

The Buyback of India Businesses from Wuthelam Group Presentation

Q&A Summary

August 29, 2023

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

Q1	<p>What factors motivated NPHD to consider repurchasing the India businesses, even when the outlook for the competitive environment is not particularly promising in the Indian market following the entry of newcomers, e.g. your existing competitors taking proactive measures to firmly holding on to their market positions?</p> <p>Additionally, could you provide an update on your current market share and the future prospects in the decorative paints segment? Given the unique characteristics of each Indian state, the business approach that proved successful in the two southern states may not be directly transferable to other regions. Can you outline your strategies for expanding into these diverse state markets?</p>
A1	<p>As you rightly mentioned, with new entrants joining the market, we perceive that the market conditions have not become more favorable since we divested these businesses in 2021.</p> <p>The two India businesses severed their capital ties with NPHD when they were divested in 2021. Nevertheless, the Nippon Paint Group has maintained its involvement in these businesses, actively overseeing their management even after the transfer. In the decorative paints sector, our marketing investments have been focused primarily on the idea of simultaneously achieving market share growth and enhancing profitability in these states. This has involved intensive sales promotion efforts directed at distributors. Considering the prevailing market conditions, which include the stabilization of raw material prices and a gradual recovery from the pandemic, we have concluded that these players have strong potential for sustained and profitable growth by outperforming fierce competition.</p> <p>While we do not publicly disclose our specific market share figures in the two southern states, I can assure you that our market shares have experienced significant growth since their divestiture in 2021. While our overall market presence in India remains relatively modest, we've been proactive in the two southern states to capture market share from established competitors. Departing from the traditional notion that "losses are detrimental," we dedicated ourselves to promoting the strategy of expanding our market share, even if it meant incurring losses initially, and driving our profitability after we establish our market position. As a result, we've not only achieved growth in market share but have also subsequently improved profitability in these states. We are confident that this strategy can be applied successfully to neighboring southern states. However, due to the formidable competition and our limited resources, we currently have no intentions of immediately extending our operations to the entire country. Our initial focus will be on the southern states, as the northern states, with their larger markets, will necessitate distinct market penetration strategies.</p>

Q2	Given the nature of the paint industry, I am of the opinion that substantial returns are achievable only when you attain a leading position. When do you anticipate reaching the third-place market position across all of India?
A2	<p>Considering the sizable population of approximately 140 million in just the two southern states, it is unrealistic to view the entirety of India as a single market. According to our estimates, we have already secured the second position in the decorative paints market in these two southern states. Our immediate goal is to strive for the top position in these regions. Despite the presence of formidable competitors in this region, there is a strong likelihood that, by implementing NIPSEA-style management practices, we will achieve a leading position, ranking either as the top player or the second-best player in multiple southern states.</p> <p>Expanding our presence into the northern states is not currently on our immediate agenda. Consequently, we do not view the entirety of India as a unified decorative paints market. Instead, we are confident in our ability to achieve both market share growth and enhanced profitability, albeit in select states with substantial market potential.</p>

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

Q1	The performance trends highlighted on page 6 of the presentation reveal that both NPI and BNPA successfully achieved revenue and EBITDA margin growth in both 2021 and 2022, even as many of their competitors faced financial challenges during the same period. What factors have contributed to the performance improvement at NPI and BNPA?
A1	<p>The raw material price hikes and the pandemic affected everyone, including our competitors, throughout 2021 and 2022. What set NPI apart from the rest is its decision to make substantial investments in marketing starting in the latter part of 2021. The fundamental concept here is that you should be more inclined to take action when confronted with challenges, and this principal underscores NIPSEA's strength in transforming adversity into opportunities. These investments have begun to yield gradual returns in 2022.</p> <p>Both companies have begun to reap the benefits of operating leverage as a result of increased volumes, in addition to the positive impacts of price increases made in response to rising raw material costs.</p> <p>BNPA is a joint venture with Berger Paints India Limited (Berger) and is managed independently of NPI. With a focus on achieving sales growth and enhancing profitability, NIPSEA assumes responsibility for the day-to-day management of BNPA, while Berger takes charge of production, including facility maintenance and updates. The system integration with NPI has enabled BNPA to consolidate administrative and back-office functions with those of NPI, resulting in the streamlining of procurement processes. Furthermore, BNPA's management approach underwent significant transformation as a result of the mindset shift influenced by NIPSEA and Berger, fostering a sense of unity and mutual growth, which has had a positive impact on NPI as well.</p> <p>As previously outlined, multiple factors have contributed to the performance enhancements at both NPI and BNPA. To highlight one factor, though, these</p>

	companies have one commonality: highly reliable and motivated leaders who are dedicated to overseeing the management.
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Q2	Did the performance improvements at BNPA and NPI in 2021 and 2022 result from a combination of increased sales volume and price increases driven by marketing and promotional initiatives? Were there any workforce reductions to lower fixed costs?
A2	<p>In addition to routine cost assessments, BNPA has introduced cost-cutting initiatives, including the integration of operations with NPI to reduce fixed costs and the discontinuation of personnel secondments from Japan. On the other hand, NPI is currently in a phase of implementing proactive growth strategies and is augmenting its workforce to expand its distribution channels.</p> <p>The growth drivers are somewhat different at NPI and BNPA. NPI focuses on achieving growth through volume expansion via market share gains and price increases. In contrast, BNPA's performance improvement is attributable to cost control measures, price increases, and operational streamlining.</p>

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

Q1	Could you please provide more details regarding the strategic investments made at NPI? You mentioned that NPI achieved a 35% revenue growth in 2022 on a local currency basis and is projecting a 24% revenue growth for 2023. Could you provide a breakdown of this growth, specifying how much is attributed to market factors, market share gains, and price increases?
A1	<p>Some examples of strategic investments include co-sponsoring cricket games, a highly popular sport in India, and rolling out media campaigns featuring our official mascot. These endeavors have proven to be successful and have been well received, significantly contributing to boosting brand recognition and likability ratings.</p> <p>NPI additionally provides distributor incentive programs and loyalty initiatives for painters as part of its efforts to cultivate trust in the Nippon Paint Group.</p> <p>Moreover, the strategy of focusing exclusively on the two southern states of India and targeting specific customer segments has proven successful because the outcomes of strategic promotional activities are readily quantifiable and it has allowed for the swift implementation of more effective measures and additional measures.</p> <p>While I cannot disclose specific market share figures, I can assure you that the past two years have been highly successful for us.</p> <p>I'm not in a position to provide a detailed breakdown of the factors contributing to revenue growth. However, I can confirm that in 2022, both NPI and BNPA experienced growth in both volume and pricing. NPI, in particular, saw volume growth, which included contributions from market share gains, and also positive growth in other areas. Conversely, the growth in revenue for BNPA was primarily due to price increases, as shifts in market share within the automotive coatings segment are not easily attainable. That being said, revenue growth was also influenced by market expansion and gains in market</p>

	share, although these factors had a relatively smaller impact compared to NPI.
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Q2	Are you suggesting that the results were achieved primarily through focused and targeted promotional activities in specific areas, rather than relying on any particular special actions?
A2	<p>Given that the paint market is not characterized by rapid growth, our approach is in line with that of our competitors. We maintain a low-profile approach to promotional activities, aiming to establish and nurture trust with our customers. To illustrate, consider a promotional initiative where we enhance the media visibility of our widely recognized official mascot. This approach is designed to expand recognition from children to their parents. The impact of such a strategy lasts longer and differs from advertisements featuring actors; but nonetheless, trust cannot be built overnight.</p> <p>Concerning our sales incentive programs for distributors and painters, we provide them with our products to enable them to experience and appreciate the quality. This approach has proven effective in encouraging repeat purchases.</p> <p>NPI was initially a 50-50 joint venture between NPHD and NIPSEA. However, in 2021, following the full integration of the Asian joint ventures, the company became our wholly-owned subsidiary. We attribute the turnaround of NPI to our unwavering commitment and determination as a subsidiary of a publicly listed company to take decisive reform actions, including essential loss reductions, to outperform our competition.</p>

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