

## The 81st Annual Shareholders' Meeting Q&A Session

- 17 Advance Questions (15 out of 17 were answered on the day (Q1- Q15)). Two similar questions as to a specific matter were answered collectively.
- 13 On-the-day Questions (Q16 - Q28)
- Placing importance on the clarity of information disclosure, the questions and answers have partially summarized. The detailed content of the answers can be viewed in the archived video that is available separately on the Company's website.

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**Q1. We appreciate your excellent corporate governance, including efforts towards decarbonization, building governance, and the active roles of female executives. We expect that funds from foreign investors will flow into the Company in the future. However, currently, while the Nikkei average is rapidly rising due to investment from foreign investors, LIXIL's stock price is being pushed down. We assume this is due to the decline in performance. Under the circumstance of the Nikkei stock average rising and yen depreciation, how will the Company respond to the yen depreciation risk? Also, we would like to hear about any measures for performance recovery. [Advance Question]**

CEO Seto Answered:

So far, the impact of exchange rate fluctuations on the profits of overseas businesses and the impact of exchange rate fluctuations on the cost of purchasing materials in foreign currencies offset each other, so the impact of exchange rate fluctuations was limited. However, regarding the rapid depreciation of the yen last year, there were damages and lost profits due to the disruption of the supply chain, and the amount of profit in the United States decreased, making it impossible to take advantage of the benefits of the weak yen and strong dollar. In addition, importing products from Thailand and Vietnam and importing raw materials such as aluminum and copper have also caused the rapid depreciation of the yen to have a significant impact on costs in a way that has not been seen before. In the future, we believe that it is important to hedge not only the risk of a weak yen but also the cost of raw materials, strengthen our constitution to change to a stable and profitable business in the United States and Europe, and change and transition to a procurement and production system within the region.

To recover our performance, we are working on price revision flexibility, productivity improvement, labor productivity improvement, changes in raw materials, and reconstruction of the supply chain, and in particular, the expansion of our competitive products, such as environmentally conscious products and showering technologies, will be the key to sustainable growth. We expect the demand for renovations to grow in the second half and will make every effort to meet the expectations of our shareholders.

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**Q2. It is very pleasing that you continue to pay dividends without reducing them despite the decline in performance. However, I noticed that the dividend payout ratio for this period exceeds 160%. A payout ratio of over 100% seems to carry a significant risk, and I feel that it may leave a negative impression on foreign investors. We would appreciate an explanation on this matter. [Advance Question]**

CEO Seto Answered:

Our basic policy regarding dividends is to maintain a consolidated dividend payout ratio of 30% or more, and we believe that the current dividend payout ratio is higher than in the past. However, as for the dividends for this term, we are considering dividend amount based on EBITDA (earnings before interest, taxes, depreciation, and amortization), and the EBITDA level of the Company is comparable enough to other companies in the industry. The dividend ratio to EBITDA for the past three years is 19%, and for this period, it is 21%, so we believe that we are generating sufficient cash. In addition, out of the current distributable amount of 334.7 billion yen, the dividend payment in June is equivalent to 12.9 billion yen, and it was resolved at the board of directors' meeting that it is reasonable to maintain last year's dividend amount. We believe that it is important to maintain a sound financial position and improve profit levels in the future.

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**Q3. Please describe the improvement measures for PBR and ROE. [Advance Question]**

CEO Seto Answered:

Regarding the PBR (Price-to-Book Ratio), since 2019, due to the execution of a review of the business portfolio over the past several years and the improvement of profit margins, the PBR had been more than 1 and was on an upward trend. Unfortunately, in the past two years, the PBR has declined due to an increase in inventory for the redundancy of the supply chain, insufficient reduction of assets, and insufficient recovery of earnings. We believe that there is no choice but to improve the PBR by reducing fixed costs, making rational decisions regarding assets, reorganizing the supply chain, and recovering profitability.

On the other hand, for ROE (Return on Equity) improvement measures, profit improvement (including fixed cost reduction) is the most important, and it is necessary to continue asset-lightening based on an appropriate equity ratio. In addition, we believe that the proper adjustment of inventory levels will contribute to the improvement of ROE, including the improvement of asset efficiency.

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**Q4. In the Daihatsu scandal, the Toyota chairman held a press conference, but such issue of misconduct does not seem to go away. Please consider not only the internal reporting system but also actively asking employees from the company side whether there is any misconduct or whether there was no misconduct, such as questioning and interviews. [Advance Question]**

CEO Seto Answered:

The Group is committed to raising awareness and promoting a culture of compliance by having our executive management lead by example in compliance, conducting Compliance Week, and regularly disseminating information. We also regularly conduct compliance surveys for all employees and reflect the results in our measures, but we will continue to work on improving the awareness of our internal reporting system and creating a better workplace environment. By having everyone be conscious of and act on one of the three LIXIL Behaviors that the Company values the most, "Do the Right Things," we will strive to prevent problems from occurring in the first place. Furthermore, we are working on strengthening compliance by receiving candid feedback from outside directors as a third-party perspective.

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**Q5. Is the Company preparing anything for the post-war reconstruction in Ukraine? [Advance Question]**

CEO Seto Answered:

It is indeed a very difficult issue, but at this point, we believe that the health and safety of our employees are of the utmost importance. The Company has been providing support since before the outbreak of the war, preparing evacuation sites, safety equipment, mobile phones, and assistance for crossing borders for our employees. Our business in Russia has been suspended since the start of the war, but depending on how the war ends, we will need to consider what we can do for Russia and Ukraine.

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**Q6. Please tell me about the stock price. Despite the Prime Market stock price recovering significantly to the 32,000-yen range, LIXIL's stock price at the time of the question is quite sluggish at around 1,800 yen. Please explain the reason for the slump. Also, please tell us about the prospects for future recovery and the measures to be taken for recovery. [Advance Question]**

CEO Seto Answered:

As you are aware, the Company's earnings in the previous fiscal year were not very favorable. The entire industry is facing a challenging situation, but a recovery in market conditions is expected in the second half of this year. The Company is striving to regain strength even in this difficult environment, reducing fixed costs as much as possible, and taking advantage of the challenging situation to improve profitability. Going forward, we would like to significantly recover our performance along with the economic recovery and work towards restoring the evaluation from the stock market.

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**Q7. Despite the increase in revenue to 1.5 trillion-yen, various surges including high material costs, why does the final profit end up being less than 1%? Is there still goodwill impairment? If the profit margin does not recover, it will be difficult to maintain dividends, general shareholders will leave, and the market's judgment will become even stricter. I would like to hear the outlook for the profit margin improvement plan. [Advance Question]**

CEO *Seto* Answered:

We apologize for causing you concern. The first half of this fiscal year is expected to be challenging due to factors such as rising costs, a decrease in new housing construction, and economic downturns in the housing markets in the United States, Europe, and China. However, we are working to build our strength as much as possible during this period and are also focusing on new product development. We aim to recover our profits from the end of this fiscal year to next year when the economy is expected to improve.

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**Q8. Why are there no directors from TOSTEM, INAX, Shin-Nikkei, SUNWAVE, or TOYO EXTERIOR in the Company? [Advance Question]**

Director *Nishiura*, Chairperson of the Nomination Committee, Answered:

In selecting directors, whether they are homegrown or not is one factor to consider, but we do not believe it is the most important criterion. From the so-called skill matrix perspective, it is important to identify the strengths and expertise cultivated in the candidates' careers and aim for the optimal combination of the board of directors' team.

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**Q9. While the Nikkei Stock Average is hitting record highs, LIXIL's stock price is sluggish. It's disappointing and very worrisome. I think this is a chance for a share buyback. The Company can gain from the increase in stock price and dividends, and we shareholders will be saved by the rising stock price. [Advance Question]**

CEO *Seto* Answered:

As for the buy-back of the Company's own shares, our policy is to implement it flexibly when we can generate surplus cash, taking into account the overall situation of our cash flow. We are not currently planning to buy back the Company's own shares at the moment, but we would like to consider implementing it at the appropriate timing in the future.

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**Q10. Recently, in the *Kita Kanto* region which we base in, we are having trouble with the discount sales of LIXIL products such as sashes and exteriors by mass retailers. We are having trouble**

**with the discount sales by general mass retailers. General retailers cannot do profitable business. I think this is happening in other areas as well. It seems more normal for 10 companies to sell 10 million-yen worth of products than for one company to sell 10 million-yen worth of products, and I think everyone can make a profit in that way. If this situation continues, we cannot raise wages due to labor shortages. Manufacturers should not support discount mass retailers considering the possible profits in the short term. I would like to introduce here a winning slogan that was published in the newspaper of the sash and glass industry in the past: "The clear price which is the same everywhere." [Advance Question]**

CEO *Seto* Answered:

As a manufacturer, the Company is not in a position to comment on the selling prices of the Company's products distributed or sold by our business partners. However, it is our responsibility to provide attractive products that end-users desire, and we believe that by having these attractive products chosen by customers, we can contribute to the satisfaction of our dealers. We will take your opinion into consideration for future reference.

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**Q11. Regarding the responsibility for the poor performance, I wonder if there was any discussion about it. Please tell me the conclusion. Would you show us what role outside directors play and their achievements? Please let us know the contribution of outside directors in numbers. Do they only receive compensation from the Company as outside directors? Are they willing to accept no compensation until the performance recovers? [Advance Question]**

CEO *Seto* Answered:

To improve our performance, we believe that it is necessary to create differentiated products in both the short and long term, allocate resources to highly profitable markets, and continuously reduce fixed costs through relentless efforts. We feel that the outside directors, who serve as supervisors, have made significant contributions to the recovery of the performance of the Company by providing us with very strict words and valuable opinions.

Director *Matsuzaki*, Chairperson of the Board, Answered:

As the Company is a company with a nominating committee, the role of outside directors is to provide opinions and guidance to ensure more reliable management decisions while receiving information from the execution side, in order to achieve more sustainable growth and improve corporate value. The Company holds regular board meetings every month, where we receive performance reports, and in those meetings, we confirm the factors and measures for any unachieved plans and express our opinions as outside directors. Looking back on the past year, there is room for improvement in risk assessment, forecasting in case of deviation from plans, and confirmation of measures, and we would like to apply these

lessons to our supervision this fiscal year.

With regard to compensation, since outside directors cannot execute business, we do not adopt the concept of performance-linked compensation. On the other hand, as stated on page 23 of the report for the 81st fiscal year, 22% of the compensation for outside directors is linked to stock prices, and we hope you understand that we have adopted a system that is linked to shareholder profits.

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**Q12. I am a long-term shareholder of LIXIL, but as indicated by the recent large fluctuations in EPS and the sluggish stock price, I suppose that many shareholders are not confident about the future of LIXIL from a long-term perspective. While the opportunity for a big recovery in the Japanese stock market seems difficult, I believe that the winning opportunity lies in overseas markets. Please let us know the measures to expand profits in the Japanese stock market and overseas markets from a long-term perspective. Not only short-term answers such as reducing SG&A expenses and structural reforms, I would appreciate it if you could also explain LIXIL's future prospects to shareholders. Further, I invest in many other companies as well, and shareholders often make investment decisions based on whether they should wait and see, believing in the steering of the management team, however, I feel that the current LIXIL lacks such explanations. [Advance Question]**

CEO *Seto* Answered:

With regard to long-term revenue growth, we believe that there is still room for expansion in the domestic renovation market, as it has not been fully developed yet. In recent years, not only kitchens, toilets, and bathrooms, but also insulation and interior design have been attracting attention, which we believe are the great business opportunities for the Company. In fact, the government has decided to spend a total of 2,800 million yen in subsidies for advanced window renovation projects, as well as for the Children's Eco-Home Support Project and the Water Heater Energy Saving Project. Especially, windows in Japan are mainly made of only one layer of glass, but it is said that simply replacing simple-pane windows with triple-pane windows can reduce CO2 emissions by approximately 14 million tons, where we believe there is great potential for business. We are proud to be the company most capable of handling such products. Further, in terms of environmental impact, reduction of CO2 emissions not only through operational carbon but also during manufacturing is considered as important. Under that circumstance, we believe that we have been able to develop products that need the future needs such as aluminum profiles that can reduce CO2 emissions by 97% compared to conventional products by using 100% scrap aluminum.

In overseas markets, we have a sense that differentiated products sell well, and we particularly feel strong demand for shower-related products considering the U.S., Europe and so on as the significantly promising market for the future. As a new core business, we are working on creating innovation through products that use waste plastic as a material and *KINUAMI*, which allows you to wash your body directly

with foam. Although our current performance is not stable, we have implemented measures to achieve long-term stable growth, so we ask for your continued support.

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**Q13. Despite your statement, Mr. Seto, to increase the corporate value yourself, the stock price has become half of what it was before taking office, for which I think you should think about resignation. Please tell us the reasons and grounds for your continued tenure. [Advance Question]**

CEO Seto Answered:

In terms of facts, I believe that our current stock price is higher than the price of 1,751 yen on June 28, 2016, when I became CEO, and the price of 1,478 yen on June 25, 2019, when I returned to LIXIL. However, considering that the stock price has risen to around 3,200 yen in the past, I must accept your point that the current stock price is at an unsatisfactory level. While we cannot directly control the stock price, we would like to meet your expectations by recovering our performance.

Furthermore, I have no intention of resigning at all. I am doing my best, albeit with limited power, in this very difficult situation. Not only that, but I also do not have any feeling that better results would be obtained if I left this situation to someone else. I believe that what I am doing now is necessary. However, this is just my opinion, and while it is up to the nomination committee to make a decision, I can confidently say that I am doing my best without any shame at the moment.

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**Q14. (\*As the original question contains the matter related to personal privacy, the content of the question has been summarized.) I would like you to re-investigate the personnel actions against my colleague during my tenure in the Company. Disciplinary action is also necessary for the manager who was my superior at the time. I also experienced power harassment. Were you able to confirm the words and behavior of the branch manager I asked for last year? [Advance Question]**

CEO Seto Answered:

We believe that this question is related to individual privacy and specific facts, and it is unrelated to the purpose of this general shareholders' meeting. Therefore, we will refrain from answering. The Company has established a code of conduct and implemented a whistleblowing system, among other measures, to ensure appropriate responses. We will continue to create a workplace where employees can feel at ease and fully utilize their abilities.

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**Q15. The withdrawal from the production of interior semi-porcelain tiles is causing considerable confusion in the industry. Please explain how you plan to develop the tile business in the future. [Advance Question]**

CEO Seto Answered:

Although we stopped supplying interior semi-porcelain tiles last fiscal year, we continue to supply alternative products. For sustainable growth, Company will sincerely review product production and production continuation not only in the tile business but also in each business, and proceed with optimization.

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**Q16. In the future, it will be difficult to hire young people in Japan due to the aging population and declining birthrate. How will the Company secure excellent talent? [On-the-day Question]**

CEO Seto Answered:

The Company has long been promoting Diversity and Inclusion, striving to create a workplace where everyone, including women, people with disabilities, and those with different cultural backgrounds and nationalities, can work comfortably. As part of this effort, we actively promote super-flexitime, remote work, organizational development that makes it easier for female employees to continue their careers, and a workplace environment that is comfortable for male employees to participate in childcare. We also invest in talent development and improving employee experience. Furthermore, we have reformed the seniority-based organization and changed the Company's standards so that talented people can take on challenges at an early stage. We believe that these initiatives have made our workplace more comfortable for young and ambitious talents, and we consider continuing these efforts as our methodology.

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**Q17. The dividend for the fiscal year ending March 2024 is set to remain unchanged from the previous fiscal year. Will the policy of progressive dividends continue in the future? [On-the-day Question]**

CEO Seto Answered:

The Company does not have a policy of progressive dividends. Our basic policy is to maintain a consolidated dividend payout ratio of 30% or more and provide stable shareholder returns.

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**Q18. I would like to know the difference in roles played by Ms. Shiho Konno and Ms. Mariko Watahiki, both of who I believe are legal professionals. [On-the-day Question]**



Director *Nishiura*, Chairperson of the Nomination Committee, Answered:

Both Ms. Konno and Ms. Watahiki are legal professionals, but Ms. Konno has mainly experience in the field of attorneys, while Ms. Watahiki has mainly experience in the field of judges, so there should be considerable differences in the actual work they have done. Ms. Konno has a strength in discerning the quality of work, and we plan to have her join the Audit Committee this term. On the other hand, Ms. Watahiki has a strong ability to discern people, and we would like her to play an active role in the Compensation Committee and the Nomination Committee.

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**Q19. I am concerned about the very poor Core Earnings margin of 1.7%. With the outlook for new housing construction being tough, it is difficult to consider that the Company is in a growth industry, and I think it will be difficult to expand profits in the future. I believe that drastic cost reductions, such as launching new businesses and withdrawing from unprofitable divisions, are urgently needed. Do you have any plans to address this issue? [On-the-day Question]**

CEO *Seto* Answered:

We believe that the housing industry is a growth industry from a broader perspective. From a global point of view, as people's living standards rise, interest in housing increases, so it is entering a phase of faster growth than other industries. In particular, in recent years, it has been said that it will become a growth industry in China, India, and Africa in the future. Even in Japan, there is a possibility that it will shift to a growth industry if we improve the contents of housing and the insulation environment. What we need to consider in this context is to provide high-value-added products differentiated from our competitors as much as possible, and especially to focus on the environment as one axis to make it easy for customers to understand. We believe that Core Earnings margin of 7.5% is achievable, and we are considering aiming for 10% as the next step.

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**Q20. I would like to ask about LIXIL's assumed exchange rates for USD/JPY and EUR/JPY as a company, and hear about the outlook in relation to those rates. Comparing last year to this year, the inflation rates and situations in each country are different. [On-the-day Question]**

CEO *Seto* Answered:

The assumed exchange rates are 135 yen for USD/JPY and 137.7 yen for EUR/JPY. The outlook is difficult to predict, but some experts believe that the yen will strengthen from the latter half to the end of the fiscal year. It is also difficult to predict inflation rates, but the Company aims to develop a business that can respond well to exchange rate fluctuations, leveraging our experience from last year.

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**Q21. I have a question and a request related to LBT. I believe it is mainly due to overseas influences, but in the past, there were significant losses that worsened the Company's financial situation. In recent quarters, we have been in the black, and this quarter, we have a slight decrease in profits compared to a decrease in profits in the entire Company. If there are any significant differences from the past, please explain within the possible range. Also, it seems that from this year, the segment will be reviewed and become under LHT, but please consider continuing to disclose performance in the old segment units to confirm the situation. [On-the-day Question]**

CEO *Seto* Answered:

As you pointed out, in the past, we had significant losses in the building business, mainly due to the overseas operations of our subsidiaries. Although it is a business with significant fluctuations, in Japan, the fluctuations are more predictable compared to other regions, so we continue the building business as a core business and have improved profitability. However, for long-term contract building businesses, the pass-through of prices was delayed due to inflation, and it took time to improve profitability. In the future, we will change the contract form to hedge risks.

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**Q22. Is there no retirement system or limit on the number of reappointments for directors? What is the reason for this? It is noticeable that outside directors are elderly, but wouldn't it be better to set a limit? [On-the-day Question]**

Director *Nishiura*, Chairperson of the Nomination Committee, Answered:

When considering the role that outside directors play, their past experience in the legal profession or as managers becomes very important, so they inevitably tend to be veterans. However, the Company's policy stipulates that the guideline for the appointment of outside directors is no more than 75 years old and the aggregate term of office is no more than 10 terms and 10 years. We believe that this will prevent the aging from continuing.

CEO *Seto* Answered:

Outside directors are usually part-time and not employed, and except for accountants and lawyers who are not employed, it is very difficult for people who work for ordinary companies to become outside directors. As a result, the average age of outside directors tends to be much higher than that of internal directors.

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**Q23. Regarding share buybacks, looking at the past 10 years, it ranges from 10 million to 100 billion yen, but do you think it has an effect on LIXIL's market capitalization? [On-the-day Question]**

CEO Seto Answered:

It is the Company's policy that the buyback of the Company's own shares is carried out as part of shareholder returns, and we do not conduct buybacks with the intention of affecting the market capitalization.

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**Q24. How is the Company addressing talent development? Also, what percentage of management positions are currently held by women? [On-the-day Question]**

CEO Seto Answered:

As Global People Strategy until the fiscal year ending March 2025, we are working on (i) incorporating inclusion into LIXIL's DNA, (ii) investing in talent development, (iii) improving employee experience across LIXIL, (iv) strengthening HR corporate governance, and (v) HR transformation for business transformation. The percentage of female managers has improved from 16.2% last year to 17.6% (\*) this year, and we have a plan to raise it to 30% globally by 2030, implementing various initiatives.

\* Correction: The percentage of female managers in our group disclosed in the securities report for the fiscal year ending March 2023 is 17.5%.

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**Q25. I would like you to consider resuming shareholder benefits. [On-the-day Question]**

CEO Seto Answered:

In the past, we offered shareholder benefits related to renovations, but it was not a system that allowed all shareholders, such as those living overseas and institutional investors, to enjoy the benefits. As a result of discussions to ensure the fairness of profit distribution, we concluded that it is best to reflect profit distribution in dividends. Currently, we are not considering introducing a new shareholder benefit system.

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**Q26. You referred to economic recovery in the latter half of the year, but there are concerns about the possible removal of the Bank of Japan's YCC and the lifting of negative interest rates. As for the external environment, there is a risk of interest rate hikes, but what do you think? [On-the-day Question]**

CEO Seto Answered:

As for the outlook for economic recovery in the second half of the fiscal year, the Company makes

forecasts based on customer survey feedback, project estimates, and consultation of sell-out status. In addition, in Japan, there is a growing focus on the environment, and we are feeling a change in demand. Although the situation may change due to changes in the external environment, we are judging the demand situation in the market while considering the impact on the Company neutrally.

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**Q27. I would like to hear an explanation of the current situation from outside directors as well.  
[On-the-day Question]**

Director *Matsuzaki*, Chairperson of the Board, Answered:

I believe the question is about how we view the current situation of the Company. Regarding this fiscal year's earnings forecast (Core Earnings of 40 billion yen), we discussed it at the board of directors' meeting, and considering how much profit we can make in the current difficult business environment that is not easily recovering, we should ideally raise the profit level more. However, given the current situation of the Company, we believe that it is a reasonable level, although we are looking at it cautiously. In the board of directors' meeting for the fiscal year ending March 2024, we would like to confirm the measures to overcome the current situation and express our opinions when we judge that further measures are necessary. In addition, the verification and confirmation of the updated content of the direction of the Company's medium to long-term growth strategy (LIXIL Playbook) is a key, and we would like to discuss it as a major theme in future board of directors' meetings.

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**Q28. You mentioned that the market conditions will recover in the second half of this fiscal year, but I think it is also possible that the recession will progress due to inflation. If you have any basis for expecting a market recovery, could you please let me know? [On-the-day Question]**

CEO *Seto* Answered:

As a basis for market recovery, we have a feeling that demand will recover significantly, especially after October, on the grounds of information from customers, the situation of customers based on external announcements from competitors and other information.

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