

# Revision of FY2019 Performance Forecast Presentation Material

January 24, 2020

Nippon Paint Holdings Co., Ltd.  
**NIPPON PAINT HOLDINGS GROUP**

Notes :

1. This is an English translation from the original presentation in Japanese.
2. Round off to the first decimal place (the same shall apply hereafter).

Good day everyone. I am Yuichiro Wakatsuki. I was named chief financial officer of Nippon Paint Holdings in January this year.

Thank you for taking the time to participate in this conference call on such short notice.

Today, Nippon Paint Holdings voluntarily announced a revised forecast for 2019. I will explain the revisions by following our presentation about this subject. I will end today's call with remarks about our announcement today regarding the committee composition concerning shift to Company with Three Committees corporate governance structure, etc.

Let me note four points as a preface.

Firstly, we are unable to disclose actual figures for 2019 at this time because our financial statements are being audited and will not be finalized until February 13. All numbers in today's announcement are estimates and may differ slightly from the final numbers.

Secondly, we will announce our forecast for 2020 also on February 13. Today's announcement is only an update regarding our operations results in 2019.

Due to these two reasons, I am unable to provide any further numerical information other than the numbers that are in today's presentation.

Thirdly, after today's conference call, we plan to post on our website a transcript of this call and answers to questions following the call as soon as possible. We have already posted the English version of today's presentation on our website at the same time as the Japanese version. We will need a little time to prepare English translation of this conference call and answers to questions.

Fourthly, we plan to hold a conference call on February 13 when we announce our earning results for 2019. Next, we plan to hold an investor meeting on February 21 which will be led by Nippon Paint Holdings President & CEO, Masaaki Tanaka and myself. At this meeting, we will explain the goals of the new management team and also other agenda. I hope that you will be able to attend this meeting.

Having covered these points, I will now move on to our forecast revisions.

## 1-1. Summary

- FY2019 full-year outlook for DuluxGroup and Betek Boya contribution is almost finalized**  
(Revenue: 63.0 bn yen; Operating profit: 8.4 bn yen)
- Expect to post final purchase price allocation figures at the end of FY2019**  
(Estimated amortization of c. 0.5 bn yen for FY2019)
- China decorative paint business continued to perform well in FY2019 4Q**
- The earnings forecast revision reflects the lower than expected cost of raw materials**
- Conservative revisions of business plans in Europe and India due to challenging automotive market conditions**  
(Impairment loss of c. 11 bn yen)

This summary begins with the contributions, which we believe are close to the final figures for FY2019 revenue and earnings of DuluxGroup and Betek Boya. In FY2019, we included DuluxGroup for four months and Betek Boya for six months. Together, the two companies contributed revenue of 63 billion yen and operating profit of 8.4 billion yen. We have also largely finalized the purchase price allocation (categorization of the purchase prices into amortizing and non amortizing assets), and the operating profit contribution is 7.9 billion yen after depreciation of c. 0.5 billion yen.

We have increased the operating profit forecast by approximately 11 billion yen. The main reasons are the strength of the decorative paint business in China, which continued to perform well in the fourth quarter of FY2019, and the consistently low cost of raw materials.

On the other hand, we have conservatively revised forecasts for our automotive coating business in Europe and India in view of the severe market conditions. As a result, we now expect to post a total impairment loss of approximately 11 billion yen.

Please remember that these numbers are only estimates and we will announce our final results of our operations on February 13.

## 1-2. Summary

### Increase in revenue, no change in operating profit, decrease in profit attributable to owners of parent forecasts

- ✓ Revenue: Forecast increased due to acquisitions of DuluxGroup and Betek Boya and strong performance of decorative paint business in China; revision also includes cancellation of Chinese industrial coating manufacturer acquisition originally built in
- ✓ Operating Profit: No change in forecast as a result of the benefits of increase in sales forecast and lower than expected cost of raw materials, offset by impairment loss in automotive business
- ✓ Profit: Forecast reduced due to non-tax effect for impairment

(billion yen)

	Forecast FY2019		GAP		GAP Breakdown	
	Initial plan	Revised forecast	Amount	%	Impairment loss	Impact of new acquisitions
Revenue	640.0	694.0	54.0	8.4%	-	63.0
Operating profit (Excluding impairment loss)	77.0	88.0	11.0	14.3%	-	7.9
Operating profit	77.0	77.0	-	-	(11.0)	7.9
OP margin	12.0%	11.1%	-	-	-	-
Profit before tax	78.0	78.0	-	-	(11.0)	7.5
Profit <sup>※1</sup>	39.0	35.5	(3.5)	(9.0%)	(9.0)	5.5

※1 Profit attributable to owners of parent

※ 1RMB=15.8JPY, 1USD =109.2JPY, 1AUD =74.7JPY

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This page provides more information about the revisions which I have just discussed.

The revenue forecast revision reflects a variety of positive and negative factors. The largest negative factor on this forecast is our decision to cancel the acquisition of an industrial coating manufacturer in China. This acquisition was included in the original revenue forecast.

The operating profit forecast is 11 billion yen higher, as I just explained. We lowered the forecast for profit attributable to owners of parent because our impairment loss is a not tax deductible. Both factors that raise earnings and the impairment charges include adjustments for the portion attributable to minority shareholders.

Although we have reduced the forecast for profit attributable to owners of parent, we do not plan to make any change to the dividend forecast. We will formalize our announcement about the dividend again when we announce our results of operations in February.

## 2. Performance of DuluxGroup and Betek Boya and Purchase Price Allocation

Both companies performed well in FY2019

Plan to use 10–20 year periods for the depreciable assets as a result of purchase price allocation

### DuluxGroup

1) FY2019 (4 months)	Revenue: 47.6 bn yen; Operating profit: 6.3 bn yen
2) Depreciable assets	c. 26 bn yen of PP&E and intangible assets
3) Non-depreciable assets	c. 296 bn yen of trademark right and goodwill
4) Depreciation	c. 0.4 bn yen in FY2019 and c. 1.3 bn yen in FY2020

### Betek Boya

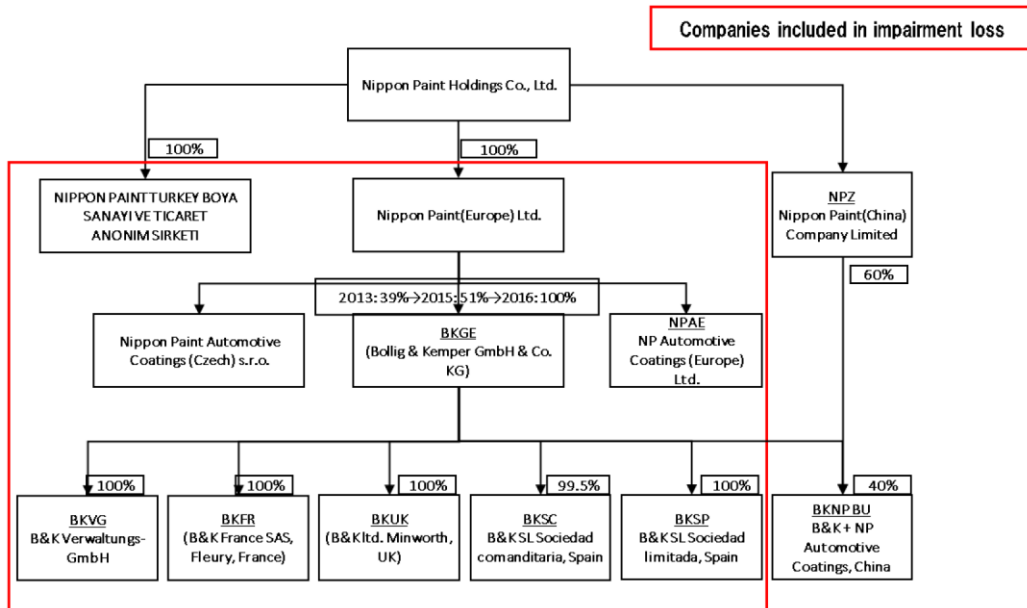
1) FY2019 (6 months)	Revenue: 15.5 bn yen; Operating profit: 2.1 bn yen
2) Depreciable assets	c. 2.0 bn yen of intangible assets
3) Non-depreciable assets	c. 5.6 bn yen of trademark right and goodwill
4) Depreciation	c. 0.1 bn yen in FY2019 and c. 0.1 bn yen in FY2020

This is a summary of data concerning the two companies we acquired in 2019. I will answer any questions you have about these companies after this presentation.

However, there is one point about Betek Boya that I would like to make now. The company's profit margin benefited from a reduction in marketing expenses and other one-time factors immediately after our acquisition. Although the company's businesses are doing well, we expect a small decline in margins starting in FY2020 because of the resumption of substantial investments. We plan to have discussions about this company's 2020 outlook again on February 13.

### 3-1. Impairment loss (Europe Automotive Business Group ①)

#### Profile of the Europe Automotive Business Group



My next subject is the two regions where we are recording impairment losses.

Bollig and Kemper, which is at the center of this diagram, accounts for the largest share of the impairment loss in Europe. We regard the European automotive business group as a single cash-generating unit. In addition to the Bollig and Kemper impairment, we posted impairment losses at the British and Czech subsidiaries of holding company Nippon Paint (Europe) and the group company in Turkey, which is a subsidiary of Nippon Paint Holdings and not related to Betek Boya.

## 3-2. Impairment loss (Europe Automotive Business Group ②)

### Profile of major companies posting impairment loss

**Bollig & Kemper GmbH & Co. KG Group (B&K; Workforce of c. 300)**

- 1919 Established
- 2008 Established joint venture in China with Nippon Paint Holdings (NPHD) Group for the sale of automotive coatings
- 2013 NPHD Group purchased 39% of B&K (Increased ownership to 51% in 2015)
- 2016 B&K became a wholly owned subsidiary of NPHD Group

### Impairment

c. 8 bn yen for goodwill and non-current assets

### Main reason

Declining revenues and earnings caused by slow automobile sales in Europe and the inability to respond with enough speed to the needs of customers

### Upcoming actions

- 1: Develop new products that meet customers' requirements
- 2: Review and improve major products
- 3: Renewal of management structure
- 4: Technological support by providing people from other NPHD Group companies

This page provides information about Bollig and Kemper, which is the largest component of the impairment loss in Europe. We started investing in this company in 2013 and it became a wholly owned subsidiary in 2016.

Europe is a very competitive market and the Nippon Paint Group has been taking actions to build a stronger foundation for the company's businesses. However, competition has become even more intense as markets became weaker. As a result, losses at Bollig and Kemper have increased. One of the reasons is the failure to receive repeat orders in 2019 associated with the certain automobile models of a major customer in Germany. The decision was therefore made to post an impairment loss based on a more conservative outlook for revenue and earnings and in accordance with accounting principles.

We plan to take the actions listed here in the presentation. Success in Europe is essential for not only the region but also for strengthening presence in other regions, particularly in China. Nippon Paint Holdings and the Nipsea Group will work together in many ways to provide the support needed and strive to improve revenue and earnings.

## 3-3. Impairment loss (Berger Nippon Paint Automotive Coatings Private Limited)

### Profile of company posting impairment loss

Berger Nippon Paint Automotive Coatings Private Limited (BNPA; Workforce of c. 240)

- 2007 Established joint venture with Berger Paint India Limited (BPIL), to manufacture coatings for automotive plastic parts
- 2016 Established BNPA following transfer of automotive coatings business from group company in India and automotive coatings business of BPIL

### Ownership

NPHD Group 51%, BPIL 49%

### Impairment

c. 3 bn yen for goodwill and non-current assets

### Main reason

Stagnant automobile sales market in India, delays in local procurement of parts and manufacturing operations in India

### Upcoming actions

- 1: Lower procurement and manufacturing expenses in India
- 2: Continue to take actions to capture larger market share
- 3: Focus investments on selected items and lower expenses

This page is an overview of our automotive coating business in India. As you are aware, automobile production in India is falling faster than expected. Due to our assumption for no volume growth in 2020 and the need to conservatively revise future plans, we decided to post an impairment loss. Our primary goals in India are to move faster with local procurement and production, an area where we fell behind our initial plans, reexamine expenses, and take other actions in order to increase our market share.

Please note that the India impairment loss of approximately 3 billion yen is the entire amount for this company, meaning only 51% of this loss will impact our bottom-line profit.



## 4. FY2019 Trend by region segment

		Forecast FY2019			(billion yen)
		Initial plan		Revised outlook for FY2019	
Japan	Revenue	184.2	Inline	In line performance in automotive, decorative and industrial business	
	Operating profit	27.4	Below	M&A expenses of 2.2 bn yen	
Asia	Revenue	365.5	Below	China decorative paints business performing well: canceled acquisition: automobile market slowing down	
	Operating profit	47.5	Above	Strength of China decorative paints business will offset automotive and India impairment loss and other items	
Oceania	Revenue	-	Above	Contribution of newly consolidated DuluxGroup	
	Operating profit	-	Above	Contribution of newly consolidated DuluxGroup	
Americas	Revenue	76.9	Below	Decorative paint and automobile business performance slightly below plan	
	Operating profit	5.8	Below	Decorative paint and automobile business performance slightly below plan	
Others	Revenue	13.4	Above	Contribution of newly consolidated Betek Boya	
	Operating profit	(0.4)	Below	Impairment loss of c. 8 bn yen for European operations	
Total	Revenue	640.0	694.0		
	Operating profit (Excluding impairment loss)	77.0	88.0		
	Operating profit	77.0	77.0		

※Details will be disclosed in the FY2019 financial result on February 13

- ✓NIPSEA China: Strong performance in decorative paints business (DIY, projects); the lower than expected cost of raw materials
- ✓DuluxGroup and Betek Boya: Both performed well
- ✓Automotive business: The global decline in automobile production has affected performance of NPHD Group automotive operations worldwide

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This page shows our initial plan for geographic segment revenue and operating profit in FY2019. Please refer to this page as a general guideline only because we have not finalized our financial data for FY2019. As I explained in the third quarter of FY2019, DuluxGroup is included in the newly created Oceania segment and Betek Boya is in Others segment.

Finally, I would like to comment on our announcement today of the committee composition concerning shift to Company with Three Committees corporate governance structure, etc. The change in the governance structure itself was announced on September 20, 2019. I note that the president & CEO, Masaaki Tanaka, is not a member of any of these committees. This is consistent with the Corporate Governance Code that suggests the independence and objectivity of the board of directors, and Mr. Tanaka will not be involved at all with decisions about CEO appointments, terminations and remuneration. We have been improving our corporate governance structure, such as by adding many independent directors to the board. We plan to take more actions in order to continue increasing the soundness of our governance structure.

This completes my presentation. Thank you again for your participation.





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