



LIXIL Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending March 2024 for Investors and Analysts

July 28, 2023

Event Summary

[Company Name]	LIXIL Corporation	
[Company ID]	5938-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Q1 Financial Results Briefing for the Fiscal Year Ending March 2024 for Investors and Analysts	
[Fiscal Period]	FY2024 Q1	
[Date]	July 28, 2023	
[Number of Pages]	21	
[Time]	17:00 – 17:53 (Total: 53 minutes, Presentation: 23 minutes, Q&A: 30 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	3	
	Kinya Seto	Director, Representative Executive Officer, President, and CEO
	Sachio Matsumoto	Director, Representative Executive Officer, Executive Vice President, and CFO
	Kayo Hirano	Senior Vice President, Leader, Investor Relations Office, and Leader, Finance and Treasury Corporate Accounting and Treasury/Tax
[Analyst Names]*	Sachiko Okada	Goldman Sachs
	Yoshihiro Nakagawa	Mizuho Securities
	Daisuke Fukushima	Nomura Securities
	Hiroki Kawashima	SMBC Nikko Securities
	Sho Fukuhara	Jefferies

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



Hideaki Teraoka
Masahiro Mochizuki
Hiroki Watanabe
Ryo Yagi
Masashi Miki

Daiwa Securities
CLSA Securities
Morgan Stanley MUFG Securities
Mitsubishi UFJ Morgan Stanley Securities
Citigroup Global Markets

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



Presentation

MC: Now that the time has come, I would like to begin the LIXIL Corporation Q1 Financial Results Briefing for the Fiscal Year Ending March 2024 for Investors and Analysts. Thank you for your attendance today.

Firstly, I would like to introduce today's attendees. Mr. Kinya Seto, Director, Representative Executive Officer, President, and CEO.

Seto: Good day.

MC: Mr. Sachio Matsumoto, Director, Representative Executive Officer, Executive Vice President, and CFO.

Matsumoto: Good day.

MC: Ms. Kayo Hirano, Senior Vice President, Leader, Investor Relations Office, and Leader, Finance and Treasury Corporate Accounting and Treasury/Tax.

Hirano: Good day.

Lastly, my name is Kawai from the Investor Relations Office, and I will be the moderator for today's briefing.

Appreciate your kind cooperation. Please refer to the presentation materials posted on the Company's website under the investor relations section.

I would now like to explain today's proceedings. To begin, CEO Seto will explain the financial results for Q1 of the fiscal year ending March 31, 2024, followed by a question-and-answer session. Due to time constraints, I would like to limit each person to two questions. This briefing is scheduled to end at 18:00. We appreciate your kind cooperation until the end.

Now, CEO Seto will explain the financial results for Q1 of the fiscal year ending March 31, 2024. Mr. Seto, if you would please.

Seto: Hello, everyone. I would now like to begin the Q1 financial results briefing for the fiscal year ending March 2024.

The Q1 results were not good by any means, but they were close to what we had expected three months ago.

What was better than expected was the early emergence of demand for insulation remodeling in Japan. On the other hand, the international market was more difficult than we expected, especially the poor European market, which was more than we had expected.

As for the European market, which I will explain separately in the next section, I believe that the assessment of the European market is that it is the worst in the past 20 years.

This is said by the industry to be the worst compared to past crises, such as the European crisis, the Lehman shock, and the COVID-19 pandemic.

In fact, we have heard that many dealers and distributors have fallen into hard times, such as the bankruptcy of our competitor in Europe, and that our competitors are also facing very tough times.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com



➤ KEY HIGHLIGHTS

Summary of results for Q1 FYE2024

Profits declined year-on-year for Q1 (3 months) FYE2024

- Global demand for housing equipment and building materials, including Japan, remained generally sluggish in Q1
- Higher fixed costs due to a decline in production volume is a challenge for profitability
- Variable costs, including for raw materials, were stable compared to the prior year, contributing to positive growth
- In Japan, LIXIL's price optimization was ahead of other companies, leading to a more difficult competitive environment through Q1
- On the positive side, the earnings contribution from renovation demand for insulation products in Japan has materialized more quickly than forecast
- In international markets such as Europe, demand decline has been the worst in 20 years
- We are undertaking proactive structural reforms to prepare for demand recovery, especially in international markets
- We anticipate that approximately 80% of the forecasted annual core earnings⁽¹⁾ will be realized in H2⁽²⁾. Based on the current business environment and the Q1 (3 months) results, there is no change to our Q2 (3 months) core earnings forecast of around JPY4.5 billion (around JPY8.0 billion excluding one-time expenses for structural reforms and future investments (approximately JPY3.5 billion))

LIXIL ⁽¹⁾ The full-year forecast for core earnings for the fiscal year ending March 2024 is JPY40.0 billion, which was announced on April 28, 2023. Consolidated Financial Results for FYE2023 (IFRS) <https://ssl4.eir-parts.net/doc/5938/tdnet/2268023/00.pdf> ²

⁽²⁾ FYE2023 Earnings briefing transcript https://www.lixil.com/en/investor/ir_event/pdf/E_20230428_Earnings_transcript.pdf#page=7

I would now like to begin.

The first point. As noted here, demand for global housing equipment and building materials, including in Japan, was generally poor this quarter.

As for Japan, as you all know, the number of new housing starts is decreasing. Of these, the situation, especially for owner-occupied homes, which are our main battleground, is somewhat worse, if not the same.

This situation is also challenging for us regarding profitability, as the result of the current situation increases our fixed cost burden.

On the other hand, among the variable costs, raw materials, in particular, have been stable or have been decreasing, and this has resulted in an increase in profitability compared to last year, which I think has managed to keep the gross profit margin in line with the offsetting balance between these two items.

The production volume has decreased, and the fixed costs have gotten worse, but I think that variable costs have gone down a bit instead. That said, I still think that this economic environment, in general, has led to difficulties in profitability.

On the other hand, if we look at Japan alone, in the past, when costs rose, we raised prices ahead of our competitors. Even though the demand has been falling, the competitive environment has been very tough, but I think that this situation where we are the only ones in a high price range has almost ended in this quarter.

From the next quarter onward, since July, the market share has shown a trend of gradually recovering. However, the overall demand is low. I'm not sure the numbers quite show that.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



On the other hand, as I mentioned at the beginning of this briefing, there is demand for insulation renovation in Japan. This caught fire more quickly than we expected, and we assume that this profit contribution started immediately played an offsetting role compared to the faster decline in demand in Europe.

International markets. This time, I talked only about how bad things are in Europe, but things are not so good in the US either. The competitors are not good as well. Also, China is not good, as you know. Both China and the US are gradually showing signs of recovery in various ways. Still, it is a fact that they are not doing well in general, so we are taking this opportunity to aggressively promote structural reforms overseas so that we can produce strong and good figures when demand recovers. In Japan, we implemented structural reforms several years ago, and we would like to do so even faster this time.

Given this difficult environment, we expect profits for the full year to almost recover in H2 of the fiscal year.

About 80% of total full year profits are in H2. This is something I mentioned three months ago, but in that sense, we are looking at a core earnings for this fiscal year, Q1 at JPY3.7 billion versus about JPY4.5 billion for Q2.

However, the JPY4.5 billion figure includes JPY3.5 billion in onetime expenses for structural reforms and future investments, so if these onetime expenses are excluded, the profit would be about JPY8 billion. We are planning a recovery in profits that are close to doubling in Q2 compared to Q1.

› KEY HIGHLIGHTS

Business environment: Market trends in Europe

- Continued softening of demand in Europe, our largest source of profit
- Significant decreases in major markets such as Germany, France, and the Netherlands
- Decline in housing-related investment due to continued inflation, while housing market prices fall and interest rates rise
 - ✓ Balance of household debt to GDP⁽¹⁾: over 100% in the Netherlands, 65% in France, 55% in Germany, 40% in Japan
 - ✓ The ECB policy rate has risen to 4% over the past 1½ years
 - ✓ Inflation, especially for energy and food, is continuing. In addition, housing prices have been declining since last year
 - ✓ This has shifted consumption and investment from household goods to other commodities as costs continue to rise
 - ✓ The continued rise in household costs differs from previous downturns where declining demand pushed down prices
- In Germany in particular, spending is shifting to residential heat pumps and both consumers and installers are prioritizing the replacement of fossil-fuel heating systems, supported by government subsidies

LIXIL (1) Source: Eurostat, LIXIL research

3

As for today's point, I would like to share with you is the economic trend in Europe.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

 **SCRIPTS**
Asia's Meetings, Globally

Europe was an important market, not only in terms of sales but also in terms of high profits, and we had very high expectations for it as a source of profits, but the situation was so bad that it was rather worse this quarter than in the previous quarter.

Among these, especially in Germany, France, and the Netherlands, show a bit of a prototypical form of badness. Germany is especially important for us. However, there was not much good to be said about this other market or about Europe as a whole.

Why is it particularly bad this time, the worst in 20 years? This is different from the past, from other regions, and also different from other products.

The first factor is that the mortgage balance as a percentage of GDP is very high in Europe compared to the rest of the world. For example, the Netherlands is more than 100% and France 65%. Germany is 55%. I have the impression that Japan has a very high loan balance, but even in Japan, it is about 40%. Conversely, this loan balance is a heavier impression as home prices fall.

Meanwhile, the ECB's policy rate has risen sharply, from about 0% to 4% all at once.

We are experiencing a situation here where housing prices are falling, yet the prices of other things like energy and food are going up. When this happens, the bottom line is that, of the disposable income available for money, for most goods, it is better to spend it today than to spend it tomorrow. It is inflation.

However, for housing prices and housing-related investments, if there is a strong possibility that tomorrow's prices will be lower than today's, people will refrain from spending today's money, so a large portion of overall disposable income will be diverted to areas other than housing equipment. Thus, I think this time is different from the previous years. In the past, for example, when there was the Lehman shock or the European economic crisis, other commercial products were deflated simultaneously. Hence, housing was not the only thing that went particularly badly.

Also, international markets, for example, in the US, housing prices are still rising, and the appetite for investment in housing remains unchanged. In this sense, the product and the situation compared to other countries have deteriorated significantly this time around.

In addition to this, as we have been talking about, Germany is seeing an increase in demand for heat pumps due to rising energy costs. Since heat pumps are quite boldly subsidized, consumers, as well as the construction companies that would normally do the plumbing and such, are now in a situation where they would rather work on heat pumps, so there has been a big drop in demand that has continued to gang up on them.

In other countries, such as Sweden, for example, where variables mostly drive mortgages, this would go up all at once when interest rates rise. There are still many fixed interest rates in Germany, but even so, when you think about a few years down the road, you can't help but think that they will go up, then there are countries like the UK and Italy, which are also doing very badly this time.

In addition, this may be a temporary situation. We are probably talking about one or two months. Still, the Middle East, which had been doing very well up to now, demand decreased in a kind of destocking manner, and this time, the European region has deteriorated significantly, which we consider a very negative factor.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



› KEY HIGHLIGHTS

Business environment: Other regions and business segments

Water Technology (Japan)

- ✓ Bathroom units showing strong sales, but demand has been weak for kitchens and toilets
- ✓ While toilet sales are now starting to recover, kitchen sales are expected to pick up from October
- ✓ Overall sales are expected to increase from Q3 onwards due to normalization of the competitive environment

Water Technology (International)

- ✓ **Americas:** Customer demand is sluggish, but shifting of products and sales channels is progressing steadily
- ✓ **Asia Pacific:** Vietnam entering an economic adjustment, but other regions remain strong
- ✓ **China:** Challenging real estate market conditions continue

Housing Technology

- ✓ Solid sales of insulated windows for residential renovations
- ✓ Overall sales are expected to recover from Q2 due to normalization of the competitive environment
- ✓ Recovery of exteriors and wooden interior furnishing materials was slower than expected
- ✓ Profitability of building business is on a recovery trend due to successful pricing policy in response to rising costs

LIXIL

4

As for other situations, LWT's business in Japan, bathrooms were the first to recover. The business environment for kitchens and toilets has remained difficult, as other companies were clearly slower to raise their prices than we were. Still, there are some signs of recovery in the toilet business, as our competitors have also raised their prices.

We are looking at October or later for the recovery in demand for kitchens. Still, the toilets and kitchens, the recovery in demand for toilets would probably come first, but I think a full recovery for both will probably be after October.

However, the competitive environment has normalized, and since other companies are no longer the only ones inexpensive, we will recover in terms of market share after Q3.

Also, comparing new construction to renovation, renovation is relatively common in the water-related product area, so new construction has dropped so far, but there is a bottom to some extent.

There are the LWT's international businesses. Europe is very bad, as mentioned, but of course, we all think we are in a bad situation, including our competitors. It is true that customer demand is sluggish in the US, especially at Home Depot and Lowe's, but the shift to more profitable products, which has been our initiative, has been going well. We feel we have gained market share compared to other companies, so we are not so worried about this. Inventory has been dropping steadily.

Asia Pacific region has been doing well for a long time, but Vietnam has been undergoing a slight economic adjustments this year. Vietnam is one of the four largest markets in the Asia Pacific region, with Vietnam, India, Thailand, and Indonesia being the leading players, so this was a bit of a blow.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasiasia.com



In China, the real estate market is as bad as ever. As it has been reported recently, the government seems to be thinking that they need to provide a little more support for real estate. The phrase in newspapers and other medias that said Chinese real estate is no longer an investment, but a place to live, is gradually disappearing, which makes us wonder if the tide is turning a bit.

LHT, on the other hand, performed well with insulation renovation. In particular, subsidies for advanced window renovation projects have shown a very significant strengthening effect, not only for windows but for insulation renovation as a whole.

As a result of the price optimization ahead of competitors, the market share centering on new housing in Q1 was not so good, but the market share will recover in Q2. On the other hand, however, new housing construction is decreasing, so even though we are recovering our market share, we are a little slower than expected.

As I have explained many times from the past in the building business, there were a number of cases last year and the year before where, after a price was set for a certain year, the contract continued for several years, resulting in a loss, especially for those contracts signed in the past, due to recent cost increases. We have been working hard on our pricing policy, and costs have stabilized, so profitability has clearly shown a recovery trend since this fiscal year.

› KEY HIGHLIGHTS

Business outlook

- Timing of economic recovery varies by region, but normalization is expected by end of December
- Majority of forecasted core earnings for the fiscal year to be realized in Q3-Q4
- While economic trends in Europe remain weak, renovation sales for higher-insulation products in Japan are progressing better than expected
- LIXIL's market share is expected to recover with the normalization of the competitive environment from Q2 onwards. Decline in new housing starts (especially owner-occupied houses) has been a significant headwind, undercutting the benefits from mass production. Facing this trend, we will focus on capturing demand for higher-insulation and environmentally beneficial products to minimize the impact
- Variable costs such as raw materials are expected to stabilize or decline, due partly to the global economic slowdown. However, we will continue to consider price optimization requests from suppliers that are attributable to their higher costs
- International business will accelerate structural reforms to improve productivity

LIXIL

5

Let me summarize a bit.

The timing of economic recovery is difficult to predict. Still, we expect normalization by the end of December, including recovery in Europe, although it probably means that the European recovery will be the last. As for

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasia.com

 **SCRIPTS**
Asia's Meetings, Globally

the rest of the region, from about Q3. As for Europe, we are considering normalization, in a manner of speaking, from Q4.

For those reasons, we expect to realize the majority, 80% of our projected core earnings this fiscal year from Q3 to Q4. We believe that if we continue on this basis, next year will be a good year.

As I mentioned earlier, the European economy was worse than expected, but sales of renovation products for insulation in Japan progressed better than expected which I think was the case.

On the other hand, the competitive environment in Japan has normalized, and the volume market share is recovering. Still, the number of new housing starts, especially for owner-occupied houses, has been continuously declining, so the effect of mass production has not been fully realized. In the long run, it is inevitable that this will be the case here, so we think that by increasing our higher-insulation and environmentally beneficial products, we can increase our actual base while still making a profit.

The cost of raw materials is stable or declining. However, some of our smaller suppliers have been affected later than others, so we have to make some rational decisions regarding price optimizations and accept them since we are under the guidance of the government as a whole, as well as the demands of the world as a whole. We are wondering if there will be a slight increase in that area plus a slight increase in cost.

I think this is an important point for me as president, but I believe that it is in these bad times that we need to implement structural reforms to improve productivity in one fell swoop. We did this in Japan a few years ago, but I think it is important to do it faster for international businesses. This is a very important management issue for this year, and if we can do this, we can make next year a much better year, so we are determined to do cost reform and to do it all at once this year.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasia.com



› Q1 FYE2024 PERFORMANCE HIGHLIGHTS

Profits declined year-on-year

- **Revenue: JPY359.2 billion, down JPY1.1 billion year-on-year**
 - Q1 (3 months) YoY: +2% in Japan and -6% in international markets (-13% excluding foreign exchange impact)
- **Core earnings: JPY3.7 billion, down JPY3.2 billion year-on-year**
 - Q1 (3 months) breakdown: JPY5.3 billion in LWT Japan, -JPY1.6 billion in LWT International, JPY8.4 billion in LHT, and -JPY8.4 billion for consolidation adjustment/other factors
- **Profit for the quarter⁽¹⁾: JPY0.4 billion, down JPY5.4 billion year-on-year**
 - Profit before tax decreased JPY11.7 billion primarily due to decrease in core earnings, the absence of last year's gain on the transfer of land and other assets, and an increase in finance costs

LIXIL (1) Profit for the quarter = Profit for the quarter attributable to owners of the parent

6

Performance highlights. Revenue was down JPY1.1 billion YoY, not a large decrease, but the 13% decrease in international sales, excluding the effect of foreign exchange rates, was quite poor.

As for what is going on here, I will repeat what I have mentioned. The entire market, including Europe and the US, has deteriorated. According to the figures we have heard from our competitors in international markets, I don't think it was necessarily bad, but overall, compared to last year, we have seen a decline here.

As for core earnings, LHT steadily recovered, but LWT did not do well, especially in international markets. As I have already explained, these are the background of the result figures.

The profit for the quarter was also a little sad due to the absence of gains on the transfer of land and other assets and an increase in financial expenses compared to the previous year, but we will do our best from the next fiscal year onward.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



› Q1 FYE2024 CONSOLIDATED BUSINESS RESULTS

JPY billion	Q1 (3 months)			
	FYE2023	FYE2024	Increase/ decrease (YoY)	%
Revenue	360.3	359.2	-1.1	-0.3%
Gross profit	116.4	115.6	-0.7	-0.6%
(%)	32.3%	32.2%	-0.1pp	-
SG&A	109.4	111.9	+2.5	+2.3%
Core earnings (CE)⁽¹⁾	7.0	3.7	-3.2	-46.3%
(%)	1.9%	1.0%	-0.9pp	-
Profit for the quarter including Discontinued Operations⁽²⁾	5.7	0.4	-5.4	-93.4%
EPS (JPY)	19.79	1.31	-18.48	-93.4%
EBITDA⁽³⁾	26.9	23.4	-3.5	-13.0%
(%)	7.5%	6.5%	-0.9pp	-

- **Gross profit margin:** Declined by 0.1pp YoY
- **SG&A expenses:** Increased by JPY2.5 billion YoY (Japan JPY2.3 billion decrease, International JPY2.3 billion increase, forex effect JPY2.5 billion increase) mainly due to personnel expenses for the international business including foreign exchange impact and expanded sales activities. SG&A ratio increased by 0.8pp
- **CE margin:** Declined by 0.9pp YoY

LIXIL (1) Equivalent to "Operating profit" of JGAAP
 (2) Profit for the quarter attributable to owners of the parent
 (3) EBITDA=Core earnings + Depreciation + Amortization

7

Looking at the consolidated business results, as I mentioned earlier, as far as gross profit is concerned, we actually saw a decrease in terms of numbers, but a slight drop helped us in terms of costs. The numbers are similar, but we think the structure has greatly improved.

Although the SG&A expenses have been kept at this level amid the current severe inflation in international markets, I repeat that we must make major reforms and scalpels to achieve even healthier core earnings at this time of the year.

This time, as mentioned, LWT struggled. We believe that the difficulties in Europe and the Americas, in particular, have led to this result.

Support

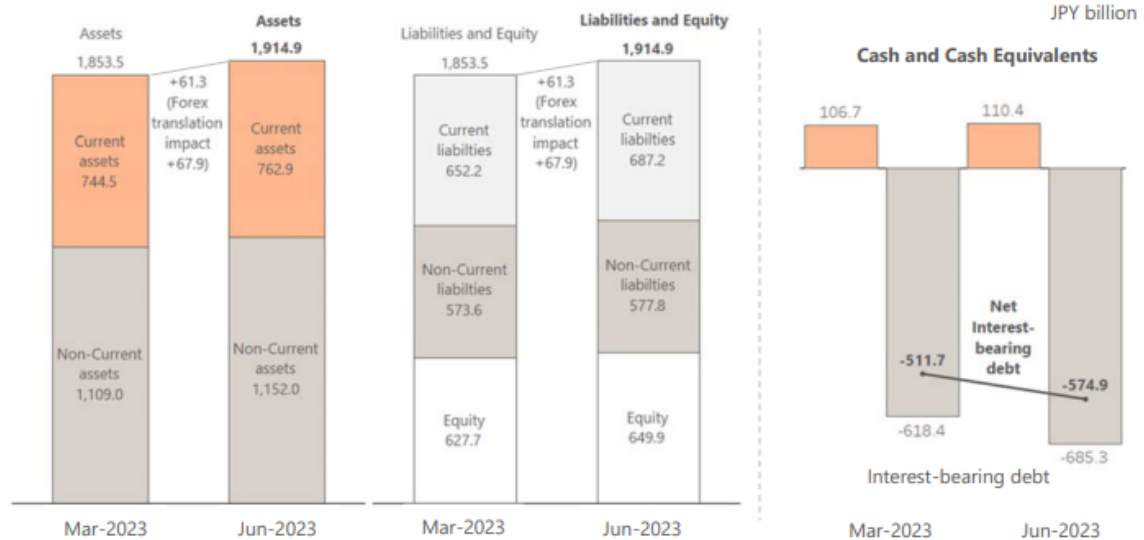
Japan 050.5212.7790
 Tollfree 0120.966.744

North America 1.800.674.8375
 Email Support support@scriptsasias.com



› CONSOLIDATED FINANCIAL POSITION

The total assets increased slightly, due mainly to foreign currency translations. Interest-bearing debt increased due to increase in working capital and fund-raising for bond redemptions. Equity ratio remains at 33.8%



LIXIL

9

The equity ratio is now at 33.8% due to increased total assets and interest-bearing debt caused by the foreign exchange rate. Still, we will work hard from here, including inventories, to return the ratio to ideal levels. Considering the sudden deterioration in the objective environment of the economy, we believe that we can make improvements in this area in a relatively natural manner as the economy recovers.

Support

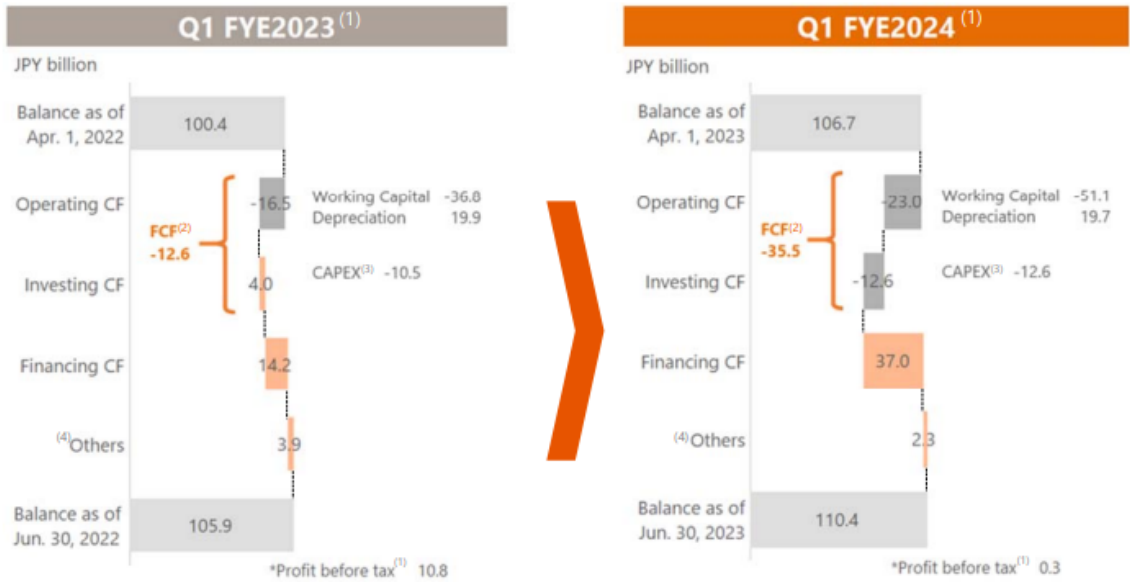
Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasia.com

SCRIPTS
Asia's Meetings, Globally

› CASH FLOW STATUS AND CASH BALANCE

Free Cash Flow (FCF) declined by JPY23.0 billion due to factors including decrease in trade payables in response to “Declaration for Building Partnerships” and to a lower profit before tax



(1) Includes discontinued operations
(2) "FCF" = Operating CF + Investing CF

(3) CAPEX = Purchase of property, plant and equipment + Purchase of intangible assets (Excluding Right of use assets in IFRS16)¹⁰
(4) "Others" = Effects of exchange rate changes

As for free cash flow, we have promised to shorten the payment sites to our suppliers as part of our “Declaration for building partnerships“, which the government also requires. Unfortunately, the free cash flow dropped due to the aforementioned and the fact that profit before tax has dropped this quarter, YoY. We will do our best to get this back as well.

That's all. As for the rest, I will leave it for you to read and use the remaining time to answer questions.

Thank you very much for your attention today.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



Question & Answer

MC [M]: We will now open the floor for questions and answers.

Now let me introduce the first questioner. We have two questions from Ms. Okada of Goldman Sachs. The first question.

Okada [Q]: The subsidy for insulation renovation is likely to end by the end of this year, and there is a possibility of a reactionary decline during this fiscal year. How do you think this will affect your business performance in the future?

Seto [A]: Yes, it is a fact that the sales of windows for residential renovations have been increasing at a rate that is three times faster than last year and that the market for insulation renovation is overheated. Currently, the consumption of the budget announced by MLIT (Ministry of Land, Infrastructure, Transport and Tourism) is about 50%, but if we consider the contract base, it has reached about 80%. Considering this, we believe that the shipment of so-called subsidy-based products will probably end around November.

However, in this case, the policy of the Kishida cabinet and various government documents indicate that we must do this for three years. It is not just about windows but about insulation and other economic measures for insulating homes, and it says that these measures must be implemented for three years, so I think there is a strong tendency for the subsidies to continue.

However, we believe that it is still unknown how long it will be before the current subsidy expires and the next subsidy is available. On the other hand, I think we are seeing a slightly different trend, not because of the subsidy obviously, but because of the fact that energy costs have gone up so much and the heatwave that we are now experiencing, that windows have to be changed one way or the other.

Therefore, I believe that interest in this area will continue. Since the Japanese government as a whole is committed to reducing CO₂ emissions by 2030, I think it is clear that insulation renovation is the trump card that will enable us to do so. In that sense, I think this is going to have a very long-lasting effect in one way or another.

Okada [Q]: Second question. Both the Americas and Europe are expected to post positive growth in the current fiscal year, but at this point, the growth is negative. Will the market recover during this quarter? What is the background for the expected recovery?

Seto [A]: In the Americas, there are some bumps in the road depending on the product, but some of the new products we have introduced this time are showing positive growth, so we see some good signs in that sense. Now, the US as a whole is experiencing an increase in population, and the housing market is rising while interest rates continue to rise, so I believe that, in this sense, the housing market is firm.

As for Europe, there are certainly some who are anxious and anticipate that it will be over by the end of this quarter. However, in the context of the current phenomenon, for example, as I mentioned earlier about housing, Germany's housing starts this year are expected to be 200,000, but the demand figure is 400,000. In the end, this 200,000 part of the number of construction starts was lowered as a forecast of the actual number of construction starts because of higher interest rates and material costs. There is a gap.

The German government thinks that it is necessary to fill this gap somewhere, and another thing is that people are currently moving to heat pumps due to subsidies, which means that, conversely, there is a certain amount

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasia.com



of pent-up demand. There, we believe that if that heat pump frenzy calms down at some point, we will naturally return to that point.

However, I think it is true that things such as evidence are not as good as in Europe, looking at the current state of commerce and looking at the foot of the market. Conversely, however, considering the past pattern, the valley has never been this deep before, and if the valley is deep, I think the next resurgence will be just as powerful.

MC [M]: Next, we have a question from Mr. Nakagawa of Mizuho Securities.

Nakagawa [Q]: I would appreciate it if you could be more specific about the measures you are considering for structural reforms for the international businesses, as much as you can afford to explain.

Seto [A]: Apologies. Basically, there is inevitably a hindrance. I believe that this is a very sensitive subject, so we have no choice but to ask for you to trust that we can produce results in a short period of time based on what we have done in the past.

I don't think there is any special ultra-C. I think it is about doing ordinary things properly, one at a time.

MC [M]: Next, we have a question from Mr. Fukushima of Nomura Securities.

Fukushima [Q]: You mentioned that you would speedily implement structural reforms for international businesses. What exactly do you have in mind?

Seto [A]: This will be repetitive, so I will refrain from answering here.

Fukushima [Q]: The second question. How do you consider the risk of goodwill impairment for the American Standard business in the US?

Seto [A]: At this point, as far as American Standard is concerned, we think it is getting better. Given that there has been no goodwill impairment to date, we do not consider impairment risk.

Matsumoto [A]: I would like to provide some supplementary explanations.

As described in detail in the annual securities report*, there was definitely no impairment risk as of the end of the previous fiscal year, and we have received an unqualified opinion from the auditing firm regarding this.

In the last three months, the situation here has not changed significantly, and we believe that the decrease in inventories and other items is a positive development with respect to this risk.

*Note: Japanese only as of July 28. In latter August 2023, LIXIL plans to disclose the FYE2023 Consolidated Financial Statements (English), which will include details on assessment of goodwill and intangible assets on our website <https://www.lixil.com/en/investor/library/financial.html>

MC [M]: Next, we have a question from Mr. Kawashima of SMBC Nikko Securities. The first question.

Kawashima [Q]: Regarding the impact of the material price, the forecast for the full year is JPY27.1 billion, but the Q1 figure was JPY5.6 billion. You had planned that the high cost of parts and materials would have a negative impact, especially in H1, but have you actually been able to control the negative impact better than planned?

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasia.com



Seto [A]: There are some areas that have been suppressed. For example, aluminum has indeed been lower than expected and priced lower. On the other hand, as I mentioned earlier, we had anticipated that some of our smaller suppliers would inevitably delay their applications for price increases.

We are planning on the assumption that we will accept some price increases for small size suppliers in particular, but in that sense, the application for the price increase was slower than we had expected, or perhaps their own price increases may actually tend to be less, as I mentioned earlier, if the cost increase is, for example, in aluminum.

However, although there are delays, we believe that there will be a certain amount of realization and a certain amount of impact in the future. We believe that this is especially likely to happen with respect to LWT Japan.

Kawashima [Q]: Second question. The window renovation business contributed earlier than expected in Q1, but the total budget remains the same. In other words, we assume that the contribution to full year earnings will be as expected. In Q1, window renovations made up for the impact of the more severe than expected conditions in Europe, but how will this be recovered in the full year results?

Seto [A]: Not only window renovations but also insulation renovations are showing a very great demand right now. In this sense, we are not limited to window renovations. Still, we can do it, and as I mentioned earlier about the building business, our low-carbon product, *PremiAL*, is getting a very big response. We believe that we are finally recovering from the situation where things related to the environment are getting better than we had expected.

MC [M]: Next, we have a question from Mr. Fukuhara of Jefferies. The first point.

Fukuhara [Q]: LWT's international business posted a loss in Q1. Is this trend likely to continue in Q2? Is it still advisable to be aware of downside risk in international operations for annual profit planning? On the other hand, LHT also achieved almost a quarter of the year's total, with JPY8.4 billion, due in part to an improved mix. Is the trend of improving profits at LHT likely to lead to an upward revision of the annual plan?

Seto [A]: I'm not sure if it's appropriate to give a detailed breakdown, so I'll just answer in general terms, but the overall problem for LWT businesses is the economy, which is somewhat difficult for us to predict.

On the other hand, considering that we are going to proceed with the structural reforms that I mentioned earlier, I think it is fair to say that the results of the structural reforms will start coming out of Q4 because they will start within Q4. In this sense, we are trying to achieve our annual profit plan in various ways.

Also, with regard to LHT, the profit improvement trend is clearly visible because, as I mentioned earlier, the overall insulation is improving, the insulation business itself is improving, and environmental products are selling well.

Fukuhara [Q]: Second question. Regarding the window renovation business, there was talk of delivery delays for a while, but how have the delivery delays improved and how has the situation actually changed in the field?

Seto [A]: In reality, we are still behind. For our part, when the program for advanced window renovation project started, we prepared for three times the production capacity, but when we opened the door, we received orders for eight times as many as before. Meanwhile, some companies stopped selling because the subsidy was soon to be expired, and there was a lot of confusion.

As a result, as of today, we will probably use up all of the subsidies in November, and we think that the normal delivery period will probably be from September to October.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptasiasia.com



MC [M]: Next, we received two questions from Mr. Teraoka of Daiwa Securities, but since one question was about structural reform, I will limit it to one.

Teraoka [Q]: Until last fiscal year, shipping costs were quite a heavy burden, but how much have costs decreased this fiscal year?

Seto [A]: I'm sorry, we don't disclose the breakdown here, but we have definitely reduced costs this fiscal year, and going forward, the high costs will become inventory in a sense, so we believe that this will be one of the factors of cost improvement in international markets.

MC [M]: Next, we have two questions from Mr. Takegawa of Sumitomo Mitsui Trust Asset Management.

Takegawa [Q]: I understand the European market downturn, but I don't think you are dealing with such a large commercial product, and I think the demand is for basic replacement with faucets. The fact that even that is not growing may be due to factors other than market conditions.

Seto [A]: I guess you are asking if there are factors other than market conditions that are unique to our company, but I have heard that almost all companies in Europe are doing badly this time.

In particular, among our competitors, for example, there are other companies in the same industry that also deal with faucets within Europe that are going bankrupt. I went to Europe two weeks ago and talked with various wholesalers, and they all said that the situation is the worst in the past 20 years, so there is no doubt that the market conditions are a real problem.

Although we are not dealing with such a large-scale product, I think it is true that there is one problem here, especially in Germany, where most of the people in the factories that deal with faucets deal with heat pumps due to subsidies for heat pumps.

On the other hand, there is a big investment demand for faucets, not only for replacement but also for innovation in the bathroom as a whole, and another big demand is for projects. There is also demand for so-called hotels and nonresidential buildings, but this demand has pretty much stopped.

Last but not least, as you say, the faucet itself has not dropped much so far. Conversely, when it comes to the business of GROHE, there has rarely been few major falls. It was only a few months ago that we sensed that a special situation had begun to emerge. In that sense, I believe that talk of this being the first time in 20 years is not an exaggeration but a reality.

On the other hand, I hear that it's not so bad when it comes to products other than housing equipment and building materials.

Also, and this is a bit of a different story, but yesterday, I also spoke with the CEO of a European company in the so-called building materials window area. They, too, were talking about the worst situation this time, not only in his experience as CEO but also in his experience as a whole. I think it is true that, in general, the European building materials and housing equipment industry has been bad for at least the last few quarters.

Takegawa [Q]: Second question. What about the possibility of converting to a dividend payout ratio basis instead of forcing the Company to maintain the dividend in the absence of profit improvement?

Seto [A]: We are anticipating an improvement in profits, so we are planning to do it. We never intend to be unreasonable.

MC [M]: Next, we have two questions from Mr. Mochizuki of CLSA Securities.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



Mochizuki [Q]: The first question. Was the Q1 performance in line with the Company's plan? Can other regions and cost reductions reverse the poor performance in Europe?

Matsumoto [A]: As for whether or not this was the planned line, as Mr. Seto explained in the beginning, we originally planned to produce 80% in H2 and 20% in H1. We believe that this was the figure.

Regarding the deteriorating performance in Europe and whether it can be recovered through cost reductions in other regions, first of all, I think it will be very important to improve Europe itself. In addition, of course, as mentioned earlier, the LHT business in Japan is doing very well, and we would like to do our best as a company as a whole, including in this area.

Mochizuki [Q]: Second question. For Q1, American Standard also posted a business loss on a local currency basis. Sales are also declining, and I am concerned about trends in profitability. Is there any risk of goodwill impairment? When will American Standard return to profitability?

Matsumoto [A]: Yes, as asked earlier about goodwill, we have disclosed quite a bit of detail in our annual securities report, so please take a look at that.

At present, we are not aware of any risk here again, and the inventory decrease is positively affecting cash flow.

As Mr. Seto mentioned earlier, we have been shifting our business strategy to areas with higher profitability in terms of products and channels, so I think we have to be patient a little longer.

MC [M]: Next, we have two questions from Mr. Watanabe of Morgan Stanley MUFG Securities. The first question.

Watanabe [Q]: Am I correct in assuming that the slump in customer demand in the US is due to a weak existing home market caused by soaring mortgage rates? Are there any other potential points to be considered?

Seto [A]: In the US, as in Europe, the demand for our products is more for renovation than for new construction, and we are sure that rising interest rates are a major factor in the renovation market.

In fact, if you look at Home Depot, Lowe's, and other retail company sales, there are things that are going down now. In this sense, regarding the US economy itself, in general, it may not be keeping pace with the inflation of prices for various goods, while salaries may not be keeping pace with inflation. Still, housing product demand has declined over the past year or so.

On the other hand, as mentioned earlier, considering the inquiries we are receiving, we are seeing good signs that the US market will probably recover first compared to Europe.

Watanabe [Q]: Second question. The status of the Japan business by product. I understand that bathrooms were positive, and kitchen and sanitaryware was negative, but other than the difference in the timing of the price increase, is there any difference in the status of sales activities in the footprint?

Seto [A]: First of all, to give an easy-to-understand example, in the case of sanitaryware, there was a period last year when another company was unable to release sanitaryware due to various problems in China and other countries, and we were able to sell the portion that was lost. In that sense, I think that the other company have regained some ground.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



As for the kitchen, there is no doubt that, in the difference in the timing of the price increase, the competitor's reaction was to hold down the price increase to secure the volume for now, and we think that is why it was not easy to get it.

On the other hand, with regard to bathrooms, I think some of our early activities were successful, and we were able to launch attractive products earlier in terms of merchandise.

MC [M]: Next, we have two questions from Mr. Yagi of Mitsubishi UFJ Morgan Stanley Securities.

Yagi [Q]: Is there any difference in the demand situation for your products in different regions of Europe? Please kindly advise.

Seto [A]: The first to go bad were Germany and France. As for France, the quarter is actually showing a bit of a recovery trend. The bad ones are Germany, as I mentioned, and the Netherlands, Sweden and other Scandinavian countries. Finland, as you may know, is the only country where the government has some control over housing and loans, so it is better. Also, Eastern Europe, which was relatively better last year, is now getting worse.

Southern Europe has been slow to get worse and is just now starting to get worse. Spain is not good either. Southern Europe has been good for a long time, but the situation is now getting a little worse.

The Middle East was very good last year. Still, now there is a bit of destocking by distributors, and then, for example, we are seeing situations like Egypt where they can't buy because of a foreign currency or they can't get LC (Letter of Credit), so we think this area is somewhat temporary.

MC [M]: Next, we have two questions from Mr. Miki of Citigroup Global Markets. The first question.

Miki [Q]: Regarding the international business, despite your initial plan to increase profits by JPY5.2 billion this fiscal year, you posted a loss of JPY7.4 billion in Q1, and we recognize that you must recover JPY12.6 billion in Q2 and beyond. It sounds like the business environment for your international operations is not so good, but is it possible to recover from this? Sales in China for the April through June quarter declined 7% in local currency terms. I think last year there was a lockdown, and the hurdle was lower, but is it weak due to the individual company factor?

Seto [A]: Basically, it is difficult to name the companies, but in China, for example, there are about five companies, including ourselves, that have the same market share to some extent, and we understand that our market share is increasing for all companies except one of them.

In this sense, we do not feel that there are any particular individual company factors in China. As for individual company factors outside of China, we do not feel that there are any individual company factors other than the fact that for a period of time last year, we were unable to sell products due to supply chain disruptions.

I think the recovery from this, I repeat, will be quite affected by the economic environment, but as we face H2, good signs are emerging, at least outside of Europe. The other is how to improve Europe, and the other is that we must first do what we can do on our own. As I said earlier, we are going to make drastic structural reforms this year.

However, as you can understand, the effects of the structural reforms will mainly realize next year. Some parts will come out this year. We will try to realize what we can early this year, but that part will have a big impact on the recovery, especially in the next fiscal year.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



Miki [Q]: Second question. It is about goodwill. We recognize that the business environment in international markets is deteriorating, and Europe has been the worst in the past 20 years. Is there any risk of impairment of the goodwill of the European subsidiary?

Matsumoto [A]: Yes. This is also indicated in the annual securities report, just released three weeks ago, so I hope you will find it there. As for Europe, we believe that there is enough headroom, and it will be fine.

MC [M]: We have two additional questions from Mr. Takegawa of Sumitomo Mitsui Trust Asset Management.

Takegawa [Q]: Is it possible to disclose KPIs, including the medium-term management plan, so that the progress can be easily seen from the outside?

Seto [A]: I will consider it.

Takegawa [Q]: The second question. Disclose ROIC and other KPIs by segment and country. Is it possible for you to consider enhancing disclosure and the mechanism to understand the transition from the past to the present, changes for the future, strategies, and PDCA for the future that could be understood from outside the Company?

Seto [A]: I think that it would not necessarily be wise for us to provide figures that other companies have not provided, especially since we are competing in almost all countries.

In that sense, we would really like to be allowed a certain level of this area, to the extent that other companies are also providing it.

MC [M]: We have answered all the questions we have received so far. Well, since there seem to be no other questions, I would like to end the question-and-answer session.

This concludes the LIXIL Corporation Q1 Financial Results Briefing for the Fiscal Year Ending March 2024 for Investors and Analysts.

We look forward to your continued support of LIXIL. Thank you all very much.

[END]

Document Notes

1. *Speaker speech is classified based on whether it [Q] asks a question to the Company, [A] provides an answer from the Company, or [M] neither asks nor answers a question.*
2. *This document has been translated by SCRIPTS Asia.*

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasias.com



Disclaimer

SCRIPTS Asia reserves the right to edit or modify, at its sole discretion and at any time, the contents of this document and any related materials, and in such case SCRIPTS Asia shall have no obligation to provide notification of such edits or modifications to any party. This event transcript is based on sources SCRIPTS Asia believes to be reliable, but the accuracy of this transcript is not guaranteed by us and this transcript does not purport to be a complete or error-free statement or summary of the available data. Accordingly, SCRIPTS Asia does not warrant, endorse or guarantee the completeness, accuracy, integrity, or timeliness of the information contained in this event transcript. This event transcript is published solely for information purposes, and is not to be construed as financial or other advice or as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal.

In the public meetings and conference calls upon which SCRIPTS Asia's event transcripts are based, companies may make projections or other forward-looking statements regarding a variety of matters. Such forward-looking statements are based upon current expectations and involve risks and uncertainties. Actual results may differ materially from those stated in any forward-looking statement based on a number of important factors and risks, which are more specifically identified in the applicable company's most recent public securities filings. Although the companies may indicate and believe that the assumptions underlying the forward-looking statements are accurate and reasonable, any of the assumptions could prove inaccurate or incorrect and, therefore, there can be no assurance that the anticipated outcome described in any forward-looking statements will be realized.

THE INFORMATION CONTAINED IN EVENT TRANSCRIPTS IS A TEXTUAL REPRESENTATION OF THE APPLICABLE PUBLIC MEETING OR CONFERENCE CALL. ALTHOUGH SCRIPTS ASIA ENDEAVORS TO PROVIDE ACCURATE TRANSCRIPTIONS, THERE MAY BE MATERIAL ERRORS, OMISSIONS, OR INACCURACIES IN THE TRANSCRIPTIONS. IN NO WAY DOES SCRIPTS ASIA OR THE APPLICABLE COMPANY ASSUME ANY RESPONSIBILITY FOR ANY INVESTMENT OR OTHER DECISIONS MADE BY ANY PARTY BASED UPON ANY EVENT TRANSCRIPT OR OTHER CONTENT PROVIDED BY SCRIPTS ASIA. USERS ARE ADVISED TO REVIEW THE APPLICABLE COMPANY'S PUBLIC SECURITIES FILINGS BEFORE MAKING ANY INVESTMENT OR OTHER DECISIONS. THIS EVENT TRANSCRIPT IS PROVIDED ON AN "AS IS" BASIS. SCRIPTS ASIA DISCLAIMS ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, AND ACCURACY, COMPLETENESS, AND NON-INFRINGEMENT.

None of SCRIPTS Asia's content (including event transcript content) or any part thereof may be modified, reproduced or distributed in any form by any means, or stored in a database or retrieval system, without the prior written permission of SCRIPTS Asia. SCRIPTS Asia's content may not be used for any unlawful or unauthorized purposes.

The content of this document may be edited or revised by SCRIPTS Asia at any time without notice.

Copyright © 2023 SCRIPTS Asia Inc. ("SCRIPTS Asia"), except where explicitly indicated otherwise. All rights reserved.

Support

Japan 050.5212.7790
Tollfree 0120.966.744

North America 1.800.674.8375
Email Support support@scriptsasiasia.com

