NanPao Resins Chemical Group

4766 TT

Investor Presentation

Integrity ❖ Teamwork ❖ Innovation ❖ Efficiency

March 2021

NanPao by the Numbers

NT$15.6Bn
2020 Global Sales

NT$19.5Bn
Market Cap end-Feb 2021

13%
2016-2020 Avg ROE

NT$7.0/share
2020 Cash Dividend*

22 – 7
Factories – Countries

50
Countries – Sales

3,000+
Employees

900+
R&D + Technical Sales

*BOD proposed DPS for FY2020, subject to approval at the June 17 AGM.

2020 Review

- The COVID-19 pandemic resulted in a distortion of normal revenue patterns. Mainland China production disruptions in 1Q20 and store closings by global sportswear vendors in 2Q20 negatively affected demand in the first half, resulting in 1H20 revenue of NT$7.1bn, a 21% decline versus 2H19 and a decline of 13% YoY.
- By 2H20, the gradual re-opening of economies and consumer buying via sportswear e-commerce channels drove sales to rebound by 20% HoH to NT$8.5bn.
- Strong sales of hot melt glue for hygiene and construction, and tape & label adhesives, as well as robust demand for construction materials – especially in Australia – supported top line performance.
- Overall, Revenue fell 9% YoY to NT$15.6bn. Year-on-year growth by BU was Footwear down 17%, ASBU down 3%, Coatings down 14%, Construction & Others up 6%.

2020 Review

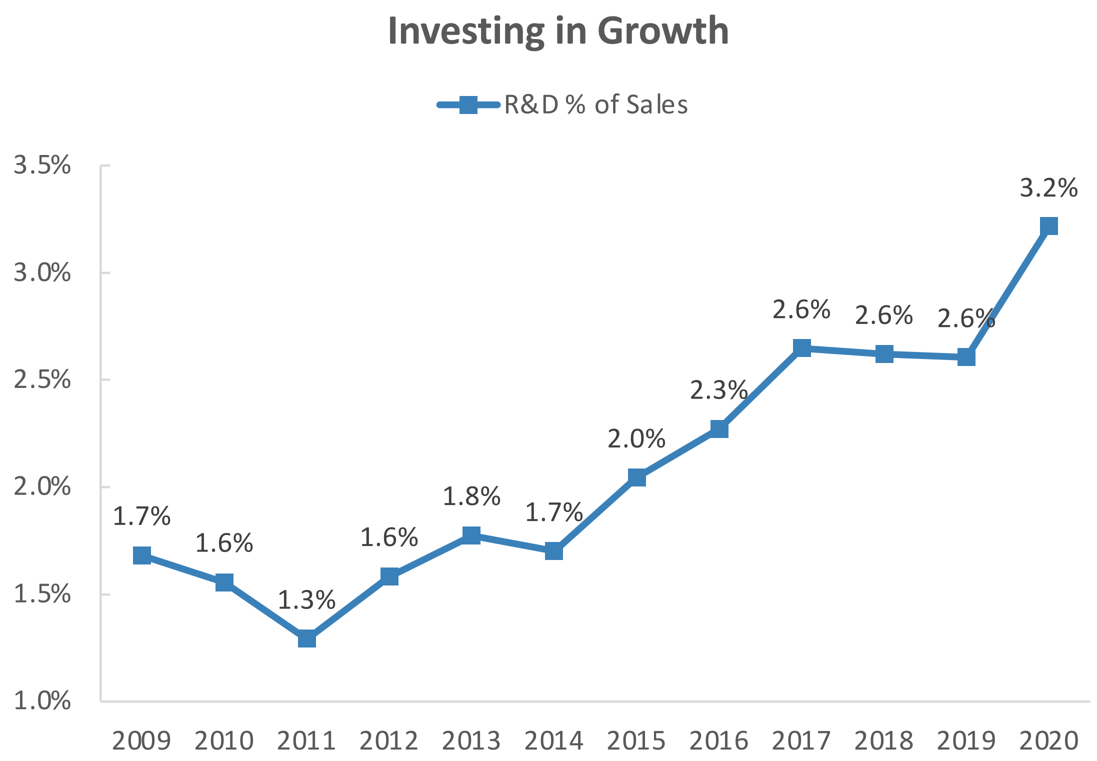
- Gross margin was 28.1% vs. 27.6% in 2019, and operating margin was 9.7% vs. 9.8% in 2019.
- EPS was NT$10.12, falling by only 1% YoY.
- Cash flow in 2020 was robust, and we ended 2020 with a net cash to equity ratio of 14% vs. 12% at year-end 2019.
- The Board of Directors has declared a 2020 cash dividend of NT$7.0/share, subject to approval at our AGM on June 17th. The 2020 cash dividend represents a payout of 69% and is our highest cash payout on record in terms of dividends per 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 retiring or resigning and no layoffs, allowing production to be ramped up as strengthening demand required. SG&A expense was reduced by NT$167m versus 2019; and the no layoffs policy earned NanPao NT$44m in gov't pandemic grants.
- Earned NT$115m in tax write backs through gov't programs to incentivize reinvestment of overseas profits, helping to reduce effective tax rate to 21.1% in 2020 from 26.6% in 2019.
- Cash dividend payout on 2019 earnings was a modest 59%, in order to preserve balance sheet flexibility.
- Limited capex spending to core strategic projects only. 2020 spending was NT$873 million, versus our original budget of NT$1.0bn.

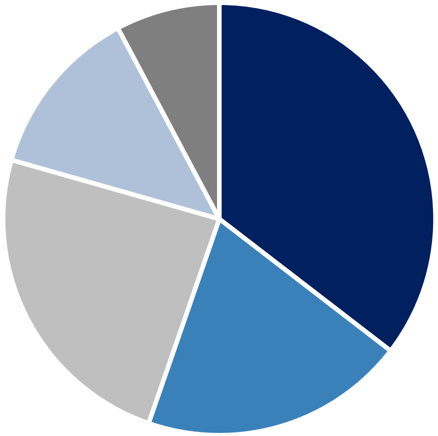
Investing in Growth

- 2020 R&D spending increased by 12% YoY to NT$500m, underlining our commitment to innovation, even in a year with substantial macro headwinds.
- Major areas of R&D spending are:
  - ✓ High performance footwear adhesives
  - ✓ Functional textile glue
  - ✓ Non-woven adhesives for sanitary and medical
  - ✓ Hot melt-based construction-use compounds
  - ✓ Adhesives for flexible packaging
  - ✓ PSA for optical films



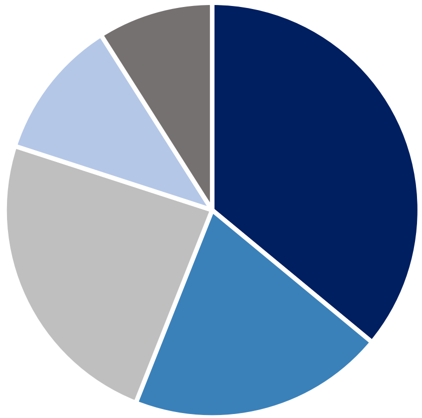
Sales Breakdown

2020 by Plant Location



35% Mainland China
20% Taiwan
24% Vietnam
13% Australia
8% SE Asia Ex-VNM

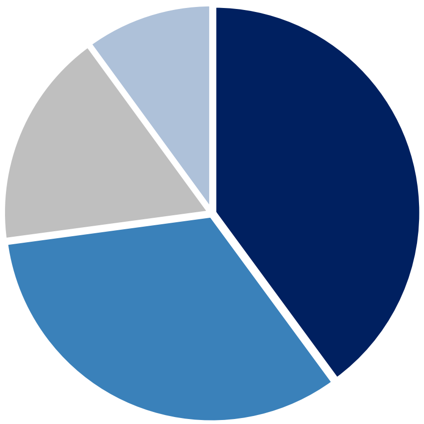
2019 by Plant Location



36% Mainland China
20% Taiwan
24% Vietnam
11% Australia
9% SE Asia Ex-VNM

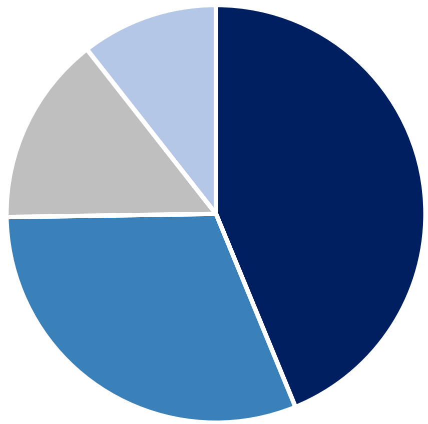
Sales Breakdown

2020 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

4Q20 Financial Results

4Q20 Overview

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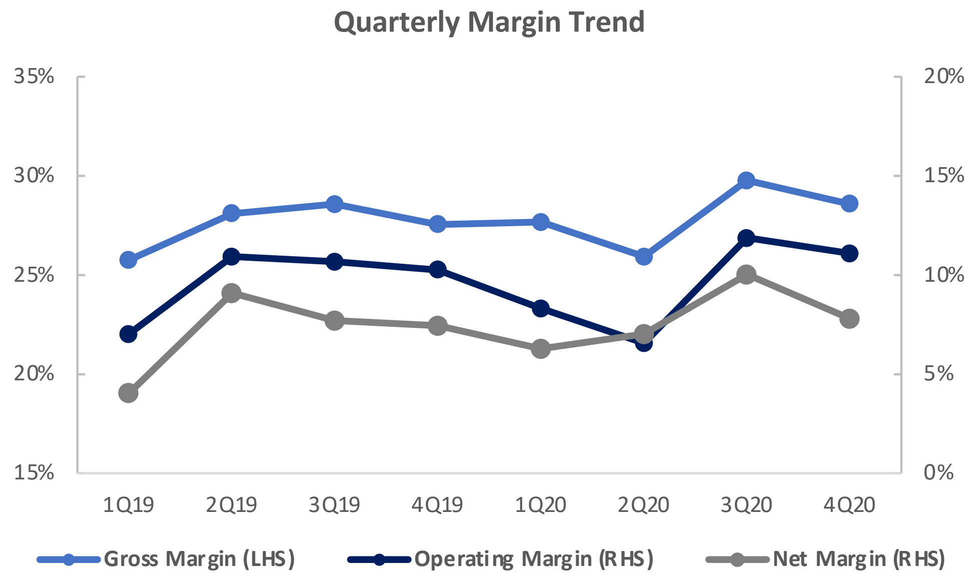
- 4Q20 sales were NT$4.46bn, up 11% QoQ and down 1% YoY.
- Revenues bottomed in May at NT$1.01bn, rising to NT$1.52bn by December. All business lines saw a meaningful QoQ increase in sales in 4Q20.
- ASBU and Construction & Others had the best YoY performance amongst our BUs. New product innovation has resulted in market share gains and top line growth for our construction materials business in Australia.
- Gross margin was 28.6% in 4Q20 vs. 27.6% in 4Q19.
- EPS was NT$2.89, up 4% YoY and down 13% QoQ.

Revenue & Margin Trends

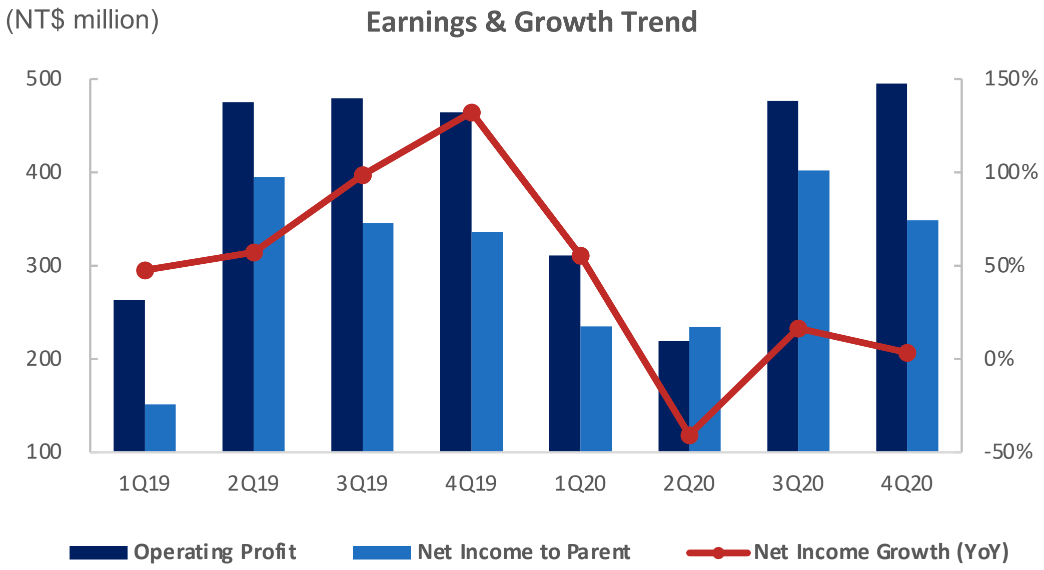
- Gross margin was 28.6% versus 27.6% in 4Q19.
- Operating margin was 11.1% versus 10.3% in 4Q19.
- Net margin was 7.8% versus 7.4% in 4Q19.

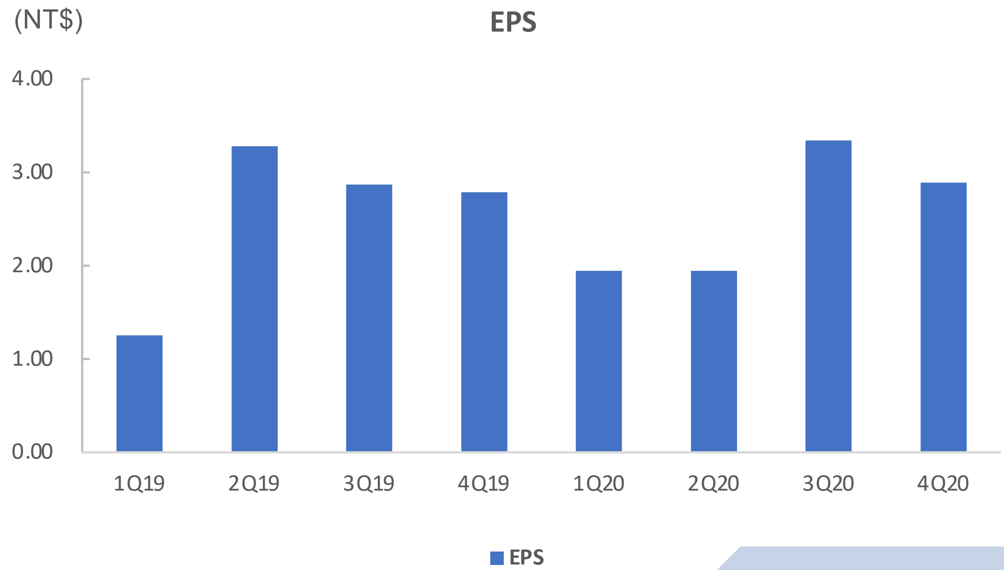


Source: TEJ and CIQ

Earnings Trends

- 4Q20 operating income increased 7% YoY and 4% QoQ to NT$495m, its highest level in the 2017-2020 period.
- 4Q20 net income increased 4% YoY to NT$348m.
- 4Q20 EPS was NT$2.89, up 4% YoY.





Source: TEJ and CIQ

Factors Affecting 4Q20 Profitability

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- Although profit margins were lower than 3Q20, 4Q20 was a historically strong quarter. Gross, operating and net profit were all close to the highest levels of the past two years.

- Three main reasons led to lower profits versus 3Q20.

i. Timing differences in the recognition of profits from 4Q20 intracompany sales will result in a portion of 4Q20 profits being booked in 1Q21.

ii. Rising RM prices started to affect the bottom line in 4Q20, particularly for footwear where stricter environmental requirements in Mainland China resulted in cost push for key raw materials.

iii. Effective tax rate rose to 27.7% in 4Q20, versus 15.2% in 3Q20, as investment tax credits and auditor adjustments to previous year tax accounting were booked in 3Q20.

4Q20 Review – Footwear

- Footwear Adhesives revenue rose 12% QoQ and was down only 10% YoY.
- Global sportswear brands saw sales bounce back strongly in 2H20, with most stores reopening and e-commerce sales growing strongly.
- Mainland China footwear sales rebounded to 2019 levels in the second half of 2020, benefiting leading Chinese brands such as Li Ning and Anta.

4Q20 Review – Specialty Adhesives

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- Specialty Adhesive revenues continued their strong 2020 performance in 4Q20, rising 17% QoQ and 6.5% YoY. For the year, specialty adhesives showed only a 3% annual decline.
- Product segments exposed to the export sector showed a surge in growth, with 4Q20 textile adhesives jumping 52% QoQ (down 9% YoY), woodworking adhesives up 34% QoQ (up 18% YoY) and Tape & Label up 44% QoQ (up 25% YoY).
- Flexible Packaging and Nonwoven finished the year well, growing 253% YoY (off a low 2019 base) and 23% YoY, respectively, in 4Q20. For full year 2020, YoY growth for these two product segments was 145% and 29%, respectively.

12-24 Month Business Outlook

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- **Footwear**: Average shoe ownership per person in the US/EU is 6 pairs. It is only 3 in Asia. Top Global and Mainland China brands see this market, and India in particular, as the next driver for growth. Global athletic footwear industry growth is projected at 5-6% annually by research firms, a figure which some industry participants view as conservative.
- **ASBU**: We are shifting towards less product types and longer, high volume production runs to achieve higher sustainable gross margins. Focus segments are:
  - ✓ **Non-Woven** – healthy global and Mainland China market growth in demand for personal and infant hygiene products
  - ✓ **Tape & Label** – sizeable market opportunity in Mainland China and Southeast Asia
  - ✓ **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:** Streamlining product mix.
- **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

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Aim to Achieve Consistent Annual Top Line Growth*

Raise Eco-Friendly Product Sales to 80%+

Convert R&D Spending into New High-Margin Products

Pay at Least NT$6/Share Cash Dividend Annually

Become the Benchmark Asian Chemical Resins Producer

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

Commitment to Sustainability

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

379 tonnes of solvents used in the production of PU-based compounds were recycled and re-used in 2020 vs 303 tonnes in 2019, an increase of 25%.

6,874 tons of wastewater purified and recycled in 2020.

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
ISO 45001
ISO 50001
ISO 14001
ISO 90001

LEED-Gold Certification (Vietnam HCM Plant)

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

Update: Carbon Fiber Composite

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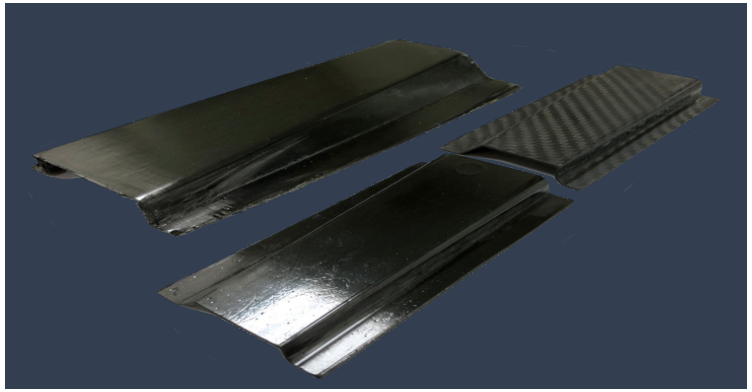
- NanPao New Materials (Huaian) Co., Ltd., was established in early 1Q20. The company is a 70-30 JV between NanPao and a team of compound injection manufacturing engineers with sales contacts in consumer electronics and automotive.
- Compound injection will be used to mate plastic parts to NanPao's carbon fiber composite substrate.
- Trial production began in December 2020.
- Initial orders have been received for laptop PC parts and decorative interior automotive trim, both for the Mainland China market.



Consolidated Statements of

Income - Quarterly

NT$ million	4Q20	3Q20	4Q19	QoQ	YoY
Net Revenue	4,461	4,010	4,525	11%	-1%
Gross Profit	1,275	1,194	1,247	7%	2%
Gross Margin	28.6%	29.8%	27.6%		
Operating Expenses	780	718	782	9%	0%
SG&A percent of Sales	17.5%	17.9%	17.3%		
Operating Income	495	476	465	4%	7%
Operating Margin	11.1%	11.9%	10.3%		
Net Non-Operating Income (Loss)	7	19	(18)		
Pre-Tax Income	502	495	446	1%	12%
Income Tax Expense	139	75	85		
Minority Interest	15	19	26		
Net Income to Parent	348	402	336	-13%	4%
Net Margin	7.8%	10.0%	7.4%		
EPS (NT$)	2.89	3.34	2.79	-13%	4%

ROE – not annualized	3.5%	4.3%	3.5%
Depreciation and Amortization	114	110	101
CAPEX	171	328	147

Consolidated Statements of

Income - Cumulative

NT$ million	2020	2019	YoY
Net Revenue	15,551	17,114	-9%
Gross Profit	4,370	4,718	-7%
Gross Margin	28.1%	27.6%	
Operating Expenses	2,869	3,036	-5%
SG&A percent of Sales	18.4%	17.7%	
Operating Income	1,502	1,682	-11%
Operating Margin	9.7%	9.8%	
Net Non-Operating Income (Loss)	104	111	
Pre-Tax Income	1,606	1,793	-10%
Income Tax Expense	339	477	
Minority Interest	47	87	
Net Income to Parent	1,220	1,228	-1%
Net Margin	7.8%	7.2%	
EPS (NT$)	10.12	10.19	-1%

ROE – not annualized	12.2%	12.7%
Depreciation and Amortization	425	387
CAPEX	873	610

Consolidated Balance Sheet

NT$ million	2020/12/31		2020/9/30		2019/12/31	
	$	%	$	%	$	%
Cash and Cash Equivalents	4,614	24%	4,489	25%	4,492	24%
Notes & Accounts Receivable, Net	3,915	20%	3,494	19%	3,810	21%
Inventories	2,177	11%	1,886	10%	2,241	12%
Other Current Assets	538	3%	546	3%	567	3%
Long-term Investments	1,620	9%	1,252	7%	1,389	8%
Fixed Assets	4,515	23%	4,230	24%	4,097	22%
Other Long-term Assets	1,967	10%	2,106	12%	1,802	10%
Total Assets	**19,346**	**100%**	**18,003**	**100%**	**18,398**	**100%**
Current Liabilities	5,082	26%	4,667	26%	4,908	27%
LT Debt	1,669	9%	1,606	9%	1,524	8%
Other Non-Current Liabilities	1,399	7%	1,354	7%	1,409	8%
Total Liabilities	**8,150**	**42%**	**7,627**	**42%**	**7,842**	**43%**
Common Stock	1,206		1,206		1,206	
Total Equity	**11,196**	**58%**	**10,377**	**58%**	**10,557**	**57%**
Book Value per Share (NT$)	85.2		79.0		80.8	

Current Ratio	221%		223%		226%
Net Cash (Debt) to Equity	14%		13%		12%

NANPAO

A World Class Chemical Materials Supplier

NANPAO

Executive Summary

- We are the World No. 1 producer of adhesives for athletic footwear, and a leading Asian supplier of chemical resins for specialty adhesives, coatings and construction products.
- We excel at providing a customized total product solution to our clients, including precision resin compound engineering and sophisticated spraying, automation & application support.
- During the past decade, we broadened the horizons of our R&D efforts, looking beyond OEM client needs to the materials science-based products that would be required by the consumers of the future.
- A rich pipeline of new products is emerging from our R&D work, which we expect will usher NanPao into its next stage of sustained, robust top and bottom line growth.

NanPao Competitive Edge

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- **Tier One Know-How:** We are involved at the design-in stage with Tier 1 athletic shoe producers, producing purpose-engineered resin adhesives, and advising on application, automation and spraying technology. In the fragmented adhesives market, these skills give us an edge over smaller, cost-focused players who compete with us in other product segments.
- **Customized & Localized Total Solution:** Precision resin engineering capability at the local level combined with sales technicians with deep customer knowledge allow NanPao to provide an integrated and specialized customer solution in all core geographies it competes in.
- **High Switching Costs:** Our products are integral to product durability.
- **Operational Efficiency:** Every single NanPao plant is profitable.
- **Strong Cash Flow and Healthy Margins:** Supports re-investment in the business.
- **New Blood and Competitor Intel:** As it has spread into new geographies and new product categories, NanPao has hired staff with specialized knowledge and experience in competing firms.

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High Value-Added Chemical Resins are an Attractive Market Segment

- Limited Cyclicality – Adhesives and coatings are direct inputs into downstream consumer discretionary and consumer staple products, offering greater opportunity for differentiation and value-add than for middle and upstream chemical producers.
- Low Capital Intensity – The capex-to-sales of key global players ranges from 2-6%.
- Secular Trend Towards Urbanization – growing middle class in emerging market countries, moving to and living in cities and increasingly buying manufactured goods.
- APAC region is the fastest growing user of adhesives globally
- Consolidation: Larger players are taking advantage of industry fragmentation to buy entry into product groups and geographies.
- Opportunities for Growth – The Global Adhesives market was roughly US$50bn in 2019 and was projected to grow by 5% annually prior to the onset of the Covid-19 pandemic.

Our Products & Applications

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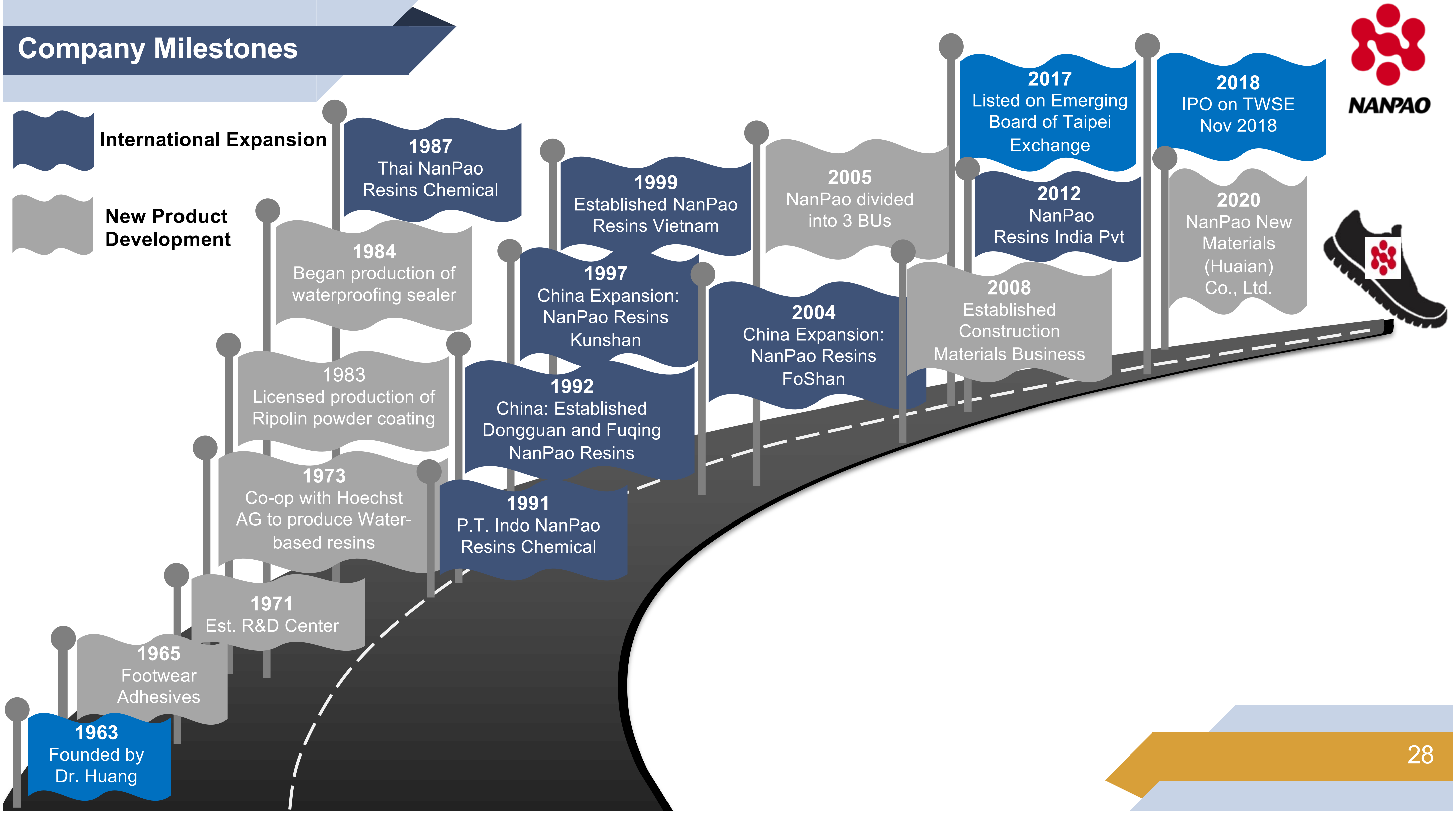
Resins and Specialty Adhesives

Coatings

Construction Materials

Company Milestones



Our Geographic Reach

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How We Will Reach Our Targets – Organic Growth

Footwear

- Market share gain amongst Global Tier 1 athletic footwear brands.
- Strong focus on increasing our share with China Tier 1 and Global Tier 2 & 3 athletic footwear brands.
- Target domestic brands in India and South Asia
- Longer term, increase our share of the athletic footwear BOM

Other BUs

- Establish manufacturing plants in South Asia.
- Robust growth in Hot Melt Glue sales for non-woven, white goods and other applications.
- Break through to Tier 1 clients in large volume consumer goods markets.
- Establish sales channels for our innovative products such as carbon fiber composite, nano coating and pressure sensitive adhesives.

How We Will Reach Our Targets

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Innovation

- Spend 2-3% of sales on R&D
- Systematic search to apply existing core technology to new product opportunities.
- R&D team composed of polymer experts with knowledge beyond resins

Acquisition

- Channel or MFG players in targeted areas for Geographic expansion – US, EMEA & India
- Target young companies with new & green technologies.
- Horizontal & vertical extension of existing business lines

NanPao Core Values

- NanPao began its existence as a family-friendly Tainan-based enterprise where management and staff work & spend leisure time together, succeeding with a strong work ethic and a strict eye on cost control.
- While the above values are still important, NanPao has shifted its management orientation to growth and dynamism, driven by the core values of innovation, passion, accountability and delegation of responsibility.
- Management has placed a strong emphasis on board, C-Suite and staff Code of Conduct, encouraging legal, safe and just behavior, plus avoidance of conflicts of interest. The Code states 'Ethical behavior is the key nutrient for business growth.'
- Unity of mission has been enabled by a clear equity ownership structure put in place by the 2nd generation members of the Huang family.

Growth Through Innovation

New Product Pipeline

Several products are emerging from our R&D pipeline, with strong potential to propel NanPao to a period of high growth over the next five years.

Carbon Fiber Composite

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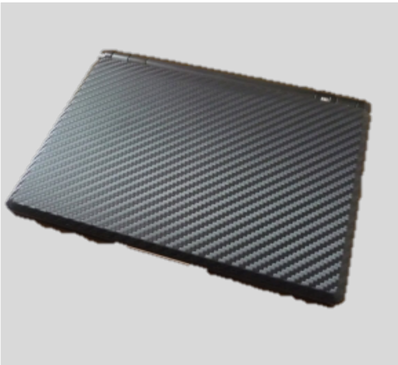
Key Points

- Near term applications with the greatest promise are automotive (B-Pillar and interior trim), laptop A & keyboard covers, as well as motorcycle helmets.
- We provide a total solution to clients, creating custom made product designs and assisting in manufacturing equipment design and remodeling of existing customer equipment.



Product Attributes

- Proprietary formable thermoset carbon fiber composite material.
- High strength, self-curing, fire retardant, halogen free and solvent free.
- The finished product has a glossy and smooth finish, without using labor-intensive grinding, patching and smoothing.

Non-Woven Adhesives

Market Fundamentals

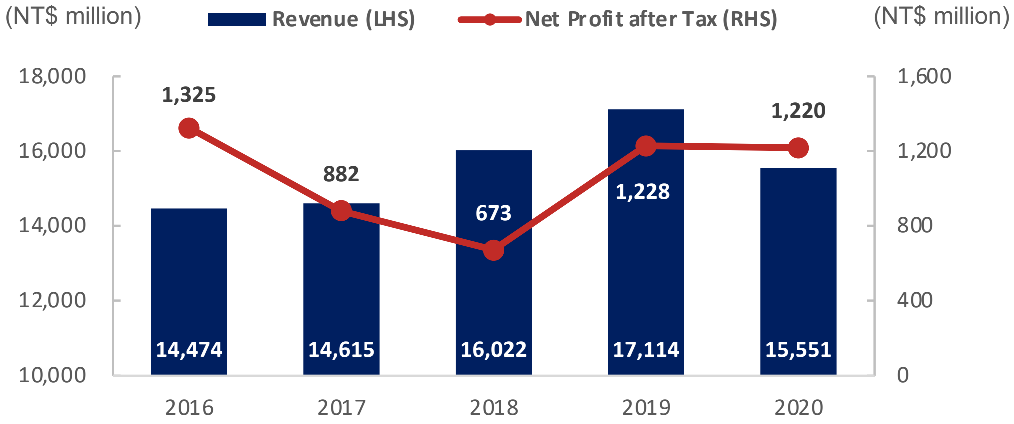
- The size of China’s disposable hygiene products market was RMB 55Bn in 2019 and has been growing by 10%+ pa. Consumption of adhesives for diapers was 190,000 to 200,000 tonnes, 85% of which was for domestic use.
- We have a 25%+ share with 2nd and 3rd tier producers and are focused on gaining share with Tier 1 producers.

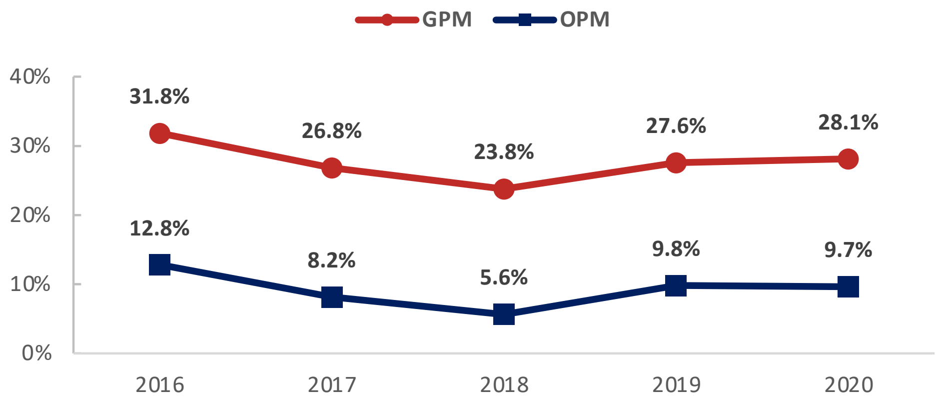
Product Innovation

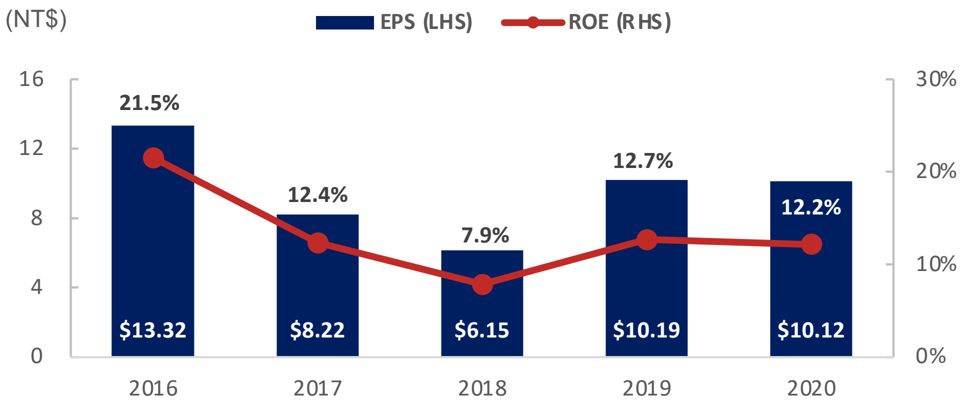
- We have developed high wet-strength adhesives to extend diaper durability even after wetting.
- NanPao ultra-soft adhesives for the elastic band and diaper outer surface provide greater comfort, remaining soft to the touch in both cold and warm weather.

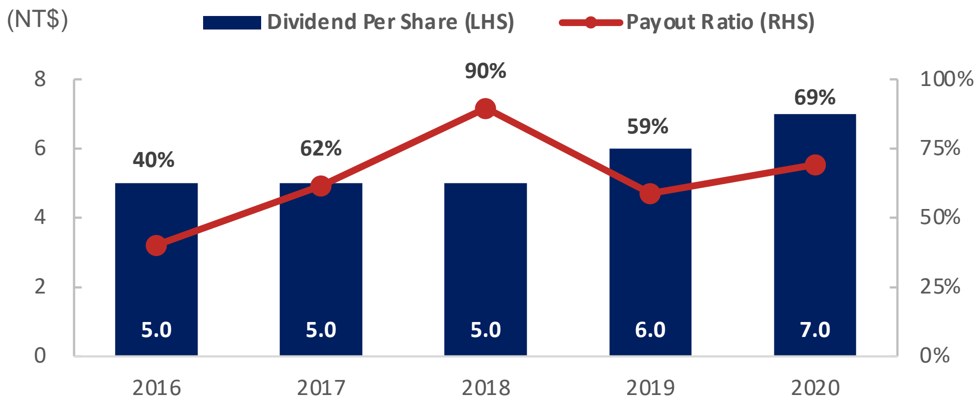
Annual Historical Financials 2016 to 2020

Key Financial Performance









Income Statement Highlights

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NT$ million	2016	2017	2018	2019	2020
Sales Revenue	14,474	14,615	16,022	17,114	15,551
Cost of Goods Sold	9,865	10,692	12,215	12,396	11,181
Gross Profit	4,609	3,923	3,807	4,718	4,370
Operating Expense	2,753	2,730	2,906	3,036	2,869
Operating Profit	1,856	1,193	901	1,682	1,502
Income before tax	1,882	1,161	1,036	1,793	1,606
Net Income	1,325	882	673	1,228	1,220
EPS (NT$)	$13.32	$8.22	$6.15	$10.19	$10.12

YoY (%)				
2016	2017	2018	2019	2020
0%	1%	10%	7%	-9%
-3%	8%	14%	1%	-10%
8%	-15%	-3%	24%	-7%
3%	-1%	6%	4%	-5%
15%	-36%	-24%	87%	-11%
22%	-38%	-11%	73%	-10%
28%	-33%	-24%	83%	-1%
26%	-38%	-25%	66%	-1%

Gross Margin	31.8%	26.8%	23.8%	27.6%	28.1%
Opex/Sales	19.0%	18.7%	18.1%	17.7%	18.4%
Operating Margin	12.8%	8.2%	5.6%	9.8%	9.7%
Net Margin	9.2%	6.0%	4.2%	7.2%	7.8%
ROE	21.5%	12.4%	7.9%	12.7%	12.2%

Balance Sheet Highlights

NT$ million	2016	2017	2018	2019	2020
TOTAL ASSETS	**13,876**	**15,199**	**17,363**	**18,398**	**19,346**
Cash	4,277	3,867	3,679	3,743	3,321
NR & AR	3,150	3,284	3,764	3,810	3,915
Inventory	1,709	2,252	2,347	2,241	2,177
Fixed Asset	2,662	3,347	3,960	4,097	4,515
TOTAL LIABILITIES	**6,746**	**7,083**	**7,008**	**7,842**	**8,150**
Long-Term Debt	1,153	1,604	1,392	1,524	1,669
AP	1,728	2,001	1,959	1,949	2,302
TOTAL EQUITY	**7,130**	**8,116**	**10,355**	**10,557**	**11,196**

% of Total Assets				
2016	2017	2018	2019	2020
100%	**100%**	**100%**	**100%**	**100%**
31%	25%	21%	20%	17%
23%	22%	22%	21%	20%
12%	15%	14%	12%	11%
19%	22%	23%	22%	23%
49%	**47%**	**40%**	**43%**	**42%**
8%	11%	8%	8%	9%
12%	13%	11%	11%	12%
51%	**53%**	**60%**	**57%**	**58%**

A/R turnover days	81	80	80	81	91
Inv turnover days	62	68	69	68	72
A/P turnover days	61	64	59	58	69
Cash conversion cycle	82	84	90	91	94

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Dividend Payout and Capex

(NT$m)	2016	2017	2018	2019	2020
Net profit	1,325	882	673	1,228	1,220
Dividends Paid	532	543	603	723	844
DPS (NT$)	5.0	5.0	5.0	6.0	7.0
Payout ratio	40%	62%	90%	59%	69%
Dividend yield[1]	2.7%	2.8%	3.1%	3.7%	4.3%
Capex	546	912	813	610	873
Capex/Sales	3.8%	6.2%	5.1%	3.6%	5.6%

Notes:
1. Based on NanPao market capitalization as of market close on 26 February 2021.

Appendix

Glossary of Key Terms

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- HMA – Hot Melt Adhesive: In industrial use, hot melt adhesives provide several advantages over solvent-based adhesives. Volatile organic compounds are reduced or eliminated, and the drying or curing step is eliminated.
- PSA – Pressure Sensitive Adhesive: Pressure-sensitive adhesive (PSA, self-adhesive, self-stick adhesive) is adhesive which forms a bond when pressure is applied to marry the adhesive with the adherend. No solvent, water, or heat is needed to activate the adhesive. PSAs are usually designed to form a bond and hold properly at room temperatures.
- PUD – Polyurethane Dispursions: These adhesives are fully-reacted, linear polymers that are emulsified and dispersed in water. It is a considered a green compound, as it does not require solvents to cure and has very low or no VOC.
- PUR – Polyurethane Reactive Adhesive: These adhesives are capable of curing by absorbing the moisture in the air. It is a considered a green compound, as it has very low or no VOC. Hot Melt Adhesives are a type of PUR adhesive.
- Tm – Melting temperature
- VOC – Volatile Organic Compounds: Compounds that have boiling points roughly in the range of 50 to 250 degrees Celsius. VOCs are regulated by law, especially indoors, where concentrations are the highest. Harmful VOCs typically are not acutely toxic, but have compounding long-term health effects.
- TPU – Thermoplastic Polyurethane: Thermoplastic polyurethane is any of a class of polyurethane plastics with many properties, including elasticity, transparency, and resistance to oil, grease and abrasion. Technically, they are thermoplastic elastomers composed of hard and soft segments.
- ZDHC: The ZDHC Roadmap to Zero Programme takes a holistic approach to tackling the issue of hazardous chemicals in the global textile, leather and footwear value chain. To learn more, see roadmaptozero.com.

Construction Products

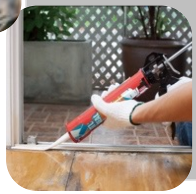
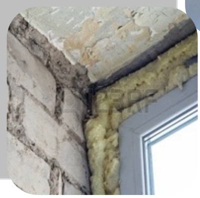
Waterproofing

- Water Tank
- Basement
- Roofing
- Gardening
- Swimming Pool
- Exterior wall
- Interior wall
- Bridge decks
- Pedestrian path
- Patios
- Decks
- Terraces



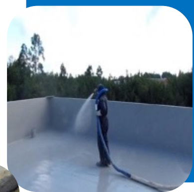
Sealant & Adhesive

- Window Frame
- Gap Filling – Industrial Areas
- Cool Storage Room
- Airport Tarmac
- Dry Wall
- Masonry
- Air Conditioning Vents
- Panel Assembly
- Transport Sealant
- Hardware

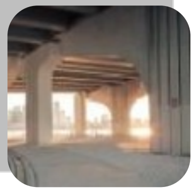
Flooring

- Industrial
- Food Processing Plant
- Gardening
- Parking Lot
- Swimming Pool
- Stadium
- Entertainment Venue
- Hospital
- Warehouse



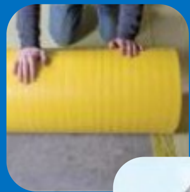

Construction Grout

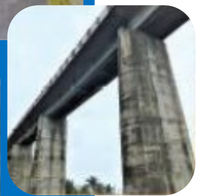
- Tile Joint Grout
- Wall Plaster
- Precast Concrete
- Tile Adhesive
- Steel Structure Grout
- Tunnel
- Harbor
- Wall & Floor Levelling
- Ceiling Rendering
- Water Tank

Advanced Materials

- Protective Coating
- Heat Insulation
- Anti-Damping
- Fireproofing
- Construction Tape
- Waterproofing Agent
- Carpet Tape
- Sound Absorption





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