Kemper than Brexit did. In addition, we have a tougher outlook for the automobile market in Europe. Based on this outlook, we discounted the value of assets to their present value after reexamining our plans for the future. As a result, we were required by the rules of accounting to post an impairment loss. I want to make it clear that there has been no change at all in the strategic importance of Europe. In fact, our operations in Europe are critical with regard to our operations in China too. Our goal is to make our activities in Europe profitable as quickly as possible.

Q4	Have you recorded the entire 8 billion yen impairment loss at Bollig & Kemper in FY2019?
A4	Bollig & Kemper accounts for majority of the 8 billion yen loss, but this also includes impairment losses at some of our other subsidiaries in Europe. At Bollig & Kemper, basically all goodwill and other non-current assets were impaired by this exercise.

Q5	Does this mean there will be no more impairment losses?
A5	We do not plan on any more impairment losses at this time. By continuing to make only very carefully selected additional investments, we intend to prevent more impairment losses. But please note that our assets will increase going forward.

Q6	At DuluxGroup, operating profit was 2.9 billion yen in the third quarter and 3.4 billion yen in the fourth quarter. Since the third quarter is only one month, earnings were lower in the fourth quarter. What is the reason for this decrease?
A6	As we reported when third quarter results were announced, the fiscal year of DuluxGroup ends at the end of September. The profitability in the one-month third quarter was higher than the average for the full fiscal year mainly because of the reversal of the allowance for executives' bonuses and because this period covers the time of the year when sales and earnings are highest. Profitability of DuluxGroup in the fourth quarter is usually on the low end compared to the full year. Earnings were slightly below the level of an entire year mostly because of seasonal factors, including holidays in the second half of December. The lower level of profitability was as expected. We will provide more information about the performance of DuluxGroup and its plan for FY2020 on February 13. Overall, performance in FY2019 was affected by special factors in both September and December.

Q7	You said that the profitability of Betek Boya will decrease in FY2020. Will advertising expenses be higher? Also, what is your outlook for DuluxGroup in FY2020?
A7	Betek Boya is performing well. The company's operating profit margin was more than 13% in FY2019. One reason is the lower cost of raw materials due to the strength of the Turkish lira in the third quarter. Earnings also benefited from a variety of strategic adjustments immediately after the acquisition and the decision to hold down advertising activities until a strategy was finalized. As a result, FY2019 profitability was somewhat higher than in the plan for FY2020. Betek Boya plans to make substantial investments in FY2020, including advertising and other expenditures for increasing its market share. This is the reason that we do not expect the same level of earnings as in FY2019. I cannot say anything about our outlook for DuluxGroup because the FY2020 plan will be announced in February 13. I can say that profitability will be somewhere between the September level, which was high, and the fourth quarter level, which was low.

◆ Questions by Takashi Enomoto, Merrill Lynch Japan Securities

Q1	Please provide information about the decorative paints business (DIY, Projects) in China by using actual performance. If you cannot disclose any numbers, please tell us which categories were the best performers.
A1	We are currently studying ways to disclose information about our operations in China in a manner that is clear to investors. We will be able to supply information about China, including numbers, on February 13.

Q2	Automobile production is decreasing in Japan and worldwide. You have posted impairment losses for operations in Europe and India. How are your automotive business performing in other regions?
A2	I cannot be optimistic about global automobile production as you state. However, in Japan, production was higher than one year earlier in the first three quarters of FY2019 and decreased in the fourth quarter. Total production in FY2019 in Japan was generally as expected. In Asia, and especially China, the automobile market has been losing momentum. Production in India was down about 12% in 2019 and we believe that output will be about the same or slightly less in 2020. Therefore, at the very least, we had to post an impairment loss in India. For regions other than Europe and India, we will explain our outlook and provide other information when we announce our FY2019 results of operations on February 13. At this time, I want to say once again that the downturn in FY2019 automotive production did not significantly exceed our outlook.

Q3	I understand that there have been big downturns in the automotive markets of Thailand and the United States. What is your outlook for these countries?
A3	We expect challenging conditions for our automotive business in Thailand and the United States. However, we do not believe these difficulties will have a major impact on our consolidated performance.

◆ Questions by Tomomi Fujita, Morgan Stanley MUFG Securities

Q1	My question concerns your stance regarding fixed expenses involving the impairment loss and purchase price allocation. At DuluxGroup, depreciation in FY2020 will be 900 million yen higher than in FY2019. But there will be a decrease in the depreciation of fixed expenses included in the 11 billion yen impairment loss. As a result, purchase price allocation will not have a big impact on earnings. Is this correct?
A1	Following the completion of the DuluxGroup and Betek Boya acquisitions, we perform purchase price allocation in order to distribute to different asset categories the difference between the acquisition price and book value of equity of the acquired companies. Page 4 of the presentation shows the depreciable and non-depreciable assets of DuluxGroup. Depreciation was c. 0.4 billion yen for four months of FY2019 and we expect depreciation to be about 1.3 billion yen in FY2020. We plan to use straight-line depreciation method, so basically there will be a 1.3 billion yen deduction for depreciation at DuluxGroup every year and this will make a contribution to consolidated performance. Purchase price allocation at Betek Boya may look complex but simply stating, depreciation is shown as c. 0.1 billion yen in FY2019 for 6 months and same amount for full year FY2020 due to rounding. This indicates actual depreciation is between 50 million and 70 million in FY2019 and 100 million and 140 million in FY2020. There are c. 2 billion yen of depreciable intangible assets and c. 5.6 billion yen of non-depreciable intangible assets. We are reporting purchase price allocation now as we have completed the categorization of these intangible assets between depreciable and non-depreciable items. The impairment loss is for only automotive coatings business in India and Europe. This loss does not involve DuluxGroup and Betek Boya or purchase price allocation. The impairment loss is based on a comparison of the current book values of these two companies and the present value of expected future cash flows of these companies, including their goodwill, non-current assets and other items. IFRS require confirming every year that book values are consistent with this present value. We had to use a more conservative outlook for our operations due to the current business climate. This outlook includes problems in the automotive industry as well as matters concerning our own operations. Due to review of our forecast based on this outlook, which includes the impact of our inability to receive orders in Germany that I mentioned

	earlier, we decided to post all impairment losses involving operations in India and Europe at once.

Q2	On page 6, one of the reasons for the impairment loss is the "inability to respond with enough speed to the needs of customers." Exactly how are customers' needs changing and what issues are these changes creating at the Nippon Paint Holdings Group?
A2	Losing a customer has a big impact when your operation is still relatively small. When our competitors cut their prices due to weak market conditions, we were unable to respond sufficiently in some ways. Production lines are structured in accordance with a long-term outlook. Therefore, we need to reexamine our production lines in order to recapture business following the loss of even a single order. That means becoming even more price competitive will require cost-cutting across our entire group. Some production lines inevitably have lower profitably than others. We will have to make improvements while receiving the understanding of customers. As a supplier, we must make improvements to unprofitable activities while continuing to place priority on the satisfaction of end users. We are a late comer in Europe when other companies were already well established. As a result, we will have to make up-front investments as needed. But it is difficult to have an optimistic outlook when the need for these investments is combined with unfavorable market conditions. When we calculate present value by using this challenging earnings forecast, the present value will always be less than the current book value. Consequently, we had to make the accounting decision to recognize an impairment loss. As you can see, we are encountering multiple factors such as needs and issues of our customers, our production lines, loss of orders, need to cut costs, which make our view of the market more challenging.

Q3	I have understood that this impairment loss was caused most of all by cost and other challenges linked to a shrinking market rather than the loss of orders due to the inability to meet the technological demands of customers. Is this correct understanding?
A3	We cannot attribute the impairment loss to a single cause. This is resulting from multiple factors. It is possible that we were unable to meet a customer's requirements in some cases. For example, we need to strengthen capabilities involving water-based technology. As a result, we believe that we need to raise our technologies to an even higher level. To accomplish this, we are appointing new executives, providing companies with engineers from Japan while working with the Nipsea Group, and taking other actions. Although the automotive coatings market in Europe is very challenging, we are also receiving a number of calls from potential customers due to the need for automakers to locate a third supplier. This is the result of acquisitions of older local European coating manufacturers by large companies like BASF and PPG. We have no intention to become small despite challenging market conditions. Our goal is to grow in Europe as well while carefully deciding the right business to pursue. We believe that Europe is a market where we can earn sufficient returns.

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