

FY2025 3Q Financial Results Conference Call Q&A Summary
November 14, 2025

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

Q1	<p>I have a question regarding the overall business climate and the recovery of NIPSEA China. Despite a challenging environment, third-quarter results, especially operating profit, were solid. Could you share how performance varied by region and whether there were any notable regional differences?</p> <p>Additionally, in the TUC business in China, which investors have been closely monitoring, sales rebounded in the third quarter after a steep decline in 2Q, with premium products performing particularly well. In such difficult conditions, what initiatives proved most effective? And are you beginning to see signs of recovery in consumer sentiment, especially in urban areas?</p>
A1	<p>Overall, market conditions have continued to be challenging. While interest rates are now beginning to ease in the U.S. and elsewhere, we are not yet seeing a strong, V-shaped rebound. In this environment, our priority across regions has been to protect margins while maintaining market share. Australia is a good example, despite the tough conditions, we have managed to steadily increase both volume and share. Regional trends do differ, and in Australia there may be some early signs of improvement as interest rates come down. However, when we look at the overall picture, it is still too early to take an overly optimistic view.</p> <p>In Türkiye, we executed a large-scale campaign in the third quarter, and our proactive sales expansion strategy, supported by a strong capital base, produced results that exceeded expectations in both volume and pricing. Even after factoring in the appreciation of the yen, we view this as a very solid performance.</p> <p>As for NIPSEA China, the second quarter was challenging, the TUC market was down an estimated 5–10% year on year, and our revenue declined 11% as we tightened credit and inventory controls. In the third quarter, credit discipline remained, but we believe the overall market was roughly flat. Premium products were a highlight, and although average prices were slightly lower, the product mix improvement contributed to better margins.</p> <p>We prioritized quality of business over sheer volume, adopting a disciplined approach instead of pushing product into the market. This helped us preserve strong profitability despite challenging conditions.</p>
Q2	<p>On the premium product outperformance, how should we interpret this strength? Is a new premium segment emerging, or was this mainly a release of pent-up demand in urban areas following delayed purchases in the second quarter due to tariffs and other factors? In essence, is the trend being driven by market conditions or by product-led factors on your side? And do you expect this momentum to continue into the fourth quarter?</p>
A2	<p>In terms of market conditions, we have not yet seen a clear recovery, either in Tier 0 and 1–2 cities or in Tier 3–6 markets. The strong performance of premium products is therefore less about a broad rebound in metropolitan demand and more a result of our own initiatives, including targeted promotions and selective price adjustments that were positively received. Given their higher margins, premium products have been an important driver of profitability.</p> <p>It is also worth noting that the regions and competitive scale in which we operate differ from those of some peers, so our market perception may not fully align with others. From our standpoint, conditions remain challenging, and we are</p>

	continuing to manage the business with disciplined focus on profitability.
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◆ Questions from Yasuhiro Shintani, SMBC Nikko Securities Co., Ltd.

Q1	<p>Regarding AOC, could you provide your perspective on the business environment in the third and fourth quarters, and how you view opportunities as we look ahead to 2026? While rate cuts have begun, U.S. interest rates remain high and conditions are still difficult. You mentioned signs of bottoming in the market, with that in mind, how do you see business opportunities developing toward 2026, including potential upside from infrastructure spending and pent-up demand?</p> <p>For AOC-related products, what is the expected timeline for when these benefits may begin to materialize, to the extent you can comment?</p>
A1	<p>The U.S. market environment is still not what we would call strong, and AOC volumes declined by a mid-single-digit percentage year on year. However, margins have been well protected, and AOC continues to demonstrate strong resilience and clear differentiation, reinforcing its position as a top player in its markets.</p> <p>Regarding U.S. interest rate cuts, policy makers remain cautious, and unless we see a sustained monetary easing cycle, the effect on demand is likely to be modest. That said, if the balance shifts from prioritizing inflation control to supporting economic activity, we believe pent-up demand could start to manifest.</p> <p>As for the outlook toward 2026, we intend to provide more concrete guidance when we announce our full-year projections in February 2026. Structurally, our view remains unchanged, infrastructure investment needs in the U.S. are solid, and economic fundamentals remain resilient. Over the medium to long term, we continue to believe that the mid- to high-single-digit growth target we outlined in October 2024 remains achievable. At this point, however, we are not in a position to confirm whether that level of growth will materialize immediately in 2026, so we would prefer to withhold further comment for now.</p> <p>AOC is well-positioned across infrastructure, housing and other application areas, where we see further room to scale. Europe also represents an attractive opportunity, and as our operating model becomes more established there, we expect incremental growth prospects to open up.</p>

Q2	<p>With respect to your statement that “we will secure market share while maintaining margins,” how does management assess AOC’s key characteristics and competitive strengths in the current difficult market environment? Have you seen share gains? And looking at Europe, is it reasonable to expect margins to continue improving? I’d appreciate your comments on these together.</p>
A2	<p>At present, we are largely maintaining our market share rather than expanding it. With overall market demand declining, our volumes have also softened, but to our understanding, we have not experienced share erosion. In the current environment, we believe it is prudent to prioritize margins over pursuing market share through aggressive volume expansion.</p> <p>One of AOC’s core strengths is its capability to develop customized products. From the outset of product development, we focus on tailoring solutions to meet specific customer requirements and deliver clear added value. As a result, customized products make up a significant portion of our portfolio, and this ability to provide high value-added solutions continues to serve as a strong competitive</p>

	<p>differentiator.</p> <p>In terms of regional mix, the U.S. represents roughly 70% of sales, with Europe and Asia at about 30%, and profitability is currently higher in the U.S. In Europe, we are pursuing several initiatives, deeper implementation of our business systems, expansion of customized products, raw material procurement measures, and new product development, and AOC's CEO also sees scope for further margin improvement. We are not yet in a position to provide a specific timeline, but will share updates as progress is made.</p> <p>Although AOC's margins are high, the EBITDA-to-sales ratio is inherently sensitive to pricing movements, so we do not focus exclusively on the absolute margin level. Going forward, we plan to provide performance commentary using year-on-year comparisons and other relevant indicators as well.</p>
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◆ Questions from Takashi Enomoto, BofA Securities Co., Ltd.

Q1	<p>On the share buyback, my understanding is that Co-President Wakatsuki had previously stated that the company did not plan to undertake share repurchases. Could you outline the background behind this change in policy and whether there has been a shift in your thinking?</p> <p>Additionally, how was the scale of the buyback determined?</p> <p>And lastly, could you clarify the company's policy regarding the cancellation of treasury shares?</p>
A1	<p>To begin, I would like to clarify that we have never stated we would never undertake share buybacks. What we have consistently communicated is that M&A is our priority over repurchases, and that principle remains unchanged. Creating value through M&A continues to be central to our long-term strategy, and we will maintain our Asset Assembler model.</p> <p>This buyback decision reflects our view that the current share price is significantly undervalued. Several investors have commented, "With valuation at this level and no premium required, wouldn't buying your own shares be attractive?" We found that argument compelling. As disclosed in the release, the decision was driven purely by financial rationale. Looking at future EPS growth, buying back shares at today's PER is clearly value-creating. Our earnings are very strong, and the stock remains undervalued, so we believe this is the right and most effective capital allocation decision for now.</p> <p>Regarding the size of the buyback, we continue to manage our capital structure with a prudent level of leverage, and thanks to the confidence financial institutions have in our financial discipline, we are able to borrow at low rates. This does not represent a change in our financial policy. While we continue to reduce leverage and maintain capacity for future M&A, we determined that a ¥30 billion buyback represents an appropriate balance.</p> <p>As for cancellation, we currently do not plan to cancel the treasury shares acquired through this program. As mentioned previously, we are not ruling out future equity financing. There may be cases where shares are used for EPS-accretive M&A transactions or as part of maintaining financial stability. Practically speaking, the administrative process for canceling shares and then issuing new ones is similar to using treasury shares directly. However, the registration and license taxes differ significantly, potentially amounting to several hundred million yen. Therefore, unless we reach a point where equity financing is clearly unnecessary, cancellation would not be rational.</p> <p>Let me add one further point for clarity: we have no intention of issuing new</p>

	shares at present, and will not consider any equity issuance while the share price remains significantly undervalued. Looking ahead, if the share price returns to a more appropriate level and we identify an M&A opportunity where the bulk of the funding can be covered by debt, with only a smaller equity component, and the transaction still delivers comfortable EPS accretion, then equity issuance could be considered. Taking that scenario into account, and given the registration and license tax implications, our current stance is to refrain from cancelling treasury shares.
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Q2	Am I correct in understanding that there has been no change to your dividend policy? And based on your comments, should we interpret that treasury shares may potentially be used in share exchange transactions going forward?
A2	<p>There is no change to our dividend policy. Our basic stance remains to raise dividends steadily over time, without targeting a specific payout ratio. We place greater emphasis on long-term value creation, including M&A-driven growth and ongoing deleveraging, rather than maximizing short-term dividend returns. The current share buyback is fully consistent with this policy and does not alter it.</p> <p>Regarding the use of treasury shares, we are not restricting ourselves to share exchanges. A capital increase could also be implemented without a share-exchange structure. Under our typical M&A model, we expect the majority of the consideration to be funded with debt, with equity used for the remainder. An all-share exchange would be viable only if our company's PER were exceptionally high; in other cases, it would not be a rational approach. As such, these transactions are generally arranged using a mix of debt and equity.</p>

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

Q1	Regarding your fourth-quarter outlook, with the full-year operating profit forecast for FY2025 maintained at ¥244 billion, this suggests a sequential decline of roughly ¥13 billion in 4Q. I assume the main factors are seasonality in China and the impact of AOC's PPA. Could you elaborate on how you view the fourth quarter?
A1	<p>As mentioned previously, because of the seasonal nature of our business, we believe year-on-year comparisons are more meaningful than quarter-on-quarter movements. On that basis, as shown on page 6 of the presentation, we expect fourth-quarter operating profit to be higher than the prior year.</p> <p>Before adjustments, we are assuming a little over ¥9 billion in PPA-related costs for AOC. The final amount is still subject to confirmation, but our underlying assumption remains unchanged. Conversely, in the fourth quarter we expect to book a gain of approximately ¥7 billion from the sale of fixed assets at the Shinagawa Office. Also, in the fourth quarter of 2024 we consolidated only two months of India earnings, whereas in 2025 we will consolidate a full three months, and AOC will be consolidated for the entire quarter.</p> <p>Taking these factors together, we expect fourth-quarter operating profit to rise by roughly 20% versus the ¥46.5 billion recorded in the fourth quarter of 2024, with a modest improvement in margins.</p> <p>It is also worth noting that the yen was already relatively weak in 4Q 2024, and although our internal plan for 2025 assumed a stronger yen, the current exchange rate is broadly similar to last year. This implies some upside to our forecasts. While multiple variables are in play, overall, we anticipate steady</p>

	growth in the fourth quarter.
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Q2	Regarding AOC, you noted that the fourth quarter should also be relatively solid. Is that view based on figures adjusted for seasonality?
A2	As mentioned earlier, when we refer to “signs of bottoming out,” the picture differs somewhat between sales and volumes. On the volume side, we are seeing indications that the decline may be stabilizing. However, December is typically not a strong demand month, and November tends to show volatility in the U.S. around Thanksgiving. Therefore, we are not taking an overly optimistic stance. What has been discussed at AOC’s Board is that we may be seeing early signs that the downward trend is moderating, and that is the context I wished to convey.

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

Q1	<p>On NIPSEA China’s TUC segment, 3Q volumes were down low single digits. Could you break out the main causes, the effect of tighter credit, overall market trends, and whether there was any market share movement?</p> <p>We’ve also heard that local competitors are gaining traction in regional cities, and your growth seems a bit softer than some peers. How do you assess the competitive environment?</p>
A1	<p>We are not disclosing a detailed quantitative breakdown of the volume impact from tighter credit control at this time, consistent with our approach in the second quarter.</p> <p>In 2Q, we placed temporary restrictions on wholesaling to certain large TUC distributors whose receivables had become long dated, pending settlement. In 3Q, receivables from large distributors actually declined, but we observed an increase in long-dated receivables among smaller distributors. Historically, through 2024, we had seen only limited extension of receivables, and our policy remains to collect all accounts receivable by fiscal year-end. Even under that disciplined framework, some receivables still became extended in 3Q, and the negative impact on sales volumes was similar in magnitude to the second quarter.</p> <p>Regarding local competitors, their business scale differs significantly from ours. While their profitability has improved, we believe it still remains below our level. Across Nippon Paint’s decorative (TUC/TUB), industrial, and automotive businesses, we maintain an overall margin of around 15%, and margins in TUC alone are even higher. That said, there are smaller segments, particularly in Tier 3–6 cities, where our coverage is not yet sufficient, and strengthening our position in these markets is a key priority for our China team.</p> <p>In regional cities, for instance, we are seeing more cases of competitors offering refresh services, a business area where we have long been the leading pioneer, at lower cost. Although it is difficult to accurately evaluate profitability in these smaller segments, we recognize the need to carefully consider how we compete in this space moving forward.</p> <p>Overall, our sales volume and value remain substantially larger than those of local competitors, and in that context we do not regard short-term quarterly fluctuations as a major concern. Our understanding is that most share gains by local players are coming from smaller competitors, and we do not believe we are losing share to them.</p>

Q2	As I understand it, you maintained strict credit control in both 2Q and 3Q, yet YoY growth improved in 3Q. Do you expect to keep this level of credit tightening in place through 4Q as well?
A2	<p>We are not treating credit control as a temporary or one-off “campaign.” Our policy remains that, in day-to-day operations, when receivables for a particular customer become long-dated, we suspend wholesaling to that counterparty until payments are settled. Historically, such cases were minimal, but as market conditions weakened, we saw more instances emerge in the second and third quarters of 2025. We are firmly committed to collecting all receivables by fiscal year-end; however, this is not something that can be achieved instantly. Therefore, we are taking proactive measures now with that goal in mind.</p> <p>As we move into a softer demand period in 4Q, we plan to put even more emphasis on collections. Ideally, we would like most long-dated receivables addressed by the end of the quarter, even if that means passing on some sales opportunities for the time being.</p> <p>At the same time, we believe market conditions matter more than credit tightening in determining performance. For 4Q, we anticipate a market environment largely unchanged from the previous year, with our internal heat map indicating a generally neutral backdrop.</p>

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

Q1	Looking at the heat map for NIPSEA China TUC, 3Q shows one step improvement from 2Q. Does that mean you see market conditions as slightly better than before? And for 3Q revenue, is my understanding correct that volumes were down low single digits, but thanks to a better premium mix, revenue still increased by around 1%?
A1	<p>On your second point, that understanding is correct.</p> <p>Regarding the first point, in the second quarter we estimate the market declined by around 5–10% year on year, whereas in the third quarter we view it as roughly flat compared to the same period last year. For reference, 2Q 2024 was mostly stable, 2Q 2025 was negative, 3Q 2024 was flat, and 3Q 2025 is also flat. While there have been some fluctuations between periods, we would not characterize this as a clear improvement in market sentiment.</p>

Q2	If we look beyond the year-on-year basis, is it reasonable to view the fundamental market environment as mostly unchanged from 2Q to 3Q?
A2	We have seen some improvement in market conditions in the third quarter compared with the second, but not to the extent that we would describe it as a strong sequential rebound. Our view is that conditions are simply less weak than in the second quarter.

Q3	Going forward, is it reasonable to think the current environment will stay more or less the same?
A3	Our outlook is that the market will stay largely stable, perhaps with a mild uptick. The broader China environment is still tough, but demand for premium products is helping us protect margins. In such conditions, striking the right balance between

	top-line growth and profitability is a key priority for us.
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◆ Questions from Yifan Zhang, CLSA Securities Japan Co., Ltd.

Q1	In the third quarter, demand and margins in the Americas segment appeared relatively soft. By contrast, AOC's sales have remained nearly flat from the first through the third quarter, with margins also holding steady. Since end demand in both the Americas and AOC segments is primarily construction-related, could you explain the factors behind the differences in topline growth and margin performance?
A1	<p>The Americas segment comprises both automotive coatings and Dunn-Edwards' decorative paints, though we do not disclose margins for each business separately. In the decorative segment, demand is largely driven by residential repainting, and Dunn-Edwards is positioned as a premium brand with a strong presence in California, Nevada, and Arizona. As noted earlier, elevated long-term interest rates in the U.S. have raised mortgage costs, which has weighed on home turnover and therefore on repainting-related demand.</p> <p>By contrast, AOC operates across a broader construction space. While it has some exposure to housing movement, it also benefits from overall infrastructure investment, which has helped support margins relative to the Americas segment. That said, AOC volumes declined by a mid-single-digit percentage year on year in the third quarter, reflecting the challenging U.S. market environment.</p> <p>While Dunn-Edwards has strong premium branding, its company-owned store network results in a higher fixed cost base. AOC, by contrast, is mainly B2B, runs without stores, and keeps fixed costs tightly managed, which helps protect margins even as volumes decline. These structural differences broadly explain the performance difference between the two businesses.</p>

Q2	Oil prices have been easing. Is that translating into a tailwind for your paint business and for AOC?
A2	<p>Overall, raw material prices continue to trend downward, which is generally positive for both our paint operations and AOC. However, the impact is not purely linear, as it also depends on competitors' pricing actions. For example, in the U.S., a major competitor has announced a sizeable price increase, and the market appears capable of absorbing it. Dunn-Edwards will likewise implement price increases, although the specific range is still under consideration.</p> <p>When costs are trending lower, the key for us is balancing pricing decisions with profitability. Our local teams will manage this appropriately to ensure earnings are well secured.</p>

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

Q1	At NIPSEA China, credit controls have been tightened since the second quarter. Looking ahead, when do you expect sales from customers under these stricter measures to begin recovering? And could you share how we should view the outlook over the next one to two years?
A1	When funds circulate smoothly in the market, receivables do not become

	<p>overdue, so once overall conditions improve, we expect credit-related issues to resolve naturally. Historically, credit risk has not been a major concern, but given the current challenging environment, some distributors have been facing tighter cash flows, resulting in delayed payments.</p> <p>If the market recovers and both sales and collections proceed normally, we do not anticipate any issues. These delays are not concentrated in specific or atypical distributors. In the second quarter, we did see some long-dated receivables from larger customers, but as is standard practice in TUC, we strictly enforce collection by fiscal year-end, and we expect cash flow to improve meaningfully in the second half. We recognize that tighter credit control has been one factor behind the temporary slowdown in sales.</p>
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Q2	Is it correct to say that historically there have been few instances where you have tightened credit controls to this extent?
A2	<p>In TUC, I would not say that we have never encountered similar situations, but historically they have not been particularly material. We did see such cases in the second quarter; however, credit control is something we manage flexibly in line with market conditions. The key point is ensuring that receivables can be collected safely. Rather than applying a uniform, one-size-fits-all policy, we adjust our approach according to the environment while maintaining discipline and enforcing collection thoroughly.</p> <p>I would also like to reiterate that while similar situations have occurred in TUC before, the nature of the current receivables differs from the long-dated receivables previously seen in TUB.</p>

End