Integrated Report 2026 Briefing Q&A Summary

July 16, 2026

◆ Questions from Participant A

Q1	In the Leadership Dialogue on page 43 of the Integrated Report, you highlight several strategic initiatives for the NIPSEA China business, including the expansion of community stores, penetration into Tier 3 to Tier 6 cities, and the growth of textured paint sales. Could you provide an update on the progress of these initiatives? In particular, which areas are delivering the most encouraging results, and where do you see the greatest growth potential going forward? In addition, could you explain how community stores differ from your traditional directly managed stores and multi-brand retailers, including in terms of consumer response?
A1	At NIPSEA China, our recent strategic initiatives have focused on four key areas: textured paint, community stores, Application Service Providers (ASPs), and our Direct2Front distribution model. Starting with community stores, we currently operate approximately 300 locations, compared with around 270,000 conventional retail outlets. Unlike traditional stores, which primarily function as product sales channels, community stores are designed to provide a more immersive customer experience. Customers can see, touch, and experience the actual finishes and textures before making a purchase, which has helped improve purchase confidence and post-purchase satisfaction. It is the ASPs that provide these experiential services at community stores, and we expect that the real-world experience offered through community stores will become a source of competitive advantage going forward, particularly in regional cities. Another important initiative is Direct2Front, our digital ordering and fulfillment platform. This allows customers to place orders online, with products shipped directly from our logistics centers to retail stores or construction sites. The model shortens delivery times, improves order accuracy, and enhances overall supply chain efficiency. Following its successful implementation in Shanghai, we are expanding Direct2Front to additional regions and expect it to contribute meaningfully to operating efficiency over time. Textured paint carries a higher unit price than conventional paint, but it provides a more cost-effective alternative to natural stone for decorative finishes, making it an attractive choice for customers. Looking ahead, we see two key growth drivers: textured paint as a product category, and community stores, supported by ASPs, as an experiential sales channel.

Q2	Are community stores being rolled out in both major urban areas and regional cities? Is it correct to understand that they are contributing to growth in Tier 3–6 cities as well? In addition, are you already seeing signs of traction—for example, are customers who visit community stores becoming repeat customers?
A2	Community stores are being rolled out in both major urban areas and regional cities. While we do not have detailed data on the proportion of repeat customers, our understanding is that they are functioning effectively as an experiential retail format.

◆ Questions from Participant B

Q1	On page 33 of the Integrated Report, you note that acquisition-driven compounders have delivered superior long-term share price performance. However, it has only been around five years since investors began to recognize your "Asset Assembler" model as a distinct strategic concept. During that period, your share price has also been affected by factors such as the operating environment in China and expectations surrounding AOC. How does management view the fact that your valuation has not necessarily rerated over the past five years, despite the long-term track record typically associated with acquisition-driven compounders? We would also appreciate any insight into the discussions taking place within the Company, including how management thinks about the perception mismatch in the short term and the long term.
A1	With regard to the reference to "over multiple decades" on page 33 of the Integrated Report, we are referring to share price performance over periods such as 10 and 20 years. Our analysis shows that acquisition-driven compounders have outperformed the S&P 500, Berkshire Hathaway, and other benchmarks over the long term. Management also recognizes the current subdued valuation as an important issue. The discussions that have taken place at the Board on multiple occasions are reflected in the "Leadership Roundtable" section on page 7 of the Integrated Report. Those discussions have included exchanges with overseas investors, and we understand that a number of factors are weighing on our valuation, including the operating environment in China, AOC's top-line growth, and ROIC. That said, Asset Assemblers—or compounders more broadly—have consistently built strong long-term growth track records despite company-specific challenges along the way. In Europe and the U.S., the compounder model is well understood, and there are more than 100 companies where business performance and share price performance have moved in tandem under this model. As we continue our transformation from a pure-play paint company into an Asset Assembler, we believe investor understanding has not yet fully caught up. While factors such as the China business and AOC's performance do affect investor perceptions, we believe the Group as a whole has remained resilient by continuing to grow despite a challenging macroeconomic environment. Going forward, we will continue to enhance our disclosures where appropriate. We will also broaden our engagement with investors who have a deeper understanding of compounders. For example, through initiatives such as site visits in China, we aim to give investors first-hand exposure to our brand strength and operational capabilities. We believe this will help address concerns that may arise from media coverage and macroeconomic data alone.

Q2	The word "Integrity" has appeared repeatedly in Co-President Wakatsuki's messages over the past several editions of the Integrated Report. While it was mentioned only once or so in the 2025 edition, it appears around 10 times in the 2026 edition. Could you elaborate on the background to this much stronger emphasis on "Integrity" in the 2026 edition, and whether it reflects any change in his thinking?
A2	There was no particular intention to place greater emphasis on "Integrity" as

	a keyword. Rather, as we discussed topics such as our current valuation and how the market assesses our "Asset Assembler" model, "Integrity" became increasingly important in explaining the essence of a management approach that steadily compounds EPS over time. As a result, it appeared more frequently in the 2026 edition. For our autonomous and decentralized management model to function effectively, trust between the holding company and local management teams is essential, and integrity is the foundation of that trust. The same is true of our relationships with shareholders and minority shareholders. What matters is managing the business with integrity and without ego in pursuit of Maximization of Shareholder Value (MSV). In that sense, I believe Co-President Wakatsuki's more frequent use of the word "Integrity" is a natural reflection of its importance in expressing the core principles of our management approach.

Q3	Could you share some specific examples over the past year or so where dialogue with shareholders and investors has been reflected in management decisions or initiatives?
A3	In addition to the examples described on page 73 of the Integrated Report, one concrete example is our revision of the M&A criteria to place greater emphasis on capital efficiency. Another is the share buyback we launched in October 2025. Until then, our capital allocation had been focused primarily on growth investments through M&A. However, through our dialogue with investors, we gained a better understanding of the rationale for share repurchases as a capital allocation tool. Following internal discussions, we decided to proceed with the buyback. That said, we do not believe it would be appropriate to suspend M&A altogether and rely solely on share buybacks to improve ROIC and enhance shareholder returns. At the same time, where investor feedback is constructive and aligned with our own thinking, we incorporate it into our management decisions on a case-by-case basis.

◆ Questions from Participant C

Q1	There have recently been renewed media reports regarding your proposal involving a competitor. Given the scale of the transaction being discussed, could you confirm whether your acquisition discipline remains unchanged? Is it correct to understand that you continue to evaluate and pursue potential opportunities within that existing framework?
A1	While we are not in a position to comment on any specific transaction, our M&A discipline remains unchanged.

Q2	The Company has historically pursued M&A with a focus on compounding EPS. However, competition in the global paint industry is becoming increasingly intense. In some cases, consolidation among competitors could result in the emergence of a stronger competitor. In such a situation, could strategically participating in that consolidation ultimately contribute to future EPS growth? Or could it help avoid a decline in EPS? If so, when evaluating an acquisition, would you look beyond whether the transaction is accretive to EPS in the first year and also consider the strategic benefit of preventing further

	consolidation among competitors that could otherwise reduce your future growth opportunities?
A2	Again, I will refrain from commenting on any specific transaction. Our fundamental criterion in evaluating an acquisition is whether it contributes to MSV. Within that framework, we also apply financial disciplines, including the requirement that the transaction be EPS-accretive from the first year. In the case of bolt-on acquisitions, we evaluate not only the positive contribution to EPS, but also factors such as the potential to create synergies and strengthen our competitive position in the relevant local market.

◆ Questions from Participant D

Q1	As a core principle of your M&A strategy, you require acquisitions to be EPS-accretive from the first year. In that context, suppose an acquisition is financed through a public offering or the issuance of commercial paper, resulting in an increase in shares outstanding. Is it correct to understand that the transaction would still meet your acquisition discipline, provided that the increase in net income more than offsets the dilution? In other words, as long as EPS increases, such a transaction would be considered to satisfy your first-year EPS accretion requirement. In addition, on page 51 of the Integrated Report, you present the trends in net debt and net debt/EBITDA. Could you share how management thinks about the appropriate range for these metrics?
A1	As explained in our Integrated Report, while debt financing remains our primary funding method, we also retain equity financing as an option. Even if we use equity financing, our acquisition discipline does not change. The transaction must still be EPS-accretive from the first year, after fully taking any dilution into account. A recent example is our 2021 acquisition of the remaining interests in our Asian joint ventures and the Indonesia business. In connection with that transaction, we completed a third-party allotment, which increased the number of shares outstanding by approximately 46%. However, net profit increased by around 60%, resulting in EPS growth of more than 10%. With respect to net debt/EBITDA, we generally view around 4x as the upper end of our acceptable range. If we do not undertake any M&A, we believe we can deleverage by approximately 0.6x to 0.8x per year. So, if we find a highly attractive acquisition that contributes to MSV, we would be comfortable allowing net debt/EBITDA to temporarily rise above 4x.

Q2	What is the rationale behind setting net debt/EBITDA at around 4x as the upper end of your acceptable range?
A2	We view around 4x as an appropriate guideline after comprehensively taking into account factors such as our discussions with credit rating agencies and financial institutions, as well as our cash generation capability.

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