FY2019 4Q Financial Result Conference Call Q&A Summary

February 13, 2020

◆ Questions by Shinobu Takeuchi, SMBC Nikko Securities Inc.

Q1	What is the current status of operations at sales offices and agents in China regarding the novel coronavirus outbreak?
A1	The situation is changing every day. We are slowly starting operations but have not reached the point of operating at 100% at all locations. As I mentioned earlier, we cannot avoid a negative impact to some extent particularly in the DIY segment. The situation has been changing since we started preparing this presentation material and even today (February 13). We will continue to make announcements when significant changes occur. Although this is not investor related information, I would like to mention that we announced today our decision to make contributions in China.

Q2	Is the impact of the novel coronavirus in the DIY segment nationwide in China rather than only in the Wuhan region?
A2	Yes. As China limits movements of people within the country, we are seeing some weakness involving construction projects and one-stop services.

Q3	In the heat map on page 9, the China DIY market is flat and market share is increasing. Please provide more information, such as performance in different regions and price categories.
A3	China DIY segment revenue increased 5% year on year in FY2019. Our market share increased as the DIY market was flat. I believe you are asking about our performance in individual cities based on tiers. Cities in tiers 1 and 2 continue to account for the majority of our DIY revenue. Each of the other three tiers, which are 3, 4 and special, has equal shares of the remaining DIY revenue. Cities in the special and tier 3 and 4 categories posted strong growth and growth was slower in tier 1 and 2 cities, which represent a larger share of revenue. We have been aggressively marketing our one-stop services to target repainting projects in special and tier 1 and 2 cities. These activities raised fourth quarter sales of higher-priced products and made a significant contribution to revenue. Although tier 3 and 4 cities are still a small percentage of DIY revenue, we

	believe there is substantial potential for growth. In sum, we anticipate no change in the overall trends in the DIY segment in China.

Q4	Please provide approximate numbers about the share of DIY sales in tier 3 and 4 cities in FY2019 or in only the fourth quarter.
A4	We do not provide numbers that are not in this presentation material from the standpoint of fair disclosure. We will be happy to answer your questions about our business strategies, market trends and other subjects.

Q5	Is the tanshin basis used for the quarterly figures on page 38?
A5	Yes, these numbers are as reported on a tanshin basis.

Q6	Can you disclose non-GAAP quarterly data too?
A6	We are unable to ensure the accuracy of non-GAAP data because of the shift from Japanese GAAP to IFRS, the effects of foreign exchange rate movements and other reasons. We will consider your request when preparing financial reports and exercise care to present this information in a format that is easy to understand.

Q7	There was no big change in the ratio of raw material cost in China between the third and fourth quarters. Was there also no significant difference in marketing and selling expenses between these two quarters?
A7	That is correct. We believe the difference in the raw material cost ratio was negligible. Quarterly marketing and selling expenses were slightly different. For example, although promotions will continue in China, we did not use the maximum possible amount of these expenses in the fourth quarter.

◆ Questions by Atsushi Yoshida, Mizuho Securities Co., Ltd.

Q1	You said that you expect FY2020 prices of raw materials to be about the same as in FY2019. But aren't the prices of petrochemical resins, titanium oxide and other materials climbing?
A1	As I explained earlier, prices of naphtha and other raw materials are down slightly, although prices are influenced by supply and demand. In addition, there are no problems involving the reliance on a particular location, such as Wuhan, for the procurement of specific materials. Consequently, at the very

	least we do not foresee an increase in the cost of our raw materials. Also, we can purchase titanium oxide and other materials at fairly stable prices because of contracts with suppliers. There is a company in Wuhan that makes substances associated with phosphoric acid, but we do not purchase materials from this company. To repeat what I have said earlier, based on reports from group companies, at least for the foreseeable future, we believe there is limited risk of a sudden rise in the cost of raw material caused by a rapid tightening of supplies and of becoming unable to purchase any particular material.

Q2	Is the capacity utilization of raw material companies decreasing because of the novel coronavirus outbreak?
A2	I do not have information about the output of manufacturers of raw materials. Based on the reports I have received, I can say there are no problems involving the procurement of raw materials at this time.

Q3	In Oceania, deducting third quarter operating profit of 2.9 billion yen from the FY2019 figure results in fourth quarter operating profit of about 3 billion yen. Why are these two figures about the same even though the third quarter is one month and the fourth quarter is three months?
A3	As we explained in the January 24th conference call, we included only the month of September in the third quarter for DuluxGroup, which ends its fiscal year in September. This company's profit margin was much higher than normal in September because of the reversal of an allowance and other adjustments. Fourth quarter performance is influenced by seasonal factors. Due to Christmas and other reasons, the profit margin of DuluxGroup is usually below normal. In FY2020, DuluxGroup expects an operating margin of almost 12% before purchase price allocation depreciation. We believe this is the actual level of profitability of this company for an entire fiscal year. Therefore, please understand that there were unavoidable factors that made earnings uneven in the one-month third quarter and the four-month period included in FY2019.

Q4	When I compare the DuluxGroup one-month third quarter and three-month fourth quarter, I am concerned about the lower margin in fourth quarter earnings. Are there any other reasons?
A4	As I explained earlier, fourth quarter earnings are lower than the usual level

	for an entire fiscal year because of seasonal factors. As is shown in our guidance, for a full fiscal year, DuluxGroup normally has an operating margin of almost 12% before purchase price allocation depreciation.

◆ Questions by Takashi Enomoto, Merrill Lynch Japan Securities Co., Ltd.

Q1	Please explain your assumptions regarding the FY2020 plan for DuluxGroup on page 19. According to the tanshin, FY2019 revenue was effectively 138.1 billion yen, so the plan is for growth of 4% to 5%. Why do you expect this growth? Also, the operating profit plan is 17 billion yen but only FY2019 net income is shown in the tanshin. Please tell us the growth rate for operating profit and the exchange rate assumption.
A1	We assume that the Australian dollar will be about 75 yen in FY2020. The average rate was about 74.72 yen in FY2019, so we do not expect the exchange rate will have a big impact on revenue and earnings. We forecast higher revenue at DuluxGroup. The FY2020 operating margin will be affected by payments to this company's executives for remaining after the acquisition. In addition, direct comparisons of FY2019 and FY2020 numbers are difficult because of the different accounting standard used in FY2019 and other reasons. In terms of the so-called actual earning power of DuluxGroup, we believe the operating margin will be about the same as in FY2019. We forecast revenue growth of 5% to 6% and, due to the outlook for no significant change in the operating margin, operating profit growth proportional to the sales growth. We discussed the best way to present prior-year comparisons for DuluxGroup due to its use of a September fiscal year end and somewhat different accounting standards. The result is the disclosure of information at this level.

Q2	Does your forecast for revenue growth take into account the impact of fires, floods and other natural disasters in Australia?
A2	Wildfires started in September 2019 and have had no obvious effect on FY2019 performance. However, we expect a negative impact to some degree starting in January 2020, especially involving gardens and wood decks for houses. At this time, we do not believe natural disasters in Australia will affect our performance as much as the novel coronavirus will. We will make an announcement if there is a significant change in the outlook

	for DuluxGroup. Although the wildfires will have some negative effect on revenue, we currently do not believe the impact will be substantial.

Q3	Betek Boya plans on revenue of 34 billion yen in FY2020, which is a large increase. What are the assumptions for the economy and foreign exchange and the plan for operating profit?
A3	Betek Boya expects an exchange rate of 18.24 yen to the Turkish lira compared with an average of 19.25 yen in FY2019. The company expects non-GAAP revenue growth of about 25%. As we stated at the January 24 conference call, Betek Boya's profit margin during the six months of FY2019 after the acquisition was somewhat higher than usual. The main reasons were the decision to hold down advertising expenses because the company was establishing a new strategy and a lower cost of raw materials because the Turkish lira became stronger. Betek Boya is Turkey's largest supplier of paint and we believe the timing is perfect for actions to further increase the company's leading market share. We plan to increase revenue by raising advertising expenditures for television commercials and promotions. Betek Boya's operating profit was higher than usual in FY2019 as I just explained. The FY2020 plan for non-GAAP operating profit of about 3.1 billion yen is therefore about the same as the FY2019 operating profit based on this company's actual earning power. There was considerable economic and political instability in Turkey in the second half of 2018 and first half of 2019, which is when we decided to acquire Betek Boya. In FY2020, Betek Boya will receive extensive support from the NIPSEA Group for actions aimed at increasing its market share in Turkey.

◆ Questions by Shuhei Nakamura, Goldman Sachs Japan Co., Ltd.

Q1	Using the heat map on page 9, what is your outlook for FY2020?
A1	We are using this format for showing our view of our markets for the first time. We expected to be asked about FY2019 but not about FY2020. Therefore, my answer to your question will include some subjective views. In the automotive sector, we expect the market in Japan to be challenging, so the color would be between dark and light blue. There may be a small decline in our market share.

	In Asia auto (China), determining an outlook is difficult because of uncertainty about the novel coronavirus. Our view of China's automobile sector was positive in the fourth quarter of FY2019 because the market was recovering. In FY2020, we think this market will decline throughout the year, including final demand. Therefore, the color would be light or dark blue. Our market share in China will be at least flat and we hope to raise this share. In the Americas auto, we foresee some weakness, so the color would be near light blue. We assume our market share will be unchanged, although there could be a positive surprise. In the construction sector, Japan is light blue because we do not think the market will be very strong. This is due to the end of demand associated with the 2020 Tokyo Olympics, a suspension in much construction activity around the time the Olympics take place, and other reasons. However, our operations in Japan are determined to capture market share during this period of weakness. We forecast no change in the Oceania construction market and are aiming for a larger market share. In the Americas, which is Dunn-Edwards, we expect no change in the market or our market share. Performance in the Americas is vulnerable to weather and other uncertainties, as the impact of unfavorable weather on the U.S. West Coast demonstrated in 2019. In general, we do not view the Americas as a market with significant growth potential. Our activities will focus on maintaining our market share. This is our outlook image for FY2020.

Q2	Based on your outlook in the previous question, will earnings growth in Japan be difficult?
A2	Yes. We will discuss this point in more details in the February 21 presentation for institutional investors. In FY2020, we are planning on numerous actions to make Japan a sound base for our global operations. Furthermore, due to the condition of the automobile market and to other considerations, we expect a challenging business climate in Japan. As a result, the premise for our performance in Japan in FY2020 does not include higher earnings.

Q3	What is your revenue in Hubei province or the Wuhan region? I believe that revenue in China was almost 260 billion yen in FY2019. About what percentage of that revenue is in regions affected by the novel coronavirus?
A3	We have more than 50 factories in China, including the NIPSEA Group and other companies. Two factories are in Hubei province and one is in Hebei province. The size of the factories differs, but in terms of the number of locations, these factories are not a big part of our operations in China. Factories in other areas of China that have restarted are operating at about 30% to 40% of capacity. There are differences in the status within our factories in China. We do not intend to disclose detailed data regarding these factories, including whether the operation rate should become 80-90% from the current 30-40%. That said we do not foresee these factories to constitute a large impact to the entirety.

Q4	Is the geographic distribution of your sales in China about the same as the distribution of the factories?
A4	We did not bring the data needed to answer your question with us today.

◆ Questions by Shigeki Okazaki, Nomura Securities Co., Ltd.

Q1	On page 12, why did the non-GAAP fourth quarter operating profit of NIPSEA China increase from 6.0 billion yen in FY2018 to 8.4 billion yen in FY2019? Maybe it is because of increases in revenue or incentives or the lower cost of raw materials?
A1	Earnings increased because of revenue growth and a four percentage point decrease in the raw material cost ratio. The improvement in this ratio is the result of lower prices as well as our constant cost-reduction measures, reexaminations of the materials we use and other actions. These actions made a very big contribution to the decline in the raw material cost ratio.

Q2	My understanding is that the improvement in the raw material cost ratio was more than the improvement in the operating margin, and that this was the result of expenses used for revenue growth. Is this correct?
A2	Yes. We did not boost fourth quarter earnings by holding down expenses. There were many marketing activities in order to continue raising our market share. However, of course, these are strategic initiatives. For example, people in front-

	line sales positions are the ones who make decisions about whether or not to spend money on advertising and promotions. Therefore, these expenses will move up and down from quarter to quarter.

Q3	Do you have an operating margin target for operations in China?
A3	Our basic stance in China is to increase our market share while keeping the profit margin above a minimum level. Naturally, we would not significantly sacrifice operating margin in order to gain market share. On balance, we place higher priority in revenue growth in order to capture market share.

◆ Questions by Shigeki Okazaki, Nomura Securities Co., Ltd.

Q1	I understand that your goal in China is increasing market share through revenue growth. Your European and U.S. competitors are emphasizing profit margins instead of growth. These companies have selected the strategy of prioritizing earnings by raising prices even though sales volumes decline. Is this view correct? If this is true, why has Nippon Paint Holdings Group chosen a strategy that is the exact opposite of the strategy of competitors? Is your strategy to capture market share while the market is still growing? Or do you believe that raising the density of your business network in China will improve profit margins, resulting in an earnings recovery? Perhaps your thinking is that you can capture market share by just doing business the way you always do? Please explain the thinking behind your strategy.
A1	The stance of our competitors is slowly changing. A few years ago, the biggest competitor was the Dulux brand of AkzoNobel. Now companies in China are major competitors. Competition with these companies is increasing because they do not always place priority on earnings. To succeed in this environment, we are focusing on ways to maximize our presence in the growing markets of China. We believe that even if we increase expenses somewhat to reinforce our posture in China, these expenses will eventually contribute to earnings. However, we do not intend to use this strategy forever. For the time being, we will emphasize growth in market share because we want to establish a superior position before the market growth rate begins to decline. The DIY market is relatively flat but the project market is growing. Profit

	margins are not extremely high in the project segment. But individual orders are large and these sales strengthen our relationships with major real estate development firms. We believe this will enable us to preserve and enhance our superior position in the project market as China continues to make infrastructure investments.

◆ Questions by Tomomi Fujita, Morgan Stanley MUFG Securities Co., Ltd

Q1	On a non-GAAP basis, I believe that in Japan market conditions were somewhat weak and your earnings were low in the fourth quarter. You have said you plan to make investments in Japan. Exactly where will you make these investments? Also, will these investments produce immediate benefits by lowering fixed expenses? Or will fixed expenses or other expenses start increasing next year?
A1	You are correct. We are not satisfied with our profitability in Japan. We are thinking of investments from the standpoint of medium to long-term sustainability. We are currently examining the contribution to earnings. President and CEO Masaaki Tanaka will talk about our thinking regarding investments at the investor briefing on February 21. Our priority is not immediate benefits by cutting costs. Instead, we want to make carefully chosen investments with the goal of building a framework capable of consistent long-term growth. This will include investments for automation in order to reduce the number of people we require and deal with the aging of our workforce in Japan.

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