Medium-Term Strategy Update Briefing Q&A Summary

April 3, 2025

◆ Questions from Takashi Enomoto, BofA Securities Co., Ltd.

Q1	I would like to clarify the market share figures for 2024 presented on page 5 of the Appendix. While markets such as Malaysia have demonstrated growth, it appears that market share expansion has plateaued in key regions including China, Türkiye, and Indonesia. Considering that Nippon Paint Group has consistently emphasized a strategy focused on market share growth, could you elaborate on the factors that led to the stagnation in these regions during 2024? Additionally, do you anticipate a resumption of market share growth in these markets from 2025 onward?
A1	Our goal is to expand market share while maintaining healthy profit margins; we do not pursue growth at the expense of profitability. In regions where we have already achieved market dominance, we carefully balance further expansion with profitability, as additional market share gains could adversely affect profitability. In the TUC segment of NIPSEA China, although there are some indications of market share growth, we currently lack sufficient concrete data to confirm this. Accordingly, we adopt a cautious stance in our estimations. In the TUB segment of NIPSEA China, we have deliberately refrained from aggressively acquiring customers whose profitability does not meet our standards, resulting in a stable market share. In contrast, the TUC segment shows varied performance across regions. While we maintain a strong market presence in Tier 0 and Tier 1–2 cities, there remains substantial room for growth in Tier 3–6 cities. Our current estimate places overall market share for the TUC segment at approximately 25%. It is important to emphasize that these figures are based on estimates. We believe that year-on-year revenue growth across business segments offers a more meaningful measure for assessing our competitive positioning. At a broader level, we have achieved revenue growth across most regions, with market share either holding steady or increasing, without any signs of decline. As such, we do not see any cause for concern at this time.

Q2	Am I correct in understanding that your strategy has not shifted toward prioritizing profitability at the expense of market share expansion?
A2	Our strategy remains consistent as we continue to pursue both market share expansion and profitability. When market conditions are favorable, we are able to prioritize market share growth to some extent while sustaining healthy margins. In contrast, under more challenging conditions, we refrain from aggressively pursuing market share through price reductions and instead place a stronger focus on maintaining profitability. This flexible approach empowers each region and business unit to strike an appropriate balance between growth and profitability. It is a fundamental element of our autonomous and decentralized management approach, which emphasizes enabling local teams across regions and business units to make sound, long-term decisions and implement initiatives tailored to their specific market conditions.

◆ Questions from Atsushi Ikeda, Goldman Sachs Japan Co., Ltd.

Q1	I have a few questions regarding AOC. Between 2022 and 2024, the market experienced a notable downturn, resulting in a decline in AOC's revenue from approximately USD 1.8 billion in 2022 to around USD 1.355 billion in 2024. The 2025 forecast indicates a further revenue decline of 0–5%. Could you provide an overview of the key factors behind this slowdown, including the impact of sustained high interest rates and potential risks associated with tariff increases? Additionally, during the investor briefing for the AOC acquisition held in October 2024, the operating profit margin for 2024 was projected at approximately 34%, whereas the actual result came in at 30.7%. In light of current revenue trends, is there a risk of a further decline in operating profit margins? Lastly, could you elaborate on your expectations regarding synergies in areas such as raw materials procurement, formulation, and sales?
A1	The potential revenue impact of tariff increases remains highly uncertain and difficult to quantify. As our business primarily operates on a local production for local consumption model, we are generally able to mitigate increases in raw material costs, such as those arising from imported inputs, through product pricing adjustments. However, if tariff-driven measures lead to broader economic slowdowns and dampen GDP growth, there may be an indirect negative impact on revenue. That said, we do not currently anticipate tariff increases to pose significant challenges in the short term. A substantial portion of AOC's business serves the infrastructure and transportation sectors, which are particularly sensitive to fluctuations in interest rates. Consequently, the elevated interest rate environment in recent years has led to delays in capital investment. While medium- to long-term demand, especially in infrastructure, remains robust, the anticipated recovery has been deferred, and sales volumes for 2025 are now expected to decline slightly from earlier projections. Despite these headwinds, AOC has consistently enhanced its profitability by building efficient and resilient business systems. In light of these ongoing efforts, we expect AOC to maintain at least its current level of operating profit margin in 2025. Regarding the operating profit margin, the 34% figure presented during the acquisition announcement in October 2024 excluded amortization of intangible assets and certain non-recurring items. In contrast, the 30.7% figure disclosed this time reflects our current estimates, including the impact of purchase price allocation (PPA). Importantly, the operating profit margin—both before and after amortization—was in line with the projections shared in October. Likewise, our EPS forecast incorporated the effects of amortization and remains consistent with the guidance provided at that time. With regard to synergies, our procurement teams have already initiated collaboration to capitalize on shared raw materials and common suppliers. We also expect that select elements of AOC's business systems will be adopted as best practices by our partner companies. That said, we maintain an autonomous operating model for each asset, and the acquisition of AOC delivers substantial standalone value. Therefore, any synergies realized should be considered incremental upside rather than a core component of the value proposition.

Q2	Following the completion of AOC's acquisition, could you share any positive developments you've observed as well as any concerns or potential issues you've identified?
A2	One month after the completion of the AOC acquisition, integration is

	progressing as expected. Since the announcement in October 2024, we have maintained close and consistent communication with AOC's management team. At this stage, we see no risk of key executive departures. On the contrary, we sense a strong commitment from the team to enhance their value by leveraging the strengths and resources of our Group platform. Our primary concerns relate to the potential impact of yen appreciation on AOC's contribution to our consolidated results, as well as ongoing uncertainty regarding tariffs. Nevertheless, considering the strong medium- to long-term demand for infrastructure investment in the expansive U.S. market, we remain confident in AOC's ability to deliver stable and sustainable profitability over the medium to long term, despite possible short-term fluctuations.

◆ Questions from Yuta Nishiyama, Citigroup Global Markets Japan Inc.

Q1	I would like to ask about your approach to cost allocation. Considering the challenging market conditions across regions, I assume the company is actively managing both variable and fixed costs. Could you clarify which specific cost items are being reduced? In particular, NIPSEA China fell short of its targeted operating profit margin in the fourth quarter of FY2024. Are additional cost-saving measures being considered in response? Moreover, do you see any risk that these cost reductions could compromise the foundation for future market share expansion?
A1	We conduct ongoing reviews of our cost structure. At NIPSEA China, the focus has been on balancing profitability and growth, rather than pursuing margin improvement as an end in itself. For example, if pursuing a 15% operating profit margin is deemed to hinder long-term growth, we may determine that a 12% margin is more appropriate. Striking this balance is central to our management approach, with local management teams in each region empowered to make well-informed decisions. Following these decisions, Wee Siw Kim conducts a detailed review of cost allocations, examining items such as personnel expenses, and poses questions such as, "Is this appropriate?" or "Can this cost be shared across multiple business units?" It is important to aim for market share expansion while maintaining profitability, rather than as a standalone objective. While enhanced sales promotion activities can drive market share growth, we are prepared to scale back if the returns do not justify the investment. Notably, whereas one of our local competitors in China operates with single-digit profit margins, we have consistently maintained double-digit margins. This provides us with the flexibility to accommodate a degree of trial and error in our growth strategies. As I have emphasized on multiple occasions, brand strength does not erode overnight. However, in certain regions, it is essential to consistently allocate a portion of revenue toward brand investment. For instance, DuluxGroup, despite holding a market share of over 50%, continues to view ongoing brand investment as critical. Conversely, in regions under NIPSEA Group, brand investment is approached with greater flexibility and adjusted in response to prevailing market conditions. While there is no one-size-fits-all formula, we remain committed to implementing the right initiatives in the right way, tailored to each market, and delivering meaningful results.

◆ A question from Shigeki Okazaki, Nomura Securities Co., Ltd.

Q1	At the investor briefing announcing the acquisition of AOC in October 2024, your company projected AOC's 2024 revenue at approximately 200 billion yen, with operating profit expected to be just under 70 billion yen. If AOC's 2025 revenue on a non-GAAP basis remains flat year-on-year, is it reasonable to assume that operating profit will also remain flat or decline slightly? Additionally, referring to AOC's business segments outlined on page 22 of the presentation, it appears that applications in EVs and wind power facilities are being affected by the current challenging market conditions in the United States. Could you share your views on this?
A1	AOC's 2024 revenue came in slightly below the forecast announced last October, and the 2025 revenue outlook ranges from flat to a year-on-year decline of up to 5%. While pricing improvements are expected, sales volumes are likely to decrease due to continued weakness in overall market conditions. Despite the projected slight decline in revenue, we anticipate a modest improvement in the EBITDA margin by enhancing marginal profit under these circumstances. As shown on page 9 of the presentation, the U.S. market growth forecast for 2025 is 5% in value terms and 3% in volume terms. While current market conditions in the United States remain uncertain, we remain confident in the medium- to long-term outlook for infrastructure demand. We continue to view the U.S. market as fundamentally robust and resilient. Opinions vary regarding the timeline for the market recovery, but we are hopeful and eagerly anticipating the earliest possible rebound. In the meantime, we have no particular concerns regarding AOC's stable cash generation and consistent contribution to earnings.

◆ A question from Atsushi Yoshida, Mizuho Securities Co., Ltd.

Q1	I would like to ask about the current situation in China. Following the implementation of economic stimulus measures by the Chinese government, newly built housing prices have shown signs of recovery since around the end of 2024. Have there been any notable changes in market trends from January to March and the outlook for the TUC and TUB segments? While I assume that the recent U.S. tariffs will have limited direct impact on your operations within China, could you highlight any potential indirect effects or points of caution that you are monitoring?
A1	At this time, I will refrain from commenting on the trends from January to March, as we plan to provide a detailed update during the first-quarter FY2025 earnings conference in May. While the overall market environment remains challenging, our business model has proven to be highly resilient. We remain confident in the strength of our brand, which offers a competitive advantage that is not easily replicated. Furthermore, we continue to see solid growth in Tier 3–6 cities, where there is still considerable room for expansion. While we do not currently see reasons for optimism regarding the broader economic environment, we believe that our business performance can be viewed as somewhat independent of macroeconomic conditions. The potential impact of tariff increases extends beyond our operations in China. However, since our businesses primarily follow a local production for local consumption model, the direct effects are likely limited to potential price pass-throughs resulting from higher costs of certain imported raw materials. The more significant impact would

	arise from the broader economic environment. If GDP and overall economic growth were to slow, there is a risk that paint demand could be affected by weakened consumer sentiment, even though paint is generally considered an essential good. At present, we are closely monitoring the situation; however, we remain confident in the resilience of our business model, which is underpinned by stable underlying demand. As a result, we view the likelihood of significant volatility in our operations as low. This resilience continues to be one of our core strengths.

◆ Questions from Yasuhiro Shintani, SMBC Nikko Securities Co., Ltd.

Q1	Could you share your perspective on AOC's intrinsic competitiveness? Specifically, what factors have enabled AOC to sustain an EBITDA margin that not only exceeds that of typical paint manufacturers but also remains generally higher compared to some of its competitors? We would appreciate your insights on contributing elements such as a higher proportion of premium products in its portfolio, cost efficiency, the role of advanced business systems, the composition of its customer base, or any other strategic drivers.
A1	I will address the question regarding AOC's competitiveness to the extent that it does not disclose sensitive information to competitors. AOC operates in an industry where typical operating profit margins range between 15% and 20%. Prior to the appointment of the current CEO, AOC's margins were generally in line with this industry average. The company's strong profitability is not primarily driven by advanced technologies, but rather by its strategic locational advantages and strong customer relationships. As industry consolidation progresses and the number of competitors declines, overall sector profitability has improved, with AOC achieving notably high margins as a result. AOC's high profitability is supported by its value-driven, robust business systems, which are built around four core pillars: commercial excellence, new product development, procurement, and lean operations. Lean operations, in particular, are a critical focus for paint manufacturers, and AOC has consistently sustained strong profitability through efficient factory management and effective waste reduction. AOC's distinctive formulation capabilities have been instrumental in deepening customer relationships, allowing the company to enhance profitability through flexible and tailored formulation design. As AOC's products represent a relatively small portion of its customers' overall cost structure, the company has been able to foster strong, long-term partnerships by consistently delivering high-performance solutions that offer both reliability and convenience. Industry consolidation has increased entry barriers, further reinforcing AOC's competitive position. For example, building a new chemical plant in the U.S. poses significant challenges, whereas AOC has been able to operate its existing facilities efficiently through effective maintenance practices, enabling the company to capitalize on its first-mover advantages. By pursuing profit growth while maintaining strong alignment with customer needs, AOC has established a distinctive management approach characterized by clear differentiation.

Q2	I understand that AOC's strong profitability is largely supported by its formulation expertise. To what extent do factors such as ease of price pass-through and cost-

	reduction capabilities contribute to this performance? Additionally, you previously noted that AOC's European operations have room for profitability improvement. Could you share an update on the progress to date? Do you believe it is feasible to raise profitability in Europe to a level comparable to that of the U.S. operations?
A2	AOC's formulation expertise is a key differentiator, with its products incorporating unique characteristics that are safeguarded through strict confidentiality. This approach makes replication by competitors difficult and serves as an effective barrier to entry. AOC is actively working to expand sales of its formulations in the European market. However, a significant portion of the raw materials used by customers in the region currently consists of general-purpose items, making European customers more price-sensitive compared to their counterparts in the U.S. That said, profitability in Europe is showing steady improvement and may continue rising moving forward. As for achieving profitability levels comparable to those in the U.S., the company is monitoring the situation closely. Nonetheless, AOC's management and our team share a strong commitment to sustaining and further enhancing profitability in the European market.

◆ A question from Yasuhiro Nakada, JP Morgan Securities Co., Ltd.

Q1	I would like to ask about your approach to maximizing PER (valuation), as outlined on pages 13 and 14 of the presentation. If the recent upward revision to company guidance does not result in an increase in your stock price, there is a risk that your PER valuation could decline further. Throughout your EPS growth journey, your stock price has been influenced by a range of factors. At times, the paint business is evaluated independently from other companies in the chemical sector; your valuation multiples have occasionally been more closely aligned with those of consumer goods companies, similar to a U.S. peer; and a discount appears to have been applied due to your exposure to China. In the meantime, the proportion of Chinese operations within your consolidated operating profit has declined following the AOC acquisition. How does your company believe it should be evaluated by the capital markets? Additionally, could you share your perspective on PER valuation, including how you communicate your positioning to investors and ensure these efforts are appropriately reflected in the stock price?
A1	Our PER valuation is a frequent topic of discussion at the Board of Directors. While I pursue PER maximization as my mission, I am not aiming for excessively inflated market multiples. One of our key priorities is to steadily build and accumulate tangible results. As I mentioned earlier, the acquisition of AOC represents just the beginning. I believe it is essential to steadily build a portfolio of low-risk, profit-contributing assets while maintaining financial discipline. This approach is fundamental to strengthening investor confidence and trust in our management. Our existing businesses continue to grow steadily, and we recognize the strength of our platform, supported by a management team purely committed to maximizing shareholder value. We believe this approach provides a strong sense of confidence and stability across multiple dimensions. Our management is firmly committed to leveraging Japan's low-interest rate environment through the prudent use of financial leverage, with active support

	from the Board of Directors in encouraging sound and appropriate risk-taking. We are dedicated to realizing this management philosophy and aspire to deliver value to our shareholders by positioning ourselves as an "EPS Compounding Machine," transcending the conventional scope of a paint company. This unwavering commitment serves as the cornerstone of our management strategy. While using cash for share buybacks, as practiced by some U.S. competitors, is certainly a valid strategy, our management takes a different approach. We are committed to driving EPS compounding through both organic and inorganic initiatives. By positioning ourselves as an "EPS Compounding Machine," we aim to foster conviction and trust, an approach that is shared across our Board of Directors, which comprises a majority of Independent Directors. Our focus extends beyond short-term gains. We are dedicated to consistently delivering on our commitments and aligning our actions with our words. Through this disciplined approach, we strive to earn fair recognition and valuation from the capital markets.

◆ A question from Yifan Zhang, CLSA Securities Japan Co., Ltd.

Q1	I would like to ask about the current situation in Indonesia and Türkiye. Given the ongoing political uncertainties in both countries, could you share your assessment of the potential impact on your business operations, as well as the effects of currency depreciation on your performance in these markets?
A1	We are closely monitoring developments in Türkiye and Indonesia, including the potential impact of political uncertainties. The depreciation of the Indonesian rupiah has negatively affected our consolidated results by reducing the yen-based contribution from our operations in Indonesia. However, the impact on local business activities, operating under a local production for local consumption model, remains unclear at this stage, in part due to the influence of Ramadan in March. We plan to provide a more detailed assessment during the first-quarter FY2025 earnings call in May. At present, however, we do not see any immediate cause for concern. The situation in Türkiye is similar. We anticipate that our operations will not be significantly impacted once protest activities subside to some extent. That said, the environment remains unpredictable, and the geopolitical risks inherent to emerging markets require careful monitoring. Additionally, we remain cautious about the potential effects of exchange rate fluctuations and the implications of hyperinflationary accounting. There is also a possibility that local economic conditions could influence consumer purchasing behavior. Nevertheless, one of our core strengths is the resilience of the paint business as demand does not fundamentally disappear. While short-term fluctuations may occur, we do not anticipate any major concerns with respect to our medium- to long-term strategy.

◆ Questions from Shunta Omura, UBS Securities Co., Ltd.

Q1	Since Donald Trump's victory in the presidential election, how has your company been preparing for potential tariff increases, given the uncertainty surrounding their impact? Specifically, could you elaborate on any initiatives related to inventory optimization, cost management, and your commitment to sustaining

	EPS growth in the event of an economic slowdown? Additionally, do you view a potential economic downturn as an opportunity for M&A, given the likelihood of more attractive acquisition valuations?
A1	While we have not undertaken any specific measures following the presidential election, we do increase inventories of raw materials and other supplies in the U.S. and other countries when facing potential tariff hikes. In the meantime, since our business primarily follows a local production for local consumption model with limited reliance on exports, the direct impact of tariff increases is difficult to quantify. In the U.S., for example, one vendor initially announced unilateral price increases unrelated to tariffs, only to retract the notice the following day. This highlights the rapidly evolving nature of the situation, and we are continuing to monitor developments closely. As a result, we are preparing to pass on raw material cost increases through pricing, while closely monitoring market conditions to determine the appropriate timing and extent of adjustments. In the U.S. paint market, where the proportion of imports is relatively low, tariff hikes have a limited impact on the competitive landscape. Moreover, paint manufacturers typically rely on similar raw materials. Given these factors, we believe the risk of any fundamental impact on our business from tariff increases remains relatively low. In response to stock price declines in Indonesia and export restrictions to the U.S., we are prioritizing the avoidance of unnecessary expenditures and the maintenance of operational efficiency. We remain fully committed to achieving the targets set at the beginning of the fiscal year by consistently executing the necessary actions. In Asia, cost control is deeply embedded in the DNA of NIPSEA Group, and similar principles are applied across AOC, DuluxGroup, and Japan Group. Rather than relying on special measures, we believe that disciplined adherence to fundamentals is key. Acquisition opportunities vary depending on the characteristics of the target. For instance, businesses with high exposure to tariff risks require particularly careful evaluation. At the same time, we consider the long-term resilience of the U.S. market as a key factor when assessing potential acquisitions. In fact, the current environment may offer unique opportunities, and we remain strategically focused and disciplined in our assessments. There is no one-size-fits-all rule for acquisitions; we place strong emphasis on thoroughly evaluating each case to ensure that acquisitions are a means to an end, not an objective in themselves. Our focus remains on acquiring high-quality businesses at reasonable valuations. We aim to earn and sustain the trust of our investors in our management.

Q2	Am I correct in understanding that your company is currently increasing its inventory of raw materials?
A2	Raw material inventory levels vary by region; however, in the U.S., we are selectively increasing inventory for certain raw materials to mitigate the potential impact of tariff increases. That said, we are not building up product inventory, given the limited shelf life of our products. Additionally, our businesses generally operate with low working capital requirements. Taking these factors into account, we do not expect the current inventory buildup to have a significant impact on profitability. Moreover, we remain disciplined in managing working capital to avoid excessive accumulation that could lead to negative cash flow.

◆ Questions from Yuta Nishiyama, Citigroup Global Markets Japan Inc.

Q1	I would like to request an update on the medium-term growth forecasts for each asset. During the April 2024 investor briefing on your Medium-Term Strategy, you indicated that a three-year period would serve as a general benchmark for this strategy. Based on the results from the first year and the performance outlook for the second year, could you provide an overview categorizing which assets are progressing as planned and which are lagging behind? Additionally, if any assets require slight course corrections, please specify which ones. Furthermore, in reviewing the Medium-Term Strategy briefing materials released in 2024, it appears that certain market assumptions for India and elements of the strategy for Türkiye have been revised. Could you elaborate on these adjustments?
A1	Our medium- to long-term organic growth potential remains intact. For instance, revenue growth in the TUC segment of NIPSEA China was a modest 6% in 2024. However, this target was set by local management based on a careful assessment of market potential and the need to balance growth with profitability. It was not a top-down directive from me, but rather the result of discussions between the local management teams and Wee Siew Kim. Overall, the global economic uncertainties stemming from tariff increases may have a short-term negative impact on our business operations. As a result, we anticipate potential challenges over a two- to three-year timeframe. That said, the CEOs of our partner companies remain fully committed to their mission of driving profitable growth. Consequently, we currently do not have any assets whose performance we would classify as weak. Please note that our growth forecast reflects both our strong commitment to achieving these targets and our consideration of prevailing macroeconomic conditions. In India, we continue to face challenges, particularly due to the entry of new competitors in the decorative segment, and the overall market environment remains somewhat difficult. Compared to August 2023, when we announced the buyback of our India businesses, we recognize that market conditions have become challenging. Türkiye is currently experiencing complex market conditions. We expect a temporary economic slowdown due to the impact of inflation and interest rate hikes, which may lead to a deceleration in the inventory accumulation driven by the conversion of currency into physical goods. The outlook for the Turkish market remains highly uncertain and continues to be shaped by both positive developments, such as the anticipated end of hyperinflationary accounting, and ongoing challenges, including episodes of civil unrest. DuluxGroup's Pacific segment continues to perform steadily, while the focus in its Europe segment is on the recovery of the French market, where we expect at least flat growth in 2025. Although the market remains uncertain—partly due to the ongoing conflict between Russia and Ukraine—we remain committed to achieving our 2025 targets for both growth and profitability.

Q2	I understand that NIPSEA China's operating profit margin is expected to improve from 2025 onward, driven by changes in the operational model of its trading business. However, the medium-term operating profit margin forecast remains unchanged from previous guidance. Is this due to the anticipated revenue growth in Tier 3–6 cities, where margins tend to be relatively lower?

A2	As FY2025 marks an inflection point, we anticipate a modest improvement in operating profit margin of approximately 1% to 2%. However, this change is not substantial enough to warrant adjusting the directional arrow representing our medium-term growth trajectory. We do not expect a steady upward trend in margins over the medium term. Instead, our focus is on maintaining stable margins and securing profits, even under challenging market conditions. Even if revenue increases, we will not aggressively pursue operating leverage. Rather, we aim to achieve sustainable growth through continued, long-term investments. Accordingly, our approach to setting medium-term targets may differ somewhat from the strategy used for short-term performance objectives.

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