

FY2026 1Q Financial Results Conference Call Q&A Summary

May 15, 2026

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

Q1	<p>First-quarter results were very strong across the board, with solid growth in revenue and improved profitability at every earnings level. Looking ahead to the second quarter and beyond, how do you expect the impact of higher raw material costs and the apparent pull-forward of demand associated with the heightened tensions involving Iran in March to unfold? Could you comment on the outlook by region and business segment?</p> <p>In particular, I understand that your operations in China have been a key source of strength, supported by strong procurement capabilities. Are you seeing meaningful differences across regions? For example, in sourcing through your China operations, or in raw material price trends, and also in the case of AOC and other operations, raw material prices in the United States have not risen all that much. In addition, could you provide an update on the raw material cost environment following the developments involving Iran, including price adjustments, customer demand sensitivity, and the impact of solvent shortages reported in certain regions, including Japan and other parts of Asia?</p>
A1	<p>In terms of the impact of higher raw material costs, Japan and other parts of Asia are more exposed due to their greater reliance on Middle Eastern supply. Australia and Europe are also experiencing some impact, whereas the United States is not seeing a significant direct effect at this stage. That said, the impact is not limited to solvent-based materials. We are also seeing cost pressures in areas such as plastic packaging, containers, titanium dioxide, and other raw materials. As a result, we are closely monitoring developments and managing our operations accordingly in each region.</p> <p>In March, we utilized existing raw material inventories and were able to fulfill our supply responsibilities to a certain extent, although it would be difficult to say that every customer was fully satisfied. At the same time, we responded to the temporary surge in demand and minimized lost sales opportunities. As a result, profitability, particularly in Asia, exceeded our initial expectations. However, we believe it is prudent to assume that the effects of these developments will become more visible during the second quarter. In response, we are moving quickly across all regions, including through alternative sourcing initiatives and packaging modifications. Where necessary, we are also implementing price adjustments with customers' understanding and support.</p> <p>It is important to note that our procurement capabilities extend beyond NIPSEA China. Across the Group, we are strengthening the sharing and reallocation of raw materials, including among our operations in China. While we are also facing higher logistics costs, our first priority remains fulfilling our supply commitments to customers and further reinforcing our position as a trusted partner.</p> <p>Although the current situation clearly presents risks, we also view it as an opportunity to demonstrate our capabilities and strengthen our market position. We will continue to focus on balancing supply stability with profitability and remain committed to delivering solid earnings performance for the full year.</p>
Q2	<p>If the partial closure of the Strait of Hormuz were to persist and crude oil prices were to remain at elevated levels of around USD 100 per barrel, is it reasonable to</p>

	<p>assume that you would still be able to fully offset the resulting cost pressures on a full-year basis through product price increases and other mitigation measures?</p> <p>In Japan, we understand that significant price increases have already been implemented for solvent-based products. We have also seen reports of price increases by certain manufacturers in China. Could you elaborate on your pricing strategy in the current environment.</p>
A2	<p>Our view is that, after exhausting all available management initiatives to mitigate the impact, any remaining cost increases that cannot be absorbed internally may ultimately need to be addressed through product price increases. This reflects the nature of the paint business, where raw materials account for a significant proportion of total costs. Based on first-quarter results we believe our global competitors are taking a similar approach.</p> <p>That said, if inflationary pressures continue to intensify, we do not expect the demand environment to improve, and there is a risk that demand could weaken. The outlook will depend heavily on how long the situation involving Iran persists, making it difficult to provide a precise forecast at this stage. Nevertheless, while we do expect some impact, we believe the impact can ultimately be absorbed.</p>

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

Q1	<p>Is it correct to understand that, from a procurement standpoint, your operations in the United States and China are relatively well positioned, and that your global operating footprint provides a meaningful advantage in this regard?</p> <p>I also understand that the ability to pass through higher costs varies across regions. Is it fair to assume that price pass-through tends to be more achievable in markets where you hold strong competitive positions?</p> <p>In addition, regarding your full-year 2026 operating profit forecast of ¥283.0 billion, should we think about the earnings progression as follows? Given normal seasonality, the impact of higher raw material costs is likely to be more pronounced in the second and third quarters. At the same time, price increases are expected to gain traction from the latter part of the third quarter into the fourth quarter, enabling the overall impact to be largely offset on a full-year basis.</p>
A1	<p>From a procurement perspective, our approach is not to supply all regions from the United States. In principle, raw materials are reallocated among neighboring countries and regions as needed. That said, cooperation among our Group companies has been extremely strong, and under the close oversight of Wee Siew Kim, we have been working to minimize lost sales opportunities and avoid supply disruptions for customers wherever possible. Compared with a month ago, we believe we now have a much more robust supply framework in place, which demonstrates the effectiveness of our procurement capabilities.</p> <p>At the same time, cost increases are unavoidable, including higher expenses for containers and logistics. As a result, we expect cost pressures to become more pronounced in the second quarter and the second half of the year compared with the first quarter. In response, we are moving quickly with a range of measures, including alternative sourcing, rationalization initiatives, and price adjustments. Given the agility of our Group, we believe we are well positioned to manage these challenges appropriately in each region.</p> <p>With respect to progress toward our full-year 2026 operating profit target of ¥283.0 billion, earnings are typically weighted toward the second and third quarters due to seasonality. Taking into account the impact of foreign exchange movements</p>

	<p>as well, the forecast announced in February remains a must-achieve target at this stage. We intend to reassess the outlook as appropriate when we announce second-quarter results in August.</p> <p>As for price pass-through, it is difficult to generalize, as demand environment varies by region. In markets such as China, where the demand environment remains challenging, passing through cost increases is not easy. Similarly, in the United States, where gasoline and logistics costs are rising, it is important that customers recognize and appreciate the value we provide. While we will make every effort to implement appropriate measures in each market, the operating environment will inevitably vary across regions.</p>
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Q2	My understanding is that the direct impact of raw material cost inflation in the United States has been relatively limited. In the past, you have indicated that AOC is highly competitive and strong in cost control. Is that still the case in the current environment?
A2	As I noted earlier, the direct impact on the United States has been relatively limited compared with other regions. That said, cost pressures are also increasing in the U.S. Against this backdrop, AOC continues to manage the business proactively, leveraging its strong competitive position in the market while working closely with customers to secure their understanding and support.

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

Q1	<p>Could you provide detail on how you responded to the surge in rush orders and the extent to which they contributed to first-quarter results? Earlier in the discussion, you mentioned that the company responded to front-loaded demand as much as possible. Could you elaborate on the scale of this impact and whether there were any meaningful differences across regions?</p> <p>We have also heard that some competitors experienced such a significant increase in rush orders that they were unable to fully meet customer demand. How did your company manage this situation?</p>
A1	<p>With respect to rush orders, our highest priority was to ensure that supply reached customers with genuine needs. As inventory levels were by no means abundant, we carefully assessed whether orders reflected actual demand. As a result, we believe we were largely able to fulfill our supply responsibilities, particularly with respect to our existing customers. That said, we cannot say that every customer was fully satisfied. Going forward, whenever orders exceed normal requirements, we intend to continue responding appropriately based on the circumstances.</p> <p>As for the impact of rush orders on first-quarter results, it was not material, amounting to only several hundred million yen against consolidated revenue of more than ¥400 billion.</p>

Q2	Is it fair to assume that rush orders and similar special factors are unlikely to have a material impact in the second quarter?
A2	At this stage, it would be premature to be overly optimistic regarding raw material procurement. However, visibility has improved compared with a month ago, and we have generally been able to maintain supply to our customers. Unless the

	<p>situation involving Iran deteriorates further, our understanding is that, while it may not be possible to accommodate every rush order, we have been able to respond relatively well under the current circumstances.</p> <p>That said, cost pressures continue to increase, and a key management priority during the April–June period across all regions is determining how best to absorb these higher costs.</p>
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◆ Questions from Yasuhiro Shintani, SMBC Nikko Securities Co., Ltd.

Q1	<p>Could you comment on AOC’s demand environment in the first quarter and your outlook going forward? Some competitors have indicated that, in Europe and the United States, sales volumes and profitability have shown some improvement since the deterioration in the situation in Iran, against the backdrop of reduced imports from Asia and inventory build-up. Are you seeing a similar trend in your business?</p> <p>In addition, could you elaborate on the “impact of price pressure” referenced in your presentation materials and explain how it is affecting the business?</p>
A1	<p>Through its business systems, AOC closely manages selling prices and costs. We began to see signs of market stabilization in the second half of 2025, and that trend continued through the first quarter. While we do expect some degree of pent-up demand going forward, the overall environment remains uncertain, and we do not believe it would be appropriate at this stage to adopt an overly optimistic outlook.</p> <p>For example, inflation in the United States has recently moved somewhat higher, and the interest rate environment is no longer trending steadily downward. As a result, we believe the broader U.S. economy remains somewhat sluggish, including in areas such as existing home sales, and AOC is managing the business accordingly under those conditions.</p> <p>At the same time, costs have increased to a certain extent. Although the impact in the United States has been less pronounced than in Asia, we will continue to prioritize supply to customers and, where necessary, implement price adjustments with customers’ understanding and support.</p> <p>Looking ahead, we expect market conditions in the second quarter to remain broadly similar to those seen in the previous quarter. However, given the highly volatile environment, AOC’s position as the market leader has enabled it to respond quickly to changing conditions. We believe this creates opportunities to further expand market share going forward.</p>

Q2	<p>Are you seeing any meaningful differences in demand trends across business segments? Previously, my understanding was that there were some early signs of recovery in infrastructure-related demand. Is that trend continuing, or does construction-related demand remain relatively weak?</p>
A2	<p>By business, leisure-related demand such as boats has shown some improvement. However, the overall conditions have remained largely unchanged.</p>

◆ Questions from Yuto Otani, Mizuho Securities Co., Ltd.

Q1	<p>Could you provide an update on the impact of the situation involving Iran? We have heard reports that disruptions to sulfur exports from the Middle East have made it more difficult for producers in China to manufacture sulfuric acid and titanium dioxide. To what extent are these developments affecting China and other regions? In addition, could you provide some color on how the situation is affecting your business across different regions?</p>
A1	<p>The situation continues to evolve on a daily basis. Based on our current understanding, supply conditions for titanium dioxide in China have become somewhat tighter, and prices have been trending upward. In our decorative coatings business in the United States, we currently are on fixed-price supply contracts. However, going forward, we may need to explore alternative sources of supply from both a volume and cost perspective, and there is a possibility that procurement costs could increase. Given the highly fluid nature of the situation, at this stage, we intend to mitigate the impact through ongoing rationalization efforts, including price pass-through measures where appropriate.</p>

Q2	<p>Are there any areas that have received relatively little attention but could, in fact, be significantly affected by the current situation?</p>
A2	<p>At this stage, there is no particular issue that stands out as posing an exceptionally high risk. That said, variable costs, including logistics and packaging expenses, are increasing across the board, and ultimately, we view demand as the most significant risk factor. If the macroeconomic environment were to weaken, interest rates rise further, or China's real estate and housing markets remain sluggish, overall market conditions could come under pressure. While we believe we would continue to outperform in the competition for market share under such circumstances, the broader demand environment would nevertheless come under pressure.</p> <p>That said, we take considerable confidence from the fact that we have successfully navigated challenging environments such as this on many occasions in the past. Through those experiences, we believe we have built a stronger and more resilient business. As some of our competitors have also suggested, we view the current environment not only as a source of risk, but also as a potential source of opportunity. More broadly, the industry view remains that paint is a fundamentally resilient product category.</p> <p>Finally, it is important to recognize the significant efforts being made by our frontline teams across the organization every day to support customers and fulfill our supply commitments.</p>

◆ Questions from Hidemitsu Umebayashi, Daiwa Securities Co., Ltd.

Q1	<p>AOC reported a year-on-year decline in revenue of approximately 2%, despite an increase in sales volumes. Is it correct to interpret this as indicating a decline in average selling prices? If the change was primarily attributable to product mix, that would not necessarily be a concern. However, given that raw materials, freight, and foreign exchange fluctuations would normally be factors pushing unit prices higher, could you explain why selling prices declined? In addition, could you comment on margin trends? Have margins deteriorated year on year, or have they remained broadly stable?</p>
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A1	<p>AOC's operating environment differed somewhat between January–February and March. At AOC, selling prices may be adjusted downward when input costs decline.</p> <p>Against this backdrop, product mix had some impact, but the competitive environment also had some influence. While AOC is the market leader, competitive dynamics can vary by customer and market. In some cases, competitors may exert pricing pressure on customers, while in others we are able to win new business. A variety of factors affect performance from quarter to quarter, but we are not seeing any broad-based trend of market share loss.</p> <p>With respect to margins, I would prefer not to comment on specific figures. However, margins have remained at roughly the same level as the previous year, and cash generation continues to be strong. Overall, the business is performing broadly in line with the assumptions we had when we acquired AOC.</p>
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Q2	Is it correct to understand that, at this stage, there is no particular reason to anticipate a sharp decline in selling prices?
A2	Yes, that is broadly consistent with our current view.

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

Q1	<p>During the 2021–2022 period, raw material costs rose sharply due to factors such as the situation in Ukraine and power restrictions in China, with crude oil prices temporarily reaching around USD 120 per barrel. How does the current increase in raw material costs associated with tensions involving Iran differ from the environment we experienced at that time?</p> <p>In 2022, how long did it take to secure adequate raw material supplies and pass through higher costs? More broadly, how does the impact of the current situation involving Iran compare with that of the 2022 Ukraine-related disruption?</p>
A1	<p>We do not believe it is appropriate to make a direct comparison between the raw material inflation experienced in 2022 and the current situation, as the underlying circumstances are different. That said, there are several notable distinctions. In Japan, for example, the pass-through of higher costs during the 2021–2022 period was relatively slow, partly reflecting the country's prolonged deflationary environment. Today, however, there is somewhat greater public acceptance of price increase.</p> <p>Overseas, we have not previously experienced a situation in which supplies of solvent-based raw materials in Asia have been disrupted to the extent seen today. By leveraging our sourcing capabilities, we have been able to maintain stable supply to customers, which we believe has become an important differentiator relative to competitors.</p> <p>In China, meanwhile, the primary issue is not procurement but rising costs. While we have implemented price increases locally, a key challenge remains determining how best to respond in what continues to be a difficult operating environment.</p> <p>As such, conditions differ significantly by region, making broad comparisons challenging. Nevertheless, we intend to deliver on our guidance.</p>

Q2	What were the key factors behind the improvement in NIPSEA China's operating profit margin in the first quarter, despite the absence of a meaningful recovery in sales? Was the improvement driven by better conditions in the property market, or
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	<p>was it more a reflection of industry consolidation and improved competitive discipline as smaller and medium-sized players exited the market?</p> <p>More broadly, could you comment on demand trends, the competitive landscape within the industry, and the current state of the Chinese property market?</p>
A2	<p>The Chinese property market has yet to show signs of recovery, and we continue to take a cautious view of the outlook. Accordingly, we are not managing the business based on any assumption of a meaningful market recovery going forward.</p> <p>With respect to industry discipline, our strategy as the price leader has been to prioritize profitability, which has enabled us to maintain appropriate margin levels. We believe this approach has benefited not only our own business but the industry more broadly, including competitors.</p> <p>That said, the competitive environment has by no means become easier, and competition in the local market remains intense in a variety of forms. Against this backdrop, we continue to focus on expanding sales of high-value-added products. In textured paint, for example, a category in which we had previously lagged certain local competitors, we were able to narrow the gap considerably during the first quarter. Given differences in product mix among market participants, direct comparisons are difficult, but we believe we were able to secure an appropriate level of profitability.</p> <p>Looking ahead, we expect the impact of higher raw material and logistics costs to become more pronounced from the second quarter onward. As such, we do not assume that the favorable conditions seen in the first quarter will necessarily continue, and we will continue to monitor developments closely.</p>

◆ A question from Shunta Omura, UBS Securities Co., Ltd.

Q1	<p>I would like to ask about the Japan business. I assume the sharp rise in naphtha prices is also affecting your operations. Could you provide some indication of how much the raw material prices you are currently procuring have increased since the beginning of the second quarter? Typically, fluctuations in naphtha prices are reflected in raw material costs with a lag of around three months. However, we have heard from upstream suppliers that this time price increases have been passed through almost immediately, with little or no lag. Are the raw material prices you are currently accepting broadly consistent with a domestic naphtha price of around ¥120,000 per kiloliter? Any color you can provide would be appreciated.</p>
A1	<p>I will refrain from commenting on specific figures. However, as you noted, the current environment differs from a typical round of price negotiations or procurement discussions. From the standpoint of fulfilling our supply responsibilities, we are also facing a situation in which raw material costs are rising almost immediately, with little or no lag.</p>

◆ A question from Yasuhiro Nakada, JP Morgan Securities Japan Co., Ltd.

Q1	<p>In some areas of the chemical industry, price increases are implemented through surcharge mechanisms, meaning selling prices can decline relatively quickly when raw material costs fall. In your case, however, it appears that the recent price increases reflect not only higher raw material costs but also your commitment to maintaining stable supply. Is it therefore reasonable to assume that selling prices</p>
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	would not necessarily decline immediately even if raw material costs were to come down? Could you elaborate on the rationale behind the price increases and explain how you would approach pricing should raw material costs begin to decline?
A1	<p>There remains some uncertainty regarding how we would respond under different market conditions going forward. However, broadly speaking, our approach differs significantly between the B2B and B2C businesses. In B2C, given that our competitors are operating under similar conditions, any pricing decisions would be made in the context of overall market dynamics and the competitive environment.</p> <p>In B2B, by contrast, pricing tends to be more negotiation-based, and we generally place greater emphasis on individual customer circumstances when implementing price increases.</p>

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