Analysis of Operating Results for FY2020

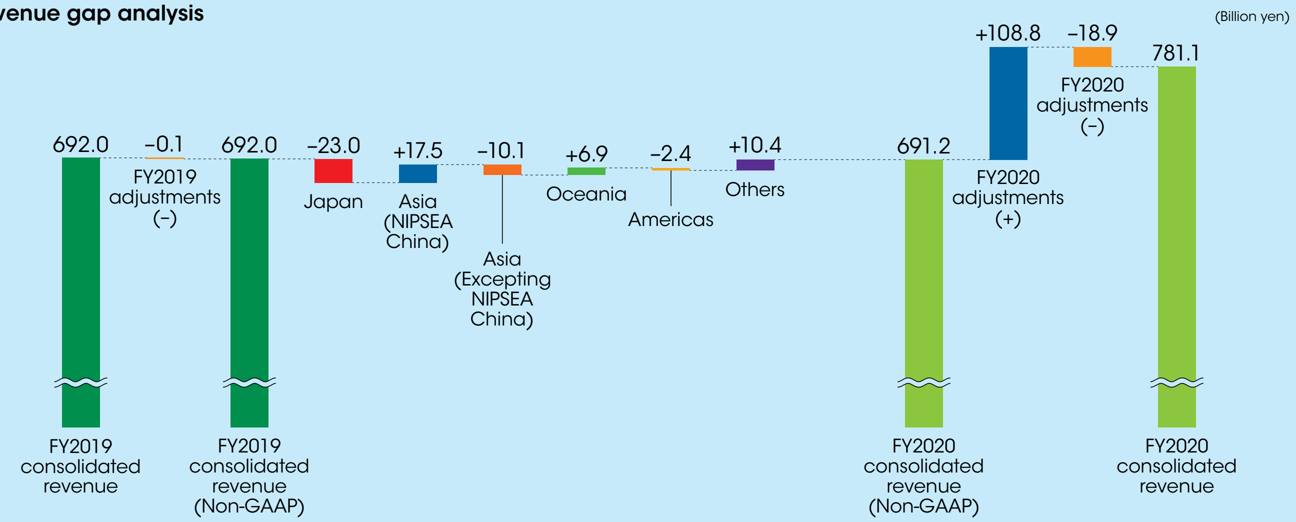
The detailed analysis of operating results for FY2020.

Overview of consolidated financial results

During the fiscal year ended December 31, 2020, consolidated revenue of NPHD and its group companies (collectively, the "Group") increased by 12.9% from the previous fiscal year to ¥781,146 million due to the consolidation of Australian paint manufacturer DuluxGroup Limited and Turkish paint manufacturer Betek Boya ve Kimya Sanayi Anonim Sirketi into NPHD's subsidiaries and the strong sales of decorative paints in China, our mainstay business in Asia, due to the recovery of the Chinese economy, despite the impact of the COVID-19 pandemic on all Group businesses. Consolidated operating profit increased by 11.4% from the previous fiscal year to ¥86,933 million due to higher revenue and lower raw material procurement costs, despite the absence of insurance income recorded in the previous fiscal year. Consolidated profit before tax increased by 11.6% to ¥88,715 million, and profit attributable to owners of parent increased by 21.6% to ¥44,648 million.

Revenue gap analysis

(Billion yen)

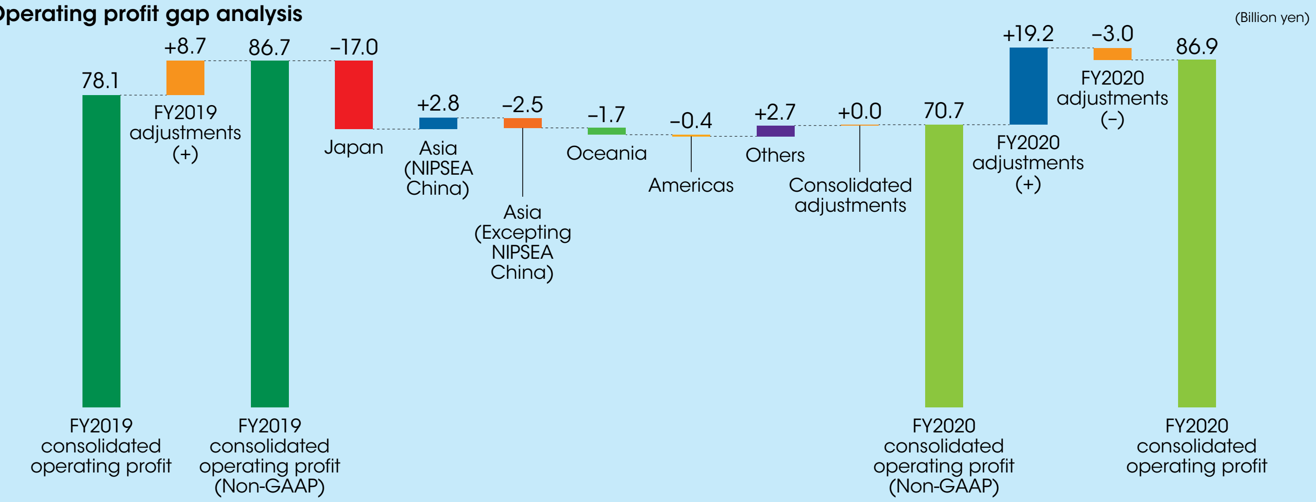


Adjustments | Decrease (−0.1)
Effects of exchange rate fluctuations

Adjustments | Increase (+108.8)
New consolidation (DuluxGroup +93.4, Betek Boya +15.4)
Decrease (−18.9)
Effects of exchange rate fluctuations

Operating profit gap analysis

(Billion yen)



Adjustments | Increase (+8.7)
Impairment loss (+11.3), M&A related costs (+2.2)
Insurance income in Japan (−2.0),
Subsidy income in China (−1.5),
Gain on sale of non-current assets in China (−1.3)

Adjustments | Increase (+19.2)
New consolidation (DuluxGroup +11.8, Betek Boya +1.6)
Subsidy income in China, etc. (+3.6),
Suspension of amortization of intangible assets in China and Malaysia (+2.3)
Decrease (−3.0)
Effects of exchange rate fluctuations (−2.5), M&A related costs (−0.5)

Status of assets, liabilities and equity

Total assets as of December 31, 2020 increased by ¥136,737 million from the end of the previous fiscal year to ¥1,615,384 million.

Current assets increased by ¥136,280 million mainly due to an increase in cash and cash equivalents resulting from the acquisition of 100% ownership of the Asian JVs and Indonesia business.

Non-current assets increased by ¥457 million despite a decrease in other financial assets mainly due to an increase in property, plant and equipment.

Liabilities increased by ¥124,911 million to ¥915,578 million mainly due to an increase in bonds and borrowings.

Equity increased by ¥11,826 million to ¥699,805 million. This was mainly attributable to a decrease in foreign currency translation adjustment and an increase in retained earnings due to profit attributable to owners of parent.

As a result, equity attributable to owners of parent to total assets decreased from 37.4% at the end of the previous fiscal year to 35.2%.

Status of cash flows

Status of cash flows

In the fiscal year ended December 31, 2020, operating activities resulted in an inflow of ¥88,561 million, investing activities resulted in an outflow of ¥36,368 million, and financing activities resulted in an inflow of ¥60,869 million, resulting in cash and cash equivalents of ¥232,134 million, an increase of ¥108,833 million compared with the end of the previous fiscal year.

Cash flows from operating activities

Net cash provided by operating activities decreased by ¥3,514 million from the previous fiscal year to ¥88,561 million. Primary factors include a decrease in funds of ¥16,005 million due to an increase in operating capital and income taxes paid of ¥26,682 million, despite a cash inflow (excluding increases and decreases in operating capital) of ¥131,249 million, reflecting mainly non-cash expenses such as depreciation and amortization on profit before tax.

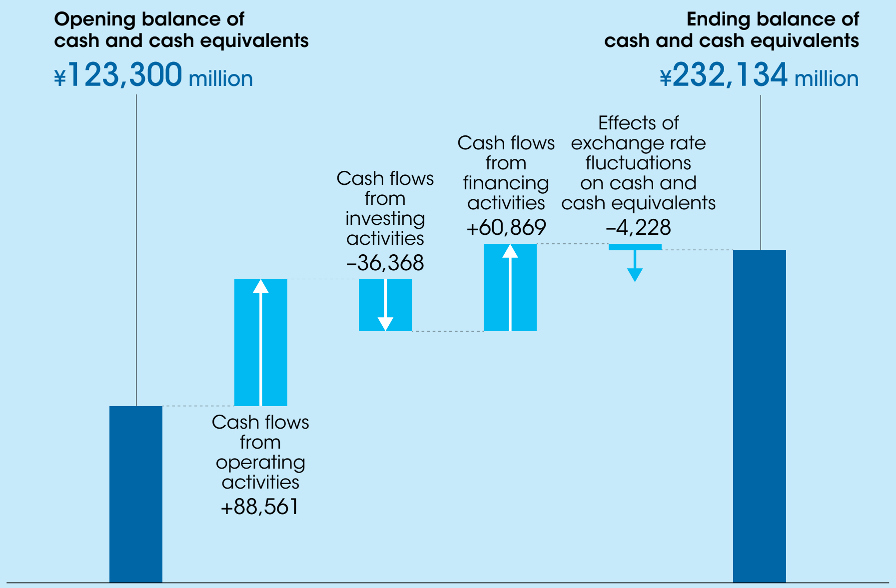
Cash flows from investing activities

Net cash used in investing activities decreased by ¥316,400 million from the previous fiscal year to ¥36,368 million. This was mainly attributable to an inflow of ¥6,942 million due to a decrease in time deposits, an outflow of ¥25,214 million due to the purchase of property, plant, and equipment, an outflow of ¥6,284 million due to an increase in marketable securities, and an outflow of ¥3,641 million due to payments for acquisition of businesses.

Cash flows from financing activities

Net cash provided by financing activities decreased by ¥193,149 million from the previous fiscal year to ¥60,869 million. Primary factors include an inflow of ¥95,861 million due to an increase in borrowings, an outflow of ¥27,249 million due to dividends paid and an outflow of ¥7,405 million due to repayments of lease liabilities.

Cash flow analysis



Sources of equity and liquidity of funds

The Group uses earnings from operating activities as the financial source for business activities and appropriates them for capital expenditure, R&D investment, operating capital, payment of dividends, and repayment of borrowings. To meet funding requirements necessary for strategic investment to achieve sustainable growth, we procure funds externally with consideration given to our earnings outlook, overall funding requirements, and repayment capacity, while maintaining financial discipline. During the fiscal year ended December 31, 2020, we obtained loans totaling ¥100 billion from financial institutions for the acquisition of 100% ownership of the Asian JVs and Indonesia business. As a result, the balance of bonds and borrowings at the end of the fiscal year ended December 31, 2020, stood at ¥481,731 million for NPHD and ¥54,028 million for its consolidated subsidiaries. The Group had operating capital of ¥164,524 million at the end of the fiscal year ended December 31, 2020.

The balance of cash and deposits of the Group at the end of the fiscal year ended December 31, 2020, was ¥232,134 million, the breakdown of which is as follows: the balance of cash and deposits of NPHD amounting to ¥164,653 million, and the balance of cash and deposits of domestic subsidiaries of ¥2,979 million, and cash and deposits of overseas subsidiaries amounting to ¥64,500 million. Cash and deposits of domestic subsidiaries are centrally managed by NPHD using the cash management system (CMS). Cash and deposits owned (and held) by overseas subsidiaries are mainly used for expanded reproduction at local production bases, and any surplus cash generated is collected separately from ordinary dividends, as special dividends.

The Group currently holds sufficient cash on hand to keep its business activities running smoothly, and we have little concern about a shortage of funds for meeting future fund requirements.

Financial results by segment

The status of each segment is as follows.

Japan

In this region, automotive coatings revenue was lower than in the previous fiscal year as a result of a decrease in automobile production due to COVID-19. Industrial coatings revenue was lower than in the previous fiscal year due to factors such as continued production cuts due to COVID-19 and weak market conditions accompanied by fewer new housing starts. Decorative paints revenue was lower than in the previous fiscal year due to COVID-19.

As a result, consolidated revenue for the Japan segment decreased by 12.6% to ¥159,625 million. Consolidated operating profit decreased by 10.1% to ¥33,251 million. Consolidated operating profit included ¥26,079 million of dividend income from overseas group companies (¥13,585 million in the previous fiscal year). All of this dividend income is eliminated as an internal transaction under "intersegment eliminations and adjustments."

Asia

In this region, automotive coatings revenue was lower than in the previous fiscal year because of soft market conditions including a decrease in the level of automobile production in Thailand due to the COVID-19 pandemic. For decorative paints, the mainstay business in Asia, revenue increased due to a strong recovery in demand for new housing construction and repainting existing houses in China. This increase in demand more than offset the impact of the COVID-19 pandemic during the first six months of the fiscal year under review.

As a result, consolidated revenue for the Asia segment decreased by 0.7% to ¥356,609 million and consolidated operating profit increased by 8.2% to ¥54,957 million.

Oceania

In this region, the profit and/or loss of DuluxGroup Limited has been reflected in the Group's consolidated financial results since September 2019. The performance in the decorative paints business remained strong, driven by consistently strong demand brought by enhanced home improvement activity resulting from the COVID-19 pandemic. Performance in the paint related business was robust due to strong home improvement demand.

As a result, consolidated revenue in the Oceania segment increased by 211.7% to ¥148,290 million, and consolidated operating profit increased by 175.0% to ¥16,118 million.

Americas

In this region, there was a decline in automotive coatings revenue because of decreased production of automobiles in the United States, a core region, due to the COVID-19 pandemic. Decorative paints revenue increased due to the brisk demand for housing accompanied by favorable weather.

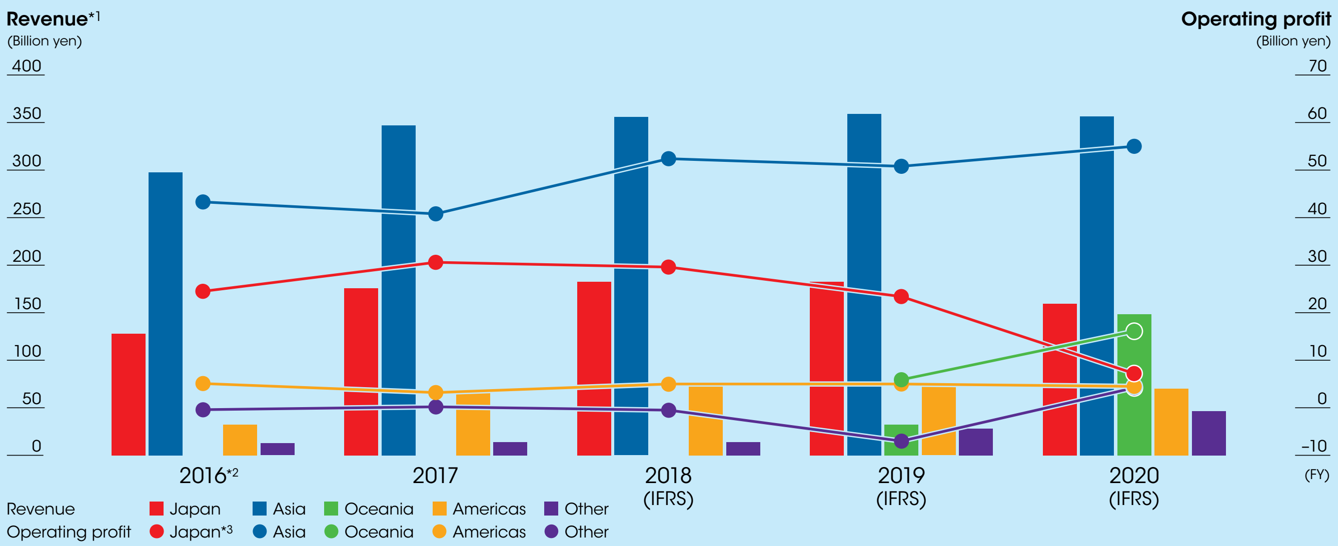
As a result, consolidated revenue for the Americas segment decreased by 6.1% to ¥70,068 million and consolidated operating profit decreased by 10.0% to ¥4,507 million.

Other

In this segment, the profit and/or loss of Betek Boya ve Kimya Sanayi Anonim Sirketi has been reflected in the Group's consolidated financial results since July 2019. Automotive coatings revenue decreased from the previous fiscal year due to a sharp decrease in the production of automobiles in this region as a result of the COVID-19 pandemic. On the other hand, revenue for decorative paints and paint related businesses increased, driven by growth in housing starts and sales of existing houses in Turkey.

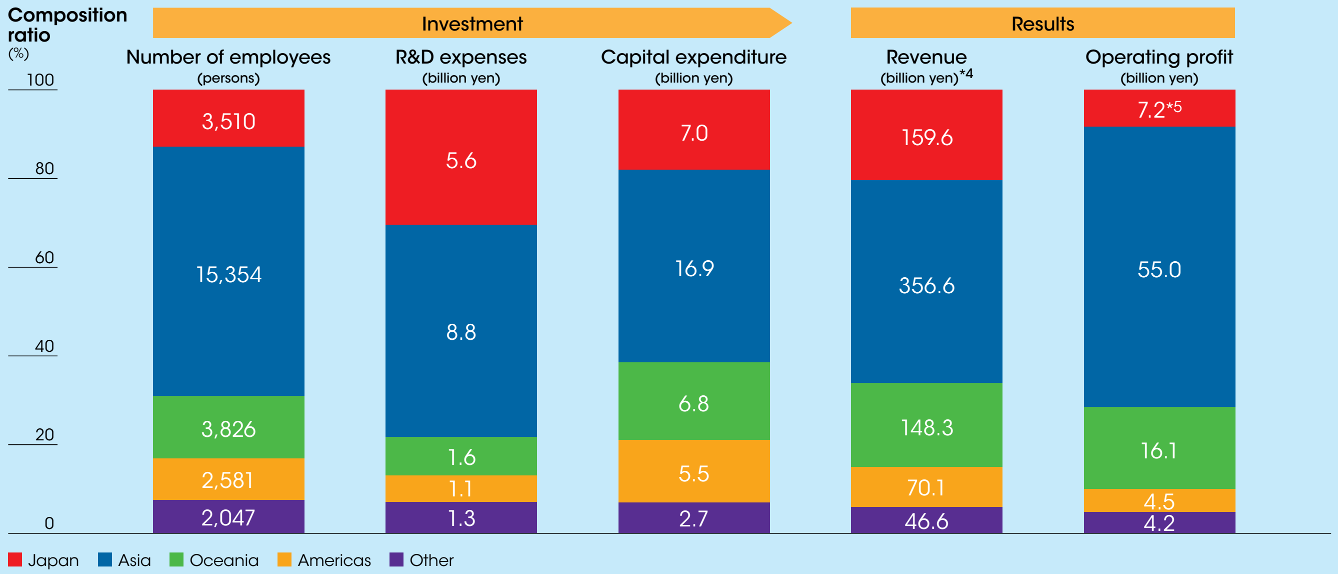
As a result, consolidated revenue for the Other segment increased by 66.2% to ¥46,552 million and consolidated operating profit was ¥4,209 million (an operating loss of ¥6,972 million in the previous fiscal year).

Revenue & operating profit transition by segment



*1 Revenue excludes intersegment revenue.
*2 Revenue for the Japan segment for the fiscal year ended December 31, 2016 covers nine months from April 1 to December 31 due to a change in the accounting period.
*3 Operating profit for the Japan segment excludes dividends from overseas group companies.

Investment results by segment



*4 Revenue excludes intersegment revenue. *5 Operating profit for the Japan segment excludes dividends from overseas group companies.