

Nippon Paint Group IR DAY 2025
November 26, 2025
Q&A Summary: NIPSEA Group Business Strategy
(NIPSEA China and Türkiye Group)

◆ Questions from Participant A

Q1	<p>We saw credit control issue in TUC business becoming more visible in 2Q and 3Q or should we view this as an early sign of structural shift in the market similar to those we have seen in the TUB, or would it be too pessimistic?</p> <p>Could you also update on the current situation of the distribution network and how you see the market outlook from here? Actually we have seen a similar situation happen in TUB and starting from 2Q of 2025, we also see that in the credit control of TUC, so some of the investors see some similarity in between TUB and the TUC.</p> <p>Regarding TUC, we may have to think about the structural deterioration in the market or is it too pessimistic?</p>
A1	<p>To start with, the TUC market did not perform as we expected in 2025. It was very much a sluggish business. When we entered the year, we actually had bigger aspirations for this part of the business. As the Chinese economy continued to splutter along, learning from the lessons of TUB, we wanted to be more prudent and we are also expanding.</p> <p>If you do remember, our focus in TUC is about leading and growing and we believe that the growth is in the color and textures in the main tier cities and also gaining a lot more growth and market share in the smaller tier 3 to 6 cities. The tier 3 to 6 cities have never been a big part of our business but is now a new focus. But as we pursue this part of the business, it becomes clear to us that the market dynamics are different and we are learning.</p> <p>I did mention earlier on in the narrative that we entered the region by planting what we call frontline factories and learning how to do business in the far flung and smaller cities of China. As we learned, we get to know that there are different market dynamics and there are different partners and over time we get good partners, we get bad partners and we have to now start to act rather prudently in weeding out the weaker partners amongst us.</p> <p>Even as much as I say the strong brand of Nippon Paint attracts partners, we attract partners of all kinds and we begin to sort of learn to lean on the stronger ones and start to maybe do less business with the weaker ones.</p> <p>As such, I would not say that this is a structural change in the TUC business, but it is how we grow into an area that in the past we are not as strong or familiar with.</p> <p>We are also learning along the way and it pays to be prudent as we grow. I have actually a lot of hope that we continue to push this part of our business and we do hope that we see growth even in a sluggish market and hopefully if the tailwinds do come, we will ride the waves and grow along with it.</p>

Q2	<p>Regarding the outlook for 2026, you have guided a high single-digit top line growth in the TUC business. Could you walk us through the key drivers behind the outlook in a bit more detail?</p> <p>First of all, how do you think about the overall market assumption and within that how much growth are you expecting within the Tier 0 to Tier 2 cities versus lower-tier cities in the third quarter of 2025 in the premium segment? You mentioned continued effort to expand the zone as well to capture the core repainting demand.</p> <p>Could you elaborate on the progress and the initiative there?</p> <p>And also you highlighted that in Tier 3 to 6 cities, the asset light strategy is becoming increasingly important.</p> <p>How should we think about the initiative in the lower-tier cities including the effort around adjacent materials such as undercoat and other supporting products?</p> <p>Lastly, you have been deploying CCM in China close to 200,000 CCMs were already introduced in China in 2024. How do you assess the impact from the installation so far?</p>
A2	<p>The first question was more on how do I convince you to believe that we can achieve high single-digits in the TUC business in 2026. The starting base is actually in 2025, the market has been rather disappointing.</p> <p>We believe our addressable TUC market shrank by about five percent. But although we say it's the TUC market, in reality, the devil is in the details and if you look at the many different segments even within the TUC market and the big part of the segment that actually shrank was actually in the interior wall emulsion paint. That segment shrank a lot. However, in the midst of this total market shrinkage for TUC, the textured part of both interior and exterior continues to grow but that is a growing and smaller part of the market right now.</p> <p>Going forward, we believe that the year-on-year decline in the interior emulsion market in China will probably slow down, we are seeing a back to back year of decline, and we believe that over the last two years, we have put a lot of both technology and operational improvements in this part of the business so much so that actually even as the total market for interior emulsion has shrunk, we have begun to take more and more market share away from our competitors in this space.</p> <p>It signals that, firstly, we are gaining an advantage here and we are gaining a lot of share advantage in terms of product advantage, in terms of probably cost structure. Many of our competitors are now turning their attention to what they think is the growing part of the TUC business, which is the interior and exterior textures. This market is smaller but is growing rapidly. Everybody is competing in that space, and in that space Nippon Paint's market share is still relatively small. We see that we can grow faster than the market, hopefully with our brand and our product offering. I was at pains to actually say that we have focused a lot on the texture parts in the last few years and we believe that in 2026, it will continue to contribute. So these two factors a growing dominance in a slowly shrinking market, which is the big part of the market today in the interior emulsion which we are beginning to take and gallop away with market share.</p> <p>In the growing smaller market of textures, we are beginning to compete head-</p>

	<p>on with all our competitors and we believe we can grow faster than the market growth. As such, I guess the coming together of these two factors allow us to probably expect that we should see or at least we plan to achieve the high single-digit numbers for the TUC going into the new year.</p> <p>The second part of your question concerns the core repainting demand. Well, one proxy when we look at the core repainting demand is really on the take up of our repainting services which is what we call the Refresh business in China. Actually that part of the business will grow because if we take a leaf from all the other economies of the world as a country's stock of new buildings becomes older and as secondary sales of apartments and houses change hands, they will always trigger the repainting demand.</p> <p>We expect going forward, the China market has probably reached or about to reach that type of development as we see in some of the developed markets. We should see repainting demand grow and we see that they are probably a very stable part of the business. As such, it's not only that Nippon Paint is smarter than anyone else in this market; all our competitors are also viewing the repainting renovation market and everybody is spending a lot of effort in this space.</p> <p>What we believe we are the market leader, we believe our color and texture strategy is working well, and we believe with the added innovations put into the market with our community stores, which we hope to have about 2,000 in the market by 2026 will improve our service levels, facilitate our customer access to such services and also allow the community store operators who are closer to the market to build that additional linkage which we otherwise would not have. We believe that this innovation ahead of the market will probably give us an advantage going into 2026.</p> <p>Now I will answer the last part of the question, which is on the color creation machines, or CCMs which we have 20,000 plus machines in the market and this is a key feature of our color strategy.</p> <p>This is a strategy we have pushed in that as China develops and matures, color and texture become a more and more important part of the decoration selection. To have colors and thousands of colors readily available in the community to our consumers, we believe is key to success. As a result, from about three years ago, we have been aggressively growing our CCM network in the market and we are growing in the texture and color space. From that indicator I believe it is a worthwhile investment. But I can only convince investors when we really start to perform in 2026 going forward.</p> <p>I think another part of your question was on the tier 3 to 6 cities and our asset light approach. Let me say that for many years, Nippon Paint China was very focused in winning in the big metros and we are actually rather dominant in this space. If you look at the history of some of our close competitors, they have deliberately avoided the metros and they have gone out to the smaller provincial cities to really get started. As such, tier 3 to 6 cities I would say that we are guilty of neglecting these markets. We have woken up since I guess three years ago, and we were beginning to make a push there. When we did that, we went in with our usual playbook, you know, put a factory there in the region and then we sort of supply from the factory. And we found that approach while it works on the one</p>
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	<p>hand, it takes more capital on the other hand, and it takes more time. We did that and we actually built what we call 13 frontline factories to learn that business.</p> <p>By learning that business and by beginning to know the environment and the market dynamics, we have now gone beyond just building our own factories. In fact, we have stopped building our own factories to a large extent and started to lean on smaller regional suppliers that are already present in those areas.</p> <p>Why is that opportunity available? I guess it was a confluence of several factors. One was the China market was not growing as fast as such. Many of the smaller players that used to have an advantage have begun to see their market shrink. Secondly, if you look back 58 years, costs have gone higher. In a growing costs environment, the smaller players actually suffer disproportionately, especially in China versus the slightly bigger players. As such, some of them came to the conclusion that the hay days are over, that they better throw their lot in with some other guys and hopefully be able to grow together. That is where I mentioned that the brand and the partner linkage are very important.</p> <p>If you look at 2024 alone, we have probably grown the number of regional partners we have by 1,000 percent. So we are doubling the number of partners we have and that allows us to have a much faster penetration of the market than we would otherwise benefit from if we were to maintain our older playbook of going out there, plan the presence and then expand from there. So as a result, the asset light approach evolved because the market situation allowed it to happen.</p> <p>Secondly, we thought that it was a more inexpensive way to enter the market. Thirdly, it allows us a much speedy penetration.</p>
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◆ A question from Participant B

Q1	<p>My question is related to the situation in the Chinese market. I believe you are continuing to gain market share and I think there is an increasing oligopoly by major players in the market. Is my understanding correct? You also mentioned interior, exterior, texture paint and so forth, are there variations by region or by product? Can you please give me some more color on that?</p> <p>And as the market is increasingly becoming oligopolistic, I assume that you will have more pricing power, but will there be incremental opportunities where you can benefit from?</p>
A1	<p>I wish it was oligopoly but in reality it is not really so. And the impression of oligopoly is probably maybe because in the investment community everybody is fixated on one or two counters and as a result that impression is given.</p> <p>But from a sort of market participant perspective, I have to respect all my competitors and in different market segments, in different areas. And in different product offering, we do see different competitors and I guess it is not my space to comment on our competitors but I do see that where Wakatsuki when he goes around and interact with the investment community, a certain competitor comes out very, very often and it comes out very, very often mainly because it certainly is a very worthy competitor. It has come from almost nothing in probably 2010 to where it is today and is now almost the key dominant Chinese brand in the</p>

	<p>market. Therefore, it does give the impression that it is Nippon Paint versus this competitor.</p> <p>However, rest assured that we are very focused on trying to beat them but we have not turned our attention away from all the other players because before we know it, somebody comes from the left and then gives you a real black eye. My people are very focused on quite a few competitors in the past. The TUB space where everybody is competing for the big property developers, the competitor certainly was there slugging it out with us neck to neck, but in the retail space, if you look at the big metros, there are probably three brands who are now slugging it out.</p> <p>If you look at tier 3 to 6 cities, the competitive landscape changes vastly as you move from province to province. If you move beyond the traditional emulsion coatings and look at the texture coatings, there is also a different set of competitors. In the big metros in the past, another competitor used to be there vying with us on the color and interior texture space. However, right now this player has been acquired by other company. It is now a key part of their national strategy.</p> <p>Therefore, I think we will see a different competitive dimension shaping up as the product offering of the acquired company is assimilated into the acquiring company. If you go into the smaller cities, you will find that, for example, exterior textures, we were never there and it is something that we are a new kid to the block but we believe we have the product offering, we have the distribution strength and I did mention that in the smaller cities we are having a county distributor plus ASP (Application Service Provider), which is the application service provider model concept, which allows us to very quickly grow.</p> <p>With a competitive texture offering, with a good distribution and with logistics and costs hopefully on our side, we believe that we can beat the local texture suppliers in each and every one of this market. For us it is a very different dimension for each of our regional competitor. They focus very regionally and they see Nippon Paint as the guy to beat. But for us we have a multitude of competitors, and we have to react to each of them very differently in each of the different far-flung provinces. Then I think you are talking about whether oligopoly leads to pricing power. I guess the economic theory certainly leads to that but we certainly can try and attempt to keep what we call ASPs at the different product segments competitive but build a premium. I guess and I did say earlier that as a large market player with a premium market brand, it behooves on us to make sure that we continue to set the right behavior so that in time to come everybody gets rich as opposed to chase each other down to the bottom.</p>
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◆ Questions from Participant C

Q1	<p>What is your view on the operating profit margin for NIPSEA China this year, which was 15 to 16 percent this year? There are many variables and uncertainties including the raw material costs. But next fiscal year, with the Refresh Service and ASP model, you are having all these models. What is your outlook for the operating profit margin?</p>
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A1	<p>All our initiatives gives us confidence that we probably can extract growth in even a sluggish market. That is why I sort of go out on a limb and says that the TUC will grow high single-digits in 2026. And this is on the back of all the initiatives we are trying to do in 2025 and have put in place. That gives us confidence.</p> <p>Regarding your question about margins, it is not an easy question to answer mainly because of the different parts our revenue composition is going to take. For us any profitable growth is good growth. In some markets you may see stiffer competition and you may adjust your margins to the local situations in areas that we dominate.</p> <p>In a duopolistic world in some parts of the market, of course we work together with our duopoly partner to try to get the margins high. There is really no simple answer to your question but rest assured that while I cannot answer whether margins itself will grow or decrease overall but you can rest assured that where we have strength, we definitely will push the margins where we are growing and trying to gain penetration.</p> <p>We may be a little bit more measured in how we look at margins but overall we should make more money than last year. That at least is the guiding principle I give to my people.</p>
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Q2	<p>My second question is the impact of the Japan-China political relationship, which seems to be deteriorating a little, although I'm not overly concerned about it given the minimal impact incurred in a similar situation in the past. In the past there was no impact on your revenue. I'm not so worried but I would like to hear your words that it will be OK this time again.</p>
A2	<p>I hope you are right, but over the course of the last two decades, there must be at least three episodes where Japan and China decided that they just wanted to have a go at each other. But every time this passes so I actually, well, definitely I'm not an observer of international politics going forward but I certainly hope that good sense prevail that Japan gets to sell its seafood back to China very soon.</p> <p>Hopefully there is an off ramp for each of the actors in this space and reduce the temperature of the relationship. Whether we factored that into our 2026 and going forward, we certainly will watch this space.</p> <p>We will not take the issue of Japan versus China as an excuse, so I will commit my team to deliver what they have committed to deliver.</p>

◆ A questions from Participant D

Q1	<p>What kind of timeline you're expecting in terms of expanding to Middle East, North America, North Africa and other regions. Could you please explain to me what kind of timeline you're thinking about M&A strategy? Maybe Mr. Wakatsuki will comment on it in the next session but what kind of a plan you are thinking about there?</p>
A1	<p>As I said when we acquired Betek Boya in Türkiye, we at least or I saw in Betek Boya and Türkiye as something similar from what we experienced in 1962</p>

	<p>when Singapore was the springboard upon which the whole NIPSEA Group came about. I am sure you don't like that analogy because 1962 or 60 years ago, is that your timeline? Hopefully we don't need 60 years to actually use the Betek Boya and the Türkiye as the springboard where we grow into North Africa, Middle East and Central Asia.</p> <p>We took the view that even though it was a very attractive springboard for us, we actually started slow, more from the standpoint to let the management of Betek Boya know about the NIPSEA Group and Nippon Paint Group first. As a result, we took pains to put it together with the M Group+. Over the course of the 6 years since 2019, we have actually learned from each other. So there has been a very beneficial good relationship and transfer of benefits back and forth.</p> <p>As we got comfortable with each other in 2024, we decided that it is time now to break out and form a separate group and with Betek Boya as the core, and that the Türkiye group comprises Alina in Kazakhstan, which we hope will propel our Central Asia growth strategy. Alina is not only the dominant player in Kazakhstan but it also plays in four neighboring Central Asian countries all the “stans” and we saw that growth in several aspects: firstly, geographical growth in Central Asia and secondly in the product offering growth beyond just the traditional dry-mix competence of Alina to grow the paints and coatings. One aspect of that you can see in the Central Asian market is that the Turkish brand Fawori is now getting to be more widely available in those countries. Therefore, we will lean on Alina to grow. And the acquisition of Alina actually propelled that growth to a certain extent. We hope that we continue to build on that momentum.</p> <p>Shifting from Central Asia to North Africa and Egypt is a slightly different story. Firstly, when we acquired Betek Boya in 2019, Egypt was already a subsidiary and they had a presence there but it was a bit of a neglected child. We decided to spend time to rebuild the factory, rebuild the team and start to make sense of a market where we are, we meaning at that time Betek Boya, it is a very small player against some larger competitors and all the other more established players. We know that we have found our feet, we know what are the areas we can start to grow in Egypt. And even as Egypt suffers from currency devaluation, high interest rate and high inflation environment in the last two years, we continue to now begin to take share. I think that growth is about to start. I hope because I was just about to say started mainly because of the slow start and the economic conditions. We hope Egypt could be the base from which North Africa beckons.</p> <p>I say North Africa and avoided saying Middle East mainly because Middle East is certainly in the last five years becoming a very attractive investment area with many of the Middle Eastern countries growing and liberalizing.</p> <p>It is a market that we have a small presence by different Nippon Paint Group companies. We will probably have to spend a little bit more time understanding the market before I can give you a more concrete answer for our Middle East strategy.</p>
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