



NanPao Resins Chemical Group

4766 TT

3Q20 Results Presentation



Integrity ❖ Teamwork ❖ Innovation ❖ Efficiency

November 2020

NanPao by the Numbers



NT\$17.1Bn
2019 Global Sales



NT\$17.0Bn
Market Cap on 30 Oct 2020



15%
2015-2019 Avg ROE



NT\$6.0/share
2019 Cash Dividend



22 – 7
Factories – Countries



50
Countries – Sales



3,000+
Employees



900+
R&D + Technical Sales



1-3Q20 Review

- ❖ Revenue fell 12% YoY to NT\$11.1bn. Year-on-year growth by BU was Footwear down 20%, ASBU down 7%, Coatings down 16%, Construction & Others up 4%.
- ❖ Gross margin was 27.9% vs. 27.6% in 1-3Q19. Operating margin fell to 9.1% vs. 9.7% in 1-3Q19.
- ❖ EPS was NT\$7.23, down 2% YoY.
- ❖ Our 2019 cash dividend was NT\$6.0/share. Ex-dividend date was August 4th.
- ❖ Cash flow in 1-3Q20 was robust, and we ended 1-3Q20 with a net cash to equity ratio of 13% vs. 9% at 1-3Q19.
- ❖ Our minimum cash dividend goal is now NT\$6.0/share, up from NT\$5.0/share.



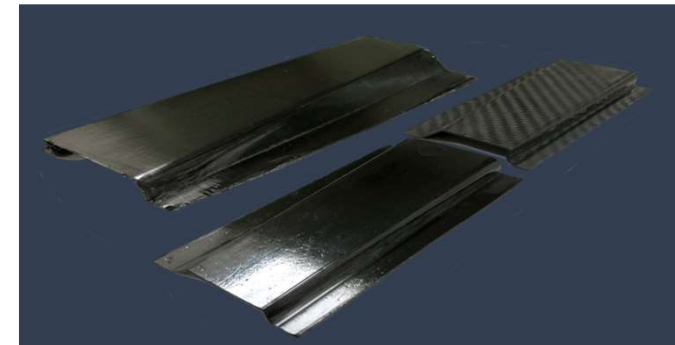
Response to the COVID-19 Pandemic

- ❖ In 1Q20 and early 2Q20, allotted orders amongst production sites based on the effects of the pandemic in each location.
- ❖ Instituted a hiring freeze, no replacement of employees who retire or resign and no layoffs, allowing NanPao to ramp up production as strengthening demand required. 1-3Q20 SG&A expense was NT\$165m below 1-3Q19; and the no layoff policy earned NanPao NT\$42m in gov't pandemic grants.
- ❖ Earned NT\$95m in tax write backs through gov't programs to incentivize reinvestment of overseas profits, reducing 1-3Q20 effective tax rate to 18% from 29% in 1-3Q19.
- ❖ Cash dividend payout was a modest 59% of 2019 earnings, in order to preserve balance sheet flexibility.
- ❖ Limited capex spending to core strategic projects only. Planned 2020 spending is NT\$1.0bn.



Update: Carbon Fiber Composite

- ❖ NanPao New Materials (Huaian) Co., Ltd., was established in early 1Q20. The company is a 70-30 JV between NanPao and a team of compound injection manufacturing engineers with sales contacts in consumer electronics and automotive.
- ❖ Compound injection will be used to mate plastic parts to NanPao's carbon fiber composite substrate.
- ❖ To accelerate production, we invested US\$10m in 2020, instead of original plan of US\$5m in 2020 & US\$5m in 2021.
- ❖ Production to begin in December – 1 month behind plan – due to COVID-related equipment shipping delays.
- ❖ Initial orders have been received for laptop PC parts and decorative interior automotive trim, both for the China market.

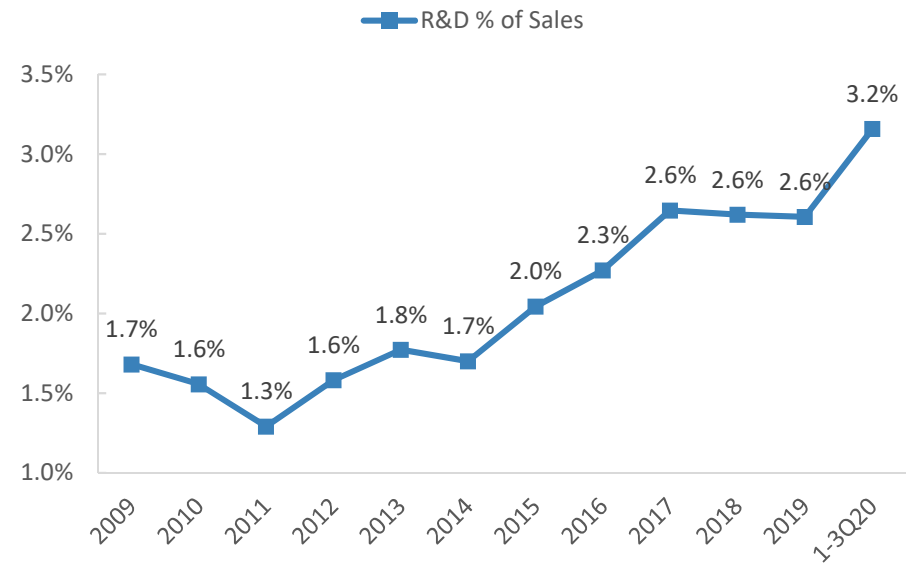


Investing in Growth



- ❖ 1-3Q20 R&D spending increased by 7% YoY to NT\$350m, underlining our commitment to innovation, even in a year with substantial macro headwinds.
- ❖ Major areas of R&D spending are:
 - ✓ High performance footwear adhesives
 - ✓ PSA for optical films
 - ✓ Functional textile glue
 - ✓ Non-woven adhesives for sanitary and medical
 - ✓ Hot melt-based waterproofing compounds
 - ✓ Adhesives for flexible packaging

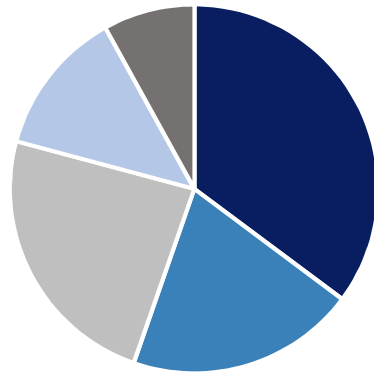
Investing in Growth



Sales Breakdown



1-3Q20 by Plant Location



35% Mainland China

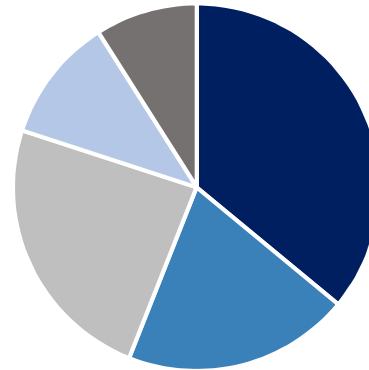
20% Taiwan

24% Vietnam

13% Australia

8% SE Asia Ex-VNM

2019 by Plant Location



36% Mainland China

20% Taiwan

24% Vietnam

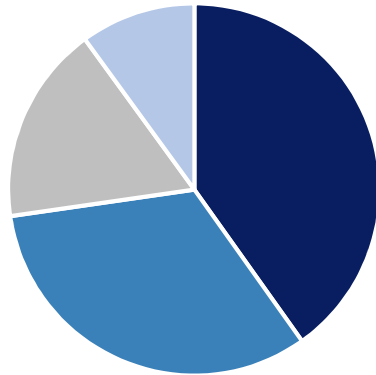
11% Australia

9% SE Asia Ex-VNM

Sales Breakdown



1-3Q20 By Business Unit



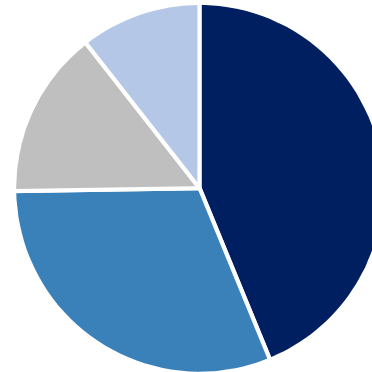
40% Footwear Materials

33% Specialty Adhesives

17% Construction & Others

10% Coatings

2019 By Business Unit



44% Footwear Materials

31% Specialty Adhesives

15% Construction & Others

10% Coatings

3Q20 Financial Results & 4Q20 Outlook



3Q20 Overview

- ❖ 3Q20 sales were NT\$4.01bn, up 20% QoQ and down 11% YoY.
- ❖ Revenues bottomed in May at NT\$1.01bn, rising to NT\$1.38bn by September. All business lines saw a meaningful QoQ increase in sales in 3Q20.
- ❖ ASBU and Construction & Others had the best YoY performance amongst our BUs. New product innovation has resulted in market share gains and top line growth for our construction materials business in Australia.
- ❖ Gross Margin increased to 29.8% in 3Q20 vs. 25.9% in 2Q20.
- ❖ EPS was NT\$3.34, up 71% QoQ and up 16% YoY.



Factors Affecting 3Q20 Profitability

- ❖ The 20% top line growth versus 2Q20, firmness in product pricing and favorable raw material input pricing created more absolute gross profit to spread over our SG&A expense base.
- ❖ Due to strict operating expense controls, SG&A expense fell by 11% YoY, in line with the YoY decrease in revenues.
- ❖ Effective tax rate was 15.0% in 3Q20 vs 30.5% last year.





3Q20 Review – Footwear

- ❖ Footwear Adhesives revenue rose 24% QoQ and was down 22% YoY.
- ❖ The top two global athletic footwear brands saw their sales bounce back strongly in 3Q20, with most stores reopening and e-commerce sales growing strongly.
- ❖ The top two Chinese athletic footwear brands are seeing market share gains at the expense of 2nd Tier Chinese brands, and both saw positive YoY growth in sales in 3Q20. Sales to China domestic brands now account for over 1/3 of NanPao's Footwear BU sales.
- ❖ NanPao benefits when the global Tier 1 and China Tier 1 brands gain share.



3Q20 Review – Specialty Adhesives

- ❖ Specialty Adhesive revenues showed sequential growth in 3Q20, up 9% QoQ but down 5% YoY. Sales bottomed in May and have been trending upwards since.
- ❖ In 3Q20, the strongest ASBU product groups were Flexible Packaging +192% YoY (off a low base), Nonwoven +32% YoY and PSA +4% YoY.
- ❖ Growth in demand for our hot melt glue products, which are used in a wide variety of our product segments, remains robust. Sales of Hot Melt glue-based products grew 11% YoY in 3Q20, accounting for 39% of total ASBU sales.
- ❖ While demand from China-based woodworking goods exporters was flattish, sales of woodworking adhesives in Vietnam were up 20% YoY.

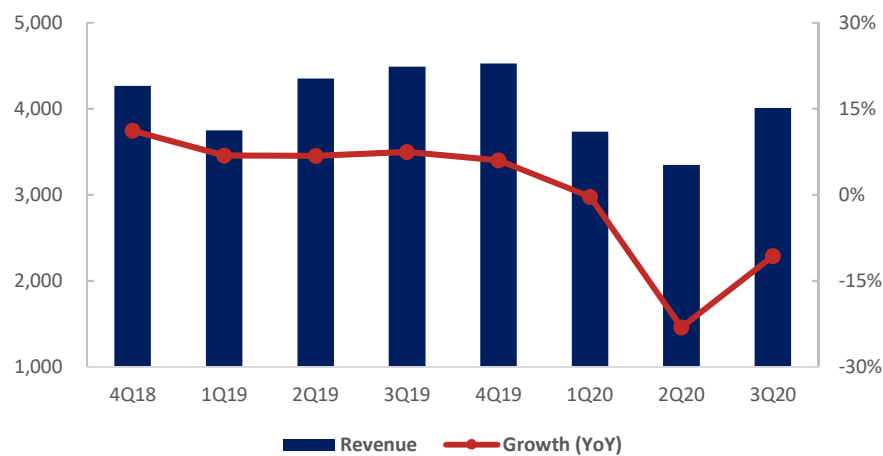


Revenue & Margin Trends

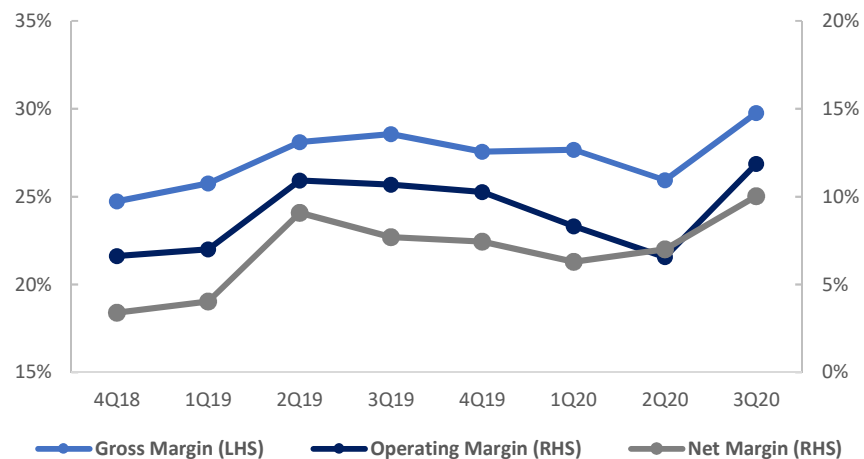
- 3Q20 revenue decreased 11% YoY and increased 20% QoQ to NT\$4.0bn.
- Gross margin, operating margin, and net margin all reached their highest levels since our 4Q18 listing.
- Gross margin was 29.8%, increasing from 25.9% in 2Q20. Operating margin was 11.9%, increasing from 6.6% in 2Q20. Net margin was 10.0%, increasing from 7.0% in 2Q20.

(NT\$ million)

Quarterly Revenue Trend



Quarterly Margin Trend

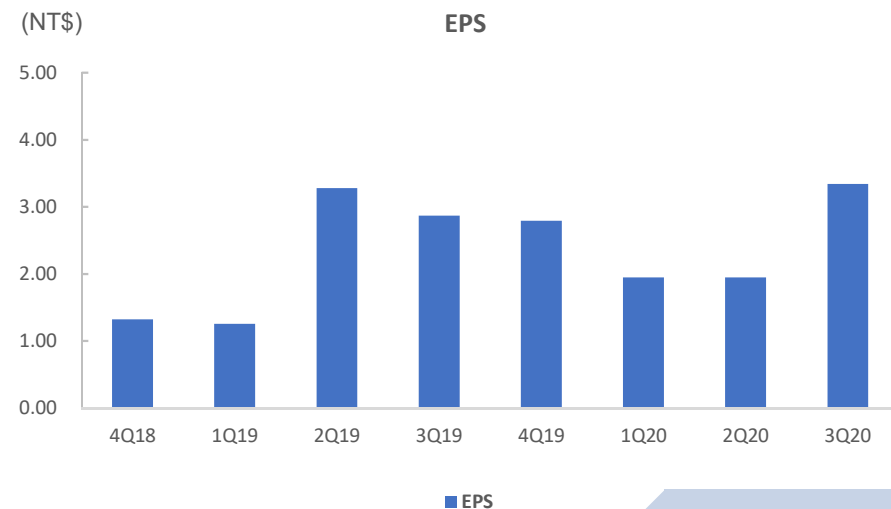
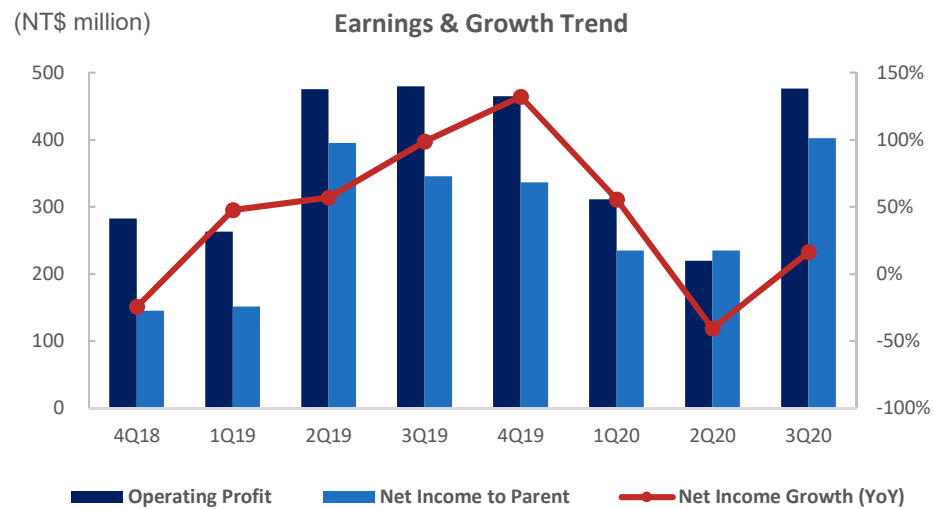


Source: TEJ and CIQ

Earnings Trends



- 3Q20 operating income increased 117% QoQ and decreased 1% YoY to NT\$476m.
- 3Q20 net income increased 71% QoQ and 16% YoY to NT\$402m.
- 3Q20 EPS was NT\$3.34, up 16% YoY, the highest level since NanPao listed in 4Q18.



Source: TEJ and CIQ



Outlook for 4Q20

- ❖ October sales reached NT\$1.44bn – up 4% MoM and down only 9% YoY.
- ❖ Product prices and materials purchasing costs for 4Q20 are likely to be similar to 3Q20.



4Q20 Outlook – Footwear

- ❖ Normal seasonality has returned to the footwear business, but at levels below 2019. We expect our overall footwear adhesives sales will be roughly 75-85% of 2019 levels in 4Q20.
- ❖ Overall orders from Chinese athletic footwear brands are now roughly 90% of 2019 levels, with orders from the Tier 1 brands stronger than that. We expect 4Q20 China-based revenues to remain strong, as vendors prepare for Lunar New Year peak demand.
- ❖ Orders from Tier 1 global athletic footwear brands are now roughly 80-85% of 2019 levels. We expect a seasonal fall off in orders, as US and European vendors prepare for 1Q low season demand.
- ❖ Tier 2 & 3 global and China brands have lost share during the pandemic, as their channels are not as robust as those of leading players.



4Q20 Outlook – Specialty Adhesives

- ❖ In August, we expressed optimism that 2H20 ASBU revenues would fall by a low-single digit percentage (i.e. less than 5% YoY revenue decline). Assuming no dramatic change in the current economic environment, we are on track to achieve this.
- ❖ We are concentrating our efforts on domestic consumption-related glues in Greater China and South East Asia.
- ❖ 4Q20 growth drivers will be similar to those in 1-3Q20:
 - ✓ Hot melt glues for non-woven and waterproofing
 - ✓ Pressure-sensitive adhesives
 - ✓ Adhesives for flexible packaging
 - ✓ Construction-related adhesives

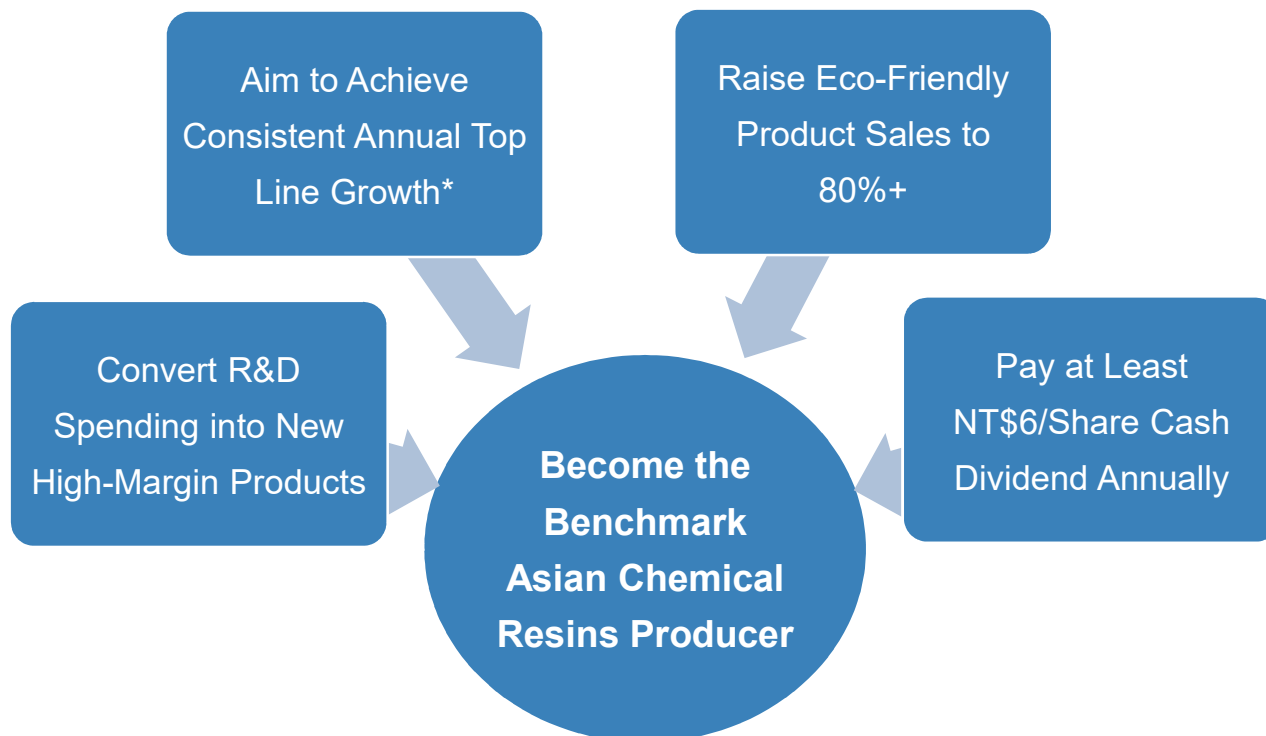


12-24 Month Business Outlook

- ❖ **Footwear:** Average shoe ownership per person in the US/EU is 6 pairs. It is only 3 in Asia. Tier 1 Global and China brands see this market, and India in particular, as the next driver for growth. The pandemic has accelerated the market share shift towards Tier 1 brands, a development which is beneficial to NanPao.
- ❖ **ASBU:** We are shifting towards less product types and longer, high volume production runs to achieve higher gross margins on a sustained basis. Focus segments, which currently account for 50% of ASBU sales, are:
 - ✓ **Non-Woven** – healthy growth in domestic China, while targeting Global Tier 1s.
 - ✓ **Pressure-Sensitive Adhesives** – will begin VNM production for domestic SE Asia market; in Taiwan and China we are targeting optical films.
 - ✓ **Flexible Packaging:** Gaining market share and targeting growing SE Asian market.
 - ✓ **Textiles:** Putting strong effort into apparel-use adhesives.
 - ✓ **Woodworking:** Targeting SE Asia, both domestic demand and from exporters.
- ❖ **Coatings:** Construction-related demand positive for domestic Taiwan revenues.
- ❖ **Construction Materials and Other:** Market share gains in Australia due to new product introductions; Carbon Fiber sales outlook could be good, pending Huaian JV 2021 sales.



NanPao Strategic Vision For 2025



*Uncertainties introduced by the COVID-19 pandemic may negatively impact our top line growth goals in the near to mid-term.

Commitment to Sustainability



72% of production by volume from green products – no VOCs, water-based, solvent free.



89% of solvents used in the production of PU-based compounds recycled in 2019 vs 76% in 2018.



9,944 tons of wastewater purified and recycled in 2019 (86% more than in 2018)



Annual CO2 emissions reduced by 470 tonnes by converting boilers to burn natural gas instead of heavy oil.



Healthy diet and exercise training for staff starting from June 2020.



Taiwan Facilities Certified for
OHSAS 18001
ISO 50001
ISO 14001
ISO 90001



LEED-Gold Certification
(Vietnam HCM Plant)



On-site nurse; free health checks and cancer screening for employees

Income - Quarterly



NT\$ million	3Q20	2Q20	3Q19	QoQ	YoY
Net Revenue	4,010	3,346	4,489	20%	-11%
Gross Profit	1,194	868	1,282	38%	-7%
Gross Margin	29.8%	25.9%	28.6%		
Operating Expenses	718	648	803	11%	-11%
SG&A percent of Sales	17.9%	19.4%	17.9%		
Operating Income	476	220	480	117%	-1%
Operating Margin	11.9%	6.6%	10.7%		
Net Non-Operating Income (Loss)	19	60	48		
Pre-Tax Income	495	280	528	77%	-6%
Income Tax Expense	75	43	161		
Minority Interest	19	2	21		
Net Income to Parent	402	235	346	71%	16%
Net Margin	10.0%	7.0%	7.7%		
EPS (NT\$)	3.34	1.95	2.87	71%	16%
ROE – not annualized	4.3%	2.5%	3.6%		
Depreciation and Amortization	110	100	99		
CAPEX	328	204	199		

Income - Cumulative



NT\$ million	1-3Q20	1-3Q19	YoY
Net Revenue	11,091	12,589	-12%
Gross Profit	3,095	3,471	-11%
Gross Margin	27.9%	27.6%	
Operating Expenses	2,088	2,253	-7%
SG&A percent of Sales	18.8%	17.9%	
Operating Income	1,007	1,218	-17%
Operating Margin	9.1%	9.7%	
Net Non-Operating Income (Loss)	98	129	
Pre-Tax Income	1,104	1,346	-18%
Income Tax Expense	200	393	
Minority Interest	33	61	
Net Income to Parent	872	892	-2%
Net Margin	7.9%	7.1%	
EPS (NT\$)	7.23	7.40	-2%
ROE – not annualized	9.0%	9.2%	
Depreciation and Amortization	311	285	
CAPEX	702	463	

Consolidated Balance Sheet



NT\$ million	2020/9/30		2020/6/30		2020/9/30	
	\$	%	\$	%	\$	%
Cash and Cash Equivalents	4,489	25%	5,137	29%	4,022	22%
Notes & Accounts Receivable, Net	3,494	19%	3,151	17%	3,904	22%
Inventories	1,886	10%	1,812	10%	2,390	13%
Other Current Assets	546	3%	501	3%	591	3%
Long-term Investments	1,252	7%	1,294	7%	1,513	8%
Fixed Assets	4,230	24%	3,977	22%	4,083	22%
Other Long-term Assets	2,106	12%	2,105	12%	1,772	10%
Total Assets	18,003	100%	17,978	100%	18,274	100%
Current Liabilities	4,667	26%	4,635	26%	4,828	26%
LT Debt	1,606	9%	1,901	10%	1,466	8%
Other Non-Current Liabilities	1,354	7%	1,414	8%	1,447	8%
Total Liabilities	7,627	42%	7,951	44%	7,742	42%
Common Stock	1,206		1,206		1,206	
Total Equity	10,377	58%	10,027	56%	10,532	58%
Book Value per Share (NT\$)	79.0		76.3		80.9	
Current Ratio	223%		229%		226%	
Net Cash (Debt) to Equity	13%		18%		9%	

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