Investor Briefing Webinar on the Acquisition of Cromology Holding SAS
Q&A Summary October 20, 2021

◆ Questions by Atsushi Ikeda, Goldman Sachs Japan Co., Ltd

Q1	First of all, congratulations for the M&A. Just one question from me. This company has a significant revenue from France. As we see, in the EU, France is a very competitive market and we will get the Western and European major players. This company seems to be focusing on Eastern Europe. Given that, why are you targeting this company which is focusing on France? Why are you targeting this company at this moment in time, although the Cromology is targeting France? Thank you very much. That is my question.
A1	(Houlihan) Thank you very much for your question. If I come back to the core of DuluxGroup's capabilities, we are very strong in what we will call the common capabilities that underpin Western markets. By the term "Western markets," I am describing the fact that in contrast to Asia, we run our own trade stores. In Asia, most paint is sold through an independent dealer. In Western markets, most "do it yourself" paint, which obviously there is relatively little of in many Asian countries, is sold in Western markets through Big Box retailers and independent hardware retailers, so the capabilities to be strong in terms of channels of distribution are defined by Western markets in that context, and ultimately that is led by the consumer – the fact that there is an element of "do it yourself" consumers and "do it for me" consumers. So, when we think about our focus on Cromology and the European platform, and where Cromology itself is focused, it has been through those common capabilities, and ultimately those capabilities are consistent throughout those other countries I mentioned, which is not to say that in conjunction with Cromology, we cannot look to expand further into Eastern Europe, particularly if there were some markets of good opportunity, but it is really through that lens as to how Cromology has continued to operate and what has brought both of us together in terms of today's acquisition.

Q2	Using this as kind of a foothold, including Eastern Europe, in Europe as a whole, you are planning to really expand it. So, for the expansion, this is really the first step. Am I correct in assuming that?
A2	(Houlihan) The first focus will obviously be Western Europe in terms of where Cromology is today and what we can do to help Cromology lift its opportunities

	to another level. So, if I think about Cromology in its largest market of France, as I mentioned earlier, their decorative market is a 1.6 billion-euro market, and while Cromology is number two in that market, it only has approximately 14% market share. So, over time, we think there is significant opportunity to grow market share – again, not just helping Cromology step up its strong position in trade, but equally they will teach us in Dulux Australia things about how we can improve our business here. But we believe through helping Cromology step up opportunities in retail channels, we think that will help market share, and ultimately what we have found in Dulux Australia is if you can get that market share growth and you can hold your financial discipline, you get great leverage through to the bottom line. Then, beyond decorative paint – and I am talking France here as well – again, there are opportunities to move into adjacent products like sealants, adhesives and fillers in the way we have done with our Selleys business here in Australia. Within France, there may well be other M&A opportunities that present themselves over time. Who knows? But that is not the immediate focus of our acquisition today and what we think we can do in the first instance. Then, beyond France, you have got the other countries where Cromology is already strong as a top-three player. Again, that same formula for growth presents itself as an interesting opportunity – build on trade, step up retail, expand the product portfolio, bring strong financial discipline to bear, and bring the leverage of the group to bear. Then, ultimately as we continue to grow, we will present adjacent opportunities organically. It could be through marrying up with a certain customer in a country that has got distribution presence in another country, or ultimately it might present itself through bolt-on M&A or so on. So, we will look at the broader Europe lens, but we are very much anchoring our thinking from Cromology and then what we can do leveraging beyond that, and if we can find over time the right partner companies to complement that even further.

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

Q1	My question is with regard to the figures. I would like to ask about a couple of the figures in relation to the backdrop. With regard to the target company, pre-

	IFRS-16 was explained. When we look at Cromology's disclosed paper, whether IFRS-16 is in or not, there is a big impact. Specifically, there is an EBITDA change of 64 million going to 97 million with IFRS-16. I wonder why. Probably, this is because of a lease factor. After consolidating to your company, the EBITDA appearance may become bigger. Is my understanding right? I would like to ask for the explanation on that point. Also, when we look at the disclosed material, specifically about the operating income, it is an OP margin of 9%, but in 2020, the actual base is a little weaker than 8%. It also looks like the performance is recovering, so maybe it is 9% today. Is my understanding correct? I am sorry for asking you many questions. Also, it seems like the difference between net profit is very big, and when we look inside, there is much financial cost. I assume that with the acquisition, there may be a lower interest burden. Can I expect that as a synergy as well? I would like to ask for elaboration about the impact on P&L. I am sorry about my many questions which is to do with accounting.
A1	(Wakatsuki) First, about the impact of IFRS-16. As you rightly expected, it is to do with the lease accounting. Actually, IFRS-16 is the close figure to what we usually use as EBITDA, so after IFRS-16 is right, then the EBITDA figure will become bigger. So, to avoid misleading from that, we did decide to share the information with the pre-IFRS-16. That is for the first question. Secondly, with regard to Wendel, in Wendel's disclosure, the "last 12 months" figure EBITDA is disclosed in pre-IFRS-16. In our case, we gave a forecast for 2021. Well, this year is almost done, so with that as an assumption, we gave the EBITDA a figure with the pre-IFRS-16. As explained in the presentation, in the past several years, a new management team joined to the company and the marginal profit is in a very dramatically improving trend. This trend is continuing. For us, as a result of due diligence and this information from the target company, 80 million is our assumption. So, they are clearly in an improving trend. In terms of the net profit, I think you are referring to the figure disclosed by Wendel. Of course, how they see the inclusive tax aspect and how the structure is done. Our case is unique from that. Actually, the tax will be deducted from ordinary or normal operating income in our view, and for now, we are still under calculation and disclosure will be done after closing, and the amortization cost or depreciation cost will be also factored in before the disclosure. Even after

	that, basically EPS will be positive. That can be expected with confidence. That is my answer.

Q2	You answered most of my questions, but the net profit numbers, within Wendel, there are many transactions, so rather than looking at this as a reference, perhaps once it becomes part of your group, from operating income, then financial cost and other expenses are subtracted, so the gap will become narrower. Am I correct in assuming that?
A2	(Wakatsuki) You are correct. Also, it is a detailed matter. There are some deferred tax assets, so how to calculate them is one thing, but in principle, as you have just said, yes, you are right.

◆ Questions by Takashi Enomoto, BofA Securities Japan Co., Ltd.

Q1	I have a question about performance. On page six, your EBITDA forecast, for FY2021, it is 80 million euros. I have a question. When I look at the disclosed information by Wendel, the first-half EBITDA is disclosed. It is 56.9 million euros, so after a second-half subtraction, it is 23.1 million euros. So, the first half to the second half, it is like a significant decrease of profit. What is the background? If it is possible, I think it is probably the higher prices of the raw materials, so what about the capability to pass on those price increases to buyers or customers of Cromology? If you could address that, it would be very helpful.
A1	(Houlihan) If I could comment on the aspect of the question about raw materials, Cromology has done a very good job at managing their margins and managing their increased raw materials that all of us are having to deal with. What has been really important to that, again, is the fact that the bulk of the business is done through trade owned-stores, so you can set your pricing in your own store network yourself. You do not need to work through an intermediary, so you have instant control over what you choose to do in the competitive landscape, and when married together with what Cromology has been doing with their financial discipline, the way they have been managing price to the premium nature of their products, and their sales and marketing activities, etc. around that, it has put them in a really good position to be able to manage their gross margins, and ultimately that is what is continuing to underpin what they have been able to do at their operating margin level.

	(Wakatsuki) Enomoto-san, you asked about the first half of 56.9 million and the difference of 23.1 million. That was your question. I would like to verify because I am sorry, I cannot answer to you right away. If I can get the answer, I will respond to you within this meeting if possible.

◆ Questions by Yoshihiro Azuma, Jefferies (Japan) Limited

Q1	In the past six or seven years, what was the CAGR of Cromology?
A1	(Houlihan) Over the last number of years, Cromology's revenue the last few years has been somewhat flat. It has been growing modestly, but the main thing that has driven up the margins in Cromology's business has been managing the gross margins, and then through inefficiency in productivity, managing the fixed cost base to improve the margins. In the first half of 2020, Cromology's revenue was significantly affected with a big decline because of COVID-19 restrictions and stores were shut, but then their stores reopened in the second half of 2020 and that delivered a very strong result. Then, the revenue this year is now back on track with a consistent performance with positive growth momentum in the top line. But to your broader question, it really was in the first instance, managing the gross margins and the fixed cost leverage to get the operating margin overall in the right shape to go forward.

Q2	I would like to confirm the market share of Cromology
A2	(Houlihan) The current market share of Cromology in France is 14% of a 1.6 billion-euro market. The top three players make up close to half of the market, but it is fragmented and it has got scope for growth.

Q3	Regarding DuluxGroup's market share, you mentioned a market share of 33% to 50%. That is when to when? The market share is 50% now. The 33% is when?
A3	(Houlihan) Dulux Australia had 33% market share in 2005. In 2010, it had 40%. These days, it has 50%. So, it is growing about one point of share a year by pulling those levers I spoke about earlier.

◆ Questions by Tomotaro Sano, JP Morgan Securities Co., Ltd

Q1	For Cromology, the margin outlook for the next few years out. I looked at 2021 and 11.7% margin is given. Raw material prices are soaring, so that is part of the impact. Perhaps next year, there is going to be some improvement and more improvement in the few years ahead I assume, but in three years' time, what would be the level of margin you are aiming at?
A1	(Houlihan) We have some internal perspectives on that, but it is not something we would be disclosing in this forum. However, let me just say, in parallel to what we have been able to do at Dulux and what Loïc and the team have already been doing in the last few years at Cromology, if you can continue to drive top-line growth and hold your gross margins, on that fixed cost base, you will get margin leverage. Really excellent quality paints businesses do get double-digit margins, so today I will not put a specific number on it, but just to say the types of things that we are looking to do in Europe are to both grow the top line and get margin leverage. If I think about the very short term, obviously we are all dealing with high raw material prices. In an ideal world, you would manage price consistent with the percentage rise of raw materials and margins as a percentage would hold, but at an extreme, the approach we have tended to take in Dulux Australia, at least when it is required, is we can hold our gross margin at the dollar level and then manage our operating margins overall and then recover that through a short-to-medium-term period. So, there are two elements to that question. One is the first part around where we aim to manage our operating margins in the medium term and what really excellent quality market-leading paint businesses can do, and the second thing is we are very confident with our track record, and I have seen that already with what Loïc and the team have been doing in France and Europe with the immediate raw material challenges.

◆ Questions by Ryokichi Kondo, Paint & Coatings Journal

Q1	Thank you very much for appointing me to ask a question. Between Dulux and Cromology, what are the differences in technology resources between those two companies? Earlier, you mentioned that SAF technology can be provided to Cromology from Dulux and that for each side, there should be overlapping product groups also. What are the technologies or strengths that Dulux has and Cromology does not? What does Cromology have and Dulux does not have

	in terms of technology resources, and what would be the synergies that can be expected?
A1	(Houlihan) Thank you for your question. If I could refer to the fact that up until two years ago, we were a standalone regional paints business here in Australia, operating with our own R&D labs and really with our own knowledge base. Over the last two years, we have been able to build upon the fact that we have 80 chemists and scientists to the fact that Nippon Paint Group has 2,000 chemists, scientists, and engineers in the group. So, one of the great strengths of being part of a global group is we have a strong focus in each regional market, but our technology teams share formulations and they share their new products, and I am talking here of paints and other coatings like wood coatings, texture coatings, and protective coatings. Then, as you rightly asked about in your question, we have got some interesting new categories like sealants, adhesives, and fillers. So, to date, as part of Nippon Paint Group, we have been able to share with the NIPSEA business in Asia, the Selleys sealants, adhesives, and fillers business, and that has already started a new platform for growth for NIPSEA. If I turn to Cromology, I think beyond sharing technologies and products in decorative paint, there will be elements of wood care coatings we can share. I think there will be sealants, adhesives, and fillers we can share. I think the fact that Cromology and the Betek business in Turkey are strong with what is called ETICS, the exterior thermal insulation composite systems, and that links to our texture coatings here. So again, we have internal perspectives on this and we are not quantifying it in numbers today, but really what we would aim to do with Cromology is to continue what we, for the last two years, have been doing as part of the broader Nippon Paint Group.

Q2	Regarding the communization of raw materials procurement, do you have that in mind going forward?
A2	(Houlihan) In terms of that, I should just say first and foremost, this is a growth-driven strategy and a growth-driven opportunity in the same way when Nippon Paint Group acquired us. It was not about cost synergy. It was about what we can do to unleash you as a very talented partner company to another level, so it is exactly what we want to do here where Cromology will be Cromology, and working with us, we will look to unleash Cromology to another level and then share within the group.

	Obviously, within that Nippon Paint Group already has extensive benchmarking and sharing of raw material classes and pricing, and sharing opportunities. We allow each region and each company within the group to work out what makes sense for their regional markets and competitive landscape, but it is something we will definitely look at, and one would expect some benefits of a company, Cromology-sized, joining a company that is the Asia-Pacific number one and global number four in Nippon Paint Group.

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

Q1	I looked at the performance of the past three years of Cromology. The revenue is not growing that much, but EBITDA has been significantly growing. I would like to ask for more detail about the background. In 2018, their net profit was negative. At that time, was there a major reduction of personnel or restructuring? What happened? In the past three years, especially EBITDA is growing. Is that really because of the reduction of fixed cost?
A1	(Houlihan) Yes, over those years, a key part of getting Cromology fit for purpose really was looking at restructuring and considering what inefficient overhead could be taken out of that business, but also not just dropping all of that through the bottom line, but increasing investment and focus on sales and marketing in terms of driving revenue growth, and then what else can be done around the margins. So, it really was relating to Cromology's restructuring activities.

◆ Questions by Shigeru Tai, Nikkan Kogyo Shimbun.

Q1	When I look at Nippon Paint Holdings' revenues, what about the ratio of those two area revenues versus Nippon Paint's revenues. With this acquisition, in Europe, are more acquisitions to follow to expand your market share in Europe?
A1	(Wakatsuki) At the moment, first of all, regarding Europe, in Turkey, there is BetekBoya that can be described as Europe and other areas. Other areas – that is in our disclosure. In Europe, at the moment, it is 6% against the total revenue. From Cromology, of the one trillion yen, about 90 billion yen or so is added. Regarding the European automotive, for Wuthelam, we made an announcement to sell them off, so that is excluded because that was transferred

	to Wuthelam. On top of that, with this acquisition, we will make Europe our stronghold. Yes, it is in our minds, but first of all, as Mr. Houlihan has been saying, this company has high potential. Once the good brand with good management joined, there has been recovery. Now, they are on our platform. Then, they can fully unleash their potential to enjoy growth. That is significant. In addition to this improvement, should there be some opportunities, we would like to study the possibilities of other M&As, but to expect such M&As, are we buying this? No, that is not what we are thinking. This company itself is really attractive. It has a huge potential.

Q2	Also, the acquisition is 100% acquisition of the stock. Is that right?
A2	(Wakatsuki) Yes, that is right.

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