FY2026 2Q Financial Results Conference Call Q&A Summary

August 7, 2026

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

Q1	Although the adjusted operating profit forecast for fiscal 2026 remains unchanged from the outlook announced in February, we understand that the regional forecasts have been revised upward for Japan, NIPSEA Except China, Betek Boya, and DuluxGroup; downward for NIPSEA China; and left unchanged for AOC. Against the backdrop of rising raw material costs, could you please explain how your pricing and sales-volume assumptions have changed since the beginning of the fiscal year? In China, raw materials appear to be relatively readily available, making it easier to reduce prices than in other markets. At the same time, however, both selling prices and sales volumes seem to be declining. Could you also elaborate on the effects of the situation in the Middle East on consumer sentiment, the slowdown in TUC, and current conditions in the repainting coatings market?
A1	Regarding our full fiscal 2026 adjusted operating profit outlook, although we did not disclose a specific figure in February, the revised forecast represents a substantive upward revision. Our full-year reported operating profit forecast remains unchanged at ¥283.0 billion, as one-off expenses are expected to be offset by upside drivers, including the positive impact of foreign exchange movements. However, our adjusted operating profit outlook in February was approximately ¥300.0 billion. The revised forecast of ¥316.0 billion therefore represents a meaningful improvement in the underlying earnings outlook. The adjusted operating profit margin in the first half exceeded our full-year forecast of 15.8%. Our second-half assumptions reflect a prudent, must-achieve target that incorporates potential uncertainties. In the second quarter, selling price revisions progressed faster than anticipated. In addition, we benefited from lower-cost inventories on hand due to the timing lag before higher raw material prices were reflected in the accounts. We expect these benefits to diminish and margins to come under some pressure in the second half. Moreover, our forecast does not assume a recovery in demand. Nevertheless, by fulfilling our supply responsibilities, expanding market share, and maintaining disciplined cost control, we intend to achieve a full-year adjusted operating profit margin of 15.8%. In NIPSEA China, TUC faced extremely challenging conditions in the second quarter on a local-currency basis. Although there are indications that the property market may be approaching a bottom, repainting demand continues to be constrained by weak consumer sentiment. We are therefore avoiding excessive sell-in, carefully managing channel inventories, and implementing targeted promotional activities in preparation for the second half. We expect the profit margin in NIPSEA China to decline somewhat in the third quarter, primarily due to increased investment spending. Even so, we remain committed to securing a full-year profit margin of approximately 15%.

Q2	There have been moves by some competitors to lower product prices. Are there pricing discipline measures in place in the industry as a whole? Could you also

	comment on demand trends across the different city tiers?
A2	Pricing discipline remains limited across the industry, while competition continues to be intense. Nevertheless, we have maintained a disciplined approach, focusing on selling at appropriate prices rather than engaging in price-based competition. In the second quarter, we observed no meaningful difference in market conditions between Tier 0 and Tier 1–2 cities and Tier 3–6 cities, with demand remaining challenging across all city tiers. TUC sales volume declined by a high-single-digit percentage. The pressure on revenue was driven less by outright price reductions than by an unfavorable shift in the product mix. Demand increasingly shifted toward economy products, including in Tier 0 and Tier 1–2 cities. Importantly, however, we continue to generate appropriate margins on our economy offerings.

◆ A question from Takashi Enomoto, BofA Securities Co., Ltd.

Q1	Is it correct to understand that your proposal to acquire a competitor's decorative paints business has been terminated? Could you also elaborate on the rationale behind the proposed acquisition, your assessment of the attractiveness of the European decorative paints market, and the breakdown of the M&A-related expenses included in the full fiscal 2026 earnings forecast?
A1	Regarding this particular M&A proposal, we would prefer not to comment beyond the information already disclosed, including whether we have decided not to proceed. With respect to the M&A-related expenses included in our fiscal 2026 forecast, it is reasonable to understand that they were incurred in connection with this proposal. More broadly, we do not pursue M&A for its own sake. We will continue to evaluate opportunities where we believe high-quality assets can be acquired at an appropriate valuation and with an acceptable level of risk. As M&A transactions are inherently dependent on the intentions and circumstances of the counterparty, some opportunities progress while others do not. However, our disciplined approach to M&A remains unchanged. The principal difference in this case was that information about the proposal became public at an earlier stage than is typically the case. While this illustrates one of the complexities of pursuing transactions involving listed companies, the possibility of early disclosure was within our expectations.

◆ Questions from Yasuhiro Shintani, SMBC Nikko Securities Co., Ltd.

Q1	AOC's revenue increased by 23% year on year in the second quarter. Is it correct to understand that, excluding the approximately 12% positive impact from foreign exchange movements, underlying revenue growth was around 10% or higher? Could you also comment on AOC's demand trends and outlook for the second half and beyond?
A1	AOC delivered a very strong second quarter, achieving double-digit growth in both revenue and profit even on a constant-currency basis.

	However, the quarter also benefited from certain temporary demand factors, including—but not limited to—developments in the Middle East. We therefore believe it would be premature to assume that the current pace of double-digit revenue growth will continue, and we are maintaining a prudent full-year outlook. By end market, demand in the construction sector remains subdued, while infrastructure-related demand is relatively firm. AOC's competitive strength lies in its ability to deliver high-value-added services to a diverse customer base. As pent-up demand gradually emerges, we expect indications that the market is approaching a bottom to become increasingly visible. Local management also indicated that second-quarter performance exceeded expectations. Accordingly, our outlook does not assume that the exceptional momentum recorded during the quarter will continue at the same level.

Q2	Could you please comment on the outlook for AOC's profit margin in the second half? While rising costs are expected to affect other regions, should we anticipate similar pressure on AOC's profitability? In addition, could you provide an update on the rollout and penetration of the Business System in Europe?
A2	The U.S. market has so far been relatively insulated from the effects of developments in the Middle East. Although we are seeing some inflationary pressure, including higher logistics costs, we do not expect this to have a material impact on second-half performance. We believe demand trends will be the more important determinant of earnings. Europe has somewhat greater exposure to the effects of the Middle East situation. However, as the U.S. accounts for the largest share of AOC's revenue, we expect the overall impact on AOC to remain limited. The rollout and penetration of the Business System in Europe are also progressing steadily, supporting our expectation that AOC will maintain solid profitability going forward. However, given the significant price volatility in AOC's markets, we focus not only on margin levels but also on total earnings, calculated as per-unit contribution margin multiplied by sales volume Accordingly, AOC's underlying earnings power should not be assessed solely on the basis of headline margins.

◆ A question from Yugo Takahashi, Nikkei, Inc.

Q1	Regarding the revision to the full-year fiscal 2026 earnings forecast shown on page 5 of the presentation materials, could you please provide further details on the one-off expenses?
A1	The one-off expenses comprise M&A-related costs and business transformation expenses associated with DuluxGroup's European operations. Business transformation expenses represent the larger component, with the total amount expected to be approximately ¥12–13 billion. The transformation program is focused primarily on France and includes measures to reduce head-office costs, close one manufacturing facility, and optimize the distribution network, including retail outlets. While we had anticipated a recovery in the French market, we are now assuming that conditions will remain challenging in the near term and are therefore incurring these expenses to establish a more resilient earnings structure. These one-off expenses are excluded from adjusted operating profit.

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

Q1	Compared with the period following the outbreak of the war in Ukraine in 2022, what key factors have enabled the Company to maintain solid performance amid the current challenging operating environment? In particular, we would appreciate your comments on the principal drivers, including company-specific initiatives, changes in customer behavior, and broader industry responses.
A1	A direct comparison with 2022 may not be entirely appropriate, as both our business portfolio and the market environment have changed. At that time, raw material prices rose sharply, and our response—particularly product price revisions in Japan—was somewhat delayed. Since then, our regional operations have become more resilient to fluctuations in raw material costs, enabling us to respond more swiftly and effectively. In markets where we have sufficient pricing power, we are implementing appropriate price increases. In markets such as China, however, where price increases could adversely affect demand, we are taking a more cautious approach. For B2B customers, we believe it is essential to clearly explain the rationale for price revisions and ensure a stable supply of products. By fulfilling these responsibilities, we aim to build trust and gain customers' understanding.

Q2	Could you also comment on product price revisions in the Japanese automotive market?
A2	As this matter concerns our customers, we would prefer not to comment on the specifics at this time.

Q3	Could you please explain the factors behind the approximately 26% year-on-year increase in inventories?
A3	Inventories increased broadly in line with revenue growth and remain within an appropriate range. In addition, to ensure stable product supply, we leveraged the Group's procurement capabilities to maintain somewhat higher inventories of raw materials and finished products. Working capital also tends to increase seasonally at this time of year, partly because certain receivables, including TUC-related receivables at NIPSEA China, are typically collected toward the fiscal year-end. Overall, both inventory and working-capital levels remain well controlled and do not give rise to any particular concern.

◆ A question from Shigeki Okazaki, Nomura Securities Co., Ltd.

Q1	More than five years have passed since you were appointed Co-President. Looking back on this period, what key issues and challenges do you currently recognize? We would also appreciate your views on the company's share price and valuation, business growth, and medium- to long-term growth strategy.
A1	From an operational perspective, Co-President Wee is providing effective oversight of the business, and I have no particular concerns in this regard. One of our key strengths is our portfolio of businesses capable of generating stable cash flows. A major part of my role is determining how best to allocate that

	cash, particularly through M&A, including the assessment of potential targets and appropriate valuations. However, the current share price remains a significant issue. We need to communicate more effectively with investors and analysts, demonstrating how we have successfully combined disciplined business management with proactive growth initiatives. Although we delivered solid results in both the first and second quarters, our full-year fiscal 2026 earnings forecast may appear conservative. This reflects not only the sharp exchange-rate fluctuations over a relatively short period but also our recognition that, while we do not anticipate a significant decline in demand during the second half, conditions may not develop entirely as planned across all regions. Against this backdrop, our key near-term challenge is to help investors and analysts better understand the overall strength and resilience of our business portfolio, as illustrated on page 2 of the presentation materials.

◆ Questions from Takehiro Yamada, Toyo Keizai Inc.

Q1	We understand that your forecast for lower profit in the second half of fiscal 2026 compared with the first half is based on relatively conservative assumptions, which appears reasonable given the current global environment. Against this backdrop, could you please indicate the level of earnings you would expect under a more neutral set of assumptions?
A1	Our current earnings forecast represents our only official outlook. We place strong emphasis on an “under-promise and over-deliver” approach and regard our disclosed guidance as a commitment that we must achieve. Even amid a challenging operating environment, we remain focused on delivering results that exceed our forecast. Raw material prices declined significantly in the second half of fiscal 2025. As a result, the raw material price environment in the second half of fiscal 2026 differs materially from that in the prior-year period. We intend to offset higher raw material costs through product price increases and disciplined cost control. Nevertheless, we expect the year-on-year comparison in the second half to remain challenging.

Q2	Could you please comment on the outlook for fiscal 2027?
A2	We plan to provide our outlook for fiscal 2027 in February 2027. Given the considerable macroeconomic uncertainty, we do not believe it would be appropriate to offer an advance view at this stage. Nevertheless, our medium-term policy remains unchanged, and we continue to target growth in both revenue and profit.

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

Q1	Could you please explain whether the business transformation expenses in Europe are expected to contribute to cost reductions and earnings improvement from the next fiscal year onward? We would also appreciate your comments on the anticipated impact on earnings and the rationale for implementing these measures at this time.
A1	The ¥12–13 billion figure is a preliminary estimate that includes other one-off expenses, and we will refrain from providing a detailed breakdown at this stage. We recorded ¥7.3 billion in business transformation expenses for the European business in the first half and expect to recognize the remainder in the second half. Regarding the timing, these measures are entirely unrelated to M&A. Rather than simply waiting for market conditions to recover, we carefully evaluated a range of options, and the DuluxGroup Board determined that implementing these initiatives at this time was the appropriate course of action.

Q2	Am I correct in understanding that the benefits of lower personnel expenses and fixed costs are expected to materialize from the next fiscal year onward?
A2	Yes, that is correct. We are still carefully assessing the overall impact, including both the total costs and the expected benefits. However, we are proceeding on the basis that the investment will generate sufficient returns to recover the associated costs.

◆ A question from Hidemitsu Umebayashi, Daiwa Securities Co., Ltd.

Q1	Could you please explain the factors behind NIPSEA Except China's stronger performance relative to NIPSEA China?
A1	NIPSEA Except China delivered solid performance. In Indonesia, the timing of our price increase differed from that of our competitors. We implemented our price revision in May, which supported favorable performance in April. More broadly, markets within NIPSEA Except China generally offer a more favorable environment for passing on price increases than other regions. Another important factor is growing demand for premium products, particularly in Indonesia. In Türkiye, although sales volumes remained flat, we maintained earnings by using pricing to offset the impact of inflation and the lack of volume growth. However, market conditions and our competitive positioning differ significantly between NIPSEA China and the other NIPSEA markets, making direct comparisons difficult. Going forward, we will explore ways to enhance our disclosures so that investors and analysts can better understand the performance of the NIPSEA Except China business.

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