

NanPao Resins Chemical Group






4766 TT

Investor Presentation

2023/11



AGENDA

-  **3Q23 RESULTS & OUTLOOK**
-  **COMPANY OVERVIEW**
-  **SUSTAINABLE INNOVATION**
-  **GROWTH STRATEGY**
-  **HISTORICAL FINANCIALS**

3Q23 RESULTS

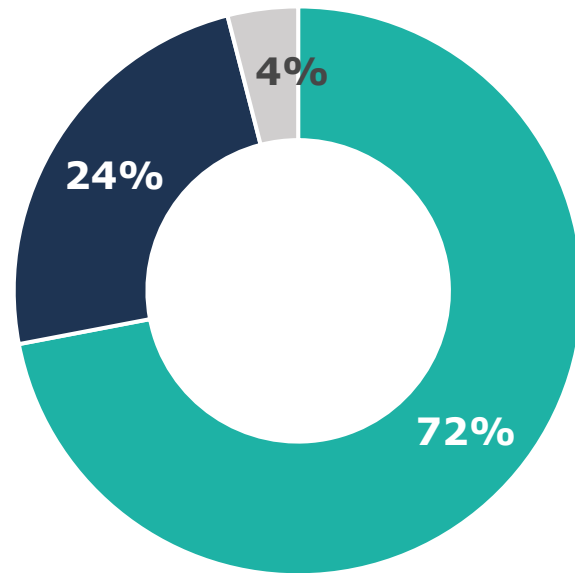
Consolidated Income Statements – 3Q23

NT\$ million	3Q23	2Q23	3Q22	QoQ	YoY
Net Revenue	5,451	5,083	5,867	7%	-7%
Gross Profit	1,806	1,526	1,423	18%	27%
Gross Margin	33.1%	30.0%	24.3%		
Operating Expenses	935	863	890	8%	5%
SG&A percent of Sales	17.1%	17.0%	15.2%		
Operating Income	871	663	533	31%	63%
Operating Margin	16.0%	13.0%	9.1%		
Net Non-Operating Income (Loss)	28	34	57	-17%	-51%
Pre-Tax Income	899	697	590	29%	52%
Income Tax Expense	214	213	186		
Minority Interest	40	27	33		
Net Income to Parent	645	457	371	41%	74%
Net Margin	11.8%	9.0%	6.3%		
EPS (NT\$)	5.35	3.79	3.08	41%	74%
ROE – not annualized	5.1%	3.5%	2.5%		
Depreciation and Amortization	173	156	129		
CAPEX	175	132	172		

3Q23 Revenue Breakdown – by Segment

- Due to inventory adjustments by brand customers, and the high base in 2022, Adhesives revenue declined in 3Q23 versus the same period last year. Coatings & Construction revenue was flat, primarily due to the healthy growth in the construction business.

3Q23 Revenue Breakdown



■ Adhesives ■ Coatings & Construction ■ Others

3Q23 Revenue Growth by Segment

	YoY	QoQ
Total Revenue	-7%	7%
Adhesives	-10%	10%
Coatings & Construction	0%	3%

Consolidated Income Statements –9M23

NT\$ million	9M23	9M22	YoY
Net Revenue	15,064	16,426	-8%
Gross Profit	4,618	3,805	21%
Gross Margin	30.7%	23.2%	
Operating Expenses	2,582	2,529	2%
SG&A percent of Sales	17.1%	15.4%	
Operating Income	2,037	1,276	60%
Operating Margin	13.5%	7.8%	
Net Non-Operating Income (Loss)	439	636	
Pre-Tax Income	2,476	1,912	29%
Income Tax Expense	568	389	
Minority Interest	96	96	
Net Income to Parent	1,812	1,427	27%
Net Margin	12.0%	8.7%	
EPS (NT\$)	15.03	11.84	27%
ROE – not annualized	13.2%	9.5%	
Depreciation and Amortization	477	376	
CAPEX	468	675	

Consolidated Balance Sheet – 3Q23

NT\$ million	2023/9/30		2023/6/30		2022/9/30	
	\$	%	\$	%	\$	%
Cash and Cash Equivalents	4,738	20%	4,264	19%	4,195	17%
Notes & Accounts Receivable, Net	4,919	21%	4,565	20%	5,135	20%
Inventories	2,643	11%	2,472	11%	2,843	11%
Other Current Assets	900	4%	917	4%	892	4%
Long-term Investments	1,877	8%	2,190	9%	4,940	19%
Fixed Assets	5,858	25%	5,752	25%	5,371	21%
Other Long-term Assets	2,665	11%	2,674	12%	1,940	8%
Total Assets	23,600	100%	22,834	100%	25,316	100%
Current Liabilities	6,575	28%	6,753	30%	6,352	25%
LT Debt	974	4%	754	3%	1,425	6%
Other Non-Current Liabilities	1,740	7%	1,647	7%	1,515	6%
Total Liabilities	9,289	39%	9,154	40%	9,292	37%
Common Stock	1,206		1,206		1,206	
Total Equity	14,311	61%	13,680	60%	16,024	63%
Book Value per Share (NT\$)	107.4		102.9		123.6	
Current Ratio	201%		181%		206%	
Net Cash (Debt) to Equity	12%		14%		1%	

2023 & 2024 OUTLOOK

2023 & 2024 OUTLOOK

2023 & 2024 Outlook

❑ **The outlook for 2H23 to be better than 1H23, and revenue growth to resume next year**

- The inventory levels of brand customers are decreasing gradually, and inventory adjustments have decelerated.
- R&D investments in new products are bearing fruit as we are acquiring new customers and orders.
- Although the outlook for 2H23 is expected to be better than 1H23, it will still be challenging to continue to grow this year. By consistently investing in R&D and expanding our customer base, we expect to resume revenue growth next year.

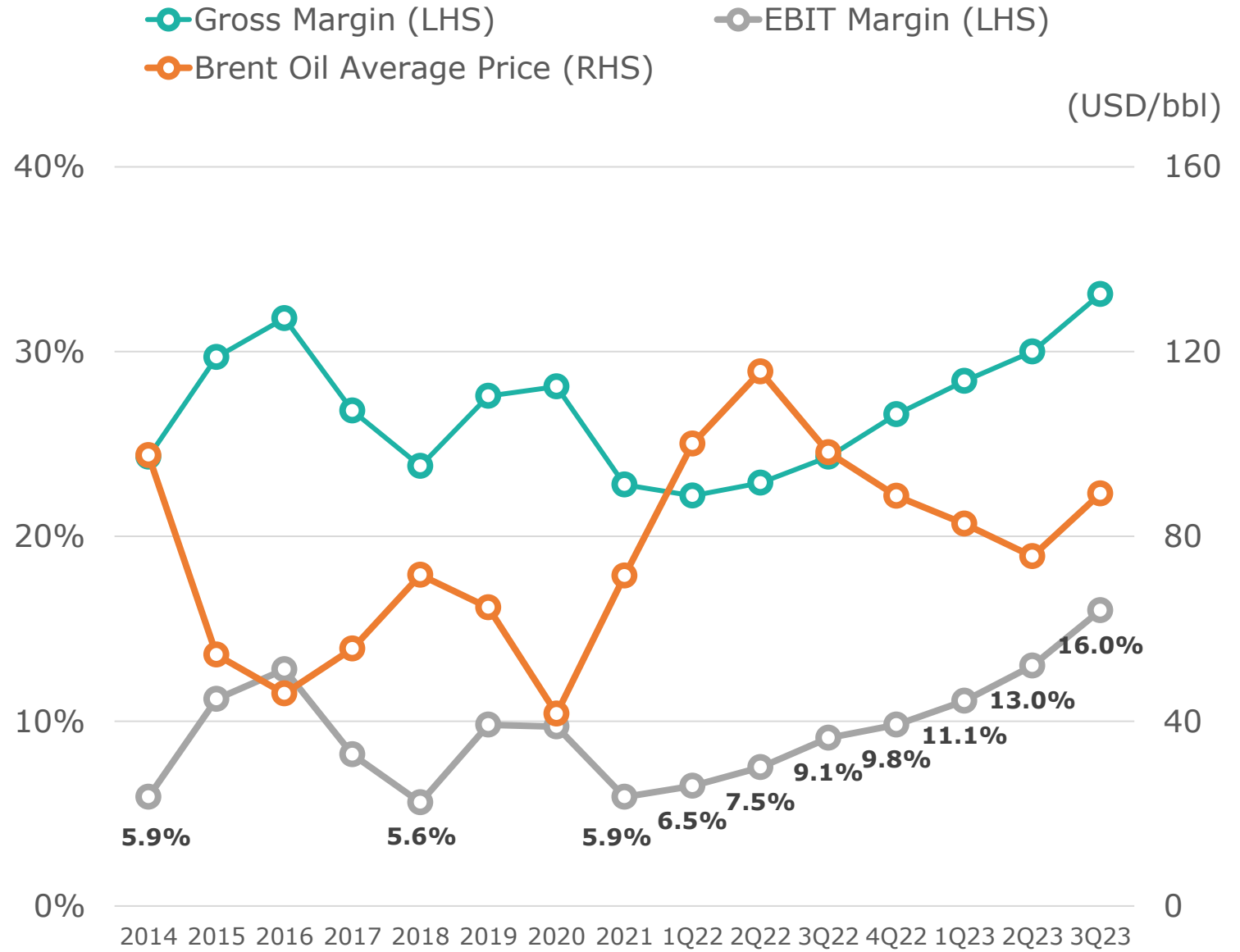
❑ **Strengthen our industry-leading position and continue gaining market share**

❑ **Strive to pursue long-term operating profit growth and improve long-term ROE**

- Focus on improving operating efficiency and aim to continuously enhance operating margin.

Structurally Improving Margins

- Strengthening our **core advantages**
- Focusing on **high margin** product lines
- Reducing impact from the **raw material prices** by shortening the price adjustment time lags
- Aiming to **reduce operating expense ratio** with a long-term target of **lower than 15%**



Outlook – By Business

Adhesives: Sportswear

- ❑ The inventory levels of brand customers are decreasing gradually, and inventory adjustments have decelerated.
- ❑ Recently, more international brands have started designating strategic suppliers as partners for mid to long-term development. Therefore, NanPao has more opportunities to directly collaborate with these brands in joint development of bonding technology for new materials. R&D investments in new products are bearing fruit as we are acquiring new customers and orders. We expect to further optimize our product mix and strengthen our market position.

Adhesives: Industrial & Other Consumers Goods

- ❑ Though the global consumer market and economic activity are still slow, we see a gradual recovery of customer demand, and the worst is behind us. By region, Taiwan performs relatively better than mainland China and Vietnam. Vietnam primarily focuses on woodworking and textile.
- ❑ NanPao continues to focus on high-margin products, adjust the product mix, invest in R&D for advanced applications and enhance product performance. We also take advantage of growth opportunities in new products and applications, such as flexible packaging and PSA for LCD polarizer plates and touch panels. In addition, we continue to streamline our product lines to enhance production efficiency.

Coatings & Construction

- ❑ Construction revenue is mainly from Australia. We have achieved initial results in acquiring new customers ,and also adjusted the product prices this year. We expect the construction business to continue to grow this year.
- ❑ As for Coatings, we continue to organize offerings to provide better and more complete solutions.
- ❑ The government promotes “transform to net-zero buildings by 2050”. We will seize the opportunity and focus on developing and promoting sustainable, low-carbon building materials.

Achievements

2023 NanPao has been included in the TWSE Corporate Governance 100 Index

2021 & 2022
TWSE Corporate
Governance Evaluation

6%-20%

TWSE-Listed Companies

11%-20%

Non Financial and Non
Electronics Companies with a
market cap over NT\$10 bn

This year, NanPao has become a constituent of the TWSE Corporate Governance 100 Index by passing the screens of liquidity, corporate governance evaluation, and multiple financial indicators

2023 FTSE Russell ESG Rating

Scores **3.4/5**

(0-5, best score: 5)

Outperformed the average score of 2.7 for the global specialty chemical industry

Achievements – Global ESG Ratings

2022 S&P Global ESG Scores

Scores **49**/100

(0-100, best score: 100)

Ranked in the **top 10%** of the
global chemical industry

2023 Sustainalytics ESG Risk Rating

Scores **26.7**/100

(0-100, best score: 0)

Ranked in the **top 26%** of the
global chemical industry

NanPao's Progress and Goal on Sustainability - Environment

Green Products

2022
Green products
accounted for
63% of total
sales



Note: Company preliminary estimate

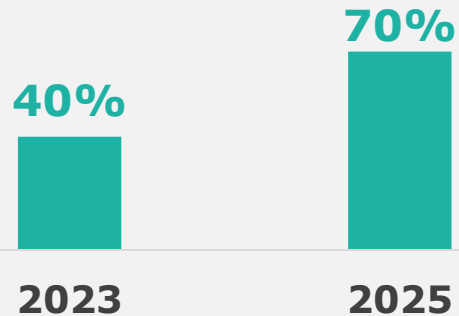
Greenhouse Gas Emission and Management

- NanPao completed scope 1 and scope 2 GHG inventory in 2021 and we started to conduct scope 3 GHG inventory in 2022 at our factories.
- All subsidiaries to adopt TCFD to enhance the resilience of the supply chain against climate change risks.

- **2021:** Officially committed to achieve carbon neutrality by 2050.
- **2025:** **Curtail carbon intensity by 5%** compared to 2021 for NanPao in Taiwan.
- **2050:** **Achieve carbon neutrality**

Energy management

% of the factories to install renewable energy power generation equipment



Chemical Management

Reduce the number of high concerned-chemical types and volume used by **50%** by 2030. Furthermore, we are proactively seeking other alternatives, e.g. non-formaldehyde/non-nonylphenol/non-boric acid formula design.

In 2022, NanPao pledged as a Contributor to the **Zero Discharge of Hazardous Chemicals (ZDHC)** program. 80% of shipments to one of the world's largest sportswear brands acquired ZDHC Level 3 certification (the highest level of certification).

NanPao's Progress and Goal on Sustainability – Social & Governance

Information Security Management

- Adopted **ISO 27001** since 2022
- Established **Information Security Committee**

Supplier Management

- Target to have over 90% of suppliers to sign on “Supplier ESG Commitment Declaration” in 2022 and the actual achievement rate was 91%.

Board Diversity

- Nan Pao strives to improve the gender equality of the board composition and has **added one female Director to the Board.**

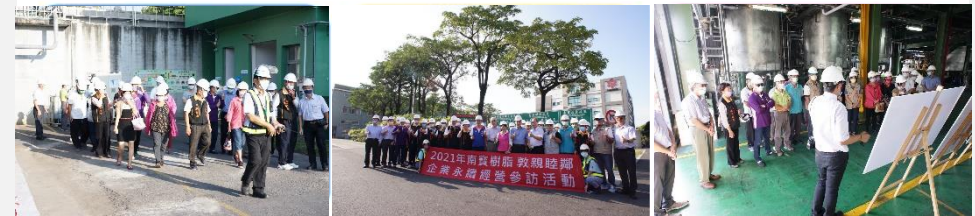
Customer Management

- In 2021, Nan Pao won the “Best Adhesives Vendor” award from a Tier-1 customer

Community Engagement

- We pay close attention to the ecosystem protection, environmental impact, and physical and property safety of local communities where we operate. Furthermore, we also proactively take part in the educational development of local communities, as well as care for the underprivileged.

Inviting community residents to visit the factories



General Manager of Nan Pao taking part in community activity on care for elderly.



COMPANY OVERVIEW

COMPANY OVERVIEW

Executive Summary



NanPao is a leading **chemical** and **materials** company focusing on **innovative** and **sustainable** solutions. We are globally the **No. 1 producer of adhesives for athletic footwear** and have a strong position in specialty adhesive, coating, and construction material markets in Asia.



World-class **technology** accumulated over the past six decades, outstanding localized and custom-made **services**, and strong cash-flow which supports our **reinvestment in innovation and sustainability projects** give us advantages to outgrow the industry, where **sustainability** has been a main growth driver.



NanPao enjoys **multiple growth vectors** as we serve a broad range of industries. We target to broaden our offerings to chemicals used in the **footwear supply chain** and seek to leverage our existing advantages to **build our leadership** beyond footwear adhesives.



NanPao is dedicated to be the **global leader in innovation and green products**, aiming to increase **green product sales to over 80%** in 5 years. We also target to maintain a **double-digit long-term ROE** and offer **stable or growing cash dividends**.

OUR VISION

**Enable
everyone
to live a more
sustainable
lifestyle**



NanPao at a Glance

NT\$22.0bn

2022 global sales

NT\$24.0bn

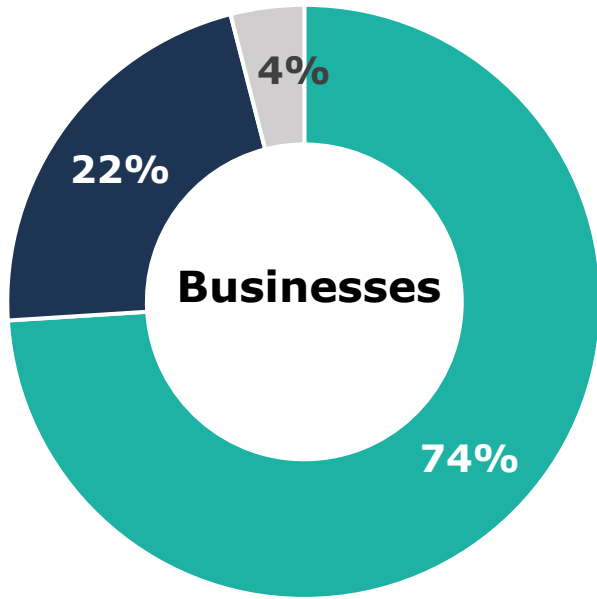
2023/10 market cap

3,000+

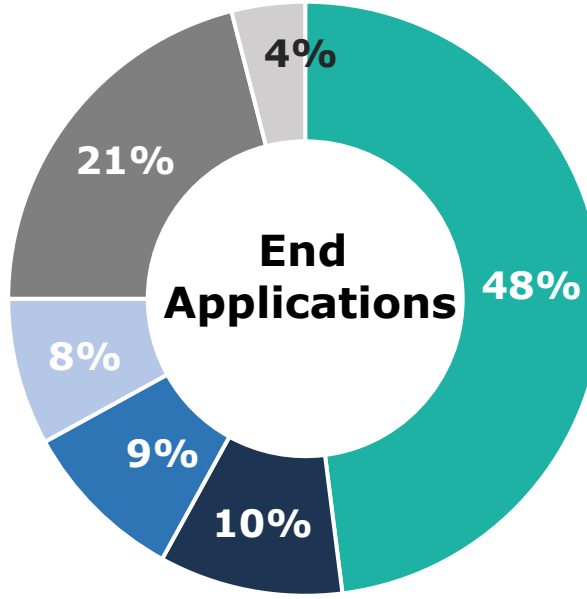
employees

24 factories
in **7** countries

2.3% of sales
invested in R&D



- Adhesives
- Coatings & Construction
- Others



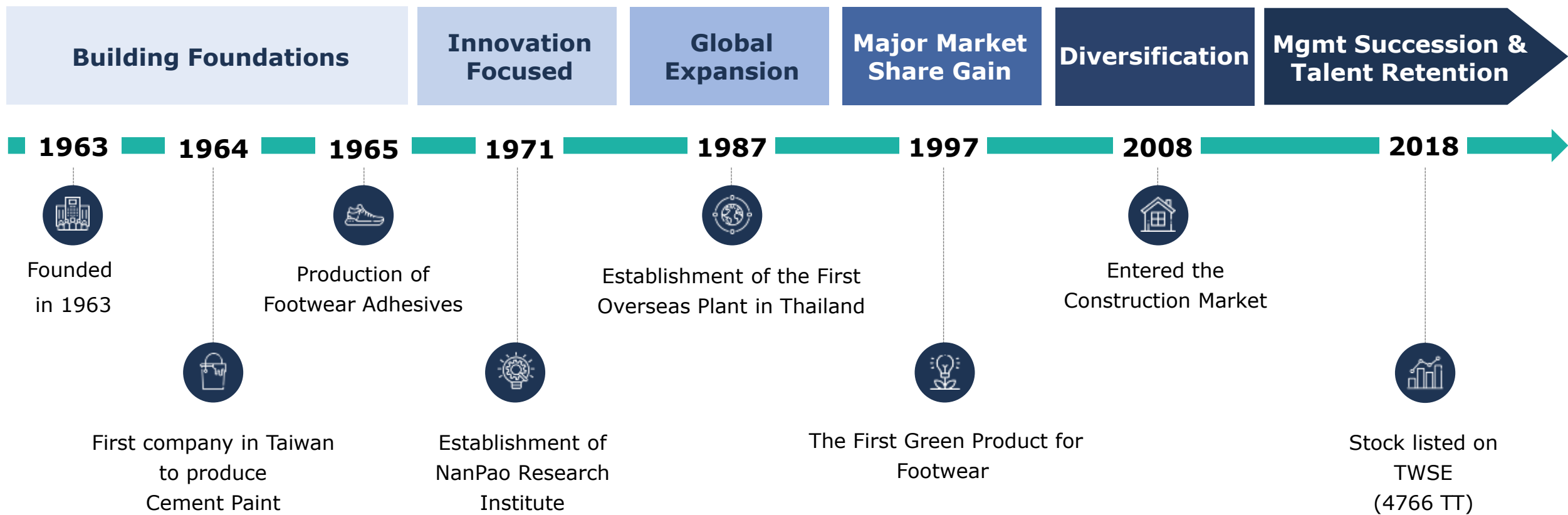
- Sportswear
- Industrial & Tech
- Construction
- Consumer Goods
- Coatings
- Others



63% of revenue from green products

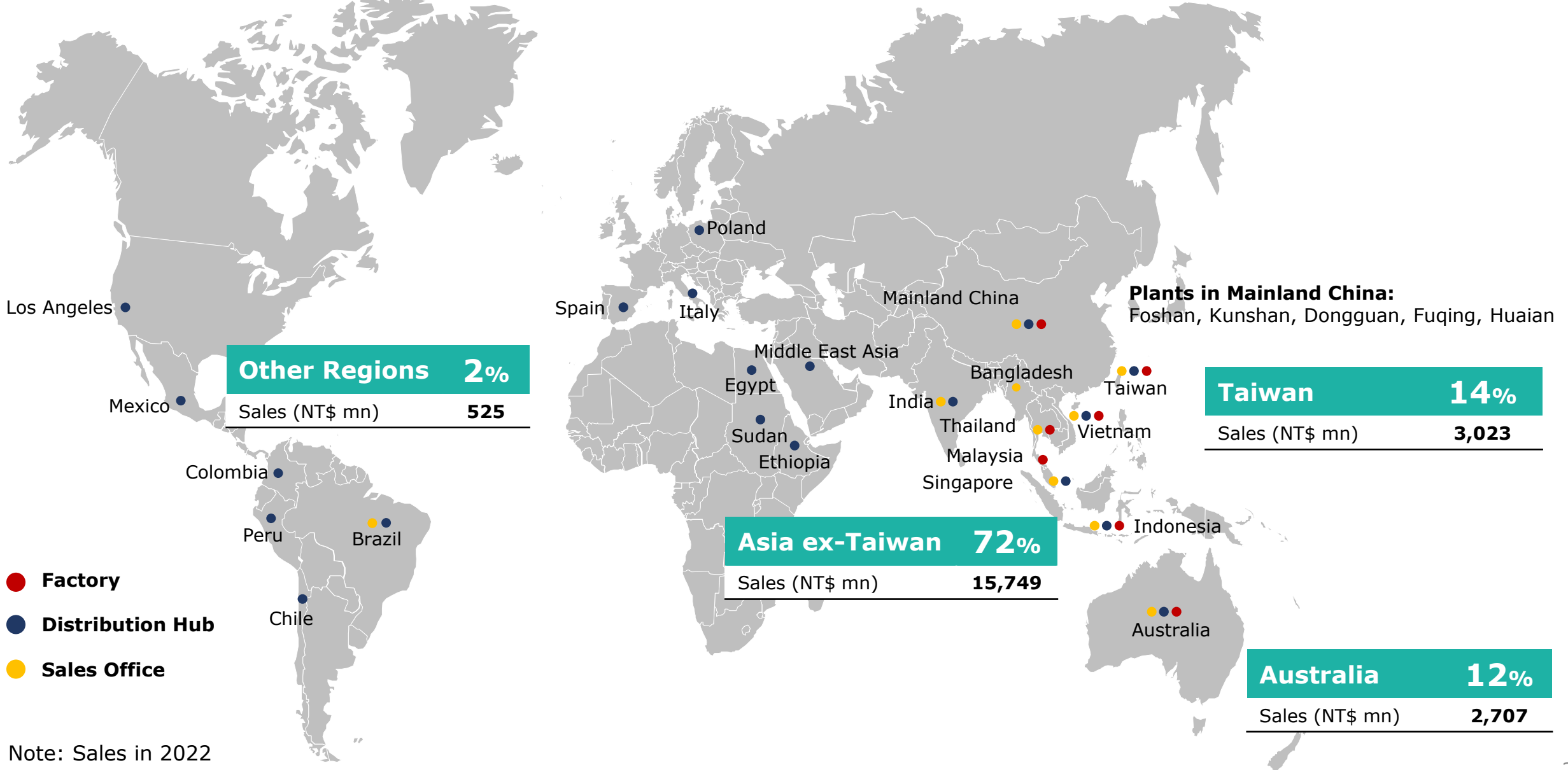
Note: The number is the company's preliminary estimate.

Company Milestones



We Operate Close to Our Customers

Focusing on the high growth Asian markets



Note: Sales in 2022

Competitive Advantages: Why We Can Outgrow the Industry

Strong Cash-Flow Supports Reinvestment

Widening the edge in **innovation and sustainability** over smaller, cost-focused players

World-Class Technology

Strong **technology knowledge** and customer insight with leading position and relationship with Tier 1 athletic shoe producers

Customized & Localised Total Solutions

Offering customized and timely **service** that larger, global peers may not provide

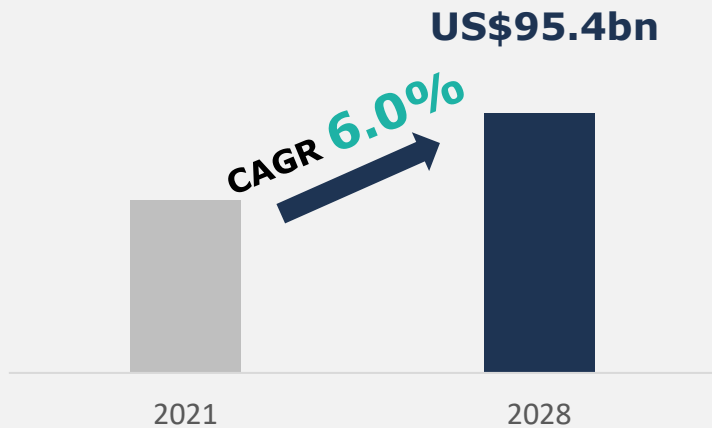
SUSTAINABLE INNOVATION

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Macro Trends and Growth Drivers towards Sustainability

ADHESIVES INDUSTRY GROWTH

Global Adhesives & Sealants Market



Water-based Technology Segment



*Source: ResearchAndMarkets.com

MACRO TRENDS & GROWTH DRIVERS

Sustainability

- Increasing demand in green products.
 - Climate Change
 - Care for Society
 - Circular Economy
- Opportunities in alternative energy industries and environmental segments.
 - Solar
 - Water
 - Waste Management

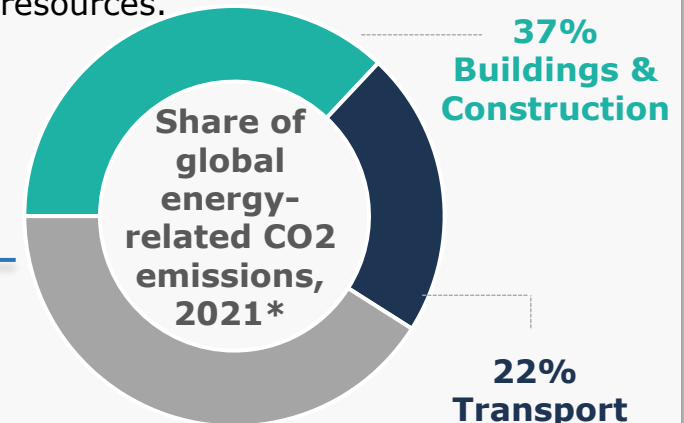
Consumer Growth in Asia

- Asian consumers are expected to account for half of global consumption growth in the next decade*.
- Average shoe ownership per person in the US/EU is 6 pairs. It is only 3 in Asia.

* According to McKinsey Global Institute, June 2021

Urbanization

- Improving living comfort and home efficiency, and more sustainable resources.



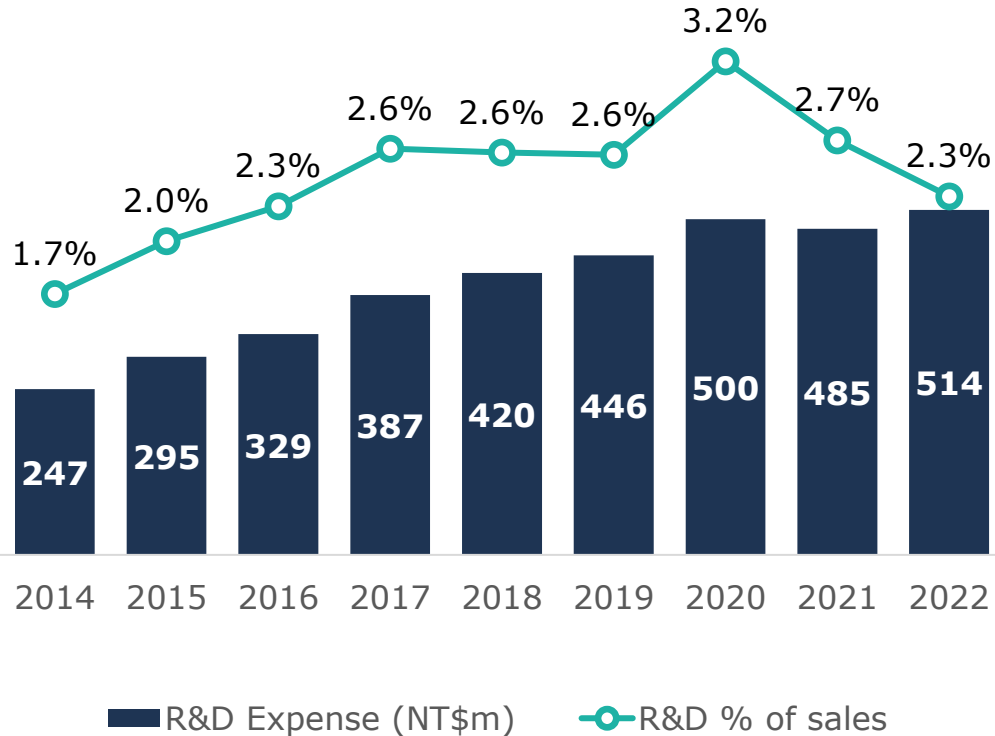
*Source: UN 2022 Global Status Report For Buildings And Construction, IEA 2022f Tracking Clean Energy Progress

Advanced Manufacturing & Future Cars


- High performance products for Tech sector and improving manufacturing process.
- Eco-friendly products for future cars.

Innovating for Sustainability

- NanPao has been increasing R&D investment over the years.
- Brands requires innovative, sustainable solutions



Greenhouse gas emissions from **key suppliers' manufacturing** and transportation operations will be **at or below 2020 levels** by 2025.



We will achieve at least **75% sustainable materials** for our products by 2025.




Our commitment is that **100% of our packaging** is **recyclable or reusable** by 2025.



The first global flooring manufacturer to sell **all products as carbon neutral** across their full life cycle. We target to be a **Carbon negative company by 2040**.



We continue to explore **bio-based glue alternatives** for our **wood-based** products. We aim to only use **renewable or recycled materials** sourced in a **responsible** way by 2030.



NanPao's Innovative Green Products

Raw materials account for **70%** of GHG Emissions during product life cycle. NanPao has invested substantial R&D and technical resources into developing innovative green products.



Low /Zero VOC

- **Water-based** products contain low or no volatile organic compounds (VOC).
- **50% reduction of GHG emissions** after converting adhesive products from solvent to water-based.



Bio-based materials



Recyclable materials

- Help reduce reliance on fossil fuel based raw materials and **lower carbon emissions**.
- The penetration rate is still low with long-term growth opportunities.



High Performance Products



Eco-Friendly/ Low Pollution products

- The positive effects of value-added products take place at our customers' side, supporting our customers **achieve sustainability goals**.



Sportswear

Opportunities in Bio-based and Recyclable Products



PU Foam Insoles

First bio-based PU Foam Insoles

NanPao has developed biomass materials with lignin extract from liquid waste produced during **paper manufacturing**. The biomass materials provide high support and low elasticity, which can also achieve **negative carbon emissions**.



Footwear Additives

We are developing eco-friendly, **carbon-negative** footwear additives, replacing fossil-based materials with **nature-based materials**.



Textile Adhesives

NanPao has **recycled** derivatives of carbon dioxide as raw materials. The materials provide great softness and breathability.



Footwear Adhesives

Currently, **75% to 80%** of NanPao footwear adhesives products are **low-VOC or zero-VOC**.



Consumer Goods

High Performance and Bio-based for Sustainable Life



Non-Woven Adhesives

Leading Supplier of local Tier-1 Diaper Brands in Mainland China

We have developed high wet-strength adhesives to extend diaper **durability** even after wetting.

NanPao ultra-soft adhesives for the elastic band and diaper outer surface provide greater comfort, remaining **soft** to the touch in both **cold and warm weather**.



Paper Coating

Plastic free paper coating can make paper cups and paper containers completely recyclable and reusable.



Paper Labels Lamination

Bio-based hot melt adhesives used for paper labels lamination of metal cans.



Woodpow® - Woodworking Adhesives

Our woodworking PUR adhesives are **solvent-free**, with **great heat and moisture resistance** and **high bonding strength**, which enables safer and more sustainable furniture.



Industrial & Tech

Efficient and Eco-Friendly Solutions in High Demand



PSA for LCD Polarizer Plate and Touch Panel

High temperature and high humidity resistance.

Acid free design which enables **low corrosion and low pollution** design for ITO film.



UV Tape for Semiconductor

Breaking into semiconductor supply chain

UV Tape is for semiconductor process to protect surface of wafer during backgrinding process and to hold wafer with ring frame during dicing process.

With UV irradiation, the tape can be easily peeled from the wafers, which help **improve production efficiency**.



Automotive Adhesives

NanPao has developed **water-based** adhesives products (**low/zero-VOC**) for car interior such as carpets, leather seats etc.



Coatings & Construction

Pursuing Home Efficiency and Living Comfort



Powder Coatings for Tap Water Pipes

The First Solution Provider in Taiwan

Preventing the pipes from leaching chemical substances into tap water. Making drinking tap water safer and provide **better quality and more sustainable water** in Taiwan .



Insulating Glass Sealant

Resistant to sunlight, extreme weather and moisture, improving **energy efficiency** for buildings

GROWTH STRATEGY

GROWTH STRATEGY

Strengthening Our Positions in Existing Businesses



Footwear Adhesives: Growing beyond adhesives

- Developing chemicals used in the footwear manufacturing process, such as footwear cleaner, primer and hardener for footwear.
- Increasing current market share of 40-50% to 50-60% amongst Tier 1 athletic footwear brands through offering innovative products and outstanding services.



Specialty Adhesives: Focusing on selective segments

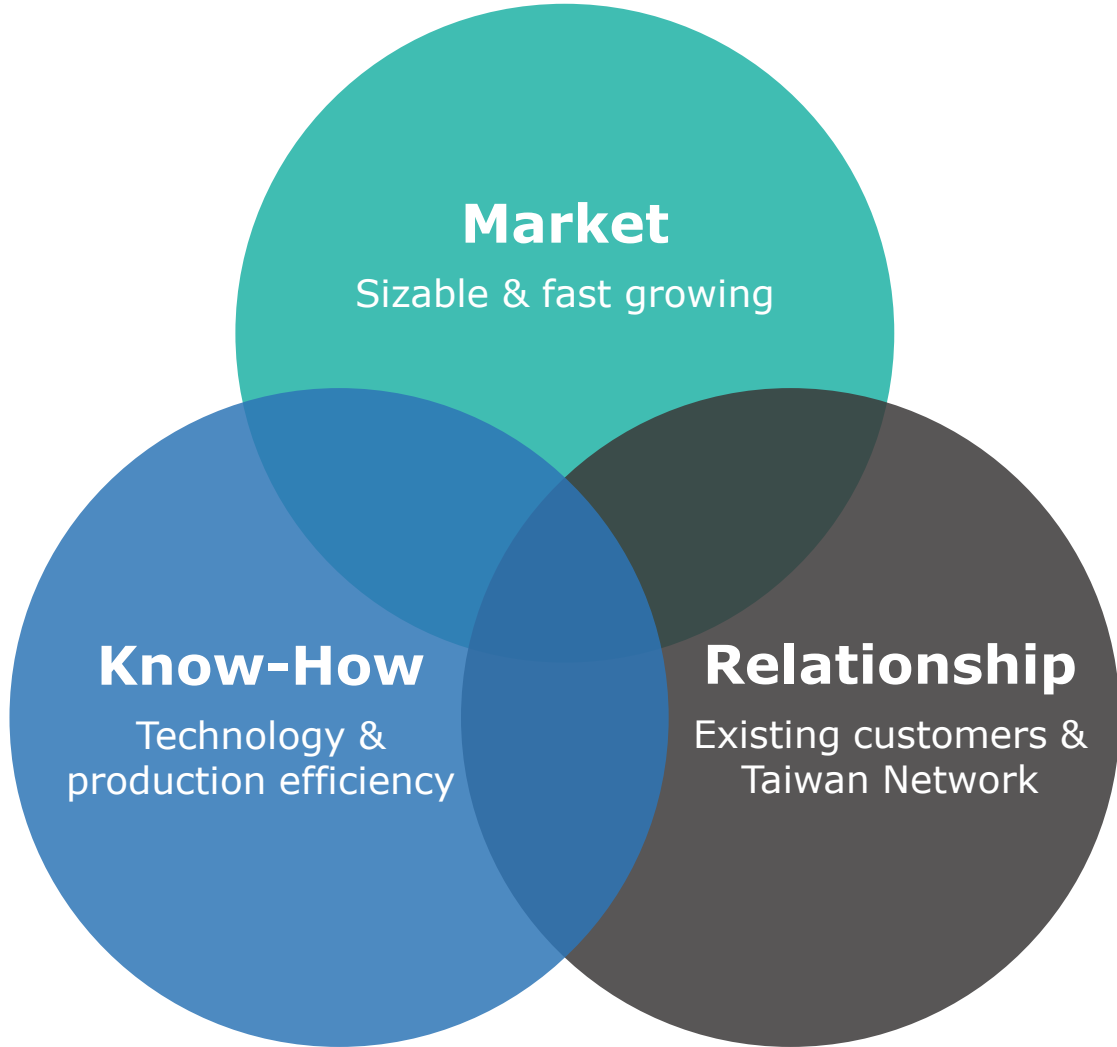
- Focusing on Textile, Technology, Flexible Packaging, Woodworking and Hygiene segments.
- Breaking into the markets step by step from gaining more local tier-1 customers, then eventually getting global tier-1 customers.



Coatings & Construction: Streamline operations

- Construction revenue is mainly from Australia and around 80% are green products. We will continue to grow the market.
- As for Coatings, we continue to organize offerings to provide better and more complete solutions.
- ❑ The government promotes “transform to net-zero buildings by 2050”. We will seize the opportunity and focus on developing and promoting sustainable, low-carbon building materials.

Growing the Next Star Segments in Specialty Adhesives



Focused Segments	Advantages		
Textile	●	●	●
Tech / Semi	●	●	●
Flexible Packaging	●	●	●
Woodworking	●	●	●
Hygiene	●	●	●

Improving Capital Efficiency

R&D

Increasing investment in R&D to accelerate growth

CAPEX

No large capex plan required, but may need some capex investment to serve customers locally

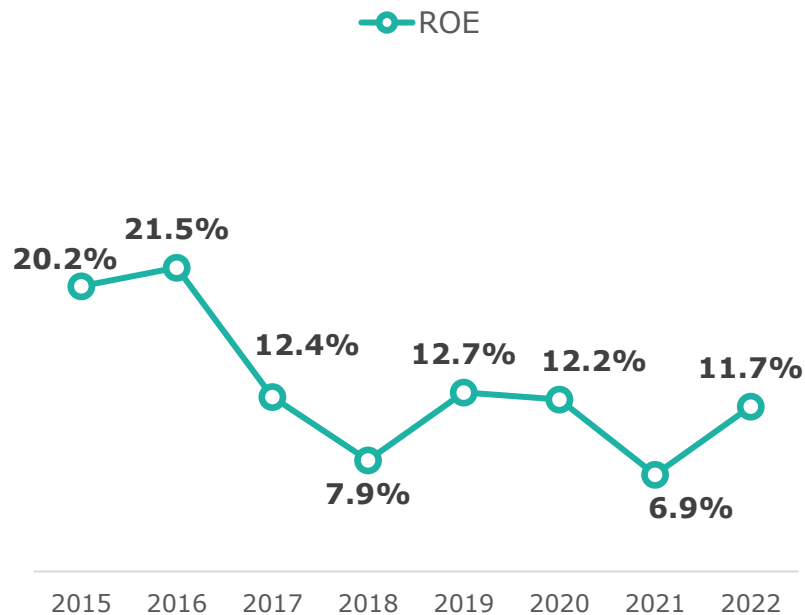
CASH DIVIDEND

Paying stable or growing cash dividends

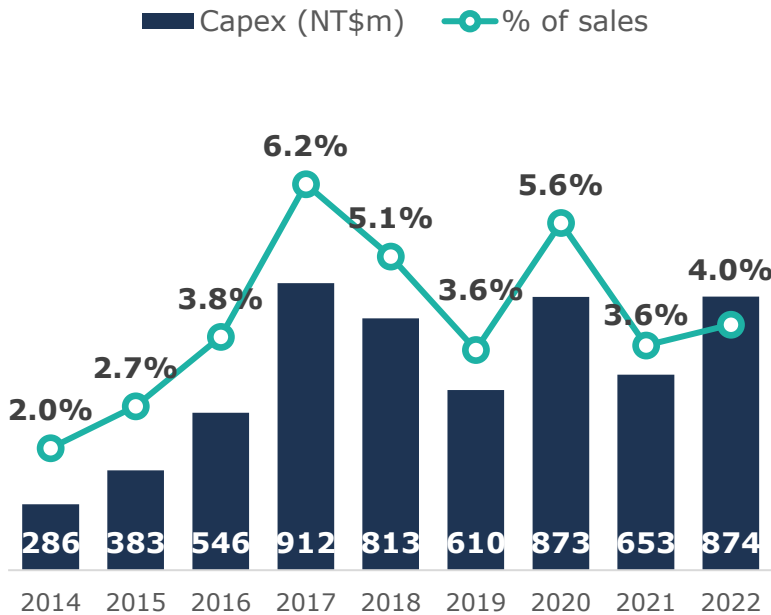
BOLT-ON ACQUISITIONS

Enabling us to grow globally and expand product applications

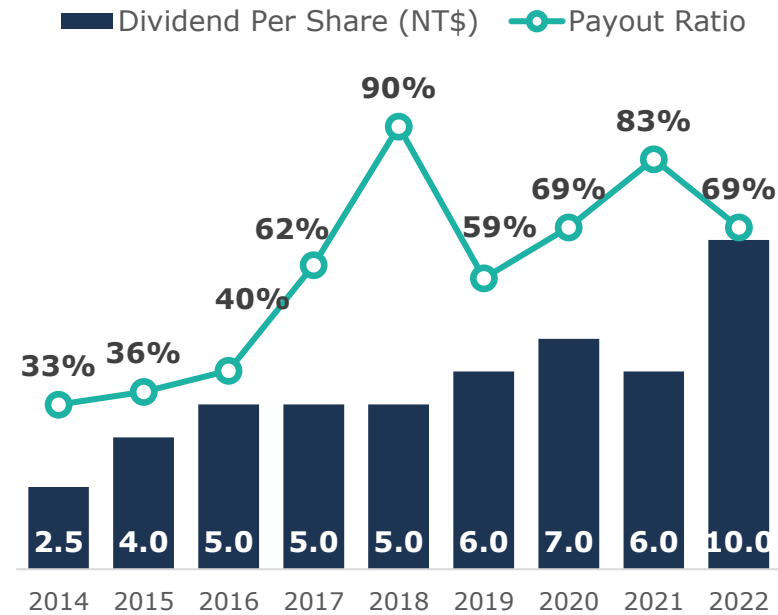
ROE



Capex/Sales is relatively low



Stable and Growing Cash Dividends



Growing Business in Carbon Fiber-related Applications

Acquisition of Changshu Yubo Polymer Materials Co., Ltd

Strategic Goals:

Acquired 70% holdings of Yubo and has consolidated in the financial reports since May

- ❑ Both NanPao and Yubo produce epoxy resins, but the applications are different. The two companies can share technology know-how and resources.
- ❑ We expect to enter the carbon fiber resin market in Mainland China through the acquisition to take advantage of the trends in import substitution, lightweighting, and new energy.
- ❑ Although Yubo's revenue contribution may be small initially, we expect this new business can be a new long-term growth driver.

Product Applications:

- ❑ Epoxy resins, mainly used in carbon fiber composite materials.
- ❑ The end market is primarily sports equipment. Yubo is developing applications in niche markets such as industrial flame retardants, hydrogen cylinders and electronic materials.

NanPao's 5 Year Targets



Being a global leader in
innovative & green
chemical products



Increasing **green**
product sales to **80%**

Investing in R&D and leveraging
existing products for broader
applications



Maintaining **double-digit**
long-term ROE

Pursuing sustainable profit growth
and improving capital efficiency



Growing **above**
industry average

Through organic growth and M&A



Providing **stable** or **growing**
annual cash dividend per share

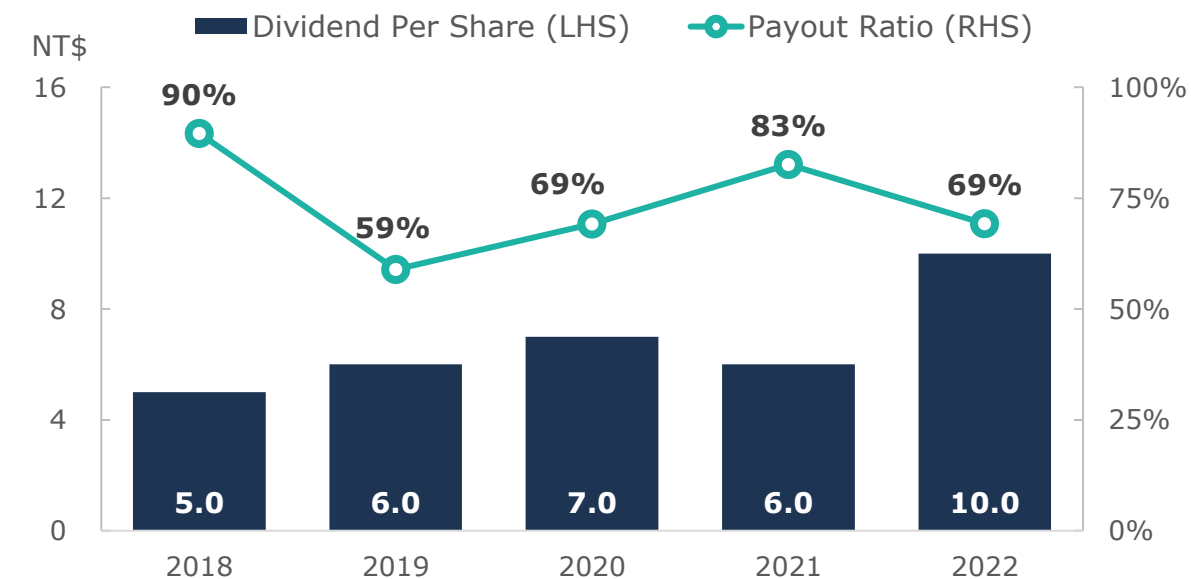
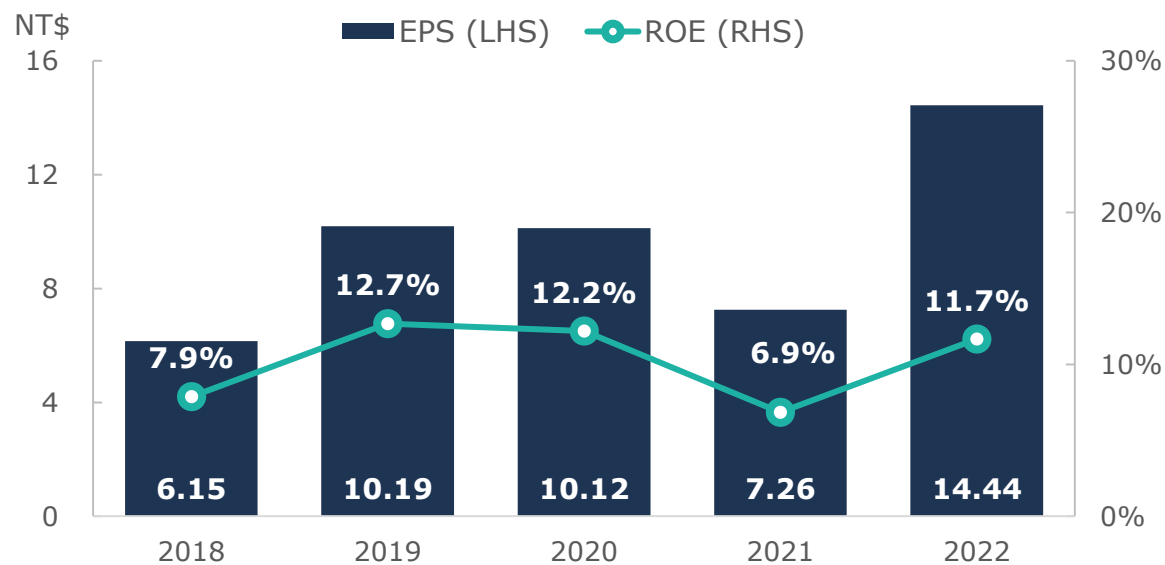
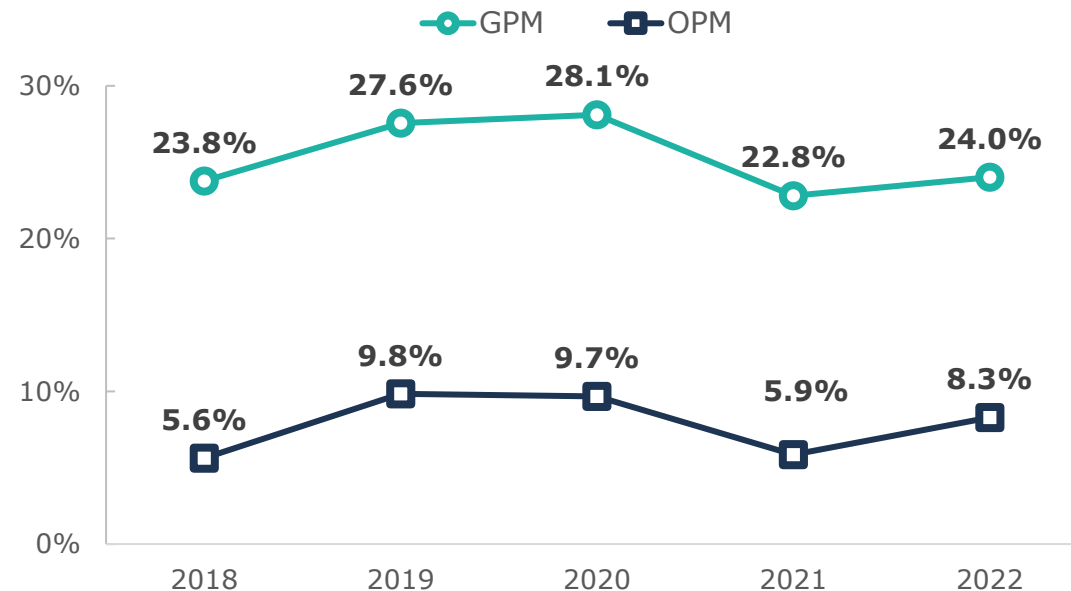
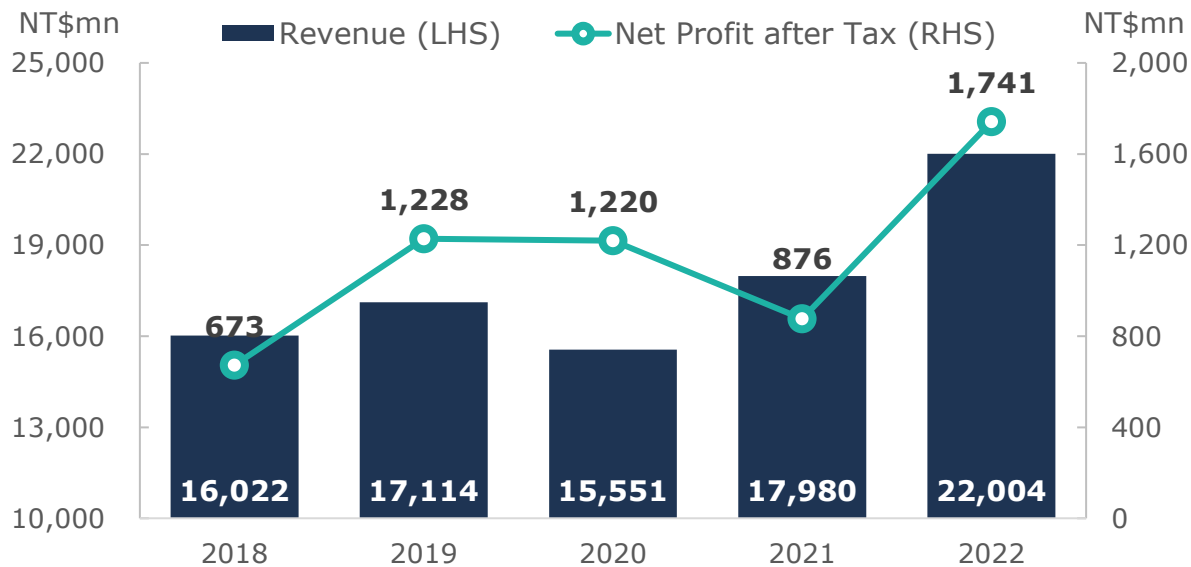
Continue to generate strong cash-
flow, and target to maintain a
payout ratio of at least 65%

Q&A

ANNUAL HISTORICAL FINANCIALS

2018-2022

Key Financial Performance



Income Statement Highlights

NT\$ million	2018	2019	2020	2021	2022
Sales Revenue	16,022	17,114	15,551	17,980	22,004
Cost of Goods Sold	12,215	12,396	11,181	13,878	16,716
Gross Profit	3,807	4,718	4,370	4,102	5,288
Operating Expense	2,906	3,036	2,869	3,050	3,464
Operating Profit	901	1,682	1,502	1,052	1,824
Income before tax	1,036	1,793	1,606	1,203	2,385
Net Income	673	1,228	1,220	876	1,741
EPS (NT\$)	\$6.15	\$10.19	\$10.12	\$7.26	\$14.44

Gross Margin	23.8%	27.6%	28.1%	22.8%	24.0%
Opex/Sales	18.1%	17.7%	18.4%	17.0%	15.7%
Operating Margin	5.6%	9.8%	9.7%	5.9%	8.3%
Net Margin	4.2%	7.2%	7.8%	4.9%	7.9%
ROE	7.9%	12.7%	12.2%	6.9%	11.7%

YoY (%)				
2018	2019	2020	2021	2022
10%	7%	-9%	16%	22%
14%	1%	-10%	24%	20%
-3%	24%	-7%	-6%	29%
6%	4%	-5%	6%	14%
-24%	87%	-11%	-30%	73%
-11%	73%	-10%	-25%	98%
-24%	83%	-1%	-28%	99%
-25%	66%	-1%	-28%	99%

Balance Sheet Highlights

NT\$ million	2018	2019	2020	2021	2022
TOTAL ASSETS	17,363	18,398	19,346	25,928	24,746
Cash	3,875	4,492	4,614	4,296	4,348
NR & AR	3,764	3,810	3,915	4,377	4,879
Inventory	2,347	2,241	2,177	2,949	2,825
Fixed Asset	3,960	4,097	4,515	4,932	5,508
TOTAL LIABILITIES	7,008	7,842	8,150	9,658	9,103
Long-Term Debt	1,392	1,524	1,669	1,935	1,224
AP & NP	1,959	1,949	2,302	2,591	2,659
TOTAL EQUITY	10,355	10,556	11,196	16,270	15,643

% of Total Assets				
2018	2019	2020	2021	2022
100%	100%	100%	100%	100%
22%	24%	24%	17%	18%
22%	21%	20%	17%	20%
14%	12%	11%	11%	11%
23%	22%	23%	19%	22%
40%	43%	42%	37%	37%
8%	8%	9%	7%	5%
11%	11%	12%	10%	11%
60%	57%	58%	63%	63%

A/R turnover days	80	81	91	84	77
Inv turnover days	69	68	72	67	63
A/P turnover days	59	58	69	64	57
Cash conversion cycle	90	91	94	87	83

Cash Dividend Payout

(NT\$m)	2017	2018	2019	2020	2021	2022
Net profit	882	673	1,228	1,220	876	1,741
Dividends Paid	543	603	723	844	723	1,206
DPS (NT\$)	5.0	5.0	6.0	7.0	6.0	10.0
Payout ratio	62%	90%	59%	69%	83%	69%
Dividend yield ¹	3.6%	2.8%	4.3%	4.6%	4.4%	5.7%

Notes:

1. Yield calculated using market cap on the day prior to ex-dividend date for 2017-2022.

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