FY2021 4Q Financial Results Conference Call Q&A Summary
(February 14, 2022)

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

Q1	You forecast 10-15% revenue growth for FY2022 in the Chinese business (cf. page 34 of the presentation). Which do you expect to be a bigger contributing factor, price increases or volume growth? Please give us the breakdown and your progress with selling price increases in the 4Q of FY2021.
A1	The revenue growth in the 4Q of FY2021 was more attributable to volume growth than price increases. We will take actions to increase our market share further. As shown on page 30 of the presentation, our FY2022 forecast is positive growth in the DIY market and somewhat sluggish growth in the Project market. Based on this assumption, we expect to achieve 10-15% revenue growth in both markets by acquiring market shares and increasing selling prices. We cannot give you a specific breakdown of contributions between price increases and volume growth because other factors such as product mix come into play. Roughly speaking, however, volume growth will contribute more to revenue growth than price increases do.

Q2	Just to confirm, you expect your market share in the Project segment to increase because you assume 10-15% revenue growth even though you expect the Project market to soften a bit in FY2022. Is my understanding correct?
A2	We expect growth in the Project market to slow down, mainly in the new construction market. However, as we explained in the NIPSEA Business briefing in September 2021, our market share is around 9% and we have the potential to gain market share in FY2022. The Project market is in a challenging environment, not just for us but also for competitors. Our plan is to increase revenue by 10-15% while keeping a good balance between our operating profit margin and revenue growth, rather than simply pursuing market share gains.

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

Q1	Regarding the operating profit margin in the China business, please give us information about changes in the raw materials cost contribution (RMCC) ratio and expenses including advertising expenses in the 3Q and 4Q of FY2021. With

	raw material prices remaining high, what actions such as selling price increases are you taking to maintain the operating profit margin.
A1	We do not disclose the RMCC ratio for individual segments. What I can say is that the overall RMCC in our Group deteriorated in the 3Q and 4Q of FY2021 compared to the levels in the 1Q and 2Q of FY2021. The Chinese business accounts for a large percentage of our Group's operations, and the cost of raw materials is a major factor that affects our consolidated gross profit. Our 4Q operating profit margin slightly improved from the 3Q, and this is applicable to the Chinese business. We believe this margin improvement was attributable to selling price increases and business mix changes between the DIY and the Project businesses.

Q2	The crude oil price has continued to rise and raw material prices remain high in China in the 1Q of FY2022. Please share with us your progress with implementing additional selling price increases to respond to the current market environment and the outlook for the RMCC ratio.
A2	We assume that raw material prices will continue to increase, rather than remaining at the current high levels, in the 1H of FY2022. Based on our assumptions, our operating profit margin will start improving in the 2Q as a result of selling price increases and the reduction of SG&A and other expenses that will more than offset the impact of the higher cost of raw materials. Demand is seasonally weak in January and February due to the impact of the Chinese New Year, coupled with the impact of the Beijing Winter Olympics this year. In addition, demand is difficult to forecast for March when we normally see the highest demand. Our assumptions for the 1Q of FY2022 are that the operating profit margin will be lower and the RMCC ratio will be higher than we would like them to be. We are aggressively pursuing selling price increases as much as possible assuming that the selling price increases will start getting accepted in the 2Q.

Q3	Both the DIY and the Project market environments are becoming challenging. Can we assume that your plan is to maintain an operating profit margin of slightly below 10%, which is the level you achieved in FY2021, by raising selling prices?
A3	We are not fixated too much on maintaining a certain level of the operating profit margin. In the meantime, DIY revenue accounts for more than 50% of

	decorative coatings revenue, and demand in the new construction market, as well as the renovation market, is very strong. So, we plan to achieve a solid operating profit by implementing selling price increases. In the Project market, competition is intense and our peers are also unable to earn profits easily in the current market environment. We plan to improve our operating profit margin by strategically raising selling prices while maintaining a good relationship with customers. We cannot disclose our operating profit margin target. Just so you know, we don't think our operating profit margin in the 3Q and 4Q of FY2021 were at appropriate levels.

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

Q1	Regarding profitability by segment, I understood that the Japan segment is going to see a decline in profitability due to reallocation of head office expenses, while in other segments profitability will start improving gradually in the 2Q as a result of progress with implementing selling price increases. Do you expect differences in the operating profit margin improvement and in the speed of the recovery from segment to segment?
A1	We don't see any particular difference in profitability trends among segments. We plan to stop the decline in the operating profit margin caused by the increases in raw material prices and logistics expenses in every operating region by raising selling prices and reducing SG&A and other expenses. The operating profit margin in the Japan segment also is projected to improve under the same conditions as in the previous year, excluding the effect of the reallocation of head office expenses. The speed of the acceptance of selling price increases is different from segment to segment. For instance, selling price increases are accepted rapidly in the decorative paints segment, while they are slow to be accepted in the industrial coatings segment due to the B-to-B nature of this business. Overall, however, we see no difference in profitability trends from region to region.

Q2	Can we assume that the operating profit margin is currently at the lowest level and going to start improving because the margin decline caused by the increases in raw material prices was slightly smaller in the 4Q of FY2022 compared to the 3Q and selling price increases have been accepted

	to some extent?
A2	There is a possibility that changes in profitability may vary slightly from our forecast, but we established the FY2022 forecast based on the positive sign that we managed to achieve a certain level of operating profit margin in the 4Q, which is not the peak demand period.

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

Q1	Your automotive coatings revenue and the decorative paints revenue in the Japan segment increased from the 3Q to the 4Q of FY2021, but your operating profit margin did not improve much. What are the reasons behind this? Is it attributable to the continuing impact of higher prices of raw materials or the impact of higher fixed costs? I would also like to know if your FY2022 forecast includes an improvement in the operating profit margin in the Japan segment excluding the effect of the reallocation of head office expenses.
A1	Our FY2022 forecast assumes an improvement in the operating profit margin in the Japan segment, excluding the effect of the reallocation of head office expenses, driven by revenue growth and fixed cost savings. I will touch on this subject again at the conference call for the 1Q of FY2022 after we finalize the reallocation of head office expenses and realign our reporting segments. The reason our FY2021 4Q operating profit margin in the Japan segment did not improve over the 3Q is that automotive coatings revenue did not increase as much as we had expected. In addition to the prolonged production adjustments at automakers, the higher cost of raw materials impacted our profitability. The Japan segment is mainly B-to-B, including in the decorative paints business. As a result, this segment is slightly more difficult than other regions in terms of the frequency and ease of selling price increases. We are trying to get our customers to accept selling price increases, but these increases are slow to be reflected to our profitability partly because the deflationary environment persisted for a long time. With the prices of raw materials continuing to rise, the reality is that our expenses are increasing faster than our profitability, partially owing to the nature of our business in Japan.

Q2	Can we assume that the operating profit margin in the Japan segment will improve in the 1Q of FY2022 as in other regions?

A2	We assume that's the case under the same conditions. However, if head office expenses are reallocated to the Japan segment in the 1Q of FY2022, the operating profit margin in the Japan segment may appear to decline in disclosure documents. We will use a disclosure format which continues to allow YoY comparisons.

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

Q1	I have questions about the change in the operating profit from the 3Q to 4Q in the Chinese business. The 4Q operating profit margin improved over the 3Q. However, you recorded a net total of -2.5 billion yen in provisions and subsidies in the 3Q and a net total of 1.3 billion yen in provisions and subsidies in the 4Q. If we reverse these amounts, the 4Q operating profit margin would be lower at 8.2% compared to the 3Q operating profit margin at 9%. Is this largely due to the higher cost of raw materials? Or, are these the normal operating profit margin levels including seasonal factors? You recorded an additional provision in the 4Q. Do you expect to record a provision in FY2022?
A1	The seasonality has a considerable impact. Looking at demand in the 4Q, October was relatively strong and November and December were soft. We have a similar seasonality every year, and demand is relatively weak in the 4Q toward the year end. On the other hand, demand is very strong in the 3Q because this quarter includes September, which has the second highest demand after March. Although your calculation may tell you that our operating profit margin in the 4Q declined slightly from the 3Q, things are going as we expected. We worked out the FY2022 forecast with a sense of improvement overall in the operating profit margin.

Q2	Regarding your assumptions for the FY2022 forecast, can we expect an improvement in the operating profit margin, in particular in the 2H, although we cannot expect a significant improvement in the operating profit margin in the 1Q given the ongoing increases in raw material prices?
A2	The FY2022 forecast assumes that the operating profit will start improving moderately in the 2Q. We expect the operating profit margin will improve gradually in the 1H due to an increased acceptance of selling price increases and other actions, although we anticipate a continuation of the increases in raw material prices.

	The outlook for the 1Q remains challenging, but the situation is the same for competitors. Therefore, we will pursue revenue growth and steadily improve our operating profit margin by leveraging our Group's financial resources and our presence in the Chinese market, including the DIY market.

Q3	Can we assume that you will not record an additional provision in the future considering that the Chinese government is moving toward monetary easing?
A3	We recorded a provision of around 0.6 billion yen in the 4Q based on a reasonable estimate at that time. Combining this with the provision of around 2.7 billion yen we recorded in the 3Q, we booked a provision totaling 3.2 billion yen in FY2021. We do not anticipate a situation where we will need to record a large provision in FY2022, although the situation may change depending on how things go.

◆ Questions by Yoshihiro Azuma, Jefferies (Japan) Limited

Q1	Your operating profit margin declined in the Americas from the 3Q to the 4Q, and the reasons, I gather, are the impact of the higher cost of raw materials and logistics expenses and rising personnel expenses. Is my understanding right? Or is there any change in the trend among paint manufacturers to raise selling prices in the decorative paints market? I assume that it is not easy to pass on higher input costs to customers in Japan as a result of nearly three decades of persistent deflation. On the other hand, I expect that customers in the Americas have the greatest tolerance in the world for accepting selling price increases. Why did your operating profit margin decline in this region?
A1	The Americas include the decorative paints earnings at Dunn-Edwards and our automotive coatings earnings. Although we do not disclose the breakdown of the operating profit margin, the decorative paints market is firm and we have sufficient pricing power in this market. In the Americas, our competitor with a high market share in decorative paints is also raising selling prices. We believe we can follow suit by raising our selling prices. In the automotive coatings business, we continued to experience shortages of parts and logistics issues in FY2021. We were required to continue to supply products to customers even when faced with disruptions in some logistics networks in the Americas, which resulted in slightly higher expenses. In addition, it is not generally easy to pass on price increases in the B-to-B

	business. As a result, our selling price increases were short of offsetting the operating profit margin decrease in the 4Q.

Q2	I believe you use some formula to calculate how much of higher input costs to pass on to your automakers that use your coatings. However, your formula does not take into account all factors, and is instead a simple one that allows the recent rise in the crude oil price to be immediately translated into higher selling prices. That's why you can only partially pass on higher input costs to customers even considering the delays in price adjustments. Is my understanding correct?
A2	We assume that we can pass on prices in the medium term, rather than in the long term. For instance, we have pricing power and can determine price revisions in the DIY segment of the decorative paints business. In the B-to-B business, on the other hand, the frequency of price revisions is generally once or twice a year. Based on this business structure, we need to negotiate with customers and reach an agreement about how much we can raise selling prices when the prices of raw materials are rising rapidly. I'm not saying that we cannot raise selling prices to pass on higher cost of raw materials. But I hope you understand that we are at the toughest period due to the time lag between raw material price increases and the acceptance of selling price increases.

Q3	I hear that your competitors in decorative paints business in the Americas are faced with shortages of raw materials. Given this situation, I assume you can raise selling prices by much more than the increases in raw material prices. Aren't your selling price increases going smoothly?
A3	We do not disclose the breakdown of our operating profit margin. However, we can say that our operating profit margin in the decorative paints business is basically improving. We are in the same boat with our competitors when it comes to the procurement of raw materials. We don't think our competitiveness is strong enough to raise selling prices by more than the increases in raw material prices. In the meantime, we have already raised selling prices enough to offset the increases in raw material prices. As a result, our operating profit margin is improving, including the effect of operating leverage due to revenue growth.

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

Q1	As shown on page 21 of the presentation, NIPSEA China achieved 22% DIY revenue growth and 16% Project revenue growth in the 4Q. Is this attributable more to market share gains than to demand growth? Also, can we assume that you were able to raise selling prices by more than the increases in raw material prices from the 3Q to the 4Q? Please share with us your QonQ analysis of how selling price increases are affecting revenue growth, excluding the contribution of volume growth. Although I expect that volumes will decline from the 4Q of FY2021 to the 1Q of FY2022, can I assume that the positive impact of selling price increases will be greater than the negative impact of higher cost of raw materials?
A1	I cannot make a general statement about the situation in the 3Q and the 4Q because there were one-time factors such as subsidy income. Basically speaking, the changes in the operating profit margin caused by raw material price inflation have stabilized to a certain degree. Our operating profit margin improved from the low level we experienced previously. In the 4Q of FY2021, revenue was 96 billion yen and fixed costs were higher than in the 1Q-3Q of FY2021. We assume that the operating profit margin stopped declining in the 3Q, started improving in the 4Q, and will return to the same level in the 1Q of FY2022 as in the 1Q of FY2021, although revenue is unlikely to return to the FY2021 1Q level. We expect that our revenue will recover in the 2Q and the 3Q of FY2022, along with the operating profit margin. We are now considering a disclosure format that can clearly explain our revenue and operating profit margin trends by integrating the impact of various factors including changes in selling volumes, raw material prices and product mix. As we explained at the NIPSEA business briefing in September 2021, paint demand can be measured by consumption per capita. The paint consumption in China is still low compared to developed countries. We can assume that per capita paint consumption in China will increase if we can allow for sufficient economic growth. In addition, there is large DIY demand for renovating houses built in the 1990s and thereafter. In the Project segment, our business is still focused on the new construction market, but people have started planning large-scale renovation projects. So, we estimate that total paint demand will grow. We plan to take actions to acquire market share and increase selling prices, and we are confident about our growth potential. Regarding raw material prices, we have established relatively severe

	assumptions for FY2022, considering that raw material price inflation was beyond our expectations at the beginning of FY2021. Raw material market conditions may improve or deteriorate. Overall, our earnings forecast is a solid forecast, and our forecast figures are basically our commitment that we must achieve.

Q2	With your competitors being impacted by raw material price inflation also, do you see any possibility that it will become easier for you to raise selling prices?
A2	When competitors raise selling prices, we will follow suit rather than maintain selling prices to gain market share. All paint manufacturers use the same raw materials, and we are in the same boat regarding pressure on the operating profit margin from higher raw material prices. We can assume that competitors tend to follow others to a certain extent in raising selling prices in the competitive market environment in China. We are maintaining profitability in the Chinese business as a whole, with our DIY business growing steadily. And we assume that the challenging competitive environment in the Project market is not going to last forever.

Q3	Can we assume that the DIY revenue growth of 22% and the Project revenue growth of 16% in the 4Q of FY2021 in the Chinese decorative coatings business are largely attributable to market share gains?
A3	The revenue growth in the Chinese decorative paints business is basically attributable to selling volume growth. As shown on page 18 of the presentation, the Project market did not grow much in the 4Q and was roughly flat compared to the 4Q of FY2020. In the meantime, our Project business achieved a market share gain as you can see from the arrow pointing to the upper right.

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

Q1	The listing criteria for the Prime Market of the Tokyo Stock Exchange includes a free float ratio of 35% or more as of the end of December 2022. Your free float ratio is estimated to have increased to 32% following the secondary offering. Is there a possibility that your free float ratio will clear the threshold of 35% in the future? Also, is a possibility of another secondary offering like this one?
A1	As we announced, we have already met the requirements for maintaining a listing on the Prime Market, which will start in April 2022. This is based on

	information as of the end of December 2020, which was before the new share issuance, when the free float ratio was above 35%. We issued new shares in January 2021 to finance and close the full consolidation of the Asian JVs and the acquisition of the Indonesia business. The free float ratio was 27.6% before the secondary offering and 32% after this offering. The TSE will determine if our free float ratio clears the threshold of 35% as of the end of December 2022, after our listing moves to the Prime Market. Our free float ratio is about 3% short of the threshold at this time. However, as additionally announced by the TSE, shares held by insurance companies, and other institutions will be treated as tradable shares, although they are normally treated as fixed shares, if these shareholders have traded their shares within the past five years. The combined shareholding ratio of our two largest insurance company shareholders is 4.6%. If their holdings are treated as tradable shares, we can draw a road map to meeting the requirements. Please note that we have no intention of conducting an additional secondary offering at this time.

Q2	Your competitors recorded more than 10 billion yen in provisions in FY2021, compared to more than 3 billion yen you booked in the same year. Isn't there any possibility that you will record an additional provision in FY2022? Can we attribute this difference in the provisions to your success in controlling risks?
A2	I cannot compare our performance to competitors because we have no information about their credit balances and provisioning of receivables. We recorded a provision in an amount that we believe to be reasonable at this time based on the assessments of auditing firms and third-party organizations.

Q3	With your competitors facing a challenging environment as well, can we assume that you can raise selling prices more easily than before?
A3	We never find it easy to raise selling prices. We may proactively reduce prices if everyone has strong earnings. But this is not the case now. That said, I believe that the situation has changed slightly from the extremely challenging situation we were in recently.