

# Acquisition of AOC

Significant EPS Accretion through Asset Assembly

October 28, 2024

## Executive Summary

- ▶ Today Nippon Paint signed a definitive agreement to acquire AOC, a global specialty formulator\* based in the U.S.
- ▶ Transaction aligns with our acquisition criteria under Asset Assembler model:  
(1) EPS accretion from Year 1, (2) good company with low business risk,  
(3) exceptional management team, and (4) potential to further create value under Nippon Paint.  
The acquisition will add another pillar to our assembly of superb assets, with excellent future prospects
- ▶ AOC holds a leading position in the US and European specialty formulation markets, with high profitability and strong cash generation capabilities driven by excellent business systems and light capex requirements.  
Joining Nippon Paint Group will allow AOC, who has excelled in growth and margin expansion under private equity ownership, to pursue additional value creation from a longer-term perspective in both organic and inorganic initiatives
- ▶ Closing is scheduled for the first half of 2025, contributing 15-17 yen on an annualized EPS basis from the first year, a significant contribution to our EPS compounding goal as dictated in our Asset Assembler model
- ▶ Fully financed through existing cash and new debt facilities; no plans for equity financing

# Overview of the Transaction

## Overview of AOC

- ▶ A leading formulator of CASE (Coatings, Adhesives, Sealants, and Elastomers), colorants & composite solutions, formulating, producing, and selling Unsaturated Polyester (UP) and Vinyl Ester (VE)
- ▶ 2023A Net sales: USD 1,496 mm (JPY 216,907 mm), EBITDA: USD 528 mm (JPY 76,571 mm), EBITDA margin: 35.3%
- ▶ The market leader in North America, with a significant share in the more fragmented European market
- ▶ Excellent margin profile supported by robust business model, highly customized products and attractive market structure
- ▶ Exceptional management team with extensive industry/business knowledge and track records

## Acquisition price and schedule

- ▶ Acquisition price (Equity value basis<sup>\*1</sup>/Enterprise value basis)
  - USD 2,304 mm/4,350 mm (JPY 334,080 mm/630,750 mm)
- ▶ EV/EBITDA multiple<sup>\*2</sup>: c. 8.2x
- ▶ Closing
  - Scheduled for 1H FY2025 (subject to the required approvals of the authorities)

## Financial impact

- ▶ EPS for the first year is expected to increase by +15-17 yen<sup>\*3</sup> on an annualized basis
- ▶ Fully financed through existing cash and new debt facilities. No plans for equity financing
  - Financing for the transaction has been secured with commitment letter from a Japanese banking institution
- ▶ Based on 2024 pro forma, net debt/EBITDA: c. 3.5x; net D/E ratio after this acquisition: c. 0.7x

Note: USD/JPY=145.0 for AOC figures

<sup>\*1</sup> Equity value is calculated based on the latest balance sheet. The actual purchase price will be determined after adjustment of some items at the completion of this transaction based on agreement with the seller

<sup>\*2</sup> 2023A EBITDA on IFRS basis

<sup>\*3</sup> Closing is scheduled for 1H 2025 thereby contribution in year 1 will be pro rated depending on the timing of closing. Post-acquisition EPS in this document is based on a pro forma estimate, assuming a full year contribution for FY2024 with a preliminary estimate of interest cost, forex and PPA/ITA amortization included

# 1. About AOC

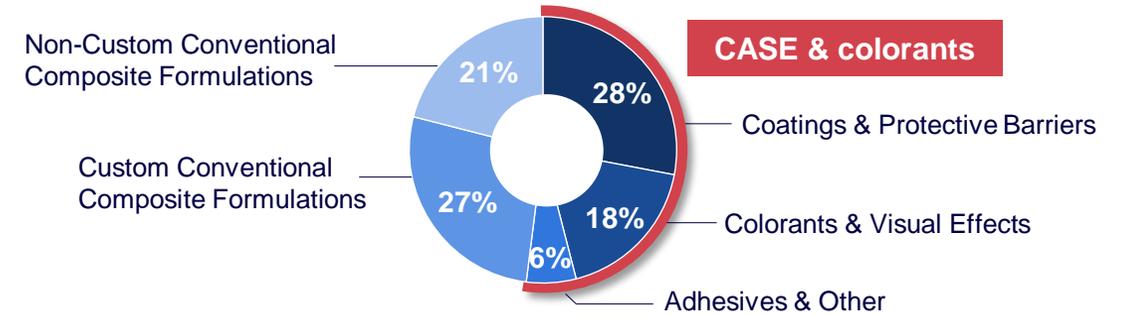
# AOC at a Glance

## Key operational and financial profile at a glance

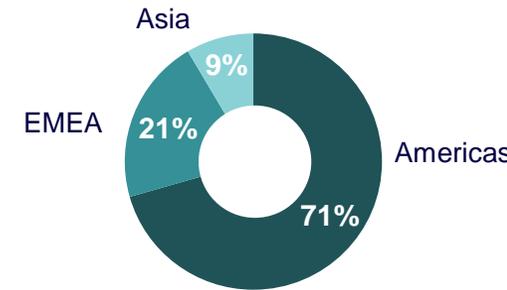
	Page number
1 AOC is a leading formulator of CASE & colorants solutions	P5 P8
2 Excellent margin profile consistent with highly-customized products, fragmented customer base, and attractive market structure	P5 P8 P9 P12
3 Scalable business systems poised for further value creation	P10
4 Controllable and multi-faceted growth opportunities in excess of the market	P11
5 Best-in-class cash flow generation and financial profile	P12
6 Exceptional management team with a strong track record of value creation	P13

## Key figures at a glance (2023A)<sup>\*1</sup>

Volume by product line



Net sales by segment<sup>\*2</sup>



% of customized solutions<sup>\*3</sup>

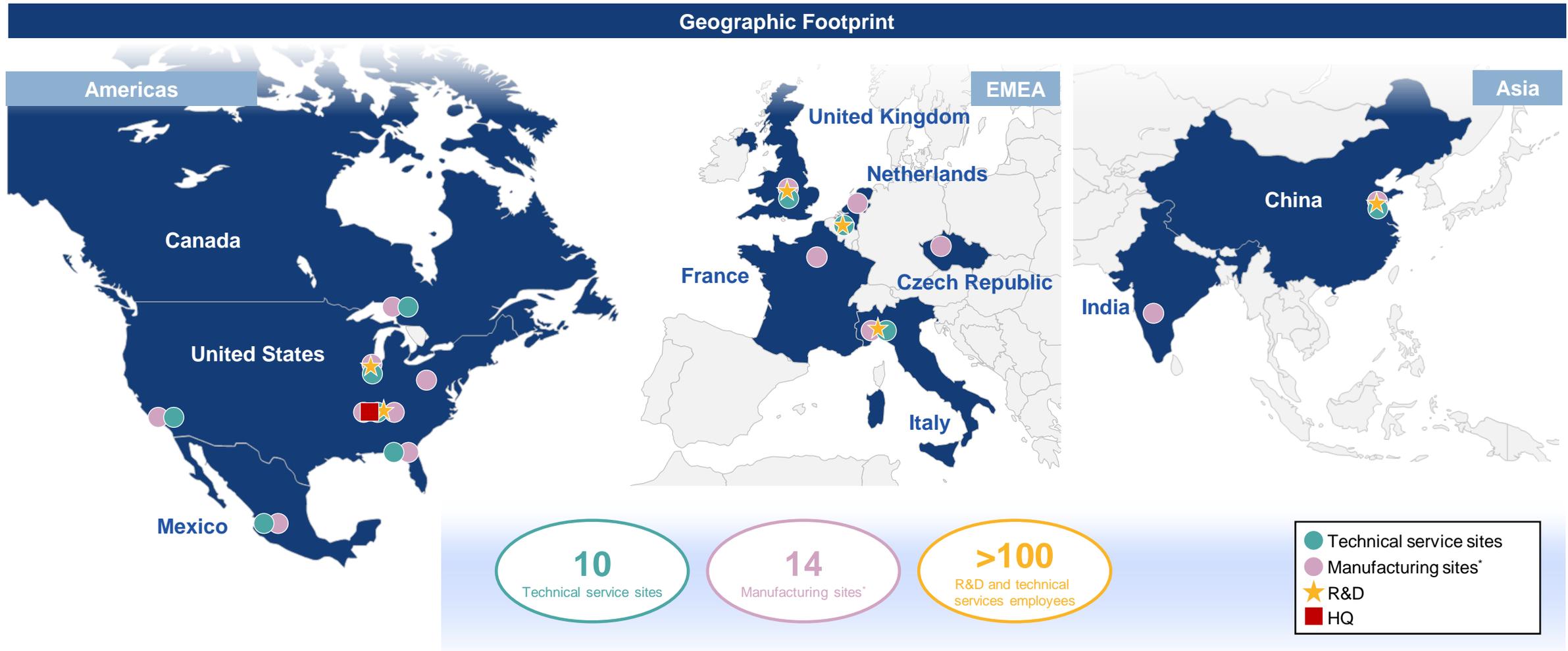


## Strong market presence in the industry

AOC is the leader in North America and has a leading presence in the more fragmented European market

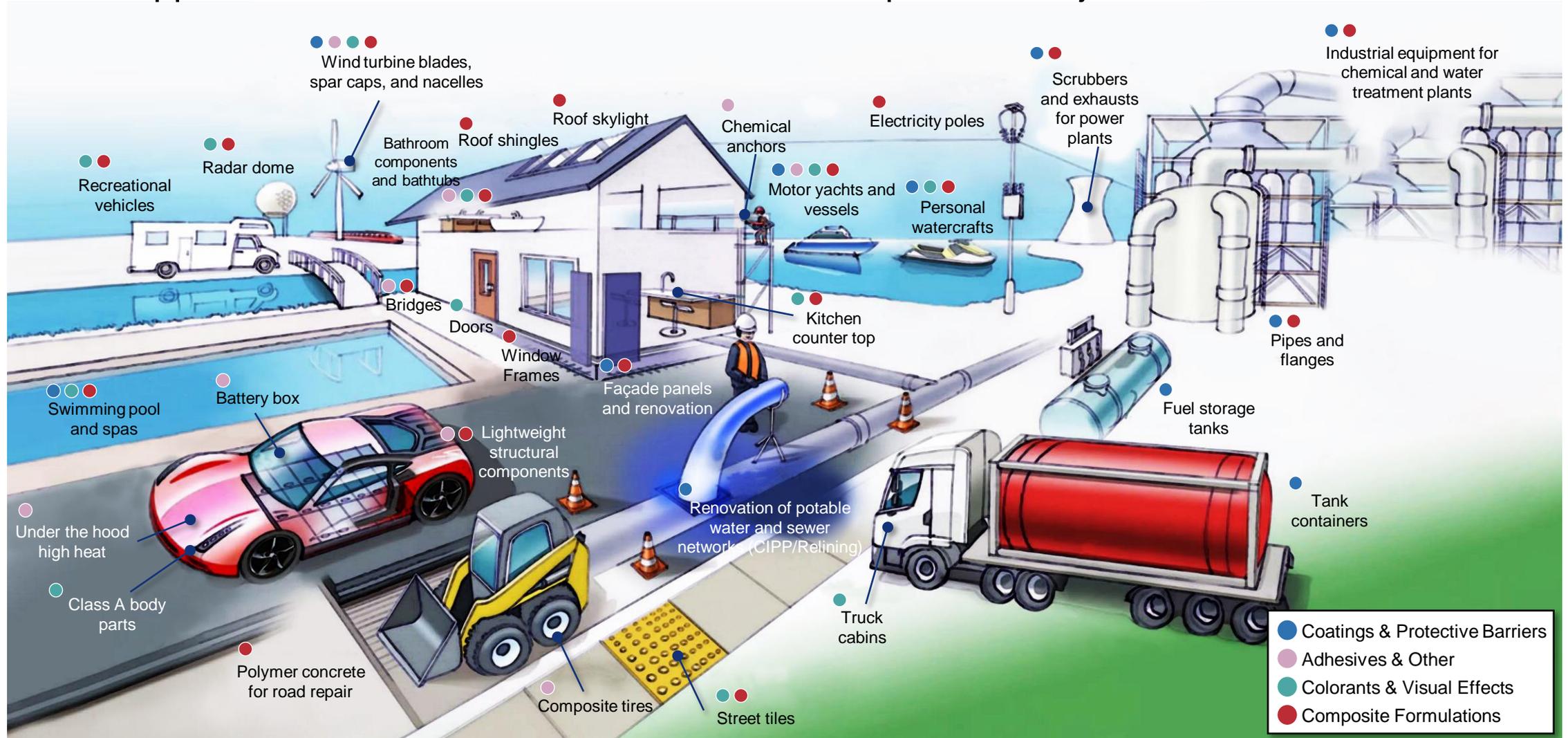
# AOC's Strategically Optimized Geographical Footprint

AOC's technical service sites, manufacturing sites and R&D are optimally located to serve customer base



# Solutions Used in Everyday Products Critical to Daily Living

AOC and Nippon Paint have common end-markets and operate in adjacent areas



# AOC's Product Portfolio

Leading positions across product portfolio with a focus on CASE & colorants formulations

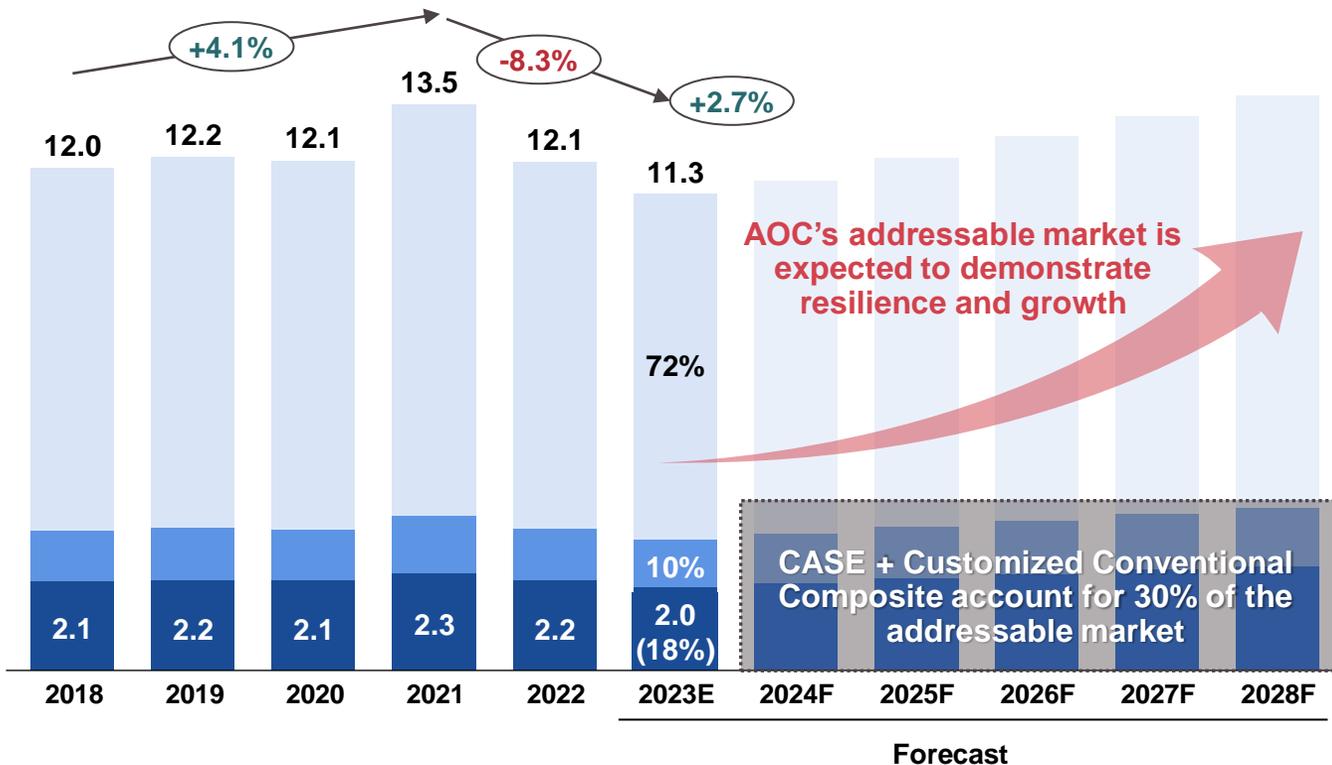


# Attractive Industry with Stable Growth

Projecting stable market growth trajectory for both CASE & composite formulations

## AOC's addressable market evolution\*

(bn LBS.)

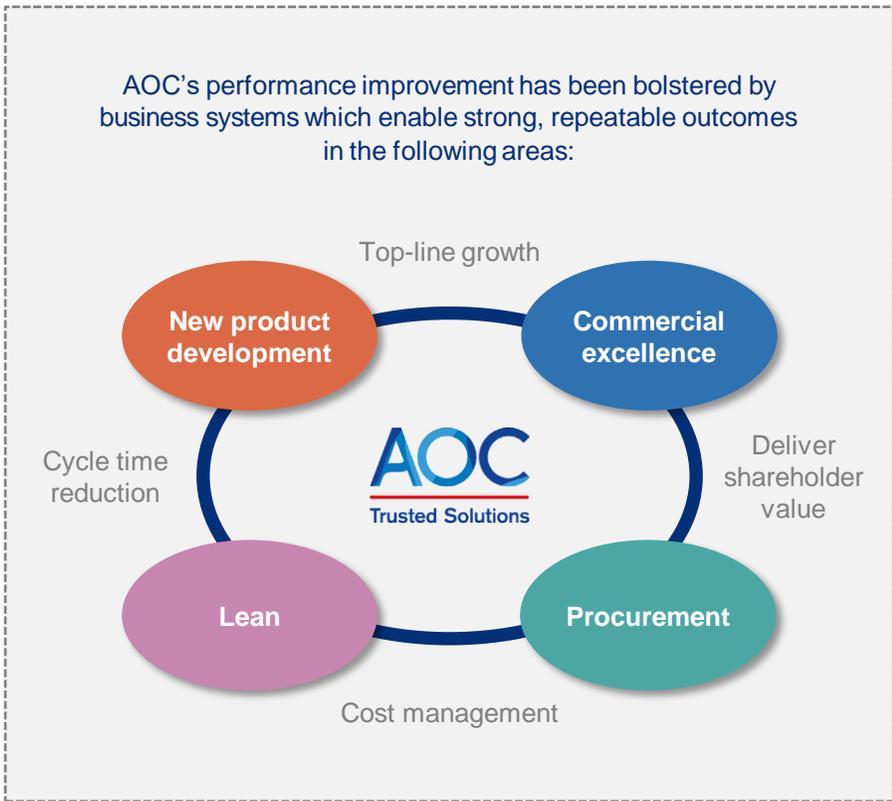


*After experiencing fluctuations in demand due to the pandemic, inflation, and high interest rates, AOC's addressable market is expected to see resilient growth in the medium to long term, primarily driven by infrastructure investments*

# AOC's Business Systems Drive Value Creation and Competitive Advantages

Robust business systems driving highest value in formulation businesses lead to strong market position and financial profile

**AOC's business systems represent an integrated approach comprised of principles, practices, and procedures that ensure a high level of repeatable performance**



- **Completed:** Strengthened organization in Americas and EMEA; established robust processes, algorithms, and performance management
  - **Ongoing / Future:** Continue to strengthen commercial processes in EMEA and Asia
- 
- **Completed:** Already a strong leader in innovation of new products, validated cycle time benefits of business system
  - **Ongoing / Future:** Robust innovation pipeline to drive ongoing growth; improve cycle time reduction to increase speed of commercialization of new products
- 
- **Completed:** Built out world-class team, playbook, and performance systems in Americas
  - **Ongoing / Future:** Continue to mature effort in Americas and replicate in Europe and Asia
- 
- **Completed:** Built a low-cost production network in Americas
  - **Ongoing / Future:** Improve operational efficiency through manufacturing network optimization; maintain and improve cost position across regions

# AOC's Innovative & Sustainable Products Serve Demand Driven by Secular Trends

Mega trends will drive stable growths in AOC's core end markets

## Lightweighting / EVs



AOC product & application examples

- Formulations for structural and body parts
- Ultra-low-density Class A glass fiber & carbon fiber solutions

Substitution & differentiation

- Displacement of traditional materials, e.g. steel
- Significant weight reduction and lower emissions
- Cost effective & increased design flexibility

## Energy transition



- Formulations for carbon fiber spar caps
- Formulation for wind turbine nacelles

- Spar caps and longer turbine blades enable increased efficiency
- Opportunity to displace epoxy solutions

## Global infrastructure growth



- Novel formulations for use in relining
- Multiple applications, e.g. potable water, laterals, culverts

- Patent-protected solutions and partnerships with leading CIPP players
- Avoidance of traffic congestion, e.g. urban areas

## Housing shortage & recycled input materials



- Multitude of applications in construction
- Formulations with recycled content

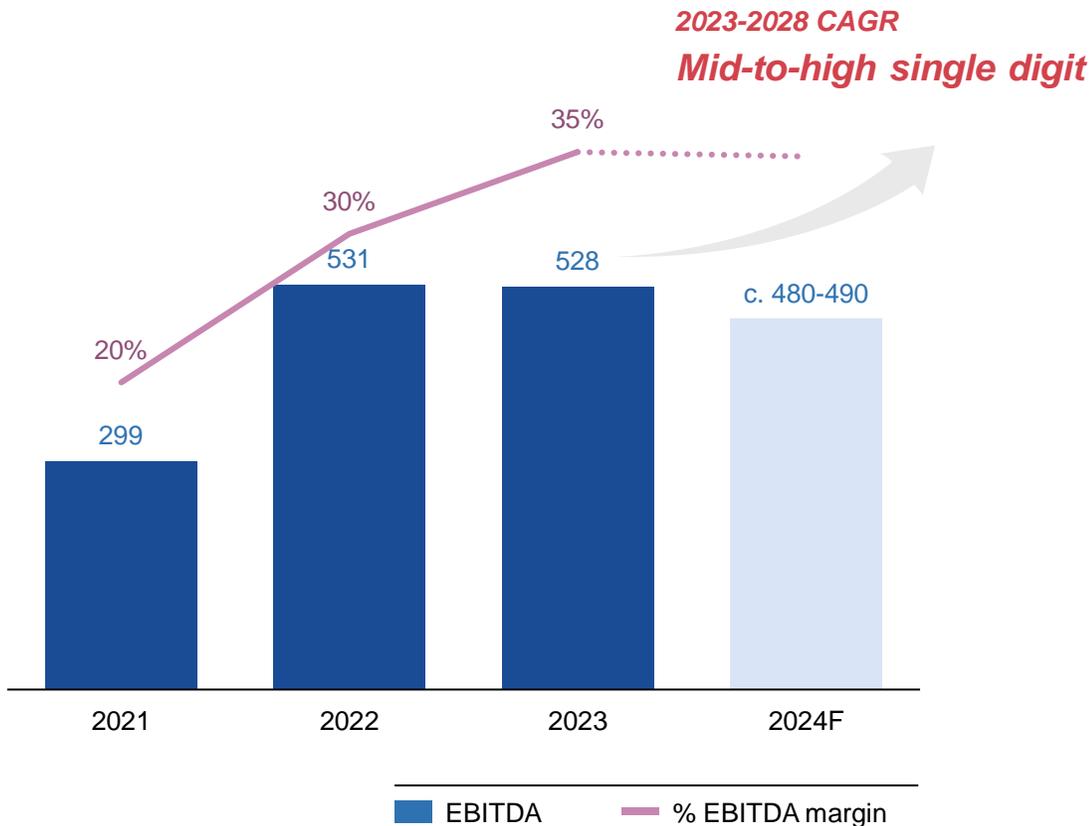
- Tailored solutions with ability to adapt recycled content %
- Variety of recycled materials
- Same properties as materials with virgin inputs

# Stable and Attractive Cash Flow Generation with Low Capex

Cash flow driven by EBITDA growth and low Capex

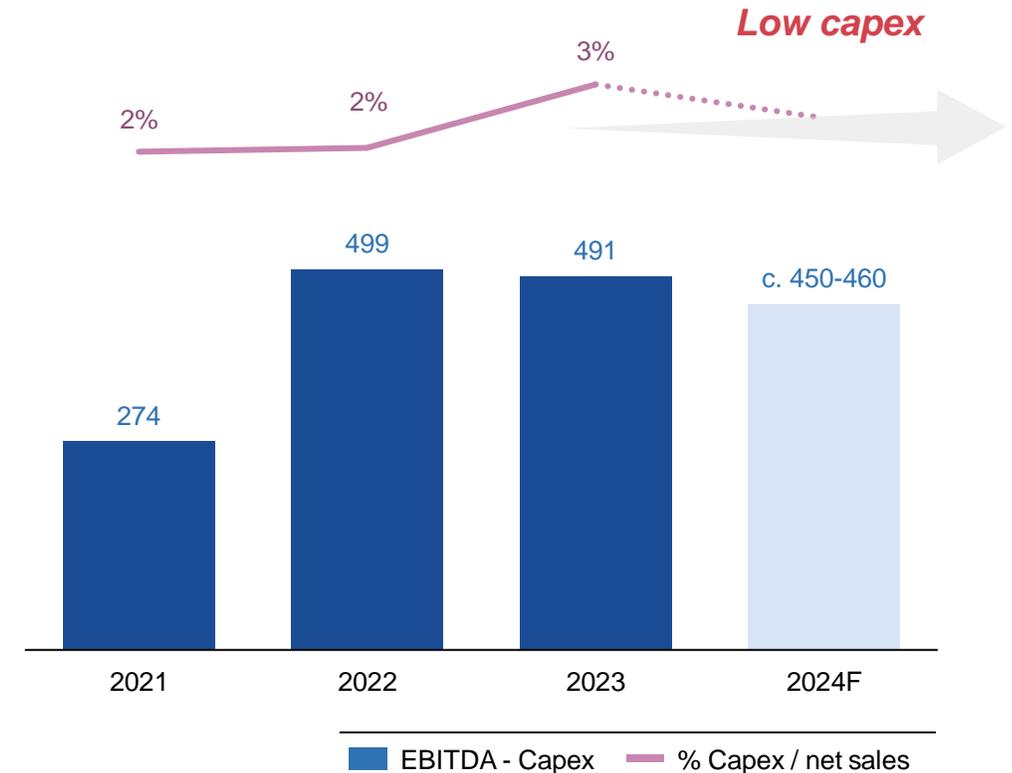
**EBITDA & EBITDA margin\***

(USD mm)



**EBITDA – Capex\***

(USD mm)



# Exceptional Management Team with a Track Record in Driving Value Creation

Can thrive in its respective regions with the autonomy of the local management team

 Years of experience  Years at AOC



**Joe Salley**  
Chief Executive Officer



**Bob Seidel**  
Chief Financial Officer



**Lori Browne**  
Executive Vice President &  
General Counsel



**Stefan Osterwind**  
Managing Director, EMEA



**Eric Gao**  
Managing Director, Asia

# 2. Strategic Rationale

# Strategic Rationale of the Transaction



# Significant EPS Accretion from Year 1

	 FY2024e	 FY2024e	 Pro-forma post acquisition <sup>*2</sup> FY2024e simple sum
<b>Revenue (JPY bn)</b>	1,600.0	c. 199.7	c. 1,799.7
<b>Operating profit (JPY bn)<sup>*1</sup></b> <i>Operating profit margin</i>	184.0 11.5%	c. 68.6 c. 34%	c. 252.6 c. 14%
<b>EPS (JPY)</b>	52.8	N/A	+15-17 accretion (on an annualized basis)
<b>Net D/E ratio</b>	c. 0.3x	N/A	c. 0.7x
<b>Goodwill/Shareholders' equity</b>	c. 0.6x	N/A	c. 0.9x
<b>Net Debt to EBITDA</b>	c. 2.0x	N/A	c. 3.5x <sup>*3</sup> Plan to deleverage c. 0.6-0.8x p.a.

Note: USD/JPY=145.0 for AOC figures. All FY2024e figures are estimates at this time

\*1 Operating profit is not considering amortization of intangible assets and excluding certain non recurring items

\*2 Theoretical pro-forma as if combined at the end of FY2024e

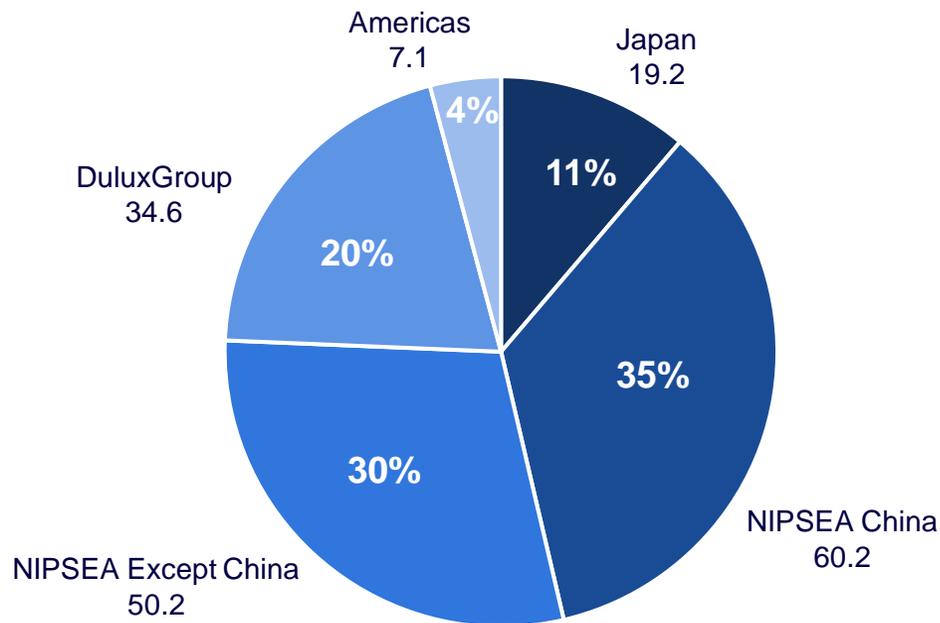
\*3 Net Debt = NPHD standalone net debt + debt from acquisition of AOC / EBITDA = NPHD standalone EBITDA (FY2024e) + AOC (FY2024e)

# Asset Portfolio

AOC brings about diversification in geographical presence

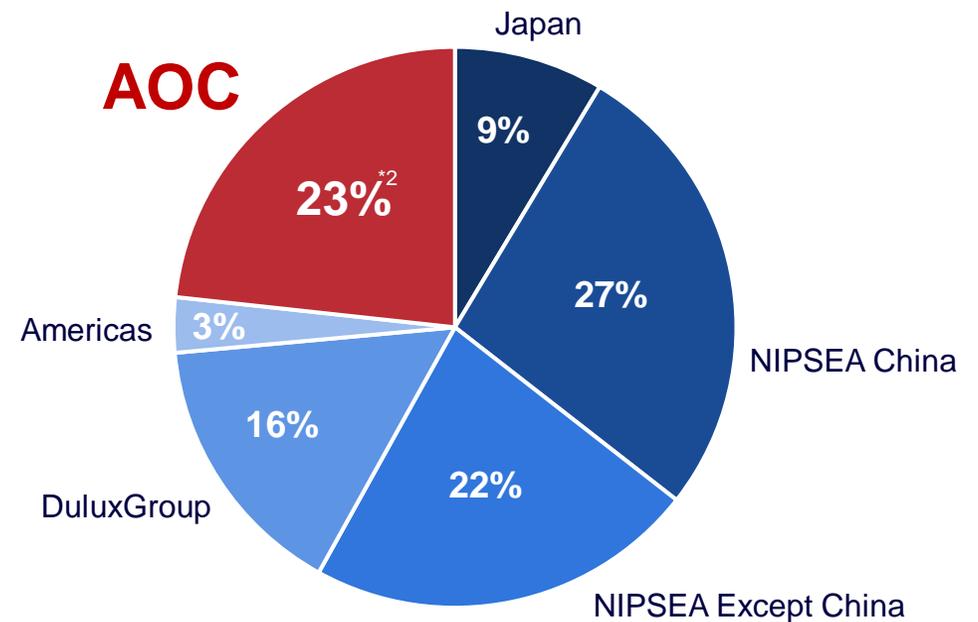
## Operating profit (2023)\*1

**Nippon Paint Holdings Standalone**



**Total: JPY 168.7 bn**

**Nippon Paint Holdings Pro-forma**



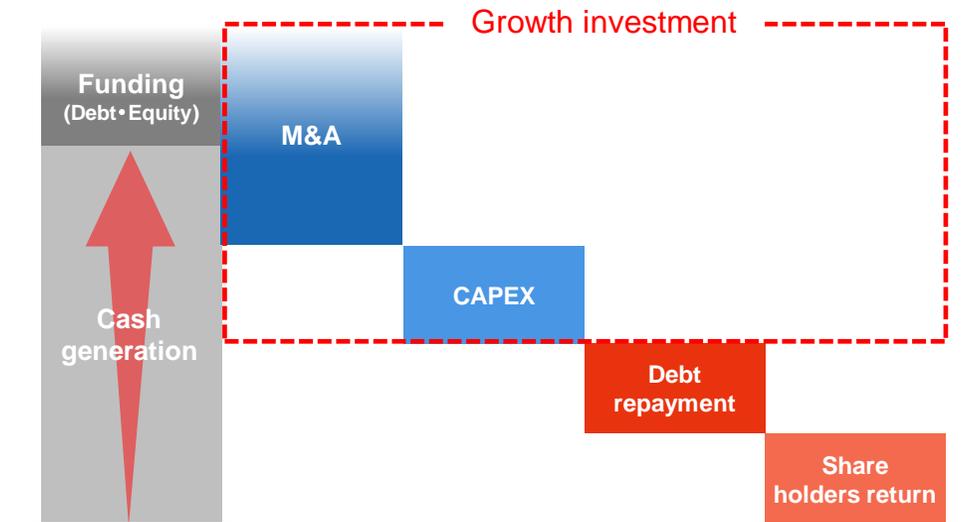
**Total: JPY 220.7 bn**

# Financing and Capital Allocation Policy

Transaction funded by debt with planned de-leverage to bring to current level within 2 to 3 years

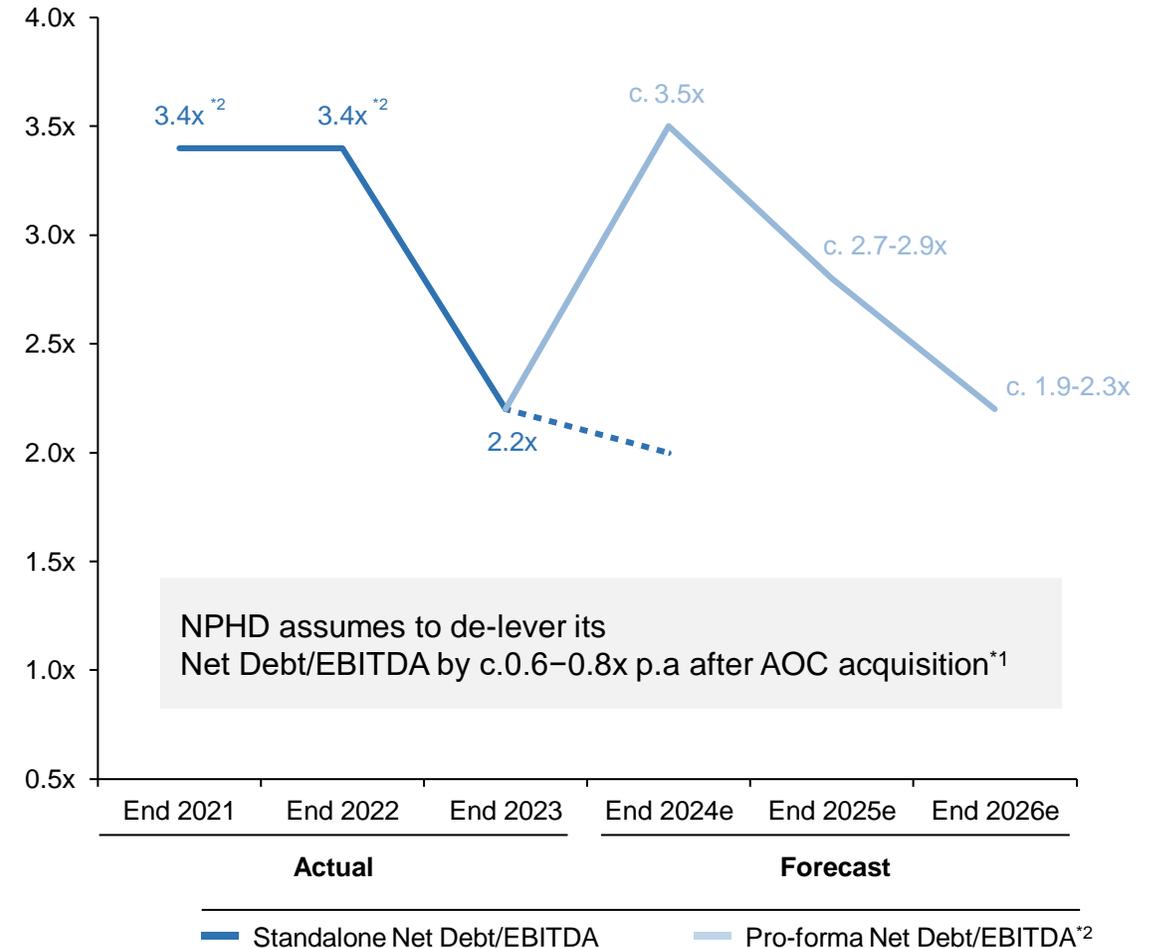
## Disciplined capital allocation policy

### Cash allocation



- With continued cash generative profile, Nippon Paint maintains its priority for growth investment over short-term shareholder returns
- Dividend pay out ratio of 30% to be revisited after closing of the transaction – we will consider prioritizing de-leveraging over maintenance of the ratio itself to enable additional M&A in the future, whilst at a minimum maintaining current dividend level (2024E JPY15.0)

## Pro-forma leverage



## Summary

### Acquisition of AOC well illustrates Nippon Paint's strategy as Asset Assembler

#### 1. Significant EPS accretion from Year 1

- A good company with low risk profile
- Excellent margin and cash generative
- Exceptional management

#### 2. Aspiration continues to compound EPS through organic and inorganic initiatives

- AOC stand alone expected to deliver mid to high single digit growth on an organic basis
- Swift de-leveraging allows for continued new acquisitions of size - a substantial list of similar assets under study
- Increased confidence in attracting excellent assets with MSV resonance

**Nippon Paint's pursuit of Maximization of Shareholder Value continues...**

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