FY2024 4Q Financial Results Conference Call Q&A Summary

February 14, 2025

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

Q1	Could you provide an update on NIPSEA Except China? This segment contributes around 30% of consolidated operating profit and maintained solid growth in the fourth quarter. Looking ahead, I anticipate it will be a key driver of overall Group growth in FY2025. With projected revenue growth of 5–10% across all regions for FY2025, could you share insights on the current status and key growth drivers in Indonesia, the Malaysia Group, Türkiye, Kazakhstan, and India?
A1	As stated on page 7 of the presentation, we anticipate 5–10% revenue growth for the NIPSEA Except China segment in FY2025. Furthermore, we expect each region within this segment to achieve similar growth, with the potential for even higher expansion in some areas. In Indonesia, we encountered challenges in the first and second quarters, resulting in flat year-on-year revenue. However, performance improved in the third and fourth quarters, with revenue growing at a high single-digit rate. Our marketing initiatives in the fourth quarter were particularly effective, strengthening our position. Given these developments, we anticipate that achieving 5–10% revenue growth in Indonesia for FY2025 is well within reach. The operating profit margin for the overall segment is shaped by two key factors. First, Betek Boya, which reported an operating profit margin of 13.2% in FY2024 after applying hyperinflationary accounting. Given Türkiye's challenging economic environment, driven by fiscal policy changes, we are closely monitoring the situation, including the ongoing impact of hyperinflationary accounting. Second, our India businesses, which contributed two months of earnings to the consolidated results in FY2024 and will contribute a full year in FY2025, providing an additional boost to profitability. In FY2025, the operating profit margin for the India businesses is projected to be in the mid-single-digit range, consistent with a reference value from the FY2024 results. As a result, the overall segment's operating profit margin is expected to see a slight year-on-year decline. Meanwhile, our Kazakhstan operations continue to generate steady cash flow, while the Malaysia Group and Singapore Group are sustaining their growth momentum. In Singapore, where we already command a 75% market share, further expansion remains challenging. However, the Singapore Group continues to demonstrate strong performance through dedicated efforts. Overall, we anticipate steady growth across the NIPSEA Except China segment.

Q2	Are the recently acquired assets, particularly those in India and Kazakhstan, performing in line with the expectations set at the time of acquisition? Could you provide an update on their post-acquisition progress?
A2	Regarding our India businesses, NPI and BNPA, we have been closely monitoring their performance under the NIPSEA Group since their transfer to Wuthelam Group in 2021. As a result, there have been no significant operational changes following their acquisition in 2024. However, since our decision to buy back these businesses in 2023, the decorative paints market has become

	increasingly competitive, with new entrants adopting aggressive marketing strategies, including loss-making pricing tactics. This has required us to take a defensive stance in certain areas. On a positive note, NPI's industrial, coil coating, and automotive refinish businesses, along with BNPA's automotive segment, are performing well, contributing to solid overall results in India. In Kazakhstan, the operating profit margin came in slightly below our initial expectations, partly due to one-time PPA-related expenses. However, given that this is still the first-year post-acquisition, we believe the business is progressing well and remains on track for long-term success.

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

Q1	Could you provide a detailed overview of the trends affecting NIPSEA China from the third to fourth quarters and your outlook for FY2025? During the November 2024 earnings call, you noted that while the third quarter was particularly challenging, you anticipated a slight recovery in the fourth quarter. However, actual results suggest only limited improvement—TUC revenue growth rose modestly from 1% YoY in the third quarter to 2% YoY in the fourth quarter, while TUB revenue growth declined further from -16% YoY to -18% YoY. Meanwhile, some local competitors have indicated moderate improvement in their fourth-quarter performance. Could you provide further insights into the current market environment and how you see these trends evolving in FY2025? Do you expect the relaxation of real estate regulations to have a meaningful impact on the market, and is there a possibility that conditions will bottom out? Additionally, how do you anticipate the financial difficulties faced by Chinese raw material suppliers will affect your margins moving forward? Furthermore, could you outline the key drivers behind your FY2025 revenue growth forecast of approximately 10% for TUC and 5% for TUB? Lastly, what are your assumptions for margin improvement, particularly considering the impact of the absence of trading business sales?
A1	We had initially anticipated a slightly stronger recovery in the fourth quarter, even after factoring in seasonally low demand and TUC's year-end focus on accounts receivable collection. In Q4, TUC saw an increase in sales volume; however, the product mix deteriorated. Sales in Tier 0 and Tier 1-2 cities remained largely flat or experienced a slight year-on-year decline. In contrast, Tier 3-6 cities recorded significant growth, surpassing the third quarter's pace. That said, given the lower operating profit margin in Tier 3-6 cities compared to Tier 0 and Tier 1-2 cities, the overall profit margin was negatively impacted by the shift in product mix. As a result, TUC's revenue growth in Q4 was a modest 2%, which we do not find fully satisfactory. Nonetheless, considering the highly challenging business environment, I believe our team performed exceptionally well. As shown on page 6 of the presentation, the operating profit margin for NIPSEA China in FY2025 is expected to improve slightly from the 11.1% recorded in FY2024. This improvement is primarily driven by margin enhancements resulting from a shift in the operational model within the trading business, along with continued growth in the high-margin TUC segment. In the industrial business, sales are expanding, particularly among Chinese

	manufacturers. While these transactions may not generate high margins individually, we anticipate benefiting from economies of scale, contributing to overall profitability. For the TUC segment, we aim to further expand both the paint and coatings business as well as adjacencies by leveraging our extensive distribution channels. A key focus will be the broader deployment of CCM (computerized color matching) machines to drive market share growth in sales volume. Additionally, we expect an improved product mix to contribute positively to the operating profit margin. Given that paint is a consumer good, providing a fully precise forecast remains challenging. However, we are committed to driving growth by further expanding our adjacencies business while capitalizing on our strong brand presence.

Q2	You have projected approximately 10% revenue growth for TUC in FY2025. Could you provide more details on the expected differences in growth rates between Tier 0 and Tier 1-2 cities versus Tier 3-6 cities? Additionally, could you share insights into the market environment for TUB, particularly regarding the potential impact of the relaxation of real estate regulations?
A2	The TUB segment faced significant challenges in the fourth quarter, with revenue declining 18% year-on-year. In response, we are strengthening our efforts to expand distribution channels by shifting our focus from new builds to public facilities and government-related projects. Leveraging our LiBang brand, which has a strong presence in local communities, we have established solid relationships with government bodies and related agencies. We expect these initiatives to gradually translate into tangible results over time. In the TUC segment, Tier 0 and Tier 1-2 cities currently account for approximately 80% of decorative paints sales. Our strategy in these metropolitan areas focuses on enhancing the product mix through targeted brand strategies. While Tier 3-6 cities are expected to continue growing at a faster pace than Tier 0 and Tier 1-2 cities, their lower margins make it critical to drive growth in Tier 0 and Tier 1-2 cities for maintaining the overall operating profit margin for NIPSEA China. Furthermore, we see substantial opportunities in the premium product market, where competitors are losing momentum. By strategically capturing market share in this segment, we are confident that achieving our targeted operating profit margin is well within reach.

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

Q1	Could you provide the FY2025 outlook for DuluxGroup? Specifically, what are the key factors driving your projection of approximately 5% revenue growth in the Pacific region, outpacing market growth, despite a flat market growth forecast for both the Pacific and Europe regions? Additionally, could you explain why the operating profit margin is forecasted to remain at 13.3%, in line with FY2024 actual results, rather than showing a significant improvement? Furthermore, for the Europe region, you have projected approximately 5% revenue growth. Could you provide more details on the key assumptions and

	factors supporting this forecast?
A1	In FY2024, the DGL (Pacific) segment achieved approximately 4.5% revenue growth on a Non-GAAP basis, including contributions from small-scale acquisitions completed during the year. Despite a flat market, we launched brand renewal initiatives and other promotional activities in the second half of FY2024. Historically, DuluxGroup has maintained a steady 5% revenue growth rate, supported by 2–3 price increases and approximately 2% volume growth through market share expansion, even in a market with minimal growth of 0–1%. Building on this strong track record, we are forecasting approximately 5% revenue growth for FY2025. Regarding the operating profit margin, with a current 50% market share, we continue to strike a balance between growth and market positioning by consistently allocating a portion of revenue to marketing investments. An operating profit margin of 13.3% is by no means low, and our focus remains on achieving both sustainable growth and margin stability. By maintaining cost discipline while actively driving market initiatives, we expect to achieve 5% revenue growth. In Europe, market conditions have been unusually challenging for a mature market, with the French market declining by 5% for two consecutive years. Assuming flat market growth with no immediate rebound, we aim to achieve 5% revenue growth through a combination of price increases and market share expansion, supported by cost reduction and brand strategy initiatives. Within Cromology, France remains the primary market, accounting for 60–70% of total revenue. However, markets such as Portugal, Italy, and Spain are performing well. Additionally, we do not see any clear indicators suggesting that the French market will continue to decline for a third consecutive year in FY2025. Our DGL (Pacific) revenue growth guidance is based on insights from market research firms and other data sources, ensuring a well-informed outlook.

Q2	The operating profit margin in the DGL (Europe) segment increased by approximately 1 percentage point in FY2024. Was this improvement primarily driven by cost reductions?
A2	In FY2024, we fully launched supply chain transformation and brand investment initiatives in France. For example, we are enhancing operational efficiency by integrating ZOLPAN and TOLLENS, Cromology's main brands, which were previously managed through separate store networks. The benefits of these initiatives are expected to become more pronounced if market conditions stabilize to at least flat growth. Cromology is generating stable cash flow and does not require additional funding. Over the medium to long term, we are aiming for a double-digit operating profit margin. We encourage evaluating these efforts with a long-term perspective.

◆ Questions from Tomomi Fujita, Millennium Capital Management Asia Limited

Q1	I understand that there may be limitations on what you can disclose about AOC before the acquisition is finalized, but I would like to confirm your current assessment. Has there been any change in the outlook compared to the

	expectations set at the time of the October 2024 acquisition announcement? For example, have AOC's businesses been affected by economic fluctuations? Additionally, in the acquisition announcement presentation, AOC's EPS contribution was estimated at 15–17 yen on an annualized basis. Does this figure exclude PPA and other one-off expenses? Or, when factoring in such expenses, should we anticipate an EPS contribution of 10 yen or more in the first year?
A1	AOC's acquisition is still pending, with regulatory approval from one remaining country outstanding. While we expect to receive this approval soon, we cannot provide any definitive statements at this time. The estimated EPS contribution of 15–17 yen on an annualized basis, as stated during the October 2024 acquisition announcement, includes acquisition-related expenses, inventory step-up, and the amortization of intangible assets. While the 34% operating profit margin excludes intangible asset amortization, the EPS contribution accounts for amortization, interest expenses, and one-off costs. Our current outlook remains unchanged from the time of the acquisition announcement. AOC's products are customized rather than general-purpose, which limits competition and contributes to a stable revenue stream. While opinions on the U.S. economic outlook under the Trump administration are divided, we see no indications of a sharp decline in AOC's business performance. On the contrary, we believe it is likely to remain steady or even improve. That said, U.S. interest rates remain a key factor influencing infrastructure demand, and we will continue to closely monitor the interest rate environment. The timing of the AOC acquisition closing will determine whether its contribution to our FY2025 consolidated earnings reflects nine or ten months. However, given the current uncertainties, it is challenging to provide specific details on the potential financial impact. That said, we believe underlying demand remains strong, and we expect AOC to contribute positively to EPS.

Q2	Am I correct in understanding that AOC's acquisition costs and PPA will not create a significant financial burden and will remain within a manageable range?
A2	AOC's estimated EPS contribution of 15–17 yen includes the impact of intangible asset amortization, inventory step-up, and other one-off items. While AOC's businesses are highly predictable, the timing of the acquisition closing remains uncertain.

◆ A question from Takako Fujiu, Nikkei Inc.

Q1	Could you share your perspective and planned strategies for expanding sales to Japanese OEMs?
A1	Our core strength is in sales to Japanese OEMs. However, in the Chinese market, Japanese OEMs have been slow to capitalize on the shift to EVs, while local automakers are gaining prominence. Despite initial challenges, we have recently experienced a rise in sales to local automobile manufacturers. Consequently, our automotive coatings revenue in China saw year-on-year growth in the fourth quarter. While Japanese OEMs remain our core customers, we are advancing strategies

	to broaden our customer base not only in the Chinese market but also across the entire Asian region. Although this does not significantly impact our consolidated performance at present, we have observed movements to reassess the shift to EVs in Europe. In this context, we plan to enhance our services to our core customers, Japanese OEMs. In the Chinese market, we will strengthen our approach to local automobile manufacturers. In the U.S. market, Japanese OEMs continue to be our primary customers, and we believe it is unlikely that Chinese automakers will significantly increase EV exports to the U.S. market. Moving forward, we will demonstrate agility as needed, maintaining our core customer relationships while implementing strategies to expand our customer base.

◆ Questions from Yuta Nishiyama, Citigroup Global Markets Japan Inc.

Q1	Could you share insights into the Japan segment? Specifically, what factors enabled you to achieve an operating profit margin of 11% in the fourth quarter despite the challenging business environment? For FY2025, you project an operating profit margin of 9.6%, consistent with FY2024 results. Do you foresee challenges in sustaining double-digit margins? Additionally, what level of cost increases do you anticipate?
A1	In the fourth quarter, strong demand, particularly in the marine business, played a key role in driving profitability improvements. The Japan segment has been actively pursuing cost reduction initiatives, including ongoing reviews of raw materials, procurement methods, and process optimizations. These efforts will continue into FY2025 and beyond, reinforcing our commitment to operational efficiency. Our medium- to long-term goal of achieving a 15% operating profit margin remains unchanged. However, in FY2025, we expect increased expenses related to the renewal of the BRP system and amortization costs following the completion of the new Research Center. Additionally, rising personnel expenses and higher import costs due to yen depreciation pose further challenges. Managing these pressures through price adjustments and cost reduction efforts remains a key focus. Despite these headwinds, our goal for FY2025 is to maintain at least the same operating profit margin level as in FY2024.

Q2	According to page 9 of the presentation, you forecast a 10% revenue growth in Japan's decorative paints business for FY2025, assuming market conditions remain unchanged from FY2024. Could you provide insights into your approach for expanding market share?
A2	Mr. Enomoto has been appointed as President of our decorative business in Japan. In his previous role as Deputy President of the marine business, he was instrumental in driving significant profitability improvements. Going forward, he will focus on expanding market share and enhancing profitability in the decorative segment. While we are not disclosing specific details at this time, we see substantial growth opportunities in Japan's decorative paints market. We are actively implementing various initiatives, including the strategic use of digital

	transformation, and aim to showcase our progress through future performance.

◆ A Question from Yifan Zhang, CLSA Securities Japan Co., Ltd.

Q1	Could you provide a brief overview of NIPSEA China's trading business? Additionally, in Türkiye, both revenue and operating profit margin saw year-on-year growth in the fourth quarter. Given the effects of hyperinflationary accounting, do you consider this growth sustainable? Furthermore, regarding fourth-quarter operating profit margins, Kazakhstan's margin turned negative, while India's rose to approximately 30%. Could you explain the key factors behind these fluctuations and share your outlook on whether these trends are expected to persist?
A1	In the trading business, NIPSEA China previously operated under a manufacturing subcontracting model, where we purchased raw materials for use by subcontractors, temporarily recording them as sales revenue. However, this has now shifted to an agency model, where only fees are recorded as revenue, without recognizing sales and purchases. This is purely a technical adjustment and does not significantly impact the overall business process flow. When assessing fourth-quarter revenue and operating profit margin, it is essential to consider full-year trends, as seasonal factors play a significant role. The fourth quarter, in particular, marks the beginning of the off-season. For instance, in the case of Alina, a notable "year-end slowdown" occurs as December approaches. Despite these challenges, we believe the results demonstrate the significant efforts of our Group as a whole.

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

Q1	The operating profit for DGL (Pacific) in the fourth quarter exceeded our expectations. Was this result in line with your initial projections? If not, what unexpected factors contributed to the higher profits? Additionally, do you anticipate the factors that drove this improvement to remain sustainable into FY2025?
A1	DuluxGroup was among the businesses that delivered higher-than-expected profits in the fourth quarter. While this level of profitability was not initially projected, the improvement was largely driven by a reduction in SG&A expenses. However, we do not evaluate performance based solely on fourth-quarter results. As outlined on page 7 of the presentation, we anticipate approximately 5% revenue growth for FY2025, with the operating profit margin remaining flat year-on-year. We view the 13.3% operating profit margin achieved in FY2024 as a baseline and expect a similar margin for FY2025.

◆ Questions from Takehiro Yamada, Toyo Keizai Inc.

Q1	Regarding the FY2025 guidance, which business entity—excluding AOC—carries

	the highest risk? Additionally, while Indonesia's operating profit margin in the fourth quarter was exceptionally high, do you consider this level sustainable?
A1	Regarding risks, as I have mentioned before, paint demand is closely linked to GDP. For instance, if a significant tariff increase in the U.S. were to lead to a GDP decline, it could potentially affect demand. However, paint demand has no direct substitute, and there is no fundamental risk of cash flow disruption. Additionally, we believe all operational risks remain within a manageable range. What concerns me most, however, is that the capital markets do not fully recognize our intrinsic potential and growth capabilities. Our Indonesia operation has consistently maintained a high operating profit margin over many years, not just in the fourth quarter, due to the unique dynamics of the market. In Indonesia, price reductions are generally ineffective; in fact, excessive discounts are often perceived with suspicion, as they can be associated with counterfeit products. With a per capita GDP slightly above USD 4,000 and a population of approximately 280 million, we see strong potential for continued growth in demand for premium products. Given these conditions, we remain focused on expanding our market share and are confident in the sustainability of our operating profit margin.

Q2	The potential impacts of tariffs and exchange rate fluctuations under the Trump administration seem to be an ongoing concern. However, am I correct in understanding that there are no significant impacts at this time?
A2	Our businesses operate under a local production for local consumption model, which inherently minimizes the impact of tariffs. While tariffs on raw materials may have some effect, they apply equally to local competitors, ensuring that we are not uniquely disadvantaged. In this regard, our business model is largely decoupled from the global economy, with indirect factors such as GDP trends and economic sentiment having a greater influence. These characteristics underscore the strengths of our low-risk business model.

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