Medium-Term Strategy (Released in April 2024)

2024–

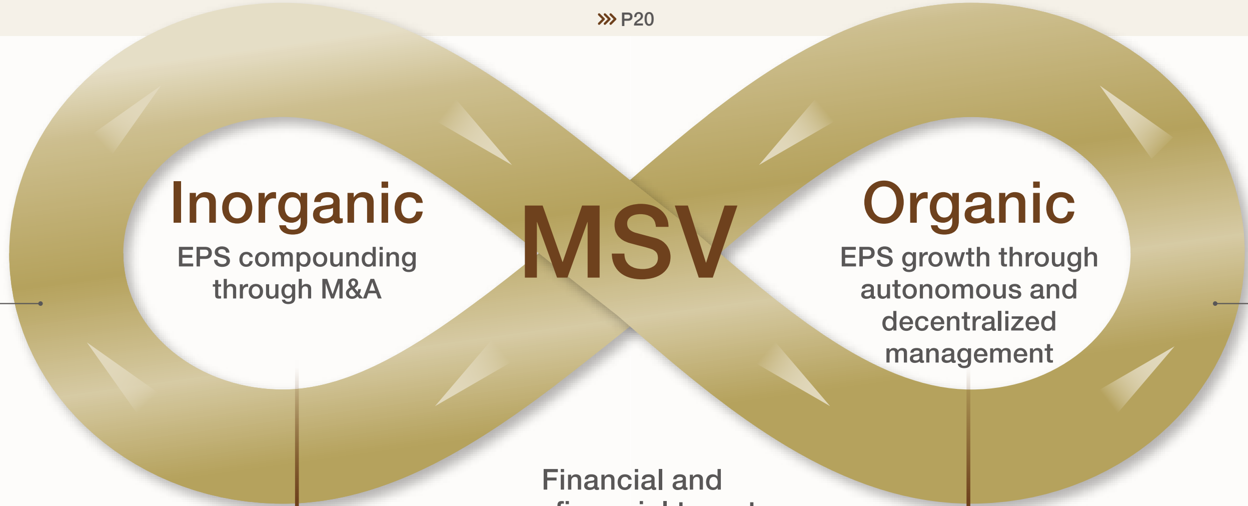
As Asset Assembler, striving to achieve MSV in the long term, not bound by a three-year timeframe

In April 2024, we revisited the advantage of our Asset Assembler model and unveiled a Medium-Term Strategy focused on sustainable EPS compounding across both organic and inorganic growth. For organic growth, based on our 2023 business portfolio, we are targeting a medium-term consolidated CAGR of 8-9% in revenue and 10-12% in EPS. For inorganic growth, we are focused on M&A that ensure safe and sustainable EPS compounding. By securing conviction from the capital markets towards our capacity and track record in EPS compounding, we aim to raise PER and thereby achieve MSV from a long-term perspective.

Asset Assembler model

P20

Accumulating excellent assets, including newly acquired brands, talent, and technology



Aggressively sharing and leveraging technologies, channels, sourcing, know-how, brands, etc., across the Group

Financial and non-financial targets

Acceleration of EPS compounding with active pursuit of M&A opportunities

Target companies can be of any region, business area, or size, provided they offer low risk and good returns

Carefully judging the balance between risk and valuation for M&A, allowing for stable EPS compounding

Consolidated medium-term CAGR assuming our 2023 business portfolio*

Revenue	HSD (c.+8-9%)
EPS	LDD (c.+10-12%)

Striving to unlock the full potential of our assets

* 2023 portfolio including the two India businesses (NPI and BNPA) and Alina (Kazakhstan)

By maintaining sustainable EPS compounding, we aim to gain conviction from the capital markets in our capacity and track record of compounding EPS, thereby serving to enhance PER

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EPS compounding through organic growth

EPS compounding through market +α growth

For organic growth, we leverage the advantage of our autonomous and decentralized management, fostering autonomous growth of each asset through low-cost and strong cash generating ability, and the utilization of operating leverage. Simultaneously, we aim for EPS compounding through market +α growth by harnessing our Group's platform, creating synergies among assets and achieving breakthroughs.

Growth forecast by asset

			2020-2023 results		Medium-term forecast (in LCY)	
			Revenue CAGR (in LCY)	2023 OP margin (Tanshin)	Revenue CAGR	2026 OP margin[*1] (vs 2023)
Japan Group			+7.5%	9.5%	+0–5%	↗
NIPSEA China	Segment total		+12.4%	12.5%	c. +10%	→
		TUC	+23.5%[*2]	–	+10–15%	–
		TUB	+0.5%[*2]	–	c. +5%	–
NIPSEA Except China	Segment total		+32.5%	17.4%	+15–20%	→
		Singapore Grp. Malaysia Grp. Thailand Grp.	+17.8%	–	+5–10%	→
		PT Nipsea (Indonesia)	+12.6%	32.9%	c. +10%	→
		Betek Boya (Türkiye)	+87.3%	10.9%	c. +10%	(→)[*3]
		NPI/BNPA (India)	(For reference) +26.6%[*4]	(For reference) 4.7%[*4]	c. +10%	→
		Alina (Kazakhstan)	(For reference) +20.6%[*4]	(For reference) 20.2%[*4]	c. +10%	→
DuluxGroup	DGL (Pacific)		+5.7%[*5]	12.8%	c. +5%	→
	DGL (Europe)		+12.4%[*6]	4.4%	+5–10%	↑
Dunn-Edwards (U.S.)			+2.5%	–	c. +5%	↗

*1 ↑ : ≧+2%, ↗: +1–2%, →: –1–+1%, ↘: –1– –2%, ↓ : ≦–2% *2 2020 figures are based on the former segmentation (DIY/Project)
*3 Subject to change due to the impact of hyperinflationary accounting
*4 The 2020-2023 results are unaudited pro forma figures. The 2023 OP margin (Tanshin) was calculated using the exchange rates of 1 INR=1.74 JPY and 1 KZT=0.31 JPY
*5 2020 figures include Craig & Rose and Maison Deco *6 Calculated using 2022-2023 figures

Market growth forecast by asset

		Market growth forecast[*1] (2024-2026)	
		Volume basis	Value basis[*2]
Japan Group	Decorative	-1%	+1%
NIPSEA China	TUC	+3%	+1%
	TUB	+1%	+2%
NIPSEA Except China	Singapore Grp. Malaysia Grp. Thailand Grp.	Singapore +1% Malaysia +3% Thailand +2%	Singapore +1% Malaysia +5% Thailand +2%
	PT Nipsea (Indonesia)	+3%	+6%
	Betek Boya (Türkiye)	+1%	+7%
	NPI (India)	+6%	+4%
	Alina (Kazakhstan)	+3%	+4%
DuluxGroup	DGL (Pacific)	–+1%	+2–2.5%
	DGL (Europe)	±0–+1% (France)	+1–3% (France)
Dunn-Edwards (U.S.)		+2% (overall U.S.)	+5% (overall U.S.)

*1 Internal estimates
*2 Including the impact of volume changes

»» P48 Our Strategy by Asset Presented by Co-President Wee

»» For more information including the medium- to long-term growth strategy of each asset, please refer to the "Medium-Term Strategy" briefing presentation on our website.

EPS compounding through inorganic growth

Accumulating excellent assets that contribute to EPS accretion from Year 1

Regarding inorganic initiatives, we will leverage our advantage of lean headquarters to sustainably compound EPS through M&A endeavors targeting companies of any region, business area, or size, provided they offer low risk and good returns. By assessing the balance of risk and returns, we will pursue safe and sustainable EPS compounding that contribute to EPS accretion from Year 1 post-acquisition.

»» P21 Competitive Advantage of Asset Assembler Model

»» P47 M&A Strategy

Finance strategy aimed at accelerating EPS compounding »» See page 44.
As Asset Assembler, pursue a finance strategy to drive EPS compounding

Sustainability initiatives that drive EPS and PER »» See page 31.
Aim to achieve MSV by increasing the earnings and capital markets' expectations via sustainability activities

Our approach to maximizing PER »» See page 29.
Elevate capital markets' expectations by effectively communicating our equity story as Asset Assembler

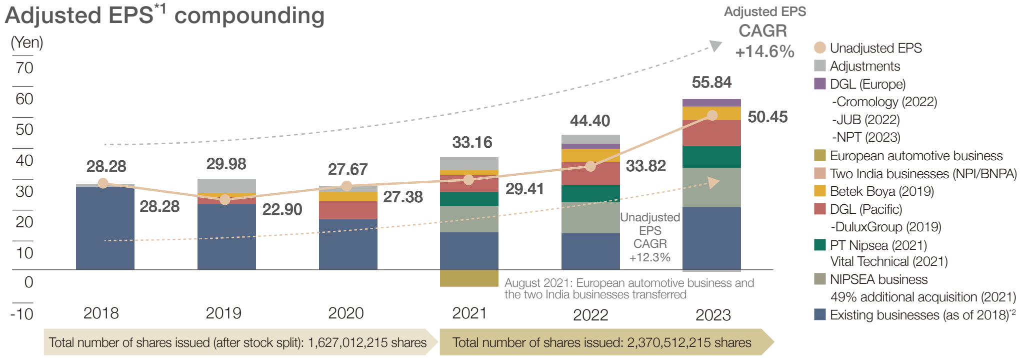
Medium-Term Strategy (Released in April 2024)

Our approach to compounding EPS

Successfully and substantially compounded EPS by driving organic and inorganic growth

Alongside the steady organic growth of existing assets, we pursue inorganic growth through safely and continuously compounding EPS by skillfully utilizing M&A, thereby achieving sustainable EPS compounding.

Adjusted EPS[*1] compounding



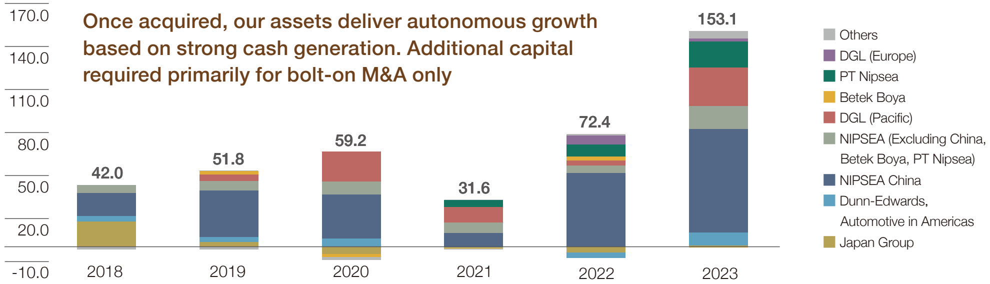
*1 Calculated using simple sum of earnings after excluding one-off factors with major impacts (impairment, M&A expenses, provisions, hyperinflationary accounting, etc.) and dividends received from the Group subsidiaries; for 2018-2020, calculated using the number of shares adjusted for the stock split conducted in 2021

*2 Japan Group, automotive in Americas, automotive in Asia, overseas marine, Dunn-Edwards, European automotive business, NIPSEA business (51% ownership)

Each of our assets has strong cash flow generation capabilities, characterized by high margins and low capex requirements

Each asset features low capex requirements, along with business model and earnings power largely unaffected by market turbulence. They are working on expanding market share while stably generating cash flows.

Cash flow[*3] generation



*3 Calculated as simple sum of Operating CF (excl. dividend income from Group subsidiaries) – CAPEX (excl. M&A and lease expenses)

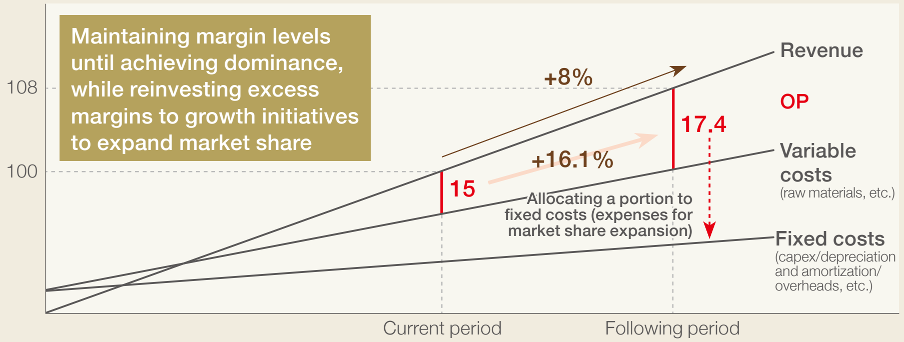
Illustrative operating leverage model

The paint business, characterized by its relatively low requirements for fixed costs including capital expenditures, typically facilitates the generation of leverage effects. This enables us to achieve operating profit growth that surpasses revenue growth. However, these effects can vary across different regions and business segments. In a standard model (see the illustration below), variable costs account for approximately 50% of revenue, while fixed costs constitute around 35%, leading to an operating profit margin of 15%. Under normal conditions, increases in fixed costs and capital expenditures are outpaced by revenue growth. Consequently, an 8% growth in revenue can result in a 16% increase in operating profit.

While operating under this illustrative model, we aim to strategically reinvest our excess margins into growth-oriented initiatives, such as advertising and sales incentives, maintaining our operating profit margin levels. This strategy remains vital until we reach market dominance, which we define as securing a market share of approximately 50-60%; we will emphasize growth-focused investments during this phase. Furthermore, depending on the competitive landscape, additional investments might still be needed even after achieving market dominance.

We have established financial guidance aiming for a medium-term consolidated CAGR of 8-9% in revenue and 10-12% in EPS, factoring in the considerable effects of operating leverage. However, we remain committed to continuing our growth-focused investments towards achieving MSV from a long-term perspective.

Our illustrative model



	Current period		Following period
Revenue	100	+8%	108
Variable costs (raw material and other variable costs)	-50	+8%	-54
Fixed costs			
Capex/depreciation and amortization	-3	±0%	-3
Overhead	-32	+5%	-33.6
OP	**15**	**+16.1%**	**17.4**
OP margin	**15%**	**+1pp**	**16%**