FY2025 1Q Financial Results Conference Call Q&A Summary
May 14, 2025

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

Q1	NIPSEA China's TUC segment saw its revenue grow by 5% during the quarter. While this is relatively robust given the 15% growth recorded in the same period last year. Could you elaborate on the key drivers behind this resilience in topline growth? You also touched upon an improvement in the raw material cost contribution ratio. To what extent have the benefits from lower input costs been passed on to customers through pricing adjustments? Have you generally avoided significant price reductions, or kept them limited, as part of a strategy to prioritize market share expansion?
A1	NIPSEA China's TUC segment delivered 5% revenue growth this quarter, following the strong 15% growth achieved in the same period last year. This performance is particularly reassuring in light of the current challenging market environment. We also recorded volume growth across all city tiers, from Tier 0 and Tier 1–2 cities to the broader Tier 3–6 markets. On the pricing front, rather than pursuing aggressive price cuts in response to lower raw material costs, our approach has been to focus on segments where we can drive volume growth without sacrificing pricing. This strategy has allowed us to capture benefits from both an improved product mix and favorable raw material costs. Rather than focusing solely on market share gains or margin expansion, our strategy remains centered on delivering profitable growth by maintaining a careful balance between the two.

Q2	Have you observed any notable shifts in the market environment this quarter, for example, any signs of easing competitive intensity?
A2	The market environment remains difficult. In China's TUC segment, we currently hold approximately a 25% share, with the second- and third-largest players each in the high single-digit range. While this does not constitute market dominance, it reflects a very strong competitive position, with further room for expansion. The competitive landscape varies by region and context, with local Chinese companies and Western players from the U.S. and Europe each presenting different dynamics. While some local players have shown growth, it has not been material. Even under challenging conditions, we continue to see healthy demand, particularly in the repainting segment. We believe our strong brand equity positions us well to steadily gain share. That said, the competitive environment remains intense, and our local teams are responding with increased vigilance. We see our underlying strengths clearly reflected in our recent performance.

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

Q1	Turning to AOC, although only one month of its performance is reflected in the first-quarter results, progress so far appears steady. How would you assess the integration and performance at this stage? Looking back, AOC consistently delivered strong results throughout 2024, with EBITDA exceeding the original guidance. Is this positive momentum continuing into the current year? For 2025, guidance points to flat revenue or a potential decline of up to 5% year-on-year.

	Could you share your latest outlook in light of current market demand trends? And finally, do you believe AOC's high profitability levels are sustainable going forward?
A1	Our assumptions for AOC have remained largely unchanged since April. The company operates under a local production for local consumption model, very much in line with our Group's approach, which minimizes exposure to imports and exports. As a result, we do not anticipate any material impact from changes in U.S. tariff policy. On the demand side, while interest rate cuts would be supportive of a recovery, the pace of monetary easing in the U.S. has been slower than expected, leading to a more gradual economic rebound. Against this backdrop, we continue to project AOC's revenue to remain flat or decline by up to 5% year-on-year, with margin levels expected to be maintained. In terms of profitability, AOC has remained focused on high-margin product segments by leveraging its established business system. This approach supported an operating profit margin of 35.6% in the first quarter (before PPA adjustments), in line with our full-year expectations. While we are not anticipating a significant margin uplift in the current environment, we believe this level of profitability is fully sustainable.

Q2	We understand that your existing businesses have continued to focus on market share expansion, even amid a challenging environment, with a view toward capturing outsized benefits once the market recovers. Is AOC taking a similarly forward-looking approach, such as deepening engagement with existing customers, acquiring new accounts, and driving profitability improvements in Europe, as it positions itself for future growth despite the current headwinds, including the slow pace of U.S. interest rate cuts?
A2	AOC is not resting on its current margin levels and is actively pursuing further improvement. In Europe, where its market share remains relatively modest and general-purpose products still account for a sizable portion of the portfolio, the company is implementing a strategy to enhance customer value by shifting toward more customized solutions. In the U.S., margin expansion is expected to come through operating leverage as volumes recover. Meanwhile, in Europe, an increasing mix of customized products, enabled by broader adoption of AOC's business model, is anticipated to support higher margins over time. That said, AOC is not targeting margin improvement for its own sake. Rather, the focus remains on achieving sustainable, profitable growth. Despite operating with limited resources, the company continues to explore strategic initiatives that will position it well to capitalize on market recovery. One of the key attractions of AOC has been its ability to deliver stable performance even in a difficult market environment, an important factor in our decision to invest. Looking ahead, we will continue to leverage AOC's core strengths to deliver consistent results.

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

Q1	I'd like to turn to the NIPSEA Except China segment. While the segment has continued to deliver high margins relative to original guidance, revenue growth appears to be somewhat behind expectations in the current challenging market environment. Could you provide an update on performance by region, your outlook for the second quarter and beyond, and any insights into underlying demand trends? Additionally, how should we think about the sustainability of these strong margins going forward?
A1	To begin, we'd like to emphasize that there is no need for major concern regarding the full-year outlook based solely on first-quarter results. Within the NIPSEA Except China segment, Betek Boya now represents a larger portion of the overall business. While its first-quarter revenue came in below the full-year growth target of +5–10%, this was primarily due to elevated interest rates and increasingly challenging market conditions in Türkiye, factors we continue to monitor closely. In other markets, including Indonesia, we expect revenue growth of around 5%, and at this stage, we do not see any material concerns. On a more granular level, while there are some uncertainties related to the potential impact of U.S. tariffs on our automotive coatings business in Thailand, the outlook for the decorative paints segment remains relatively stable. We anticipate that margins in this segment may be somewhat lower than 2024 levels, primarily due to the situation in Türkiye. That said, we do not see any major concerns at this stage. While we remain mindful of potential risks over the remainder of the year, including political instability, our businesses continue to demonstrate a certain degree of resilience. As such, we are not taking a pessimistic view of the outlook at this time.

Q2	Is it fair to say that, despite some regional fluctuations, the company remains well on track to achieve its full-year earnings forecast overall?
A2	While exchange rate fluctuations remain outside our control, we currently expect that performance at the local level, across countries and business segments, will generally remain in line with the levels indicated in our February guidance.

◆ Questions from Atsushi Yoshida, Mizuho Securities Co., Ltd.

Q1	I'd like to ask about the Japan segment. The operating profit margin for the first quarter came in at 9.1%, an improvement from 8.0% in the same period last year. Could you walk us through the key factors driving this margin expansion? Additionally, the initial full-year guidance calls for a 9.6% operating margin, roughly in line with the 2024 level. Based on current trends, do you see potential for the margin to exceed last year's level?
A1	While it's difficult to draw definitive conclusions about full-year performance based solely on first-quarter results, we believe the Japan segment has meaningful potential to achieve an operating profit margin above 10%. The company split by line of business, *bunshaka*, has delivered certain benefits; however, we see further opportunities to enhance operational efficiency, including the elimination of redundancies and more effective resource allocation. We are not satisfied with the 9% margin recorded in the first quarter and remain committed to driving improvements with the clear goal of reaching double-digit margins.

	The margin improvement in the first quarter was partly driven by a recovery in automotive coatings volumes, following a dip in auto production during the same period last year. While the potential impact of U.S. tariffs on Japanese OEM production remains uncertain, we remain fully committed to achieving our full-year guidance. In the decorative segment, we've introduced high value-added premium products, including the Grancera and Dangiola series, and we expect continued growth in these lines to contribute positively to margin expansion. In the industrial segment, we implemented price increases in 2024. These are not one-time actions; we intend to maintain this pricing discipline going forward. Assuming there are no significant spikes in raw material costs, we believe the Japan segment remains well positioned to deliver on its full-year forecast.

Q2	Are there any notable areas of concern in the automotive coatings business at this time?
A2	Given the ongoing uncertainty around tariff negotiations between Japan and the U.S., we are not in a position to make any definitive statements at this stage. That said, there have been no developments to date that would necessitate any significant revisions to our current plans.

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

Q1	I'd like to ask for an update on AOC. The first-quarter consolidated results reflect only one month, March, of AOC's earnings. In North America, we understand that seasonal demand, particularly in the construction sector, typically begins to pick up around this time. Did AOC benefit in March from this seasonal uplift or from any rush orders in anticipation of potential tariff increases? Additionally, could you provide some insight into business trends and operating conditions from April onward?
A1	As noted on page 22 of the presentation, the first quarter, including March, is not typically a period of strong seasonal demand for AOC. Unlike markets such as China, where March tends to see a demand spike, AOC did not experience any notable surge or rush orders during that month. We continue to closely monitor monthly performance indicators, including profit margins. Looking back, even to the period prior to AOC's integration into our Group, we have not observed any significant fluctuations in demand from the second half of 2024 onward. As such, we have no particular concerns about AOC's current business conditions. While it's difficult to draw firm conclusions from a single month of results, our outlook for AOC remains largely consistent with the guidance we've previously provided.

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

Q1	I'd like to ask about NIPSEA China. It appears that the margin improvement in the first quarter was largely driven by the shift in the agency model for the trading business within the decorative segment. It's also noteworthy that absolute profit increased significantly during the period. Repainting demand in China remains particularly strong, and even competitors have reported positive growth in the TUC and TUB segments for the first time in some time. It seems that the combination of recovering demand, pricing adjustments, and stabilizing raw material costs has supported the improvement in profitability. Could you elaborate on the key factors that contributed to this margin improvement?
A1	As you mentioned, while overall market conditions were not particularly strong, March remains a key month for the TUC segment. We recorded solid sales volume growth across all regions, including both Tier 0 and Tier 1 cities. In addition, we implemented targeted price increases and kept price reductions to a minimum, resulting in a favorable shift in our price/mix. Lower input costs for certain raw materials also contributed to the improvement in margins. By maintaining a balanced focus on both market share and profitability, and pursuing profitable growth rather than prioritizing one at the expense of the other, we achieved growth in revenue, margins, and absolute profit. That said, the TUB segment continues to face a more challenging environment. We are taking a highly selective approach in this business, and revenue in the first quarter declined by 10%. While some of this reflects seasonal factors, delivering positive growth in this segment remains difficult. Importantly, the increasing share of TUC within the decorative business has had a positive impact on the overall profit margin for NIPSEA China. Although repainting demand remains resilient, overall market conditions are still not particularly robust, and we are operating with continued caution.

Q2	Am I correct in understanding that repainting demand is recovering at a faster pace than new build demand, supported by underlying economic factors and the buildup of existing housing stock? Additionally, have you seen any signs of weakening consumer sentiment since April in light of rising U.S.-China trade tensions? And given the recent sharp decline in crude oil prices, which is expected to put downward pressure on derivative product prices, how are you viewing the profit margin outlook from the second quarter onward?
A2	We believe the most appropriate way to assess the situation will be through our second-quarter results. Since April, we have not seen any meaningful improvement in consumer sentiment, in fact, it appears to be on a declining trend. As for the potential recovery in sentiment following the recent U.S.-China tariff agreement, it's still too early to make a comprehensive assessment, and overall conditions remain somewhat unfavorable. That said, in a weak economic environment, lower raw material prices can work to our advantage, provided that demand for paint remains resilient. Given that NIPSEA China's export exposure to the U.S. is relatively limited, capturing domestic demand remains a key focus. We do not attribute our strong first-quarter performance solely to government stimulus measures. However, even if such policies or lower raw material costs provide some uplift, there's a risk that those

	gains could be offset by a deterioration in consumer sentiment due to tariff-related concerns. That's why our focus remains on delivering consistent performance over the full year, without overreacting to short-term volatility. In terms of the competitive performance, our business model and structural positioning differ significantly from peers, and we do not believe we are falling behind. In the TUC segment specifically, we achieved 5% revenue growth while maintaining relatively high margins, a solid recovery compared with the third and fourth quarters of 2024.

◆ Questions from Shigeki Okazaki, Nomura Securities Co., Ltd.

Q1	With respect to the Chinese TUC market in the first quarter, is it fair to say that consumer sentiment showed some improvement compared to the fourth quarter of 2024? Additionally, would it be reasonable to assume that government stimulus measures contributed to an increase in repainting demand?
A1	Our local team does not view the current market environment as having materially improved. As shown on page 5 of the presentation, the TUC market remained roughly flat to up 5% year-on-year in the first quarter. With our TUC revenue also growing by 5%, our market share has held largely steady. While there may have been a slight gain, it would not be accurate to say we have significantly outperformed the market. Given that the new build segment continues to contract, overall market conditions could still be characterized as negative. That said, repainting demand has remained notably resilient, especially when compared to the most recent fourth quarter. However, we do not believe that this resilience is being meaningfully driven by government stimulus measures.

Q2	Would you say there has been any noticeable improvement in market conditions compared to the previous quarter?
A2	Based on our internal data, the market environment appears to have improved slightly; however, the change is marginal and not sufficient to characterize the situation as a meaningful improvement.

Q3	Is it fair to say that, given the difficulty in clearly determining whether market conditions are improving, it remains equally challenging to form any definitive assumptions at this stage?
A3	NIPSEA China currently holds approximately a 25% share of the TUC market, while the second- and third-largest competitors each hold high single-digit shares, bringing the combined share of the top three players to just over 40%. The market itself is mature, supported by stable and recurring repainting demand each year. The key question, therefore, is not the size of the market but how we continue to capture additional share. For instance, in Tier 3–6 cities, rising income levels are leading to increased adoption of our products among consumers who had not used them previously. This form of market expansion is far more meaningful than the overall market size itself.

Q4	I understand that sales volumes in Tier 0 and Tier 1–2 cities declined year-on-year in the fourth quarter of 2024. While the return to positive growth in the first quarter may, in part, reflect a favorable comparison base, should this be interpreted as a

	meaningful shift in underlying demand?
A4	Given the overall scale of our Group's operations, we do not view this as a material change.

◆ Questions from Yifan Zhang, CLSA Securities Japan Co., Ltd.

Q1	With crude oil prices having declined to around $60, have the potential benefits from lower input costs in the second half been reflected in your current full-year forecast for 2025?
A1	Using China as an example, while macroeconomic conditions certainly play a role, and not all of our raw materials are directly linked to crude oil, our current outlook assumes that raw material prices will remain relatively stable. If prices continue to decline, we would expect to see some short-term benefit to profitability. However, if those declines are driven by broader economic weakness, or if we are required to respond to such developments, it would be unrealistic to assume sustained margin expansion over the long term, except in select regions. While there is some upside potential from lower raw material prices, this must be weighed against a range of downside risks stemming from ongoing economic uncertainty. As such, we do not see a need to revise our earnings forecast at this time. Should greater visibility emerge in the second or third quarter, we may consider updating our guidance, but for now, we are not placing undue weight on potential upside.

Q2	Is it correct to understand that, as a general rule, the benefits of lower raw material prices are reflected in financial results with a lag of approximately three months in China, and around six to nine months in developed markets?
A2	The timing of the impact varies by region and customer, so it's difficult to generalize. For instance, in B2B segments such as industrial coatings, the benefit tends to take longer to materialize, whereas in businesses like AOC, the contribution to profits can be seen much more quickly.

◆ A question from Yasuhiro Shintani, SMBC Securities Co., Ltd.

Q1	I'd like to ask about DuluxGroup. In Europe, organic revenue has continued to decline against the backdrop of a challenging external environment. We note that a competitor in France is forecasting a recovery beginning in the second quarter. Given that earnings have come down to relatively low levels, how do you assess the prospects for a return to revenue growth going forward? Additionally, in the Pacific segment, DuluxGroup undertook a brand refresh in 2024. Could you provide an update on how your marketing initiatives have performed as a result of that effort?
A1	In Europe, the first quarter is typically a low-demand period, similar to the fourth quarter. The second and third quarters are generally stronger, and we anticipate some recovery in performance for DGL (Europe) during these periods. That said, it remains uncertain whether revenue will return to positive year-on-year growth. At the start of the year, we expected the French market to at least hold flat versus the prior year, but revenue continued to decline in the first quarter. While there is some underlying pent-up demand for repainting, and we remain confident in a longer-

	term recovery, we are not currently projecting a rebound in the second quarter. That said, we believe that once market conditions begin to improve, sales will recover, supported by our solid market share. In the meantime, our local team is actively pursuing profit improvement initiatives through dedicated project teams. In an environment where a clear market recovery is difficult to forecast, our immediate focus is on securing profitability. Turning to the DGL (Pacific) segment, we continue to view it as the region with the least uncertainty. While market conditions have remained broadly flat year-on-year, we've seen improvement in the product mix, partially driven by the 2024 brand refresh. Promotional efforts around high-margin products have also contributed steadily to profit growth. This region has historically delivered stable results, and we expect that trend to continue going forward.

◆ Questions from Shigeki Okazaki, Nomura Securities Co., Ltd.

Q1	On the right-hand side of page 4 in the presentation, it's noted that "many international suppliers are raising prices to protect profit margins." Could you clarify which regions and raw materials this is referring to? For example, does this include resins, titanium dioxide, or other key inputs?
A1	The comments on this page refer to broader market trends. Since 2024, inflationary pressures have persisted, and we've seen a number of suppliers raise prices in an effort to protect their margins. While we continue to take measures to limit the impact of these increases, in some cases, particularly where alternative sourcing options are limited, we've had to accept higher prices for certain raw materials. In Japan, for example, some suppliers have exited the supply of commodity products. This is not a recent development, but it continues to affect availability. So while overall raw material costs are stabilizing, we do still encounter price increases on a case-by-case basis. This page is intended to illustrate that such developments are impacting select raw materials.

Q2	Just to confirm, are we correct in understanding that, overall, prices for resins and other key raw materials have been trending downward?
A2	In addition, the current supply-demand balance continues to be influenced by soft economic conditions. At this point, rather than expecting a significant increase, our view is that raw material prices are likely to remain flat, or may even decline modestly. We also see potential upside from further easing in input costs.

End