Investor Briefing on the NIPSEA Business Q&A Summary
(September 27, 2021)

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

Q1	I would like to ask about the growth forecast in the mid-term, especially the mid-term growth of the Chinese paints market. Evergrande, the real estate developer's issues are now reported by the media quite frequently. In three years, five years, and 10 years, in the mid-to-long term, how do you think the change of the growth in the Chinese market will be? Can we see the growth potential as we saw in the past decade, or is it going to be gradual? Also, since this is related to the PER of the company, I would like to know the long-term view of the company.
A1	I guess there are two parts to your question. One is the growth forecast for the mid-term plan and I guess the other aspect is on Evergrande. Let me take the first question first. When we look at the growth forecast, a lot of the requirements of the paints and coatings traditionally have been pegged to a multiple of GDP. If you look at a lot of the industry market surveys, one can always pinpoint to the fact that Asia is the fastest-growing segment globally of the paints and coatings world. It is probably growing at about a 4-5% clip versus other markets which are ranging from 0-3%. So, as far as the NIPSEA Group is concerned, we are really in the sweet spot. Let me talk a little bit more about China since China is such a big part of our business and also is going to contribute a lot to our growth. If you look at China also from a broad-based standpoint, the Chinese per capita paints and coatings consumption today is roughly one-third of the world's average. The typical number we usually talk about is about 7.5-8 kilos per capita as the average. China is roughly a third of that. We see that as China grows, as the middle class grows, and as the disposable income grows, that gap will close. Secondly, if you look at the urbanization, it is also very rapidly increasing. If I remember correctly, in 2016, we were looking at something just above 50%. Today, I think the urbanization rate is closer to maybe 60%-plus to 70%, and that is still growing. In China, the market is also changing. What I mean by that is – take for example, just 10 years ago, China was a completely new build market in that most of the paint consumption was in new construction. Today, we

	believe that the ratio is probably one-third for repainting and renovation, and two-thirds for new build. If you look at the bigger cities – Guangzhou, Beijing, Shanghai, and Shenzhen – those big cities, we believe that the housing stock is aging very rapidly, and the repainting and renovation versus new build market is probably closer to parity now in that they are about equal. That is actually a very important element because for Nippon Paint China, our strength is very strong in the DIY. When it comes to repainting and renovation, we believe we have competitive advantages. As some of you may know, maybe we are way ahead of the game. About eight years ago, we already pushed out our advertisements on what we call "Refresh" services. This is all about repainting. It was eight years ago. It is really ahead of the market, but we continue to convert our dealers to be painting providers so as to catch the wave that is coming which is the repainting wave. Today, for the bigger cities, this is already a reality. So, we believe, as we change in the market and we anticipate the growth, we are going to stand ready to grow. Lastly, I actually want to add that our share in China is still small. Even though I say for DIY, we are at 33% market share, overall in China, across all of the paints and coatings segment, we have a lot of headroom to grow. You will never stop me from keeping on talking about how proud I am of the team. We have a very strong team in China. They have continued to deliver on a compounded basis, year in, year out of growth at both the top and bottom lines, and I strongly believe that I can motivate them to even do better. For the reasons that I have stated before, the market is growing. We have got to outperform the market. You asked about the growth forecast in the mid-term plan. I think Wakatsuki-san, when he delivered the mid-term plan, already said, as a group, we should be at 11,000 *oku* yen organically in top line, but I dare say that China will outperform this in terms of on a compounded basis. We are challenging China to make sure that from a growth rate perspective, they should not lose face. The Chinese face is so important that they should outperform the rest of the group, considering that they have so much opportunities. So, I guess stay tuned. We really are expecting our Chinese team to deliver. Now, let me talk a little bit about the project market in China where Evergrande is a very important customer. When we approached as a strategy on the project market, one of our key planks is to ensure that we grow our

	market share among the top 30 property developers. This is something we are very focused on. We are also looking beyond these top 30 and also seeing how we can continue to grow share in the top 100. The reason why we are doing this is because over the last couple of years, we see a very strong consolidation of the property developers' share of market in China. As we go about prosecuting this strategy, it tells in our numbers. If you look at our top 30 developers, it is almost 40%-plus of the entire turnover of our project segment, so it is a very significant part. I would say that Evergrande, being such a sizable player in the property development market, is a very important customer of ours, but I also would say that we work very closely with the customer and the customer is also very aware of some of the press that they are getting in the public, and we work closely with them to ensure that both their interests and our interests are protected. From the Nippon Paint Group's standpoint, it is a very important customer, but Evergrande is less than 1% of our entire turnover, so we approach this from that perspective. From a continuing basis, we are now working very closely with Evergrande to ensure that we are aligned with their objective and the guidance that is given by the Chinese authorities to make sure that construction projects continue without disruption. Hence we work very closely to ensure that we are aligned with the national agenda as well as the NIPSEA agenda as well as Evergrande's agenda, and hopefully find a way to align ourselves. I believe one of the things that we did with Evergrande is to ensure that we also assist them in overcoming some of their liquidity problems. As such, I am sure Evergrande will allow us to also say that we have actually also taken in exchange for receivables, a very prized office property in Nanjing. This is an office space that we need anyway, hence we were very glad to also assist Evergrande in meeting the three red lines that were prescribed by the authorities. So, all in all, with all these working arrangements with Evergrande, we believe that – touch wood – as long as Evergrande continues to operate as a going entity, we are going to be out there supporting Evergrande in a very closely-knit but mutually-beneficial manner. Sano-san, I hope I covered both aspects of your question.

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

Q1	I would like to ask a question concerning China. I would like to clear my thoughts about your current concepts and thinking. China's growth can be expected even more going forward, but at the same time, the current policy situation and so on – the new build market going forward, can we still expect much from the new build market in China? Based upon earlier in your explanation, the new build market was the only market that existed in China, but now you have a stock business because of the renovation needs and so on. Because of that, you can expect some growth coming from the renovation market. This will be one of the growth drivers going forward. Is my understanding correct? Also, if this understanding is correct, in the past, we did not have that market, but going forward, how have you been approaching this kind of newly-emerging market? What sets you apart? What is the differentiator between you and other competitors? Each company is saying that they are doing the best, so it is difficult to understand your strengths and weaknesses and your competitors' strengths and weaknesses. Why would you say you are the most innovative? If you have any evidence – it can be both quantitative and qualitative – could you please elaborate on this? Thank you.
A1	China is, like I said, a very fast-changing and innovative market for us, and as you rightly pointed out, one of the changes over the last 10 years is that the proportion or ratio of renovation and repainting versus new build has changed. If you look at the whole of China, we are guessing that that ratio is about one-third of new renovation and repainting versus two-thirds of new build. If you look at the big cities, it is now closer to almost 50-50. But if you look at the third and fourth-tier cities, new build is still a big chunk of the market. As such, we actually see that both the repainting and renovation, as well as the new build market, will continue to grow in China. Yes, some of the policies that you read about in the papers do slow down that growth, but it is growth nonetheless, and it is a change definitely from the very high growth of the project market that we saw possibly in the last 10 years. But there will be growth. Maybe the growth is not as rapid as before, but the entire market will grow, and what is actually growing very fast is the renovation and repainting market. We actually believe that this is an area that we have traditionally had strengths. We have strengths based on the brand. The good indicators are the "Top of Mind" and the brand

	preference and these are all from independent surveys. But more importantly, even this year when everybody faced competitive challenges, we continued to grow 55% in the DIY segment, and also our growth is in the premium and the mid-tier level, so even in the very competitive market of the first half of 2021, we continued to pull ahead. This is at least one indicator that gives us some comfort that we are still doing something right. I think I have another part of the question which I hope to completely answer. You also asked or mentioned the aspect that every one of our competitors also say they have the same strength and they will beat or outcompete us. As I said before, the competition is very fierce, but we continue to invest and continue to hope to do well in the areas that are our strengths. I will give you an example. Yes, the DIY has really taken off for us this year, but we continue to want to invest into it. Another data point that may interest you is that we started the year with 3,000 colour machines in the market. We want to reach 6,000. We are going to up the ante as far as competition is concerned in the DIY market. We are driving up new product sales as far as the premium is concerned. You can see the rollout of our antiviral paints. You can see the rollout of our kids paints. We are delivering an entire suite of healthcare products, and we hope that will continue to anchor us in the consumers' minds as being up there looking after their interests as well. I also want to mention again, as in my answer to Fujita-san's question, it is the people that counts. If you remember in the chart that I entitled earlier "NIPSEA China – Growing from Strength to Strength," I mentioned a statistic that I do not think we have ever gone public with, which is, in China, we are 30% share of market in DIY, and in the project side, we are only 9%. That signals that there is still a lot of room to grow. Share is taken in two ways. Actually, growth is in two ways. One, we hope to take more share than the growth of the market, which actually means we actually sell more and more as the market grows. So, it is only with good people with a strong brand behind it and with a growing distribution that we believe we will outcompete our competitors. So, I welcome our competitors to come and compete, and like I said, competition is not new to us. 10 years ago, we have listed probably the top three competitors we must be focused on. That top three changes from five years ago, and even now, we see a totally

	different set of competitors. They change, but we continue to dominantly stay in the market and try to outcompete them. It is people, brand, and technology. We will continue to drive these three elements. Fujita-san, I hope that covers some of your concerns.

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

Q1	I am looking at page 7 of your materials, "Our Footprint." I have a question. This time, the India business was sold to the Wuthelam Group. I think your decision was that the Indian market was difficult. You have so many number ones in the market share, but what were the difficulties in the Indian market? That is the first point. Also, I think you had the choice of reacquiring in the future, but in two to three years' time, how do you view the Indian market, and in what kind of circumstances will you reacquire? Can you talk about your view?
A1	Last month in August, we divested India. As you rightly pointed out, India is a very competitive market. In India, we are number five as far as ranking in paints and coatings companies. We believe that in order to really make headways in India, we have to overcome: one, the disadvantage of the size we have in India, and secondly, we have to invest to outcompete some of our competitors to gain market share. Also, we saw that in India, there is the emergence of very strong regional competitors in the likes of, say, Indigo Paints which has really thrived in at least two states in India, and we also saw that there are two deep-pocketed competitors emerging in the likes of JSW, as well as Grasim who is coming in and hoping to take a stake in the large paints and coatings market in India. Taking all of that into consideration, we felt that if we want to continue to hope to thrive in the Indian market, we have to invest big time. When you look at the Nippon Paint Group, what is a good use of shareholder capital? Do I invest in all the uncertainties going into India, or do I keep a lot of the firepower of the public company in all the other many opportunities that we have elsewhere? Hence, we decided to divest it. But if you look at the way the divestment was done and Wakatsuki-san will probably be very intimate with those details – we actually have reserved the right to buy it back. Hence, we have put Nippon Paint Group in what we will call – you may argue with me whether it is the right term or not – a no-lose situation. If things

	turn out okay, we have a chance to buy it back. One of your comments was what would trigger us to buy it back. It would trigger us when we see that we have overcome some of the headwinds – the uncertainties have either not panned out or panned out in a very favorable way, we are making headway, some of these emerging competitors turn out to be not as fearful as we are looking forward right now, and we have a big chance to move from number five to number four to number three. I think when all those things have a bit of clarity, that is the time when I think Wakatsuki-san would jump into the fray and buy it back. So, it is a case where India will be possibly what one would call a "red ocean," but we have put Nippon Paint Group in probably a very favorable, no-lose situation.

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

Q1	I have one question regarding EPS. China's profitability is directly related to that very much. Most recently, when I looked at the Q2 numbers, the margin has deteriorated. In the first half of the year, things have been good, especially around the decorative, despite the raw material and also the competitive environment deteriorating. Going forward, the real estate market will be indirectly slowing down. The raw material prices will be expensive. In such an environment, how do you plan to go back to the profitability that you enjoyed in the past? I understood how you are trying to expand your share, but on top of the capital expenditure and increasing work force and so on which will be very costly and expensive, what is your idea on this? Also, going forward, sourcing raw materials cheaply or VA, or are you going to do some M&A kind of things? How do you plan to increase the profitability?
A1	Thank you so much for the question, Ikeda-san. The market in China and actually in the paints and coatings world has been challenging. One, I guess in many of the markets, COVID-19 is still something that is a bit of a wildcard. It is definitely, in many markets, one step forward and two steps back in terms of market reopening. Raw materials and supply chain disruptions have also been a big factor affecting not only us, but I suspect all paints and coatings companies. Also, particular to China, we also have this issue about – recently, as you can tell – the electricity type of consumption curtailment that is going on. All these are happening as we speak.

It continues to challenge us, but nonetheless, if you look at the first-half announcement, we are still doing decently well at the top line. The first half is a 55% growth, as announced in our first-half release for China, one half on one half. That actually signifies that, as far as China is concerned, a lot of the market has bounced back. We actually do not expect as fierce a growth in the second half mainly because second half on second half, the second half last year was also pretty strong because it had a very big COVID-19 bounce-back from a very low first half of last year. But overall, we still expect China to deliver very high double digits. I would think that we would be disappointed if it is anything less than the high 20s or so, but this is all speculative mainly because the next four months are really critical. So, at a top-line level, definitely there will be growth.

You talked and asked a fair bit about our cost structure. One of the things that I guess will continue to allow us this operating flexibility is to have a very strong top-line growth. We continue to see that as a possibility. If you look at it from a mid-term basis based on I guess the 15 charts that I have shown earlier, those are the reasons that underpinned why we have the confidence.

Let me deal with the cost element. Raw material cost certainly has affected ourselves and our competitors. It is no secret, even if you look at some of the raw material prices. Some of them have gone up 10-20% depending on what raw material you are looking at. As a brand with scale and dominance, we have been successful in putting price increases into the market wherever we can. In China alone, this year, we have already put through two rounds of price increases to mitigate the raw material increases, and we are planning for more wherever we can. This is not to say that it is carte blanche. We have competitors. We judge where we can put price increases in and where we cannot, but overall, we hope to mitigate to some extent the raw material price increases.

You also asked about CAPEX. We are growing, and if you look at even the first-half growth, it will ensure that we have a planned capacity in the pipeline in order to support that growth. As a result, our footprint of factories in China is growing. I think right now, if I remember correctly, we have 52 plants in China out of the 95 that we have across the group, and we probably have about four or five under construction right now. So, from that standpoint, we are investing in plants and factories in China, and we are continuing to invest in it because we are confident that we will see the growth and we are planning ahead to ensure that we can back up the growth with enough capacity.

You also asked the question that if you grow and your competitors grow, will your headcount be at a level that it becomes unsustainable? Well, we are, of course, very mindful for growth. If you remember, we take pride in our culture, LFG, which stands for Lean For Growth. I think you are very focused on the "L" part – how lean can we be? One thing I thought might give you some level of comfort is that in the first half, I did say we grew 55% in China, but our headcount for the past two years has grown about 23%, so we are growing both in the production footprint because as you put up more factories out there, that footprint and headcount will grow. We had to put in place the logistics people to support all that growth, and of course, we have to put in place the sales people to continue to service our customers well. But the important thing is that we make sure our margins and our top line are growing a lot faster than our human costs.

Then, the other aspect that I thought would interest you would be, when you are concerned about CAPEX, I am also just as concerned about CAPEX. The video of the Hubei Factory actually shows one element where we actually have CAPEX to offset some of the labor constraints that we have now, and that labor restraints will get even tougher in the years to come. So, for the Xianning factory, we think that we are 5.8 times more productive than our first-generation factories. As such, we want to be very prudent on our CAPEX, but we spend where it is necessary.

I hope that covers a large part of the questions that you have, but maybe just one last word is that, yes, the environment is difficult – raw material prices and supply chain disruptions is also increasing costs on the logistics side – but the NIPSEA Group, over our history, we see many bouts of this raw material inflation. And if history has it, every time it abates, we get better, so take it as another trial by fire. We hope we do not disappoint you over the medium term. So, look at us not as one year and one year basis, but look at us as a consistent deliverer of performance.

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