Nippon Paint Group IR DAY 2024

December 2, 2024

Q&A Summary: Brand Strategy by DuluxGroup

◆ A question from Participant A

Q1	I understand that that DuluxGroup has strong brands each with a brand philosophy, and the profitability of each brand has increased from a single digit to double digit after acquisition. My question is, what is the commonly shared philosophy for all the brands and operations within DuluxGroup as a whole? What kind of improvements have you been making?
A1	The common philosophy in all the brands we manage is linked to the fact that we have a consumer that's doing a task infrequently -- do it once, do it right --therefore, a bias against risk and for reassurance and how we then think this manifests itself, if I think in terms of a profit and loss statement because in my experience on the Australian Securities Exchange (ASX), that's how investors think. Our market typically grows about 1% in volume per annum and then we get a little bit extra revenue from getting market share expansion. If you have 40% market share, one on 40, i.e. another one point of market share is 2.5% extra on revenue. Then typically, we get a little bit from price and that's not just putting up a price rise but by mix and innovation and the things we do to support that. In a market where volume grows by 1%, that will give us approx. mid-single digit percentage revenue growth. In all of our businesses that are mature, we have very stable, appropriate and healthy gross margins. When we're at that point, we simply look for the price component to cover the input cost component. If input costs go up 2% and our price goes up 2%, our input costs hold so our gross margin dollars grow at the same rate as our revenue. Then on top of that, we manage our fixed costs in line with inflation and salaries and wages in Australia that typically go up 3%. But I mentioned earlier we disproportionately invest in marketing. If revenue goes up 5%, marketing costs goes up 5%. When we get a business that might have an operating profit margin of, say 15 percent, we might look to strategically hold that margin and keep growing share or building a position where we can then bolt on some adjacencies to it. If a business had, say an 8% operating margin and a 20% share, we would expect it to grow both its share and its operating margin. But the end game is to get to this position where you have healthy leading market share and good solid, consistent operating margins and then you just continue to grow it through that philosophy. On top of that, as you can see from our presentation, we have never limited ourselves to simply what we are today.

	So, the fact that we had Dulux decorative paint business and we grew into wood-care, and we grew into protective coatings, and we grew into powder coatings, and we're now doing SAF, construction chemicals. We acquired Selleys sealants and adhesives, and then we went into Yates garden products. Now we've acquired Seasol garden products then we're now thinking about garden commercial products. So, this granularity of growth is also another dimension to our philosophy.

◆ Questions from Participant B

Q1	My question is about marketing. Specifically, how you spend advertising costs. I believe the current market climate is not very brisk in many areas. But recently you have had a major rebranding initiative. Compared with the past, has there been any changes to your advertising spending policy? Additionally, do you recognize any challenges for improving the efficiency of advertising spends? Could you elaborate on this point?
A1	I suppose the biggest contrast has been the introduction of digital because in a traditional non-digital world, in the old days we would probably spend a third of our marketing spend on advertising and communication and that might have been as simple as putting a good television ad on TV on the Sunday night movie. A third of our marketing spend in the color material because when you go into, for example, a Bunnings store, you can take color samples home with you and that's a big part of it. And then a third of it would be involved in all the other things that came together from market research to the personnel expenses, etc. Obviously in the last decade, everything's just continued to accelerate on digital. Taking Trade Painter as an example, it's the fact that we've now launched on the iPhone, the Dulux Trade app where a painter can come online and to my words earlier, buy anything, anytime, anywhere. This is the single biggest change and the fact is that consumers / homeowners can come online and have a live chat with a color consultant. In this manner, we're disproportionately invested in that space. However, we still do television advertising because to this day it is the best form of mainstream communication reach, certainly in our markets. In some ways, probably nothing too new in what I'm saying here but it's really a blend of the old ways and some of these fantastic new opportunities that digital has brought about.

Q2	You mentioned that the biggest contrast is acceleration of digital but you still have advertising spend on TV. As a result of this, do you think the ratio of cost on revenue, especially marketing costs is on an upward trend or a declining trend, or you expect it to be flattish going forward?
A2	Our whole philosophy is to continue to outperform the market both on volume

	and value. If we do that, we get the disproportionate revenue growth and we will increase our marketing costs in line with that. So, if you want to think of it this way, our marketing investment is consistent as a percentage of sales. I don't see the marketing percent to sales ratio changing, but as we grow the top line, the marketing dollars available will change and that gives us a lot of flexibility. If we can successfully implement marketing investment, we get a sort of virtuous cycle of reinvestment going on in that space. Then we leave it to each of the marketing directors in each of our different businesses to look at the optimal balance of that spend as they have to with prioritization. You know, their choices in digital and television and the other activities I mentioned before. To conclude, marketing percent of sales holding but marketing absolute dollar investment increasing in line with top line growth.

◆ A question from Participant C

Q1	You delisted in 2019 following the acquisition by Nippon Paint Holdings. What is the background of this acquisition and what is the benefits of being a part of Nippon Paint Group? When you become a member of Nippon Paint Group, what kind of benefits are offered to grow your businesses, and what synergies are observed at present and expected to be realized in the future?
A1	When we were listed on the ASX, we weren't looking to sell the company. We were top performing, which is not often the situation when being acquired by another company. This history goes to show you can be an outperformer and be acquired. We were acquired for different reasons. When Goh Hup Jin and Wee Siew Kim and other executives from Nippon Paint approached our shareholders, who ultimately overwhelmingly took the offer, I remember meeting with Mr. Goh who asked me what we the management team wanted to do and why, and with Nippon Paint as the shareholder and as long as our ambition was consistent with the mission of Maximization of Shareholder Value (MSV), Nippon Paint would help us do so. Based on Asset Assembler model, which is about decentralized management, Nippon Paint talks about let 1,000 flowers bloom, the role of the partner company, and they talked a lot about having the autonomy along with the accountability. I think this is really important. In turn I came back to my management team, and we took this philosophy and this has really been embraced by our top 200 leaders, of whom most of them are still with us today five years later. This shows people love the culture, love the opportunity. We still have rigor. We still run a whole lot of things to the standard of our ASX company on Audit and Risk committee, Remuneration and HR committee, Safety and Sustainability committee.

	But we're really focused on that support of the partner company model from Nippon Paint Group. We try to get the best of the knowledge we accumulated during the period when we were owned by ICI Plc, our knowledge as an ASX listed company, and now the support and autonomy and accountability within Nippon Paint Group.