Nippon Paint Group IR DAY 2025

November 26, 2025

Q&A Summary: AOC's Competitive Advantage and Business Strategy

◆ Questions from Participant A

Q1	Could you explain the competition landscape with two big players? And also I think that the slide showed somewhat more oligopoly market over the past 10 years. What makes such oligopolistic market?
A1	To answer your question regarding the competitive landscape, we have very capable and thoughtful competitors. We do admire them from a distance. Again, I would say that because this is a formulations business, there are certain areas where they tend to invest over time and they develop a position there. On the other hand, we tend to have areas that we tend to invest and develop certain positions as well. And so, certainly they are good competitors. But I would say at the same time we each have our own focus and we each have our own strengths. I think what's important to know about the difference－number one is that we very much focus on what we consider to be the attractive parts of the market. You can see that on this graphic right here on page 1 of the presentation where almost 80 percent of the market we focus on is on case colorants and the customized part of the market. And we very much overweight in those segments because we think that they're the most attractive segments. The second thing is we do believe that our business systems very much differentiate us. We believe that we have proven to use these business systems to drive excellent performance, and we believe that our customers recognize that as a result of this we have the best quality, the best delivery, and the best service. On one hand, we feel like they are very capable competitors. On the other hand, we feel like we have a differentiated position in the market and we very much enjoy what we believe is a competitive advantage. On the second part of your question about how the landscape is changing, what I would say is you can see this from the left hand side of the chart on page 3 of the presentation there has been a lot of consolidation in the industry, and in large part that consolidation effort has been led by three global players including AOC. That is really why they have emerged as the global players because of that consolidation effort that they have exercised over time.

Q2	My follow-up question is about the growth strategy. I think the last part of your presentation commented somewhat market growth like a mid-single digit growth and also you are seeking for some bolt-on M&A, but could you elaborate on the area one is a more important for the growth, a market growth or a more focused on M&A, because this year I think AOC's sales growth is still tough, like minus 9 percent or some low trend continues. Could you explain your growth strategy over the next several years amid the ongoing tough market environment?

A2	I would say, based on what we are seeing right now, it looks like the market is at or near its bottom. So to your point, if you look at the market growth of 2025 versus 2024, the market did decline in demand in 2025. But as we look at that trend, our analysis indicates that based on how things look now, we are at or near the bottom. If you look at the data between the market demand today and where we were for example, in 2021, the volumes are off between 20 and 25 percent. And the indications that we have is that over some time horizon the market will fully recover. That would imply significant tailwinds as we look to the future. Now exactly what the rate of recovery is will be dependent on many factors. For example, what interest rates will be and how quickly will interest rates get cut et cetera. Therefore, we're not going to opine on the precise timing of that recovery. But based on where we stand right now, we have confidence that over the medium term we will see a full recovery. To answer the second piece of your question, we continue to focus on controllable variables, so we still have room to improve on our business systems. We continue to drive our innovation, we continue to drive our value creation levers, and we see additional upside there. And then to your point, we will be continuing to look for acquisition opportunities. It's always difficult to say precisely when those will happen, but we are committed to continuing down that path. Based on all of those factors, we're optimistic about the future growth opportunities.

◆ Questions from Participant B

Q1	I would like to ask about the market situation in your focus areas as covered on page 3 of your presentation. You are placing importance on these attractive markets, and specifically in which areas are you benefiting the most, composites or other areas? Are the margin and growth rate different or do you have particular strengths in these areas where you will be more competitive than in other areas. Can you please give me some more color on this situation?
A1	First of all, CASE, colorants, and customized part because we believe that those markets tend to fit more our business model which means they tend to be more technical. They tend to have complex problems to solve, and they support customized solutions. And that very much fits our business strategy. So other companies may have different business strategies, but this very much fits our business strategy. With that profile, we feel like it's the best fit for us, and we feel like because of that we're able to create more value and provide more value to our customers. In terms of the in-use markets we don't go into a lot of detail here, but I would say that we tend to overweight in the infrastructure segment, and we like that and it, we think has fared better during downturns, and we also like the growth prospects of that as well. Having said that we are quite diversified in our end-use segments, but we do have a higher weighting in that segment I would say than our competition.

	I would say the other place that we overweight is in the US. We thus have the number one position in the US, and we are as a percent of our revenues much, much heavier than the other competitors. And we also like this weighting because we feel like in our markets, the Americas are significantly more attractive than other regions of the world.

Q2	AOC and Nippon Paint businesses are different in many ways, and Nippon Paint's Integrated Report indicated that you are receiving guidance and advices, as well as insights from management of other partner companies. Can you please tell us about your collaboration with the partner companies as well as future expectations?
A2	There are differences between us and other partner companies within the Nippon Paint Group. However, I would point out that, in our view, our other partner companies are also formulations companies, and so we believe that there is a lot of opportunity for shared learnings and our business approaches. We also do have some market overlap as we face the customers but also with suppliers. We are having significant discussions with our partner companies across the Nippon Paint Group. Those have been very rewarding, and we look forward to the continued collaboration there.

◆ Questions from Participant C

Q1	Which macroeconomic indicators should be monitored to best identify signals of demand recovery of your companies? Housing or which indicators, which should we look at?
A1	That's a tricky question because we do have a lot of markets we serve. So from the presentation you can see while we have exposure to both residential as well as commercial construction, we also have exposure to transportation. That means not just passenger car, but it also means heavy truck, as well as markets like recreational vehicles. We have significant exposure to infrastructure that can be everything from rehabilitating pipes to bridges to alternative energy. And we have exposure to distribution which goes to many, many different small customers. There's not one or two indicators that we track that we really think determine the outlook but it's a composite of all those different markets. I wish there was an easy answer to give you, but I don't have an easy answer.

Q2	Do you already have some signals from each small market already, a signal of bottoming out already?
A2	Generally speaking, it does look like in North America as well as in Europe the signals that we're seeing to your point look like we are at or near the bottom, and that goes broadly across the markets, but some are better than others. For example, at a point in time right now infrastructure is a bit stronger, and construction is still not quite there. There is some variance around the bottoming

	out but overall it looks like we are at or near the bottom based on what the indicators are looking like today.

Q3	From the perspective of the CEO of AOC, why do you think Nippon Paint was able to acquire AOC at a relatively low price? And also from perspective of AOC's CEO, why do you think Nippon Paint was the best choice for AOC? And finally, similarly, why do you think the fund decided to sell AOC to Nippon Paint at such a relatively low price?
A3	I'm not going to opine on the price and why it is where it is either from a standpoint of Nippon Paint as the buyer or Lonestar as the seller. I can comment on why I think that NPHD is an excellent owner for AOC. Firstly, I do think that we fit clearly within their Asset Assembler model. Secondly, while we're not exactly the same as other paint companies, we are very much a formulation company. Therefore, I think it's a great near step adjacencies since we do have a lot in common. And thirdly, AOC has been on a trajectory where we feel very good about our business systems driving performance, and we feel very strongly that we can use those business systems not only to drive performance in the company that we have, but with acquisitions as well. And we are at a natural trajectory where we feel like we've earned the right to continue to do acquisitions at a time when Nippon Paint is committed to their Asset Assembler model and is willing to invest in intelligent acquisitions. And so that fit, I think is very, very good.

◆ Questions from Participant D

Q1	My first question is a follow up on the question about demand and sales. You suggested that infrastructure would recover first but is that the right understanding and housing piping, bridges, alternative energy were mentioned earlier and should we have an image that these things will recover first, whereas construction will have a slightly slower recovery pace? And overall, am I correct to understand that the market is at the bottom right now? I understand the difficulties because it relates to interest rates and other factors. But in the upcoming fiscal year, well, you mentioned that mid-single digit growth can be expected in the medium term but in the next fiscal year do you have an image of the growth?
A1	We are not going to be giving specific guidance around next year's growth. In the meantime, I do agree with your statement that based on the current trends overall, it looks like we are at it near the bottom. As to which segment will grow first is probably a bit dependent on which geography. Asia is not necessarily the same as Europe or the US. But having said that, generally speaking, I agree with your statement that infrastructure appears to be well positioned based on the current trends. I would refrain from going further into the various markets and the order of the recovery.

Q2	Regarding the profit margin, currently it's in the mid 30 percent level, which is a significantly high operating profit margin. What is your view for your profit margin? Do you have a plan to grow further or are you going to focus more on the top line growth?
A2	I'm not going to make a forward-looking statement at this point about margins but what I will do is observe what has actually happened in the day that we already see. And that is, as was pointed out earlier, the market continued to contract from 2024 to 2025 and yet we were still able to maintain our margins. I think that does say a lot about our business systems and I would refrain from going further.

◆ Questions from Participant E

Q1	We understand that approximately 70% of AOC's products are custom-made for the individual customers and that formulation data is treated as proprietary know-how that forms a key source of differentiation. To what extent do you believe AOC's formulation and blending capabilities can be replicated by competitors, especially in China? And what specific initiative or the investment do you consider necessary to sustain the further strengths this technological advantage in US and especially in the European market over the long term?
A1	We do believe that our formulations are proprietary. What I would say about your question about how easy is it to knock it off our products? The first thing I would point out is again, as you can see on page 5 of the presentation if you look at our portfolio, we have over 3,200 SKU's and over 1,000 customers. So it's a very, very fragmented portfolio of products and customers. That is the first point. The second point is in the strategic sweet spot that we focus on we like the markets, the customers, the applications where there is this strong need for a customized formulation. As the graphic in the presentation shows, what that means is first we have to deeply understand the in manufacturer's requirements. We have to deeply understand our direct customer's requirements and then we have to be able to solve those requirements and the requirements that are necessary to make them manufacturable with the right lead times at the right cost and so forth. And many of these things kind of go in different directions. So it's often not an easy problem to solve. One question is how easy is it to figure this out to both understand the problem and solve it for a customer and then the question is how easy is it to solve for a lot of customers? Our view is because of the formulation's nature, because of the fragmentation, this tends to be a pretty complicated problem. It tends to be a pretty sticky scenario because of all the complexities. I think specifically you asked how easy would it be for somebody in China to knock off our products? I presume you mean for example, in the US, I think the other practical response to that is we see very, very little evidence of that up to the present.

Q2	My follow up question is with regard to the business system. AOC's business system is described as a comprehensive methodology for continuously improving the value creation processes. While its implementation is already highly advanced in the United States, there appears to be a significant room for the further development in Europe from the standpoint of organizational capabilities such as process management and current development. What do you see the key requirement to raise the level of maturity of business system within the European operations?
A2	First of all, you're very kind with your assessment and the maturity in the US. On one hand, while we are proud of the progress we have made in the Us, I would say there is still opportunity to improve the US as well. But to your point, we believe there's an even bigger opportunity to improve Europe and the reason for this is largely a matter of priority and timing. As we develop these business systems because most of our business is in the US typically we started in the US, we tried to develop the system, prove it out and then start ruling it out to Europe and then Asia. Since we started in the US first, we're simply more advanced in the US, I believe than in Europe or Asia. So I don't think it's a particular magic bullet that is required to, let's say, elevate the maturity in other parts of the world. We simply have to continue with the program like we have been, and we believe that you know, we can continue to build out those systems in Europe and Asia as well.

◆ Questions from Participant F

Q1	My question is with regards to how you kind of win new businesses and with existing businesses because most of your products are customized. Do you still have to go through a tender process to win new business relationships and for existing business relationships?
A1	There's no one-size-fits-all answer. But generally speaking, again, if you think back at page 5 of the presentation, the sweet spot of our strategy is really partnering with our customer and even their customer to understand their problems and create the spot solutions. That's a very different model than, for example, commodity chemicals where everybody's selling the same thing, it's sold by a formula, and you know, essentially all the products are, you know, the same chemical makeup. That's a very, very different model. In terms of how we tend to grow, we anticipate that as the market rebounds from this roughly 20 to 25 percent demand drop that we have experienced as the market rebounds, we will participate in that number one. Number two we will continue to focus on our innovations and typically where we are looking to innovate is where we have differentiated technology and where there tend to be nice market tailwinds. What we find often is that the materials that we're competing with are not other unsaturated polyester formulations but there are other materials in these innovation projects. When we look at, for example, our ultra lightweight

	composite formulations, our view is we are substantially better than what anybody else has and more than likely we will aim to displace, for example, steel. If you look at our efforts in going after potable water and relining that's not a market where unsaturated polyester formulations participate today and so we're not competing with those traditional players. And so that's a recurring theme. When we look at our innovation engine we're looking to compete where we have differentiated technology in attractive markets and often we are looking at competing with alternative materials that we're displacing. And so our aim is to generate growth in addition to the market growth that we anticipate as we look through the medium term.

Q2	My second question is with regards to pricing power. From what you describe, there is a lot of value added from AOC which is why you're able to make the margins that you make and displace your pricing power. But ultimately it seems to me that a lot of your customers, they are not high margin businesses and I'm just trying to understand when, for example, there is fluctuations in raw material prices. How fast or how quickly or how willing are you able to pass through those higher costs to your customers?
A2	There's not a one-size-fits-all answer here. We have over 3,000 customers and no two are the same. And so I'm very reluctant to make broad brush strokes with this. What I would say is our aim is to create more value, substantially more value than the next best alternative and to share that value with our customers so that they get the best value and at the same time we want to share that value as well. And that's really the recurring theme but I'm very reluctant to generalize because again there's over 3,000 products, there's over 1,000 customers and no two are the same.

◆ Questions from Participant G

Q1	My first question is in your earlier remarks, you mentioned that your strength is understanding customers' requests and meet those requests going forward once the customer number is increasing, you will have more customized products accordingly. So maybe the management costs will increase, and the technology costs will increase as well. Do you think the margin will decline or am I wrong to think that margin will decline because of that?
A1	I would say AOC embraces complexity and we have done a lot of work with our business systems to manage that complexity all the while doing so at a low cost. And again, we think that's a very differentiated capability. And so we will continue to leverage those systems. We believe they are very, very robust. Ultimately I think what's important is to your point, we will continue to try to understand customer's problems, and we will continue to strive to create as much value as possible. And then we will leverage our business systems to be able to manage the complexity that results. So our view is that, you know, this has proven to be a very robust approach

	both for us and for our customers. And we're committed to continuing on that. I will refrain from going further. We're not today making forward looking statements around the economics, but what I will say is that we continue to be encouraged by the approach and we're committed to continuing in that direction.

Q2	Your customized ratio is 70 percent, and what the ratio will be in the future? How high can you go up on your customization level in the future?
A2	I'm not going to give a specific number there, but what I will say is we do like the customization aspect. We'll continue to do as much of that as practicable. I don't have a specific number that I can give you as to what it may be, for example, next year or in five years.

Q3	Asia is still 9 percent of your operations. So it's not that large now. What is your plan in expanding your business in China?
A3	I would say back to the earlier comment we first focused on developing the business systems and improving them in the US then we started rolling them out in Europe and then we started rolling them out in Asia. And I think the maturity level as was mentioned earlier is probably most mature in the US then in Europe and then in Asia. And so you know, as it relates to Asia, our first focus is continuing to build up these business systems and continue to improve the health of the base business that we have as that continues to progress. We will then evaluate other dimensions of our growth strategy but that's the current focus in Asia.

◆ Questions from Participant H

Q1	My question is regarding your margins. Historically for the business the margins in 2010 were about 10 to 15 percent on an industrial basis and now you're standing about 35 percent, whereas back in 2021 you have about 20 percent margins. And during this period of time your volume from 2021 and 2025 declines about 20 to 25 percent as you mentioned. So could you explain what did in terms of offsetting the negative impacts from the volume. Do you have better mix or you have the benefits of consolidation or you have a kind of cost reductions.
A1	There's not a singular answer to that question. But again, what I would point back to is a constant focus on these business systems, continuing to focus on how do we do better at innovation, continuing to focus on how do we do better at commercial excellence, on sourcing and on leaning. We believe all of those have been very important. To your point we have continued to implement our strategy of focusing on CASE, colorants, and the custom part of the market. I think all of those things have been, you know, very helpful to our ability to create value for our customers and share in some of that value. But there's no one single thing that I would say has kind of been the driving factor.

Q2	My second question is about price negotiations because you have a very diverse

	business by industry, automotive, construction, customized or not, I would like to know about your price negotiation process. Are you on an annual contract or some are annual contract or monthly contract or is there any kind of variations depending on the industries?
A2	Again, with over 1,000 customers, there is no one answer here and of course we operate in regions around the world and so there's not a singular answer to that question. I wish there were a simple answer, but I cannot give you one.

End