

# FY2025 2Q Financial Results Conference Call Q&A Summary

August 8, 2025

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

Q1	<p>Could you provide an update on the current situation in NIPSEA China? Competitor data indicates that their TUC business has recovered with high single-digit growth, while your TUC business reported an 11% revenue decline, suggesting a significant discrepancy.</p> <p>Additionally, could you clarify which distribution channels and city tiers have been impacted by stricter credit management measures? Based on your first-half results, it seems you expect a notable performance improvement in the second half. Do you view the second-quarter trends as temporary, and how do you expect the business to normalize from the third quarter onward? Finally, could you share an updated view of the Chinese market broken down by city tier and distribution channel?</p>
A1	<p>Regarding market conditions in China, we are aware of the figures announced by our competitors. However, based on our local team's assessments, we estimate that the overall market is still experiencing negative growth of approximately -5% to -10% year-on-year, as shown by the light blue segment in the heatmap on page 7 of the presentation.</p> <p>Although NIPSEA China's TUC revenue declined by 11%, we do not view this as evidence of underperformance versus competitors. The operating environment remains challenging, and we have not yet observed any positive impact from recent government policies. Our assessment is that local players are facing similar market pressures.</p> <p>Regarding credit management, while we cannot disclose detailed figures, our stricter measures are primarily focused on distributors within the TUC business. In certain cases, accounts receivable from specific customers have become significantly overdue, leading us to tighten credit controls. We have also enhanced inventory management in regions where market stock levels remain relatively high. These actions are proactive steps to safeguard business health amid uncertainty, and they have temporarily affected sales.</p> <p>In terms of market trends, housing distribution continues to show sluggish performance, with negative sales volume growth recorded across all city tiers, from Tier 0 and Tier 1–2 cities to Tier 3–6 cities. Given that around 80% of our sales are concentrated in Tier 0 and Tier 1–2 metropolitan areas, the weakness in these regions has had a disproportionate impact on overall results.</p> <p>Price competition remains limited across most areas. Notably, the aggressive promotional discounts implemented in the third quarter of 2024, amid weak market sentiment, were not well received by the market. As a result, we have chosen to prioritize profitable growth rather than focusing solely on sales volume or market share expansion. Thanks to this disciplined approach, we were able to maintain second-quarter profit margins at a satisfactory level.</p> <p>Regarding our segment forecast, although we have downwardly revised our full-year FY2025 outlook for the TUC business in China, we still anticipate positive growth in the second half of the year. This expectation partly reflects the relatively low growth base during the same period last year. Importantly, our strategic focus remains on profitability and margin improvement, rather than pursuing revenue growth at the expense of returns.</p>
Q2	<p>In previous discussions, credit management has not been a major focus. What specific factors have brought it to the forefront this time? Have you made meaningful progress in reducing inventory levels?</p> <p>Additionally, could you share your outlook on sell-through trends, that is, the volume of products sold to end consumers via distributors, as we move into the second half of the year?</p>

A2	<p>Regarding credit management, NIPSEA China's accounts receivable with TUC distributors remain highly secure, and the recent sales slowdown is not related to the initiatives introduced in the second quarter. Within the TUC business, it is standard practice to collect all receivables by year-end, and we have not identified any heightened risks associated with individual customers. That said, as we look ahead to second-half collections, we have observed slightly extended payment periods in certain regions. This has led us to tighten credit management in those areas. Importantly, these measures are not a response to increased credit risk; rather, they are proactive steps aimed at ensuring sound business operations under challenging market conditions.</p> <p>On inventory levels, while we have not seen abnormal surges, we believe that excessive market inventory is not healthy for the overall ecosystem. Accordingly, we have scaled back wholesaling in regions where inventory levels remain elevated. Although this measure was limited to specific areas, it has had some temporary impact on sales.</p>
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◆ Questions from Yasuhiro Shintani, SMBC Nikko Securities Co., Ltd.

Q1	<p>Could you provide an update on AOC's performance? While you have lowered the full-year FY2025 revenue forecast, AOC has shown relative resilience despite high interest rates and ongoing challenges in the U.S. housing market. Second-quarter revenue declined by approximately 9% year-on-year (reference value). Could you elaborate on the key factors driving softer demand, and highlight any notable strengths or weaknesses in demand by application?</p> <p>Furthermore, given the decline in sales volumes, what specific measures is the company taking to sustain high profit margins?</p>
A1	<p>AOC's sales composition is approximately 70% from the U.S., just under 30% from Europe, and a small contribution from Asia. Currently, demand remains soft in both the U.S. and Europe. While we anticipated a recovery in U.S. demand once interest rates begin to decline, rates have not yet fallen, and the overall construction market, beyond just the housing sector, continues to face broad-based challenges. The decline in AOC's sales volume reflects this overall market contraction, rather than any loss of market share to competitors. AOC maintains a diverse customer base, without significant concentration in any single application or industry, and we attribute the sales decrease primarily to general market conditions.</p> <p>Regarding profit margins, a defining feature of AOC's business model is that SG&amp;A expenses represent only a small proportion of total costs, while raw material costs account for the majority. This structure makes rigorous management of the contribution margin, the gap between raw material costs and selling prices, critical. AOC maintains strong discipline over both pricing and procurement to protect profitability. As you noted, a decline in sales volumes would typically place downward pressure on margins due to fixed costs. However, thanks to exceptionally lean operations, AOC has minimized fixed-cost exposure, allowing the company to sustain robust profit margins even under current conditions. While some raw material prices have risen, AOC's high raw material cost contribution ratio means that the impact of volume declines on overall profitability has been effectively contained. Finally, AOC continues to focus on reducing operational costs, enhancing productivity, and has also made significant progress in improving safety standards across its operations in recent years.</p> <p>We anticipate that pent-up demand in the U.S., where previously suppressed demand is expected to resurface rapidly, will become increasingly evident over the medium to long term. Should interest rates decline and infrastructure investments accelerate, we believe these factors will support a meaningful market recovery. In the short term, however, we expect market conditions to remain challenging. While AOC's second-quarter results were softer year-on-year, it is important to note that this is the first year AOC has been consolidated into our Group. From a broader</p>

	perspective, AOC's contribution, including cash flow generation, has already been a significant positive. Looking ahead, we see attractive growth opportunities driven by the recovery of U.S. sales volumes, as well as margin expansion, and gaining additional market share in Europe.
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Q2	While the exact timing remains uncertain, we anticipate that pent-up demand in the U.S. market could begin to materialize sometime next year or later. Given AOC's exceptionally strong margins, is it reasonable to expect a meaningful increase in profit contribution once top-line growth accelerates?
A2	<p>That aligns precisely with our view. While top-line growth at AOC does not generate significant operating leverage, its high contribution margin ensures that any recovery in sales volumes will translate directly into higher profits.</p> <p>From a medium-term perspective, we believe profit growth in the high single digits is well within reach over the next four to five years. Although short-term market conditions remain challenging, our outlook for AOC's medium-term growth remains unchanged and firmly positive.</p>

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

Q1	Could you share your outlook for the second half of the year? Based on the heatmap on page 7 of the presentation, it appears that none of the markets are expected to grow, with many projected to contract further. Is your plan based on the assumption that there will be no significant market recovery? Additionally, while AOC's second-quarter revenue declined by approximately 9% year-on-year (reference value), your full-year FY2025 revenue forecast for AOC indicates a decline of around 5%. Does this imply that you are expecting revenue growth in the second half? Could you elaborate on the key assumptions underlying your projections for the second half?
A1	<p>As shown in the heatmap on page 7, we continue to expect challenging market conditions in the second half and are not basing our plans on a broad market recovery. Instead, our strategy focuses on strengthening market share and enhancing profitability. For example, even in a weak demand environment, our profits will grow if we can raise prices. At the same time, we will manage SG&amp;A and promotional expenses to secure profits. While we remain committed to meaningful investments, we are taking a more cautious approach toward initiatives with limited impact, such as those implemented in the third quarter of 2024. Although volume growth is likely to remain muted this year, we still anticipate overall revenue growth for the Group, supported by contributions from newly consolidated companies. In addition, we believe we are well positioned to deliver solid profit growth despite the tough market backdrop.</p> <p>Regarding profit margins between the first and second halves of the year, it is important to note that the first half reflects AOC's contribution for four months but does not include PPA effects. In contrast, the second half will be impacted by AOC's PPA as well as certain one-off costs. Adjusting for PPA, the actual margin for the first half would be somewhat lower, whereas, on a normalized basis, the second-half margin is expected to be slightly higher.</p> <p>We do not expect a significant decline in full-year revenue, although sales volumes are likely to remain somewhat soft given prevailing market conditions. However, as highlighted on pages 4 and 5 of the presentation, we are targeting profit levels that are in line with or slightly above our initial forecasts, and we remain confident in our ability to deliver on these profit targets.</p> <p>Regarding AOC, the forecasted 9% year-on-year revenue decline is provided for reference only. Since AOC was not included in our consolidated results last year, its earnings now represent a positive addition to this year's figures. Looking ahead to the second half, we believe volumes have bottomed out and are not assuming further market contraction. If market conditions remain stable on a year-on-year</p>

	basis for the remaining six months of AOC's ten-month consolidation period, we believe achieving a revenue decline of around 5% is well within reach.
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◆ Questions from Atsushi Yoshida, Mizuho Securities Co., Ltd.

Q1	You mentioned that NIPSEA China achieved operating profit growth in the second quarter, driven by improvements in the raw material cost contribution ratio and cost savings. Could you elaborate on the specific cost control measures that have been implemented to date, and share any additional initiatives you plan to introduce going forward?
A1	<p>We remain firmly committed to rigorous cost management not only at NIPSEA China but across the entire Group, especially in the context of challenging market conditions. For example, we maintain strict discipline when evaluating investment projects, including capital expenditures, ensuring that we proceed only with essential investments that directly support our strategic objectives. In China, while we are avoiding cost reductions that could undermine competitiveness or erode brand value, we are scaling back unnecessary spending on promotional activities and discounts, particularly in markets where such measures have limited impact. Local management proactively pushes for new investment opportunities, while headquarters adopts a more cautious stance, resulting in a natural push and pull between the two. Importantly, both sides are fully aligned in pursuing profitable growth, which remains a shared KPI across the organization.</p> <p>In parallel, we are continuing efforts to reduce fixed costs and enhance management efficiency, not only at NIPSEA China but throughout the Group. These initiatives are deeply embedded in our operating culture and are applied with particular discipline during periods of market uncertainty. This ongoing commitment underpins our confidence in sustaining profitability, even amid a challenging environment.</p>

Q2	Is it correct to understand that NIPSEA China has no plans to implement workforce reduction measures at this time?
A2	<p>At NIPSEA China, we continuously review and adjust our workforce to avoid a buildup of surplus personnel. However, we do not implement large-scale initiatives such as the voluntary early retirement program that was previously conducted in Japan. Given the relatively high labor market mobility in China and other markets, we generally do not immediately replace departing employees. Instead, we carefully evaluate whether external recruitment is necessary.</p> <p>Importantly, we are not pursuing large-scale workforce reduction programs or measures that would involve special costs to restore profitability. All personnel adjustments are carried out within the framework of our routine, ongoing operations.</p>

◆ Question from Yuta Nishiyama, CitiGroup Global Markets Japan Inc.

Q1	Based on the assumptions outlined in the financial guidance on pages 4 and 5 of the presentation, it appears that you have lowered topline projections while placing greater emphasis on securing profits through cost control measures. In this context, AOC's ability to sustain strong profit margins despite the current weak market environment highlights its competitive strengths relative to other partner companies. Are there specific practices or approaches from AOC that could be applied across other Group companies? Additionally, could you share any strengths or challenges that have come to light at AOC over the past several months since its integration into the Group?
A1	There have been no unexpected findings regarding AOC since its acquisition.

	<p>As this transaction represented a step beyond our traditional business areas, we conducted a thorough evaluation of AOC's strengths well in advance. It is encouraging that the assumptions we made prior to the acquisition have proven to be accurate and consistent. For both myself and Mr. Wee, as the final decision-makers, the fact that there have been no major surprises post-acquisition underscores the rigor and detail with which our Group approaches such strategic decisions.</p> <p>As noted previously, raw material procurement represents a significant share of AOC's sales, and we continue to see opportunities to improve sourcing efficiency. These initiatives would not only directly benefit AOC, but could also extend to our North American operations, thereby strengthening the Group's overall procurement capabilities and supply channels. Even a 100-basis-point improvement in the raw material cost contribution ratio would generate substantial financial benefits, which is why we are actively engaged in Group-wide discussions to identify and pursue such opportunities.</p> <p>Moreover, the current raw material market environment is favorable, allowing us to explore these initiatives across the Group without constraining AOC's ability to deliver profitability. While these discussions remain at a conceptual stage, we are confident that they will ultimately have a positive impact on the Group's performance.</p>
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◆ Questions from Shunta Omura, UBS Securities Co., Ltd.

Q1	<p>According to the acquisition materials, AOC's sales mix consists of 71% from the U.S., 21% from EMEA, and 9% from Asia. By business segment, approximately 70% of sales are from customized formulations, while non-customized formulations account for the remaining 30%. In the context of AOC's markets, particularly in the U.S., its largest market, have you observed any notable differences or emerging trends between the customized and non-customized formulation segments?</p>
A1	<p>At present, we have not observed any major differences in performance between the customized and non-customized segments. Strategically, however, our goal is to increase the proportion of customized products. That said, non-customized and commodity-type products continue to play an important role in ensuring stable sales volumes.</p> <p>When comparing regions, customization is more advanced in the U.S. In Europe, by contrast, there is still room for improvement both in terms of customization and in the development of business systems, which we view as an upside opportunity for future growth.</p> <p>While U.S. customers are generally willing to pay a fair price for added value, European customers tend to be more cost-conscious, making it more challenging to achieve premium pricing on value-added products. Overall, our intention to expand the share of customized offerings remains unchanged. At the same time, we recognize that sluggish sales volumes present a challenge to achieving this objective in the near term.</p>
Q2	<p>Customized products are often regarded as having greater downward price rigidity with respect to margins. Is it fair to assume that, within the customized formulations business, pricing tends to be relatively stable when raw material costs decline, and can be more readily adjusted upward when raw material prices increase?</p>
A2	<p>It is not entirely straightforward; however, in general, our customized products are built on proprietary formulations, which makes them difficult for competitors to substitute. That said, we recognize that unilaterally passing on price increases carries the risk of losing customers. Our ability to adjust prices in line with rising costs, when supported by strong customer understanding, remains one of our key strengths.</p>

◆ Question from Takehiro Yamada, Toyo Keizai, Inc.

Q1	Could you clarify your outlook for full-year FY2025 results, particularly with respect to profit projections? Operating profit has already reached over 60% of the full-year forecast, but I assume the second half will reflect the impact of PPA as well as seasonal factors. Is it fair to interpret current performance as being broadly in line with, or slightly ahead of, your full-year forecast? In addition, how much potential upside should we reasonably expect?
A1	<p>At this stage, we anticipate that second-half sales may fall slightly below target. That said, we remain firmly committed to achieving our operating profit target, supported by a continued rigorous focus on cost control and other efficiency measures, even under challenging market conditions.</p> <p>As noted earlier, our year-on-year results have been significantly influenced by exchange rate fluctuations, since our financial forecasts are expressed in yen and therefore subject to currency movements. In the second quarter, exchange rates reduced our reported results by approximately ¥38.8 billion in revenue and ¥5.2 billion in operating profit. To provide context, when comparing the second quarter year-on-year, the yen has significantly appreciated. Specifically, the U.S. dollar moved from ¥158 to ¥143, and the Chinese yuan from ¥21.8 to ¥19.9, both of which had a material impact on performance. It is important to note that our business model is fundamentally based on local production for local consumption. As such, the exchange rate impact arises primarily from currency translation, rather than from changes in export volumes. While we will make every effort to outperform our targets in the second half, both market conditions and exchange rates remain factors outside our control. For this reason, we continue to take a measured and cautious approach, rather than making bold promises or offering overly optimistic projections.</p> <p>I have consistently expressed a cautious outlook on the Chinese market, both in the first quarter and even last year, and unfortunately, current conditions have confirmed that view. As such, we are managing the business with the expectation that challenges will persist through the second half of the year. While certain external factors remain beyond our control, we are firmly committed to rigorously managing the areas within our control to maximize the potential for upside performance.</p>

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

Q1	My question relates to the Japan segment and the NIPSEA Except China segment. The Japan segment delivered robust results in the second quarter, while the NIPSEA Except China segment also performed well, apart from the impact of hyperinflationary accounting in Türkiye. Could you elaborate on the key trends observed in the second quarter, and share your outlook for the second half of the year in these segments?
A1	<p>In Japan, market conditions remain unfavorable, and we are not satisfied with our current level of performance. We recognize the need for continued efforts to further enhance profitability. That said, one encouraging outcome is our ability to maintain double-digit profit margins in a market that typically does not change rapidly. The environment is particularly challenging in both the decorative and industrial segments, and we will continue to focus on a balanced approach of revenue growth and cost control, maintaining a cautious outlook rather than an overly optimistic stance.</p> <p>Turning to NIPSEA Except China, the primary driver of growth was Betek Boya. As shown on page 19 of the presentation, Betek Boya recorded revenue growth of 33.8% on a non-GAAP basis, after adjusting for the effects of hyperinflationary accounting. Despite ongoing inflation of around 30% in Türkiye, Betek Boya achieved volume growth. Of the approximately ¥100 billion in revenue for this segment, ¥35.9 billion was contributed by Betek Boya, while Indonesia recorded</p>

	<p>only 2.7% revenue growth. Overall, revenue growth in Asia remained subdued.</p> <p>In the second quarter, our operations in Southeast Asia were also indirectly impacted by U.S. tariffs. More than the tariffs themselves, it was weaker consumer sentiment that weighed on demand, particularly in Indonesia. While some competitors achieved limited success, the overall environment remained difficult for all players. Despite delivering solid results under these conditions, we recognize the need to further strengthen our efforts in the second half of the year.</p>
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◆ Questions from Ryokichi Kondo, CoatingMedia Co., Ltd.

Q1	Am I correct in understanding that the marine business was the primary driver of growth in the Japan segment, both in the second quarter and in the first half of the year?
A1	The marine business is not a particularly large component of the overall Japan segment. As shown on page 16 of the presentation, our automotive business also delivered solid results, despite the challenging market environment. By contrast, both the industrial and decorative segments recorded declines. While the marine business made a meaningful contribution to overall growth, it was not the sole driver of performance.

Q2	The “Other” business category also includes the automotive refinish business, but is it correct to assume that the marine business accounts for approximately 80–90% of this segment?
A2	It is correct that the marine business is the largest contributor within this segment. However, the segment also includes other businesses.

Q3	Could you provide your outlook for the marine coatings market going forward?
A3	We expect the marine coatings market to remain robust going forward. As overall market volumes continue to expand, our products, particularly FASTAR, are demonstrating strong competitive advantages. The marine business in Japan also encompasses our global operations, where we have successfully captured repair demand at drydocks across Asia, including China and Singapore. Supported by both rising demand and our competitive edge, we anticipate continued growth in the marine business.

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

Q1	Could you outline your approach to improving PER? At present, with muted sales growth momentum, stable margins, and only modest profit growth, it appears challenging for PER to expand meaningfully. From a regional perspective, following the recent acquisitions that have strengthened your presence in advanced markets such as the Americas, it seems less likely that you can capture the same high-growth opportunities that were previously available in China. How do you intend to drive an improvement in PER going forward?
A1	In essence, the path to improving PER is through profit growth. As I have emphasized previously, our capital allocation is centered on M&A, and in the second quarter, we achieved operating profit growth of 36.2% year-on-year. Delivering such strong profit growth, even amid yen appreciation, underscores the strength of our Asset Assembler model. Our model is supported by robust cash generation, which allows us to leverage and pursue additional M&A opportunities at an early stage. The essence of this approach lies in the continuous acquisition of businesses with outstanding management teams that are capable of generating stable cash flows.

	<p>For this reason, we do not view our growth as low. On the contrary, we have delivered substantial profit expansion and margin improvement by actively deploying capital. This fundamentally distinguishes us from companies that place greater emphasis on dividends or share buybacks. While M&amp;A is sometimes seen as risky, we strive to build investor confidence by consistently demonstrating a track record of successful transactions. Our approach is subject to rigorous discussion and oversight by the Board of Directors, and we remain committed to delivering results that strengthen investor trust and support a higher PER.</p>
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