FY2021 2Q Financial Results Conference Call Q&A Summary
(August 10, 2021)

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

Q1	NIPSEA China achieved significant revenue growth in the DIY and Project segments. However, competitors are estimated to have achieved larger market share gains because their revenue growth was higher. How much of a leading position you can regain with the overall paint market growth reaching a ceiling and the focus of market growth shifting to the Project segment? You explained earlier that NIPSEA China's operating profit margin declined considerably in the 2Q and your earnings environment will continue to be challenging through the 3Q, but your operating profit margin will recover from around the 4Q. Please explain what actions you will take for profitability to recover in the current competitive environment.
A1	Our DIY business is relatively larger than competitors' DIY businesses. Therefore, it is not necessarily appropriate to compare our growth rate with those of competitors given the difference in parameters. As shown in the heat map on page 15 of the presentation, we do not think that the paint market is reaching a ceiling. The DIY market was very strong in the 2Q. In this environment, we believe our market share has increased. As we explained on page 18 of the presentation, the overall operating profit margin at NIPSEA China, which includes the decorative paints and industrial coatings businesses, decreased by around 9 percentage points YoY. This is roughly in line with the increase in the raw materials cost contribution (RMCC) ratio. We will aggressively pursue market share gains while taking actions such as increasing prices and reducing SG&A and other expenses. Our previous forecasts may have been rather conservative, but we have revised the forecasts. As shown on page 31 of the presentation, in our revised forecast estimates, we expect growth of around 30% in both DIY and Project revenues on a full-year basis. We are aware that we cannot readily achieve these forecasts in a fairly challenging market environment. In fact, we were able to achieve steady growth in the 2Q even though the market environment was very difficult. Considering this, we believe our operating profit margin will improve from the 4Q when raw material prices are expected to stop increasing and the benefits of price increases will emerge. Our basic strategy is to increase prices where appropriate and reduce costs as necessary based on our assessment of the

	competitive environment.

Q2	Your 2Q revenue at NIPSEA China increased by around 30 billion yen YoY, while operating profit declined by around 4 billion yen. I believe the business environment is far from easy. I think the situation is different from the past when you increased prices immediately mainly in the DIY business in response to raw material price increases. Please tell me what your understanding of the business environment is. The point is whether you can actually increase prices.
A2	The difference between the business environment between the 1Q and 2Q of FY2021 is that the raw materials price increases impacted the 2Q. While the raw material price inflation already had some impact on our earnings in May, our 2Q earnings were impacted more than expected. We are taking actions such as increasing prices to mitigate the impact of raw material price inflation. However, we cannot avoid the lagging of effects of these actions. We are considering price increases in the 2H. The right timing and the workability of price increases depend on factors including our market share in individual operating regions, moves of competitors, and contracts with suppliers. Therefore, we will make decisions based on businesses and regions.

Q3	Do you think the significant decrease in the operating profit margin in the 2Q of FY2021 is only a temporary trend and that the profit margin will start improving steadily in the 3Q?
A3	We anticipate a rather challenging environment for earnings in the 2Q and 3Q. Our revised forecasts include a higher operating profit for FY2021 than in our forecast announced this February. As shown on page 39 of the presentation, we expect that our operating profit margin in FY2021 will decline from FY2020.

◆ Questions by Takashi Enomoto, BofA Securities Japan Co., Ltd.

Q1	Revenue in Asia excepting NIPSEA China declined slightly from the 1Q to 2Q. The operating profit margin in the region fell significantly QoQ, just as at NIPSEA China. Is this largely due to the impact of COVID or raw materials price inflation? With the impact of COVID expected to increase in Asia excepting NIPSEA China, please explain your outlook for the 3Q or the 2H.
A1	The significant decrease in the operating profit margin in this region is

	attributable to the impact of COVID and raw material price increases, as well as the recognition of one-time expenses associated with PPA of around 1.5 billion yen. Higher revenue in Asia excepting NIPSEA China contributed to a higher operating profit margin YoY in the 1Q because we were able to mitigate the impact of raw material price increases by using the inventories of low-cost raw materials purchased last year. On the other hand, our operating profit margin is being affected by raw material price inflation to a certain degree in the 2Q and 3Q. There was a resurgence of COVID infections in June, which caused lockdowns across Southeast Asia. As a result, our operations in this region were affected to some extent in the 2Q. There is no serious collapse in real demand, and we expect that lockdowns will be partially lifted. Based on these assumptions, we forecast that our full-year earnings will exceed the results in the previous year. However, COVID had a serious impact on our earnings in the previous year. Considering this, we need to be careful when making a year on year comparison of earnings. We believe we can achieve a sufficient earnings recovery rather than having a pessimistic outlook about our earnings in the 2H due to the impact of COVID. Our outlook is reflected in the forecast on page 36 of the presentation.

Q2	We believe demand has declined significantly due to lockdowns in Asia excepting NIPSEA China. Do you think you can increase prices amid the falling demand?
A2	Price increases are possible in areas where we have a high market share, although we need to be careful about the timing in regions where our market shares are not that high.

◆ Questions by Tomotaro Sano, JP Morgan Securities Co., Ltd.

Q1	I have questions about the transfer of shares in consolidated subsidiaries to the Wuthelam Group. You explained that you have call options to buy back the companies subject to the share transfer within five years. In what situations would you request a buyback of the target companies? You also mentioned that you will be entrusted by the Wuthelam Group to continue managing those companies. Will you receive considerations for this?
A1	Regarding your first question about call options, we have call options effective for five years starting one year after August 2021. The share transfer

	agreement with the Wuthelam Group contains a provision for the automatic renewal of the call options. We are not necessarily required to exercise the rights within the five-year period ending in August 2027. Our plan is to have significant investments made in the target companies within one or two years and buy back the companies when they have good prospects for an earnings recovery, rather than leaving them in the hands of the Wuthelam Group for too long. When making a decision about the buyback, the important point is to ensure we can provide a reasonable explanation to minority shareholders with respect to the mission of pursuing Maximization of Shareholder Value (MSV). Therefore, we will make a judgment based on a comprehensive assessment. The entrustment of management will be treated as a transaction with a third party. Therefore, we will receive a certain amount of consideration from the Wuthelam Group. But the amount will not have a significant financial impact on us.

Q2	If you are to buy back the target companies when you can expect them to start contributing to MSV, that means you will not wait until the target companies have good chance of generating maximum profits. Can we assume that you will carry out the buyback within a short period?
A2	The target companies are all in a very challenging market environment. For instance, our automotive coatings business in Europe, which is undergoing restructuring, is not yet a large player in the European market. We have established various assumptions for measuring the progress of business restructuring. But I don't think it is appropriate to tell you the expected timing of a buyback. Nevertheless, I can tell you that it is unlikely that we will execute the buyback a year later, immediately after the call options become effective. Nor is it likely that we will wait for five or six years. We assume the buyback will occur sometime in-between at the right timing and at fair prices.

◆ Questions by Tomomi Fujita, Morgan Stanley MUFG Securities Co., Ltd.

Q1	I have questions about the share transfer of consolidated subsidiaries. Frankly speaking, the context of the transaction is not clear to me. My understanding is that this is an ideal scheme for you, with the Wuthelam Group assuming risks without pursuing profits, playing the role of the "Group Private Equity (PE)", so to speak. My concern is that your capital ownership structure will

	become complex again. From what I remember from the presentation for the acquisition of the Asian JV stake and the Indonesia business, the establishment of a simple and easy to understand governance structure was an important element of the acquisition transaction. Are you going to take measures such as this one involving the "Group PE" over and over in the future? Another point is that the paint industry has relatively low capital expenditure requirements. If so, doesn't it make more sense for you to make investments in those companies yourself? There is a risk that the purchase prices will be higher if you buy back the target companies at a later date. Please explain why you used this complex scheme. Is it based on your judgment that the several tens of billions yen of investments required for turning around the companies are too large to bear?
A1	I don't know if the "Group PE" is the right word to use in this case. As a publicly traded company, we constantly examine whether loss-making companies have a good chance of returning to profitability and how we should support the restructuring of these companies. You have just mentioned that the paint industry has low capital expenditure requirements. At the same time latecomers in this industry face some challenges to achieve decent earnings. The transfer price of the consolidated subsidiaries is a little more than 18 billion yen. We believe the financial impact of this transaction is small compared to the acquisition prices involving the Asian JVs and the Indonesia business of around one trillion yen and 200 billion yen, respectively. As the major shareholder with 58.7% of our shares, the Wuthelam Group says it will do what is best for our Maximization of Shareholder Value. This demonstrates how the interests of a major shareholder with 58.7% of the shares of a company with a market capitalization of 3,200 billion yen can be aligned with the interests of minority shareholders whose total shareholding is 41.3%. We looked into various possibilities including restructuring using our own funds and the sale to a third party. In the course of exploring various alternatives, the Wuthelam Group made a decision to bear various risks, leaving us a viable option. So, we decided to accept the offer. At the same time, there were also concerns about whether the proposal really has benefits for us. In order to eliminate those concerns, we established a special committee and held discussions on the proposal. As a result, we have confirmed that the proposal is reasonable enough to convince our minority shareholders to accept

	it. After taking these steps, we came to our decision today.

Q2	To sum it up, your reason for the decision about the transfer of consolidated subsidiaries is a proposal coming up by chance that: the transaction amount is not that large, the transaction does not require you to divest the Chinese business again, and the Wuthelam Group offered to assume risks involved. If you can carve out unprofitable businesses and delist them and then buy back those businesses to make them your subsidiaries again, would you possibly repeat such an action in the future? Or is this a special project, just for this one time?
A2	I would say, "Never say never." Basically, our Group does not have many unprofitable businesses. Unfortunately, two of the three target companies have not been performing well and posted impairment losses in the fiscal year ended December 31, 2019. If we transfer the India business first, followed by the European business at a later date as you said, that could raise concerns among analysts and investors about what is coming next. In order to ward off such concerns, we have decided to transfer the three target companies together. The transaction is basically about the transfer of three unprofitable businesses, all at once, which pose a risk for us to take actions ourselves to restructure them. This transaction is basically a one-time action, and we have no plan to use the Wuthelam Group as the "Group PE."

◆ Questions by Atsushi Yoshida, Mizuho Securities Co., Ltd.

Q1	Please give us the breakdown of raw material prices and product prices. You have mentioned earlier that the Chinese business is facing a challenging earning environment in the 2Q and 3Q. Do you expect that the impact of raw material price inflation will start declining in the 3Q after hitting its peak in the 2Q? Or do you think that the impact will remain serious in the 3Q, or be even greater in the 3Q than in the 2Q and then start recovering from around the 4Q? As you have revised your full-year earnings forecast, please give us your new outlook for raw material prices and product prices.
A1	The situations are different from region to region. At NIPSEA China, which is not being hit hard by COVID, we believe the impact of raw material price increases was the largest in around the 2Q with the situation starting to recover in the 3Q as our actions such as price increases to mitigate the impact

	begin to produce benefits. In the Project business, we have many long-term contracts with customers which bind us to lower prices we agreed to before. Meanwhile, rising raw material prices will impact our earnings with a time lag. However, we believe this lag will be eliminated gradually. In Asia excepting NIPSEA China, there is a possibility of an increase in fixed costs due to the impact of COVID as I mentioned earlier. In Oceania, our very high market share of 50% allows us to increase prices to a certain extent in response to raw material price increases. The DIY market in this region started booming around March last year. Our DIY revenue appears to have grown slowly compared to the abnormally strong COVID-enhanced demand in the 2Q of 2020. However, we expect an improvement in operating profit on a full-year basis due to higher revenue and price increases. This is the overall image we have. We are not optimistic about the 3Q, but we expect the impact of raw material price increases on NIPSEA China will decrease from the 2Q and be even lower in the 4Q.

Q2	Can we assume that your price increases will be mainly in the DIY segment?
A2	That's right. We can increase prices in the DIY segment more easily, and the price increases contribute directly to earnings. In the Project segment, on the other hand, we cannot directly increase prices but have to take a cautious approach by taking into account our relationships with customers and the moves of competitors. As a result, the situation is different between the DIY segment and the Project segment. The notable feature of the 2Q was that DIY revenue, which are sales of our local core products, accounted for more than 50% of total decorative paints revenue and grew more rapidly than Project revenue. I have a great confidence in the NIPSEA China team regarding their ability to deliver earnings growth.

Q3	Regarding Betek Boya, on page 32 of the presentation, are higher raw material prices the reason for lower profitability?
A3	That's right. Betek Boya relies on imports for most of its raw materials. As a result, raw material price increases inevitably lower the profit margin in local currency terms. This is a constant cause of concern for us. However, their performance remained very strong in the 2Q. The local management are very energetic and enthusiastic, and I feel very reassured because they are achieving strong results despite the impact of COVID.

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

Q1	Regarding the revenue trend in the 2H, DIY revenue at NIPSEA China appears not to be growing much this year compared to the 2H of 2020. Can we assume that Project revenue will decline and revenue growth in the Indonesia business will be slow? If so, please explain the reasons for this?
A1	Our full-year forecast is that NIPSEA China will achieve revenue growth of around 30%, with DIY and Project revenues growing each by 30%. So, we are not assuming a revenue decrease in the Project segment in the 2H.

Q2	DIY revenue grew by 57% YoY in the 1Q and by 35% YoY in the 2Q. Does that imply that DIY revenue will increase YoY in the 2H but at a slower rate? Taking into account the impact of price increases and other factors, the revenue growth appears rather small. Meanwhile, Project revenue increased by 110% YoY in the 1Q and by 24% YoY in the 2Q. Considering this, isn't your forecast of full-year revenue growth of around 30% somewhat conservative? My understanding is that the reason for this is that market conditions that affect YoY revenue growth figures differ from quarter and quarter and not that you are projecting slower revenue growth YoY in the 2H. Am I right?
A2	Yes. There are seasonal factors, but a more significant factor is that NIPSEA China was hit very severely by COVID in the 1Q of 2020. We assume that both DIY and Project revenue will increase YoY in the 2H.

Q3	How about the situation in Indonesia?
A3	Our forecast for the 3Q for the Indonesia business is slightly more cautious than for Malaysia and Singapore. The Indonesia business achieved revenue growth of more than 50% YoY in the 2Q on a reference value basis with very strong momentum overall. So, we believe that this business will basically generate strong growth in the 2H.

Q4	Have you already increased product prices in the DIY business of NIPSEA China?
A4	We have already raised prices of DIY products. With raw material prices rising, we will increase product prices whenever necessary, rather than implementing a one-time price increase. In the Project segment, it is not accurate to say that we have implemented no price increases. In fact, our prices, particularly prices for new projects, reflect the current raw material

	price conditions. We will set the right prices depending on the characteristics of individual projects and the competitive environment. Our overwhelming market share in the DIY segment allows us to increase prices more easily than in the Project segment. In addition, the profitability of the DIY business is higher. Therefore, the high growth of the DIY business makes a positive contribution to the overall China segment.

Q5	Can you expect a higher operating profit margin in the DIY business in the 3Q compared to the 2Q?
A5	We assume the operating profit margin will remain flat from the 2Q.

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

Q1	With regard to raw materials, your competitors said that they were unable to produce paint due to a shortage of some raw materials. Haven't you experienced difficulties procuring raw materials? Your competitors also said that they will be able to pass on most of the higher raw material prices by around the end of 2021. How is your situation?
A1	With regard to the procurement of raw materials, we were walking on a tightrope, so to speak, for a while, but there have been no major losses of business opportunities. Also, for some raw materials, we are considering the use of alternative products, so the raw material shortage has not been a big problem for us. However, a company like Betek Boya that relies on imports for most of its raw materials inevitably incurs a lower operating profit margin in response to unfavorable exchange rate movements. We expect to be able to pass on some of the higher raw material costs toward the end of 2021, but we will make decisions according to the characteristics of individual operating regions. So, we cannot simply say that we can pass on higher raw material prices. As you know, the situations differ from region to region. For example, stating that we can pass on prices in the Project segment of NIPSEA China does not necessarily reflect the actual circumstances. Also, we believe we have a good chance of passing on higher raw material prices to product prices in regions where we have a high market share. However, remember that our actions will differ from region to region.

Q2	Am I right that the raw material shortage did not cause you to lose many business opportunities?
A2	Basically, we did not have any particularly large loss of business opportunities. We were not able to procure sufficient raw materials, and we incurred some opportunity losses in some areas. However, we did not lose many business opportunities overall.

Q3	NIPSEA China's revenue in the 2Q was very strong. Is this strong growth due to pent-up demand (a backlog of demand built up) caused by COVID? With the growth in the real estate market slow, coupled with some credit uncertainty and the recent resurgence of COVID, what is your outlook for demand in China from the 2Q to 3Q, or afterward?
A3	While there are various outlooks for demand in China, we expect basic demand to be reasonably firm without any signs of a major slowdown in the market as a whole. As a result, we do not anticipate a downturn in demand following the COVID-enhanced increase in demand. We forecast revenue growth of around 30% in FY2021 by aiming to expand our market share beyond market sectors where we are already strong by targeting various new sources of demand, including repainting. We hope the situation will remain the same in the next fiscal year and beyond. But we need to keep a close eye on changes in our markets and respond accordingly. The paint industry does not require capital expenditures of 100 billion yen to continue revenue growth of around 30% next year. We can properly manage capital expenditures according to demand trends. In that sense, there is no need for us to establish an outlook that will pose or cause us to incur a major risk. Overall, our outlook is not too cautious but relatively optimistic.

Q4	Regarding the forecast for construction demand in China, is it correct to assume that demand will increase from the 2Q to 3Q and then decrease slightly from the 3Q to 4Q due to seasonal factors?
A4	In the 3Q of FY2021, we do not believe market conditions will improve to the level indicated by red, which shows strong market conditions, in the heat map on page 26 of the presentation. Meanwhile, we believe market conditions will remain favorable to a certain degree in the 3Q and be relatively strong on a full-year basis. Looking at the degree of strength, however, market conditions

	in the 4Q will not be as strong as in the 3Q and may become weaker in some circumstances. We believe that we will be able to solidly increase our market share even under in this environment. Based on these assumptions, we have increased our earnings forecast. If we achieve revenue of 1 trillion yen, a 1 percentage point improvement in the RMCC ratio will increase operating profit by 10 billion yen. Raw material cost inflation is squeezing our operating profit. We will leverage our growth potential and take actions such as ensuring a stable supply of raw materials and increasing prices. Assuming that raw material price will stop increasing at some point, we have tremendous potential for growth in particular from FY2022. I hope this presentation has given you an even better understanding of our business model and growth potential.

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