

# FY2021 4Q Financial Results Conference Call Presentation Summary

## February 14, 2022



Good afternoon, everyone. I'm Yuichiro Wakatsuki, Co-President of Nippon Paint Holdings.

Thank you very much for taking the time today to participate in our conference call regarding financial results for the 4Q and FY2021 and forecast for FY2022.

## 1-1. Summary (1): FY2021 4Q Operating Results

<p style="text-align: center;"><b>FY2021 4Q YoY Growth Rate</b></p>  <p style="text-align: center;">(Tanshin) Revenue: +21.3% Operating profit: -8.6%</p> <p style="text-align: center;">(Non-GAAP) Revenue: +8.1% Operating profit: -23.6%</p> <p style="text-align: center;"><b>NIPPON PAINT GROUP</b></p>	<ul style="list-style-type: none"> <li>• Revenue* increased on a Tanshin basis due to strong growth of decorative business, new consolidation of the Indonesia business, and exchange rate changes. Operating profit* declined due to higher prices of raw materials and recording a provision at NIPSEA China (c. ¥0.6 bn)</li> </ul> <p>(The analysis below is based on Non-GAAP figures.)</p> <ul style="list-style-type: none"> <li>• NIPSEA China achieved decorative revenue growth due to continuing market strength, despite the impact of logistics disruptions and lockdowns. DIY revenue increased by 22% and Project revenue by 16% driven by higher volumes due to marketing efforts and progress in acceptance of selling price increases</li> <li>• Decorative business other than in China also delivered robust performance and achieved revenue growth in all regions</li> <li>• Lower automotive revenue in Japan, China, and the Americas because of lower automobile production worldwide due to semiconductor chip shortage and disruptions in parts supply due to COVID impact</li> <li>• Higher prices of raw materials continued to impact all regions as in the 3Q. Selling price increases, procurement of alternative raw materials, a review of SG&amp;A expenses and other actions did not fully offset the high cost of raw materials, and we will continue to take actions to offset the raw material inflation</li> </ul> <p style="font-size: small; margin-top: 10px;">* The earnings for FY2020 and FY2021 have been adjusted retrospectively following the reclassification of the European automotive coatings business and the India business after they were transferred to the Wuthelam Group (announced on August 10, 2021) and a change in accounting policy regarding cloud computing agreements beginning with 4Q FY2021. The same adjustments are made throughout this presentation.</p>
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I would like to begin by summarizing the financial results for the 4Q of FY2021.

Revenue increased and operating profit declined in the 4Q both on a Tanshin and Non-GAAP basis. Revenue continued to increase in China and other regions.

The operating profit margin improved to 8.2% from 6.8% in the 3Q despite the ongoing significant impact of raw material price inflation. Even after reversing the provision recorded in our Chinese business in the 3Q and 4Q, the operating profit margin improved.

## 1-1. Summary (2) : FY2021 Operating Results

### FY2021 YoY Growth Rate



(Tanshin)

Revenue: +29.2%

Operating profit: +0.0%

(Non-GAAP)

Revenue: +16.6%

Operating profit: -9.9%

- Revenue reached record high on Tanshin basis due to strong growth of decorative business, new consolidation of the Indonesia business, and exchange rate changes. Operating profit was flat from a year earlier on higher revenue and fixed cost savings, despite the impact of higher prices of raw materials, a provision at NIPSEA China, and one-off expenses such as stamp tax and PPA step up depreciation related to the full consolidation of Asian JVs and acquisition of the Indonesia business

- Revenue increased and operating profit decreased on Non-GAAP basis due to exclusion of the effects of new consolidation of the Indonesia business and one-off factors such as subsidies and M&A expenses, etc.

<Primary reasons>

- ↑ Higher revenue at NIPSEA China, driven by robust market growth and selling price increases

- ↑ Higher revenue at Betek Boya due to selling price increases and successful marketing activities

- ↑ Higher revenue at DuluxGroup, driven by increased prices (in response to higher raw material costs) and recovery in Trade DIFM\* markets (following COVID restrictions in 2020)

- ↑ Higher revenue in Japan due to recovery from COVID impact and aggressive marketing proposals

- ↓ Consistent increases in raw material prices impacted all regions

- Net profit increased by 53.8% to ¥67.6 bn and EPS by 7.4% to ¥29.41 (Tanshin basis) due to the effects of the full consolidation of the Asian JVs and new consolidation

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※DIFM (Do It For Me)

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Looking at the full-year results for FY2021, revenue was ¥998.3 bn, which is roughly in line with the guidance announced in October 2021, and operating profit was ¥87.6 bn, which is nearly 10% higher than the guidance.

We achieved significant revenue growth of 29.2% from a year earlier on a Tanshin basis and 16.6% on a Non-GAAP basis that excludes the effects of new consolidations and exchange rate changes. Revenue increased by around 22% on a Tanshin basis excluding the impact of exchange rate changes of ¥54.5 bn. As you can see from these results, we are steadily delivering inorganic revenue growth through M&A, on top of building upon our strong base for organic growth.

On the other hand, the operating profit margin was flat from the previous year. However, our operating profit margin was impacted by around ¥5 bn in one-off expenses including a stamp tax related to the full consolidation of Asian JVs and one-off expenses including a provision of ¥3.2 bn at our Chinese business. The operating profit margin was not bad at

all considering the adverse impact of raw material price inflation. Nevertheless, I believe our margins have much room for improvement.

Net profit was ¥67.6 bn, more than 50% higher than in the previous year when 49% of Asian JV earnings were not included in our consolidated earnings. Net profit in FY2021 also includes contributions to earnings from discontinued operations. EPS increased by 7.4% from the previous year as a result of the issuance of new shares.

## 1-1. Summary (3) : FY2022 Forecast<sup>※1</sup>

### FY2022 Consolidated Earnings Forecast



(Tanshin basis)

Revenue: ¥1,200 bn  
Operating profit: ¥115 bn  
Profit: ¥81 bn

•Both FY2022 revenue and operating profit are expected to reach record highs due to the strong decorative business performance and recovery of the automotive market worldwide, although raw material prices are expected to continue to increase at least through 1H. We expect c. 20% revenue growth and c. 30% operating profit growth in FY2022, taking into account contribution from the new consolidation of Cromology following its acquisition in January 2022

(Revenue)

- Consolidated revenue from existing businesses is expected to increase by more than 10% from previous year
- Contribution expected from continuing growth of decorative business in all regions including NIPSEA and DuluxGroup, combined with recovery from the pandemic and rebound in the automotive market
- Expect Cromology to achieve around 0-5% growth in the first year following acquisition due mainly to selling price increases

(Expenses)

- Expect operating profit margin in 1Q 2022 to be flat from 4Q 2021 based on our assumption that raw material price inflation will continue at least through 1H of 2022. However, expect the margin to start improving slowly in 2Q by continuing to raise prices and reviewing SG&A
- Expect higher revenue in Japan due to market recovery and aggressive marketing proposals but lower segment operating profit margin due to higher raw material prices and reallocation of HD expenses (See page 8). Accelerate measures aimed to improve margins such as selling price increases, cost savings, and productivity improvement

### FY2022 EPS Forecast

¥34.49



•EPS forecast is ¥34.49 (+¥5.08 from FY2021)

•Annual dividend forecast is ¥11 per share (+¥2<sup>※2</sup> per share from FY2021)

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<sup>※1</sup> FY2022 forecasts do not include the impact of acquisition not yet closed.  
<sup>※2</sup> Excluding dividend of ¥1 per share to commemorate the 140<sup>th</sup> anniversary of founding

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For FY2022, we forecast revenue of ¥1,200 bn and operating profit of ¥115 bn, which are increases of around 20% and 30%, respectively, from FY2021. We expect higher growth in operating profit than in revenue due to higher revenue, the absence of one-off factors, and a margin improvement. The annual dividend for FY2022 is forecast to be ¥11 per share, an increase of ¥2 from FY2021, based on our target dividend payout ratio of 30%.

I have four additional comments regarding the FY2022 forecast.

(1) Firstly, we assume that raw material prices will continue to increase through the 1H of FY2022. Based on this assumption, our operating profit margin in the 1Q of FY2022 will be close to the level in the 4Q of FY2021 but will start recovering in the 2Q as a result of the acceptance of selling price increases. We expect higher revenue and a lower operating profit in the 1Q of FY2022 compared to the 1Q of FY2021 when our operating profit benefited from a low Raw Material Cost Contribution (RMCC) ratio at that time due to inventories of raw materials we carried over from the preceding periods. We expect our performance will be back to higher revenue and operating profit in the 2Q of FY2022.

Page 29 of the presentation shows an approximation of our outlook for revenue and operating profit growth in FY2022.

(2) Secondly, the acquisition of Cromology, as shown in page 6 of the presentation, is expected to add slightly below ¥100 bn in revenue with an operating profit margin of around 7.5-8.5% excluding amortization of intangible assets and transaction expenses related to this acquisition. After excluding these expenses, we expect Cromology to contribute around ¥5 bn in operating profit to our consolidated earnings in the first year following the acquisition. Based on this estimate, our forecast is revenue of slightly higher than ¥1,100 bn and operating profit of around ¥110 bn from our existing businesses excluding Cromology. Note that this is strictly a provisional guidance.

(3) Thirdly, this FY2022 forecast does not include JUB in Slovenia, whose acquisition we announced in October 2021. In November 2021, we announced the additional acquisition of stock of Chinese automotive plastic component coating companies, which are consolidated subsidiaries, in order to make these companies wholly owned subsidiaries. This change will only contribute to our consolidated net profit because the companies are already consolidated subsidiaries. The closing is scheduled for the 1H of FY2022. The contributions to our revenue and earnings from the JUB acquisition and increase in ownership of the Chinese subsidiaries are not included in our FY2022 forecast because the closing dates have not been finalized.

(4) Fourthly, NPHD's expenses were charged to the Japan segment until FY2020 but have been reported as Adjustments since the beginning of FY2021. Our group companies in Japan have concluded service provision agreements with NPHD. Following the launch of Nippon Paint Corporate Solutions (NPCS), we decided to review the allocation of expenses and more rigorously separate expenses incurred by our businesses in Japan and expenses incurred by NPHD, thereby clarifying NPHD's functions. We expect that this accounting change will result in an increase in expenses allocated to the Japan segment and a decrease in expenses allocated to Adjustments by the same amount.

## 1-1. Summary (5) : Raw material market conditions and impact on our operations

### Raw material market conditions and impact on our operations in 4Q 2021

- Raw material prices continued to increase following the 3Q and remained high in all regions due to continuing disruptions in international logistics and problems at some factories
- In China, control measures for Beijing Winter Olympics such as production restrictions and zero COVID policy, coupled with ongoing electricity shortages, continued to impact production of raw materials and logistics network
- The price of TiO2 increased further as a result of consistent increase in titanium ore prices and logistics disruptions, and the deterioration of supply and demand balance
- Raised selling prices in the decorative business in major operating regions
- Gross profit margin declined YoY. RMCC ratio increased, in particular in China and Asia

	4Q 2020	1Q 2021	2Q 2021	3Q 2021	4Q 2021	YoY	QoQ
Gross profit margin	41.4%	40.9%	37.6%	36.4%	37.2%	-4.3pt	+0.8pt

### Raw material market conditions and our responses beginning with 1Q 2022

- Our assumptions for the price of naphtha made in Japan remain to be above ¥60,000 through 1H 2022
- We assume prices of raw materials will continue to increase at least through 1H 2022 and will continue to raise selling prices to offset the higher cost of raw materials
- RMCC ratio in 2Q is expected to increase, but operating profit margin is expected to start improving slowly in 2Q, coupled with the effects of acceptance of selling price increases

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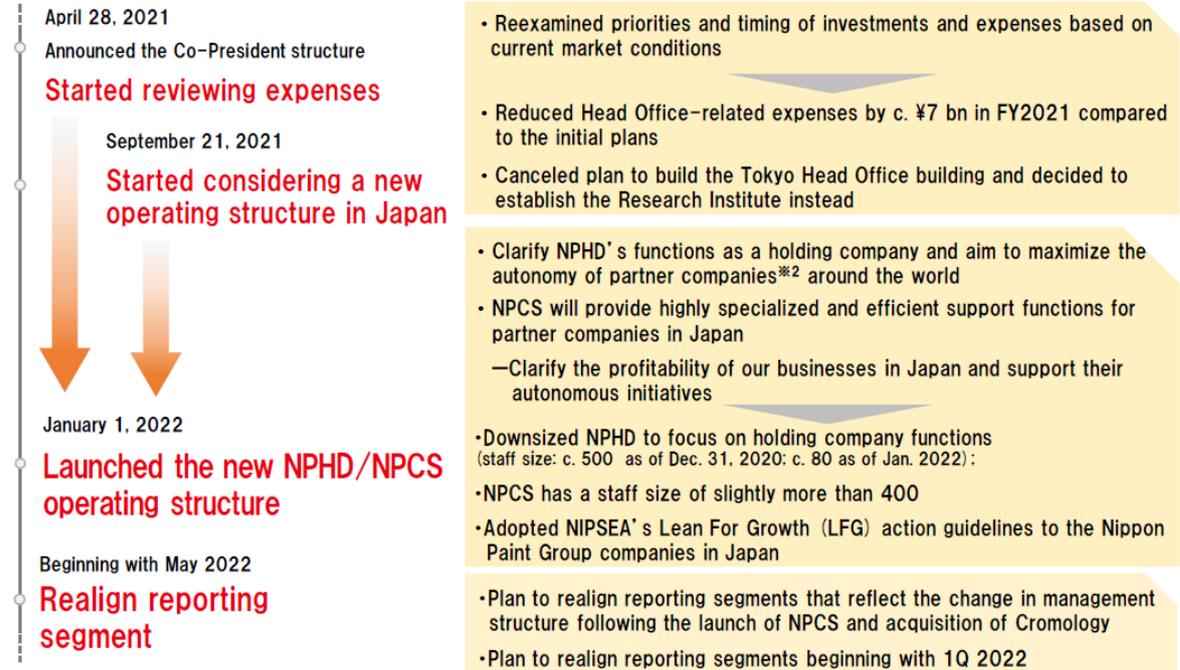
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The market conditions for raw materials are as I explained earlier.

Our gross profit margin declined by 4.3 pts from the 4Q of FY2020 but improved by 0.8 pts from the 3Q of FY2021.

## 1-2. Major Topics After Announcement of FY2021 3Q Results①

### Company Split Involving NPHD (holding company) and NPCS※<sup>1</sup> (functional company in Japan) (Jan. 2022)



The company split involving NPHD and NPCS is as we announced last year.

We plan to realign our reporting segments to include Cromology in May 2022. We will use a disclosure format which continues to allow YoY comparisons. I would appreciate your continued feedback.

## 1-2. Major Topics After Announcement of FY2021 3Q Results② - (1)

### Secondary Offering of Shares (announced on January 7, 2022)

#### Determination of offer price and other terms (announced on January 17, 2022)

##### ■ Overview and Main Objectives

- One of our management issues is to improve the liquidity<sup>\*1</sup> of our common stock, which we believe is relatively low based on our current market value, to meet our ultimate objective of Maximization of Shareholder Value (MSV)
- After confirming the intention of six financial institutions to reduce their strategic holdings, we decided to conduct a secondary offering on the international market in order to provide an ample opportunity for these financial institutions to sell their shares, as well as to improve the liquidity of our common stock to build a global base of investors who understand our growth strategies with a long-term perspective. Also, the offering was aimed to reduce concerns involving the potential sale of our common stock held as strategic holdings
- NPHD meets the requirements for maintaining listing on the Prime Market of Tokyo Stock Exchange in April 2022. This secondary offering has significantly reduced the possibility that NPHD will fail to meet the liquidity ratio requirements<sup>\*2</sup> in the future

##### ■ Results

- NPHD's stock price fell by 24.2% in the period between launch to pricing (the Nikkei average fell by 0.5% in the same period)
- Bookbuilding was oversubscribed by multiple times, with more than 100 orders received
- Allocated more than 50% of shares to the top five subscribers, with more than 50% of the offering to long-term investors and government-linked funds, etc.

<sup>\*1</sup> Based on the comparison of market cap and stock turnover ratio between NPHD and Japanese companies with market cap worth ¥500 bn or more as of November 30, 2021

<sup>\*2</sup> NPHD meets the liquidity ratio requirements for maintaining listing on the Prime Market of Tokyo Stock Exchange (TSE) as of the fiscal year ended December 31, 2020. TSE has announced that NPHD will shift to the Prime Market on April 4, 2022.

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Page 9 explains the secondary offering of shares we conducted in January 2022.

Unfortunately, our stock price dropped by 24% during the period between the launch and pricing of this offering, which did not involve the issuance of new shares.

The liquidity of our stock as measured by the average daily trading volume had been very low at around 0.1% based on our current market value. As a result, we recognized the need to improve liquidity to allow investors to buy and sell our stock more freely.

At the same time, some shareholders, mainly financial institutions, had intentions to reduce their strategic shareholdings. Based on this agreement in intentions between us and our shareholders, we conducted this international secondary offering with the aim to: (1) improve the liquidity of our stock, (2) build a global base of investors, and (3) eliminate concerns about a potential overhang. We believe we have made significant progress in achieving these goals.

The Nippon Paint Group continues to have very strong growth potential. We intend to enhance engagement with investors as well as communications about the roadmap to improving our profitability.

## 1-2. Major Topics After Announcement of FY2021 3Q Results ③

### Our IR website won the Grand Prize of Daiwa IR 2021 Internet IR Awards and the Gold Title of Gomez IR Site Ranking 2021 (announced in December 2021)

#### ■ Daiwa IR 2021 Internet IR Awards (selected by Daiwa Investor Relations Co. Ltd.)

- This award recognizes companies that have created and effectively utilize excellent websites for information disclosure and investor engagement based on the concept of "5T&C"\*, which positions the Internet as an integral element of corporate investor relations programs
- We won the Grand Prize, ranked 3rd out of 3,944 listed companies in Japan as of June 1, 2021

#### ■ Gomez IR Site Ranking 2021 (selected by BroadBand Security, Inc.)

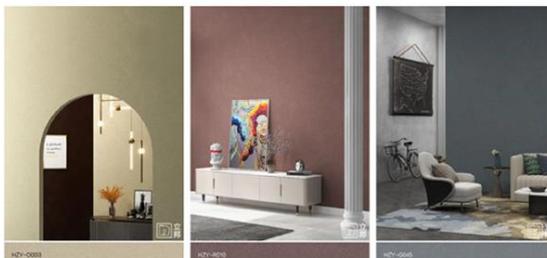
- This ranking evaluates the user-friendliness and depth of information provided by 3,745 listed companies in Japan as of October 1, 2021
- We won the Gold Title (ranked the 6th overall)



## 1-2. Major Topics After Announcement of FY2021 3Q Results ④

### Awarded the Gold Brand in the FY2021 China Brand Index (C-NPS) (announced on January 11, 2022)

- Chnbrand, a brand evaluation institution in China, published the 8th China Customer Recommendation Index
- Nippon Paint was ranked as the top paint manufacturer in two categories (wall paint and wood paint) and is winning this award the fourth time
- Nippon Paint scored 15.3 points in the wall paint category (the industry average: 10.9 points) and 22.7 points in the wood paint category (the industry average: 17.0 points)



We are very pleased that our IR website received increased recognition from external evaluation agencies (see page 11 of the presentation) and that we continually received a high ranking in the China Brand Index (see page 12 of the presentation).

## 1-2. Major Topics After Announcement of FY2021 3Q Results ⑤

### Selected Director Candidates (announced on February 7, 2022)

- The Nominating Committee selected director candidates to be submitted at the 197th Annual General Meeting of Shareholders scheduled for March 29, 2022
- Proposing 4 new directors and reelection of 7 directors: 1 director will retire
- 8 Independent Directors out of 11 Directors
- Incorporate diverse perspectives and viewpoints in the running of the Board of Directors to pursue Maximization of Shareholder Value (MSV)

#### ■New director candidates

<b>Kirby, Peter M</b>	Independent Director
<b>Lim, Hwee Hua</b>	Independent Director
<b>Wakatsuki Yuichiro</b>	Currently Representative Executive Officer & Co-President
<b>Wee, Siew Kim</b>	Currently Representative Executive Officer & Co-President

#### Kirby, Peter M

##### ■Reason for selection:

Global business experience mainly in the paint and coatings industry and extensive experience and insights as a director



##### ■Profile:

Sep. 1989	Dulux Australia Limited CEO
Feb. 1992	Imperial Chemical Industries PLC (currently Akzo Nobel N.V.)
	ICI Paints Asia Pacific CEO
Sep. 1995	ICI Paints Worldwide Chairman and CEO
Mar. 1997	Member of Executive Board
Mar. 1998	CSR Limited CEO and Managing Director
Jul. 2003	Medibank Private Limited Independent Director, Board Chairman
	Macquarie Bank Limited (currently Macquarie Group Limited) Independent Director
	Orica Limited Independent Director
Jun. 2008	DuluxGroup Limited Independent Director, Board Chairman

#### Lim, Hwee Hua

##### ■Reason for selection:

Extensive experience and insights gained as a Parliament Member and serving in important cabinet positions, investment banking services and corporate management



##### ■Profile:

Aug. 1989	Joined Swiss Bank Corporation (Currently UBS Investment Bank)
Dec. 1996	Parliament of Singapore
Aug. 2000	Temasek Holdings (Private) Limited Managing Director
Apr. 2002	Parliament of Singapore, Deputy Speaker
	Public Accounts Committee, Chairman
Aug. 2004	Minister of State for Finance, Minister of State for Transport
Apr. 2008	Senior Minister of State for Finance
	Senior Minister of State for Transport
Apr. 2009	Minister in the Prime Minister's Office
	Second Minister for Finance
	Second Minister for Transport
Jul. 2011	Jardine Cycle & Carriage Limited Independent Director (present)
Oct. 2011	Kohlberg Kravis Roberts & Co. L.P. Senior Advisor (present)
Jul. 2014	United Overseas Bank Limited Independent Director

My final topic is the announcement of our new director candidates to be submitted at the general shareholder meeting at the end of March 2022.

We had a change of president last April, shortly after the general shareholder meeting at the end of March 2021. This year, the Co-Presidents Wee Siew Kim and I will be joining the board from the business execution team, and we have two outstanding candidates for new independent directors. Peter Kirby has considerable knowledge about the paint industry and Lim Hwee Hua has profound expertise in finance. I'm convinced that both can bring global and diverse perspectives to the board as we pursue Maximization of Shareholder Value (MSV).

This completes my presentation. Please be advised that we plan to provide a briefing in mid-March about the progress of the Medium-Term Plan announced last March. Thank you for your attention.