LIXIL Corporation

Financial Results Briefing for the Fiscal Year Ended March 2021 for Investors and Analysts

April 30, 2021

Event Summary

[Company Name]	LIXIL Corporation	
[Company ID]	5938-QCODE	
[Event Language]	JPN	
[Event Type]	Earnings Announcement	
[Event Name]	Financial Results Briefing for the Fiscal Year Ended March 2021 for Investors and Analysts	
[Fiscal Period]	FY2020 Annual	
[Date]	April 30, 2021	
[Number of Pages]	30	
[Time]	15:30 – 16:22 (Total: 52 minutes, Presentation: 31 minutes, Q&A: 21 minutes)	
[Venue]	Webcast	
[Venue Size]		
[Participants]		
[Number of Speakers]	3	
	Kinya Seto	Director, Representative Executive Officer, President, CEO
	Sachio Matsumoto	Director, Representative Executive Officer, Executive Vice President, CFO
	Kayo Hirano	Senior Vice President, Leader, Investor Relations Office
[Analyst Names]*	Masahiro Mochizuki	Macquarie Capital Securities (Japan) Limited
	Sachiko Okada	Goldman Sachs Japan
	Daisuke Fukushima	Nomura Securities
	Hiroki Kawashima	SMBC Nikko Securities

*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A.

Presentation

MC: Now, we will begin the LIXIL Corporation's Financial Results Briefing for the Fiscal Year Ended March 2021.

In consideration of preventing the spread of the COVID-19, the meeting will be held again via live Internet streaming and teleconference. Thank you.

First, I would like to introduce today's attendees. From the left, Kinya Seto, Director, Representative Executive Officer, President, and CEO.

Seto: Thank you.

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

Matsumoto: I'm Matsumoto. Thank you.

MC: Kayo Hirano, Senior Vice President, Leader, Investor Relations Office.

Hirano: Thank you.

MC: I am the moderator for today's session, Investor Relations Office, Fukushima.

Next, as for the presentation material for this meeting, please refer to the web screen if you are viewing the webcast, or the presentation materials posted on our website, Investor Relations, if you are participating in the teleconference.

Next, I would like to explain how we will proceed today. First of all, President Seto will explain the financial results for the fiscal year ended March 2021. We will hold a question-and-answer session afterward.

The session is scheduled to end at 4:30 PM. Thank you for your cooperation in advance.

Well then, Seto would like to explain the financial results for the fiscal year ended March 2021. President Seto, please.

LIXIL TRANSITIONED TO IFRS FROM FYE2016
CHANGE IN PROFIT LEVEL STRUCTURE IS AS SHOWN BELOW

JGAAP	IFRS (LIXIL Financial Reporting)
	Continuing Operations
Net sales	**Revenue**
Cost of sales	Cost of sales
Gross profit	Gross Profit
SG&A	SG&A
Operating profit	**Core earnings (CE)**
Non-operating income/expenses	Other income/expenses
Ordinary income	Operating profit
Extraordinary income/losses	Finance income/costs
	Share of profit (loss) for using the equity method
Profit before income taxes	**Profit before tax**
	Net profit for Continuing Operations
	Discontinued Operations
	Net Profit for Discontinued Operations
Net profit attributable to	Net profit attributable to
Non-controlling interests	**Owners of the parent**
Owners of the parent	Non-controlling interests

"Core earnings" in IFRS is equivalent to JGAAP's **"Operating profit"**

As disclosed in "Notice of Transfer of Consolidated Subsidiary (Share Transfer)" on May 1 and June 9, 2020, business operations of Permasteelisa S.p.A. and its subsidiaries and LIXIL VIVA are classified as "discontinued operations". The same period in the previous year is restated for comparison purposes.

Seto: Hello, everyone. I would like to explain the details of the financial results for the fiscal year ended March 2021 and the forecast for the fiscal year ending March 2022, which is currently in progress.

It's the same story as always. IFRS core earnings is operating profit under Japanese GAAP. We would like to focus on the business profit in our explanation.

PERFORMANCE HIGHLIGHTS

Summary of results for the fiscal year ended March 2021

- In line with earnings forecast(1). Core earnings, operating profit, and net profit(2) increased year-on-year
- Gross margin improved by 0.9pp and core earnings margin increased to 4.2%, up by 0.7pp year-on-year. Productivity improvements and cost control efforts under COVID-19 situation resulted in reduced SG&A expenses and gross margin improvement
- Net interest-bearing debt decreased by JPY 252.2 billion. Equity ratio increased to 31.7%, up by 7.7pp year-on-year
- Based on the progress of structural reforms in FYE2021 and business development outlook, we will increase year-end dividend by 5 yen and expect annual dividend of 75 yen per share

Outlook for the fiscal year ending March 2022

- Forecasting sales revenue of JPY 1,440 billion and core earnings of JPY 80 billion (CE margin 5.6%). Business risks include potential delays in recovery of new housing starts in Japan due to a scarcity of wooden materials supply
- Continue to invest resources in intangible assets such as digital, brand and design, and in multi-dimensional approach to market (category x region x sales channel) to promote international business
- Expect to increase dividend by 5 yen and expect annual dividend of 80 yen per share

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(1) Reference: "Announcement of Upward Revision of Consolidated Financial Forecast for the Fiscal Year Ending March 2021", disclosed on Feb. 5, 2021
(2) Net profit = Profit attributable to owners of the parent

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Today's point. First, for the fiscal year ended March 2021, we have generally achieved the results as forecasted. The gross profit has improved. Also, the core earnings margin improved by 0.7 percentage points to 4.2%, due to the very good improvement in SG&A expenses.

Net interest-bearing debt decreased significantly by JPY252.2 billion. The equity ratio is now 31.7%. As I will explain in other tables later, the ratio of EBITDA to Net interest-bearing debt has improved to 3.5 times. We are very pleased with this, as this is the number we have been targeting for the time being.

As a result, we expect to increase the year-end dividend by JPY5 to JPY75 per share for the current fiscal year, and JPY80 per share from the next fiscal year.

For the fiscal year ending March 2022, which is currently underway, we are forecasting sales revenue of JPY1.44 trillion and an core earnings margin of JPY80 billion, increased by 1.4pp to 5.6%.

There are many problems, such as changes in the COVID-19, which is causing many problems in India, the increase in the cost of raw materials, and natural disasters that occur very frequently these days. I think the most unpredictable risk factor is probably scarcity of wood supply.

However, even in the face of the scarcity of wood supply , we are taking proactive measures to turn this crisis into an opportunity.

IMPACT OF COVID-19

Status of Operations (as of April 26, 2021[1])

Production
- All factories and distribution centers operational

Procurement
- No significant operational issues, however, experiencing heightened cost inflation and potentially shortage situations for certain inputs

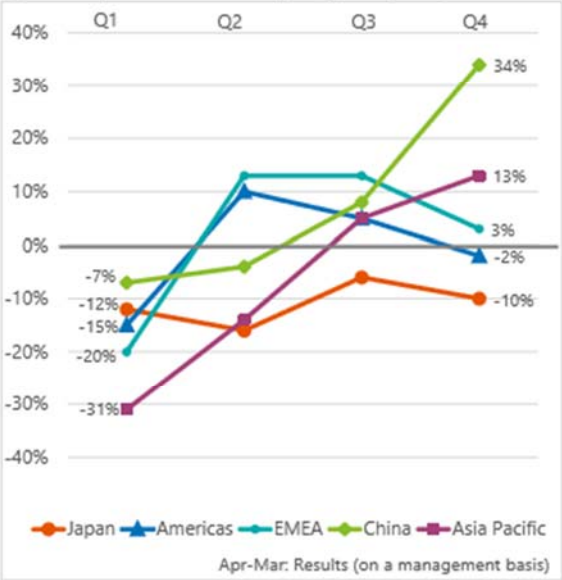
Sales

International
- Increased year-on-year in Europe and China (annual basis)
- Strong recovery of sales in China in Q4 due to demand rebound after economy stagnated last year following COVID-19 lockdown
- Q4 decline in sales in Americas due to high prior year base, however, increase quarter-on-quarter fueled by continued strong demand

Japan
- Both new housing and renovation markets are on a recovery trend

Potential business risks in FYE2022
- Lockdowns affecting market demand and potentially disrupting supply chains
- Shortage of sea freight capacity, wood supply and further increase in other key raw material prices

Quarterly sales status by region (YoY)



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(1) Updated from "Notification Regarding the Schedule for Announcement of Consolidated Financial Results for the Fiscal Year Ended March 31, 2020, and LIXIL Group's Response to the Spread of COVID-19" announced on May 1, 2020, and "Q3 Results for the Fiscal Year Ending March 31, 2021(IFRS) " announced on February 5, 2021

This time, especially in the last fiscal year, the impact of the COVID-19 was very diverse, so we have deliberately explained the situation by region. China looks good at 34%, but this is due to the fact that the same period last year was the worst because of the COVID-19.

On the other hand, although the US seems to be growing at a slower pace, there was a rush of demand for the fourth quarter in the US last year before the lockdown. Another factor was the winter storm in Texas in February, which caused production to be halted and gas to be cut off, so we were not able to meet the demand we should have met.

In general, as I mentioned earlier, scarcity of wood supply in Japan is the most important factor, but there are also other business risks, such as lockdowns caused by the COVID-19 in various parts of the world, and soaring prices of raw materials, especially aluminum and copper.

However, we will proactively manage each of them.

KEY HIGHLIGHTS

Profits increased year-on-year, in line with the full-year forecast. Year-end dividend forecast revised upward

- **Revenue: JPY 1,378.3 billion, decreased 9% year-on-year**
  - Decreased 11% year-on-year in Japan and 3% in international markets
- **Core earnings: JPY 57.3 billion, increased 10% year-on-year**
  - Driven by core businesses (Water Technology and Housing Technology)
  - Increased due to productivity improvements and cost control efforts under COVID-19 situation resulting in reduced SG&A expenses and improved gross margin from higher sales ratio of renovation-related products
- **Net profit(1) : JPY 33.0 billion, increased JPY 20.5 billion year-on-year**
  - Increased due to business recovery from Q3 and progress of structural reforms
- **Year-end dividend forecast: increase by 5 yen from the previous forecast and revise it to 40 yen(2)**
  - Annual dividend per share will be 75 yen together with the interim dividend (FYE2020: 70 yen)

LIXIL (1) Net profit = Profit attributable to owners of the parent for the quarter
(2) Reference: "Announcement Regarding Revision of the Dividend Forecast (Dividend Increase) for the Fiscal Year Ended March 2021", disclosed on Apr. 30, 2021

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The highlights of the financial results are as written here, and the situation is almost as expected. Our net profit was JPY33 billion, an increase of JPY20.5 billion from the previous year, and we have increased the dividend by JPY5 this time because we feel that it is finally time to give back to our shareholders.

FYE2021 CONSOLIDATED BUSINESS RESULTS

	JPY billion	Q4 12 months[4]				Q4 3 months[4]			
		FYE2020	FYE2021	Increase/ decrease	%	FYE2020	FYE2021	Increase /decrease	%
Continuing Operations	Revenue	1,514.4	**1,378.3**	-136.2	*-9.0%*	365.3	**342.7**	-22.5	*-6.2%*
	Gross Profit	502.6	**469.2**	-33.4	*-6.6%*	117.9	**119.3**	1.4	*1.2%*
	(%)	*33.2%*	***34.0%***	+0.9pp	-	*32.3%*	***34.8%***	+2.5pp	-
	SG&A	450.3	**411.9**	-38.4	*-8.5%*	118.1	**107.2**	-10.9	*-9.2%*
	Core Earnings[1]	52.3	**57.3**	5.0	*9.6%*	-0.2	**12.1**	12.2	-
	(%)	*3.5%*	***4.2%***	+0.7pp	-	-	***3.5%***	+3.6pp	-
Including Discontinued Operations	Net Profit including Discontinued Operations [2]	12.5	**33.0**	20.5	*164.0%*	-18.2	**-5.6**	12.5	-
	EPS (Yen)	43.15	**113.92**	70.77	*164.0%*	-62.64	**-19.42**	43.22	-
Continuing Operations	EBITDA[3]	134.8	**137.9**	3.1	*2.3%*	20.3	**32.0**	11.7	*57.6%*
	(%)	*8.9%*	***10.0%***	+1.1pp	-	*5.6%*	***9.3%***	+3.8pp	-

- Q4 (3 months) core earnings margin improved by 3.6pp year-on-year
  - Gross profit margin: improved by 2.5pp due to pricing adjustments and improvement of sales mix through increase of renovation sales ratio
  - SG&A ratio: improved by 1.0pp due to reduced SG&A expenses from progress of productivity improvements
- Overall SG&A expenses reduced by JPY 38.4 billion in FYE2021 (12 months) (Q1: 9.1bn, Q2: 9.5bn, Q3: 8.9bn , Q4: 10.9bn)

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(1) Equivalent to "Operating profit" of JGAAP
(2) Profit attributable to owners of the parent for the quarter/year
(3) EBITDA=Core earnings + Depreciation
(4) Previous reporting period was restated by the classification of Permasteelisa and LIXIL VIVA's operating results under "Discontinued operations" due to the decision to divest

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I am looking at the consolidated financial results, the quarter and the full year. First of all, the gross profit margin became higher. In the past, for example, if you compare the fiscal year ended March 2020 with the fiscal year ended March 2021, you see that the profit margin in the last quarter of the fiscal year drops dramatically. The figure for the same period last year was 32.3%, but this time, it is 34.8%, which is rather better than the full year. This was due to a variety of efforts, such as the reduction of production prices through platform production to increase gross profit, and the choice to sell products with higher added value.

In terms of SG&A expenses, compared to last year, there was a decrease in the carrier option program of the fourth quarter, but SG&A expenses decreased by JPY38.4 billion for the total of 12 months compared to the same period last year, or decreased by JPY10.9 billion for the fourth quarter. Such decreases are significant.

Of course, there are parts that were not used due to the COVID-19, but I believe that the improvement in productivity was very significant. As a result, we were able to increase our core earnings margin for the entire 12 months to 4.2%.

Q4 FYE2021 BUSINESS RESULTS BY SEGMENT

Core businesses drove CE increase

	JPY billion	Q4 12 months[1]			Q4 3 months[1]		
		FYE2020	FYE2021	Increase/ decrease	FYE2020	FYE2021	Increase/ decrease
LWT	Revenue	828.5	**783.8**	-44.7	204.9	**206.4**	1.5
	CE	61.5	**62.1**	0.6	9.3	**15.8**	6.5
LHT	Revenue	542.2	**474.3**	-67.9	125.1	**108.1**	-16.9
	CE	28.3	**31.4**	3.1	1.7	**5.5**	3.8
LBT	Revenue	112.8	**93.4**	-19.4	27.3	**22.6**	-4.7
	CE	2.7	**2.6**	-0.1	1.1	**1.8**	0.8
H&S	Revenue	54.0	**46.6**	-7.5	13.4	**9.7**	-3.8
	CE	3.0	**2.1**	-0.8	0.3	**0.2**	-0.1
Consolidation adj. & other	Revenue	-23.1	**-19.8**	3.3	-5.4	**-4.1**	1.4
	CE	-43.2	**-41.0**	2.1	-12.5	**-11.2**	1.3
LIXIL	Revenue	1,514.4	**1,378.3**	-136.2	365.3	**342.7**	-22.5
	CE	52.3	**57.3**	5.0	-0.2	**12.1**	12.2

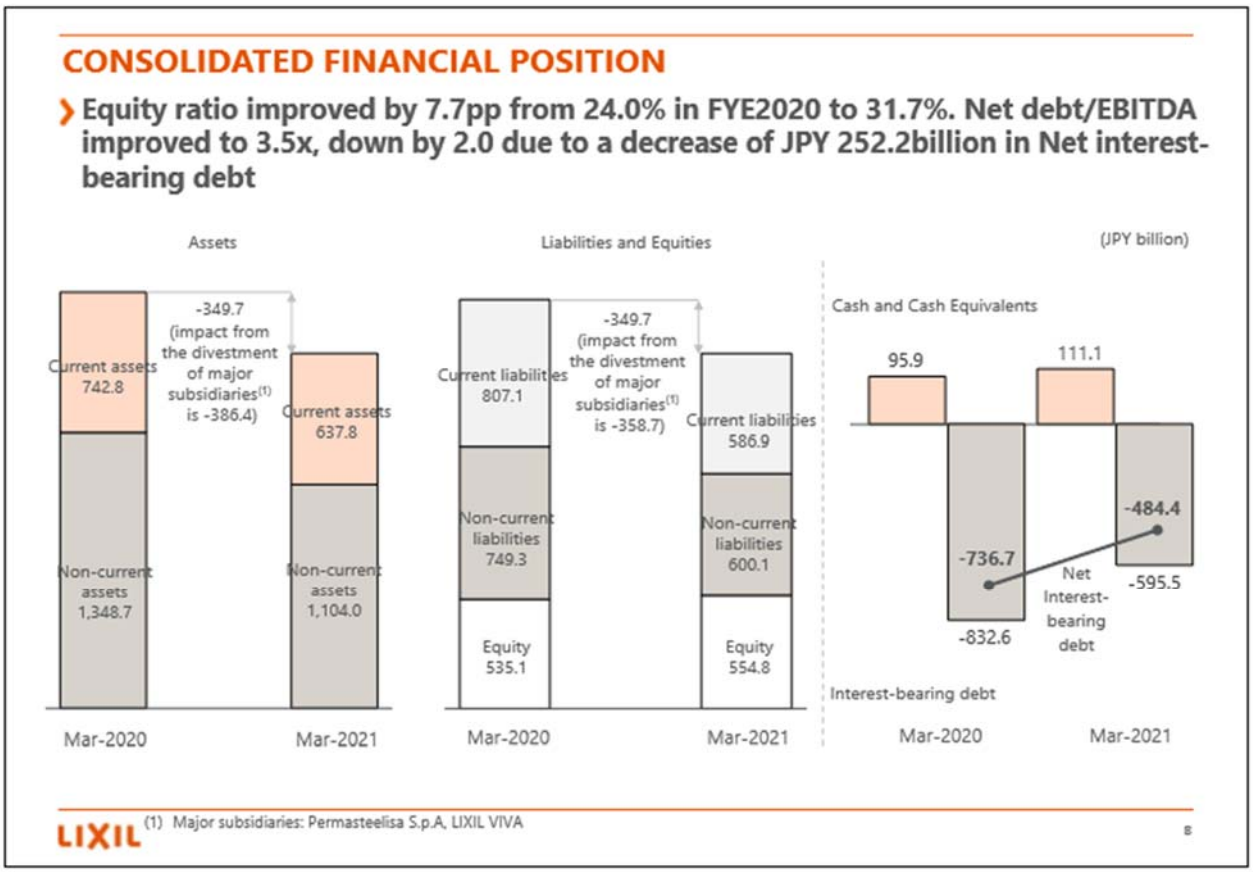
Forex impact :

Q4 12 months: Revenue -1.3 billion, Core earnings +0.5 billion
Q4 3 months: Revenue +3.0 billion, Core earnings +0.5 billion

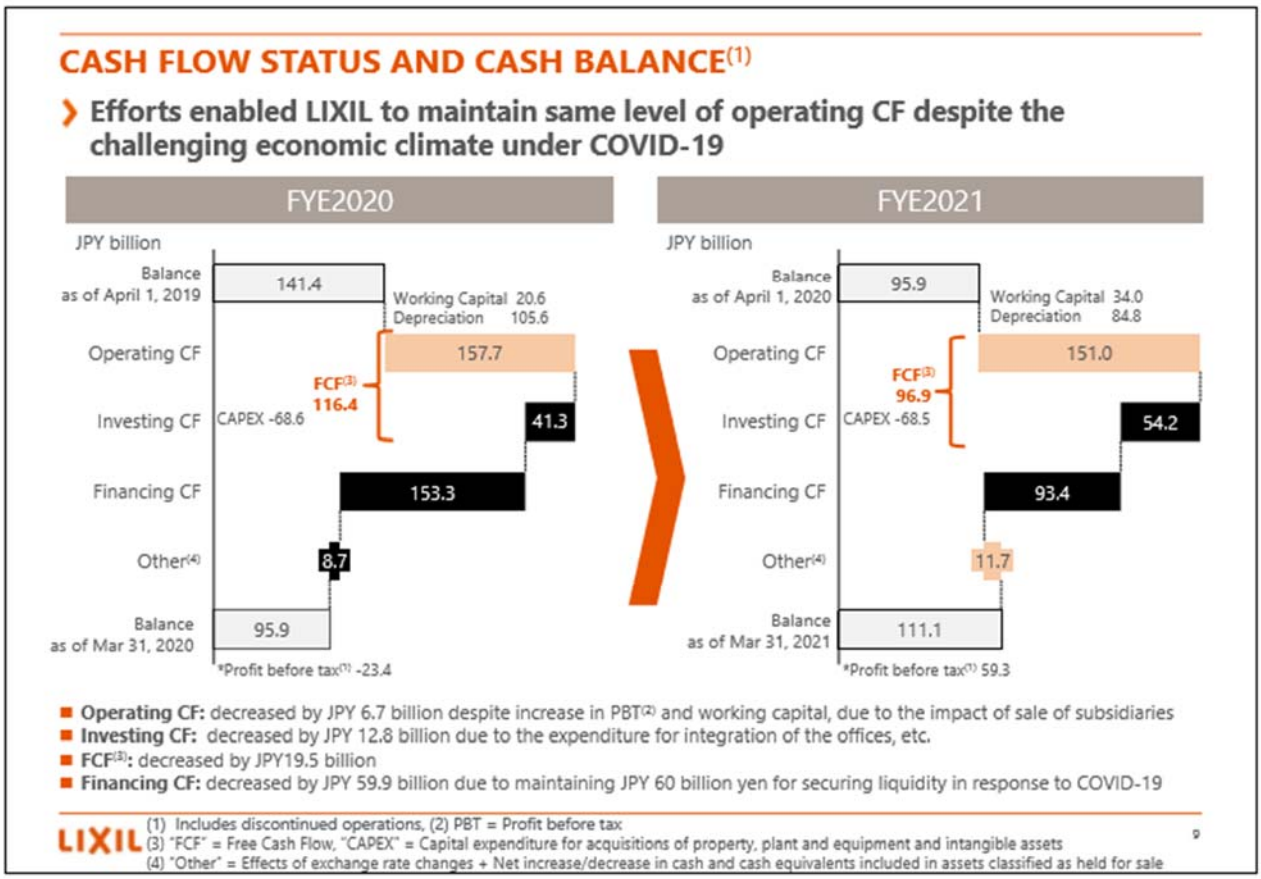
LIXIL (1) Permasteelisa S.p.A and LIXIL VIVA's business is classified as "discontinued operations" due to the decision to divest. For comparison, previous reporting period is also rearranged in the same way

In the core business, especially LHT, sales decreased by JPY67.9 billion in the last 12 months, but profits increased, and I think this is the result of various reforms. The good news is that we have been able to change the situation where a large drop in sales revenue would have been detrimental to the LHT business.

As for the LWT, sales and earnings were severely affected by the global COVID-19 crisis, but we managed to generate positive core earnings despite the damage, and I think this was also thanks to our productivity reforms.



In addition, we were able to reduce our assets and liabilities significantly this time due to the sale subsidiaries. Especially, the ratio of net interest-bearing debt divided by EBITDA went from 5.5 times to 3.5 times due to a decrease of JPY252.2 billion in our liabilities. This 3.5 times has been the target number that we originally set in the medium-term management plan, so I think we have settled down to a certain extent with regard to this balance sheet.



As for cash flow, the major change is that financing cash flow has increased significantly. This is because we wanted to secure liquidity on hand for the COVID-19 crisis, so we maintained JPY60 billion, which we increased in various ways this time. I'll consider this portion after I see how the situation goes.

MANAGEMENT DIRECTION AND PROGRESS OF STRATEGIC INITIATIVES

Management direction

- Drive productivity reform through digitalization of sales, etc. and platform-based production
- Transform to become an organization with an agile and entrepreneurial culture
- Establish management processes that are resilient to the influence of the external environment and enables profitable and sustainable growth
- Improve ROIC to 10% or more and, for now, prioritize improving core earnings margin and aim for 7.5%. The next step will be raising to 10%
- Strengthen the balance sheet maintaining Net debt/EBITDA3.5x<, providing a stable foundation to support mid-to-long term growth

Four strategic initiatives and the progress

1 Focus and simplify our organization

- ✓ Almost completed
- ✓ Improved balance sheet (Equity ratio・Net debt/EBITDA)
- ✓ Reduced risks significantly that cause major fluctuations in business performance

2 Improve profitability of Japanese business

- ✓ Formulated and executing plans aiming to start realizing benefits in and after FYE2022

3 Promote growth of international business in water technology

- ✓ Completed development of system to maximize synergies and optimize supply chains
- ✓ Promoted supply chain optimization and expansion of new product pipelines utilizing technologies within LIXIL, aiming to realize effects from FYE 2022

4 Establish a long-term growth foundation through innovation

- ✓ Gain consensus through education and training
- ✓ Drive Initiatives for digital, water purification, new materials, and new markets, and gain gradual results

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Now, I would like to talk about the outlook for the ongoing period.

Now, the bottom part of this table, four strategic initiatives are something that I have been explaining to you since I came back as CEO. In this context, we would like to reiterate the basic direction of what we are going to do.

First of all, we will reform our productivity by promoting the platform-based production, sales, and digitalization, including the administration department. And we will do things like lowering costs and lowering the break-even point.

Then, there is the transformation to become an organization with an agile and entrepreneurial culture. In a sense, all the values are created by our people. Our long-term goal is to create a company that is innovative, meritocratic, and where a diverse range of employees are motivated to do their best.

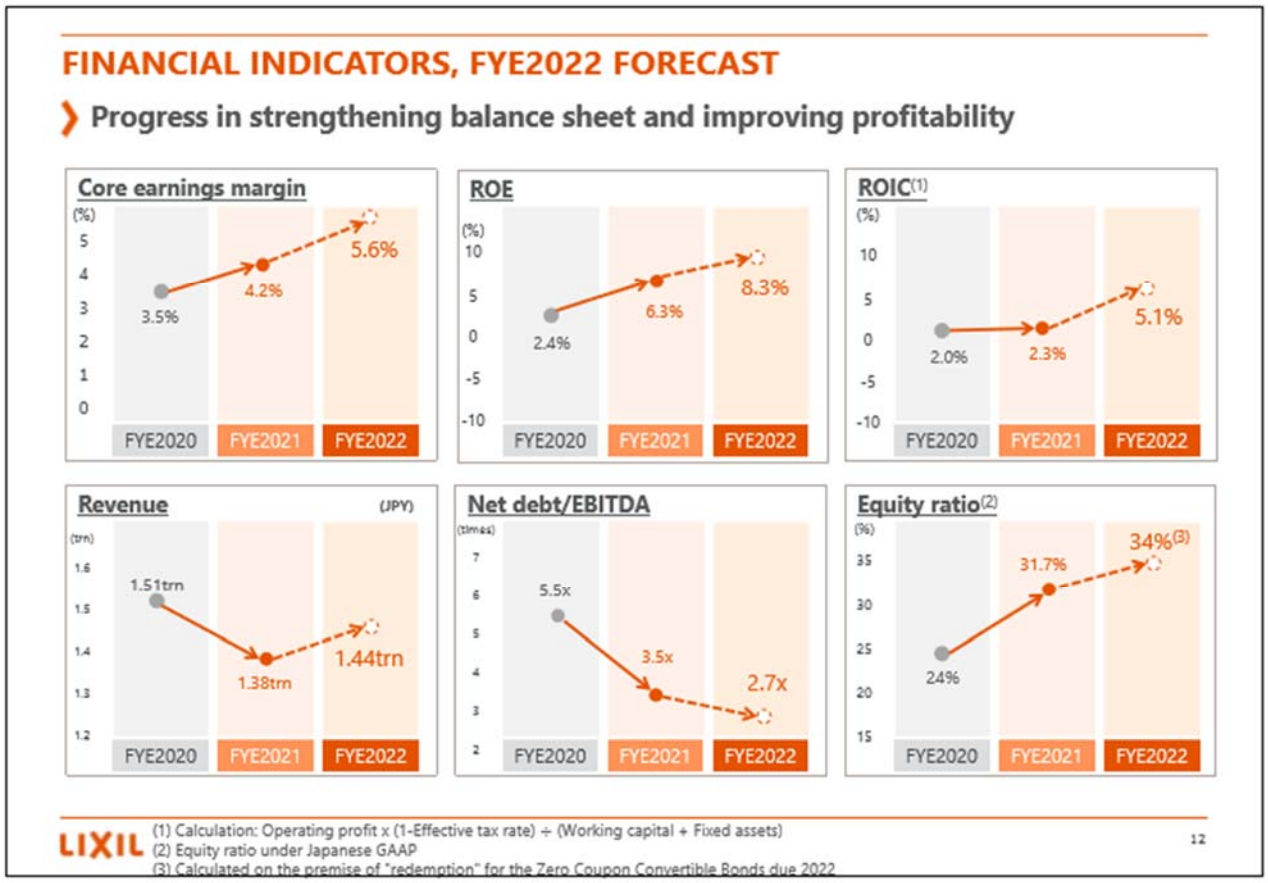
As a result, the company will transform itself into a business that is resilient to external influences and can achieve profitable and sustainable growth. In the last fiscal year, we were in a very difficult situation due to the COVID-19, and I think the big news was that the LHT was changed, which had been affected in the past. In addition to the COVID-19, there are various changes in the environment, such as the scarcity of wood supply I mentioned earlier and the price hike in raw materials.

However, we are trying to build a company that can grow profitably and sustainably, even in the face of such challenges.

In terms of numbers, we are aiming for ROIC10%. In order to achieve this goal, the first thing we need to focus on is the core earnings margin. The reason why we have a high core earnings margin is because we have differentiated products, differentiated services, and a differentiated business model, and we will continue to

improve these areas. As I mentioned earlier, the rate is 5.6% for this fiscal year, but we would like to achieve 7.5% by the next fiscal year. And the next step is 10%. If we can make it this far, we believe we can achieve ROIC10%.

As far as the balance sheet is concerned, I think that these three points, the 3.5 times of net interest-bearing debt divided by EBITDA, should be enough for a balance sheet.



As you all know, we have JPY60 billion of convertible bonds of which we haven't decided what to do yet when we go with this figure. As this will reach maturity on March 2022, the figures will change somewhat, depending on what we do with it.

STRATEGIC PRIORITIES FOR FYE2022

› **Invest in growth of international business and new innovations leveraging funds generated through structural reform**

Strategic priorities for FYE2022

Group wide

- ✓ **Drive productivity reform by utilizing digital technology**
- ✓ Manage scarcity of wooden materials supply
- ✓ Provide range of products for renovation
- ✓ Transfer innovation resources to international regions
- ✓ Drive HR policy reform in Japan
- ✓ **Promote reduction of environmental impact**

Water business

(Japan)
- ✓ Increase renovation sales ratio
- ✓ Optimize sales offices and showrooms
- ✓ Focus on the development of advanced technologies

(International)
- ✓ Expand sales channels reach and partner support by leveraging digital platforms
- ✓ Continue targeted investment in brands, design and products to fill portfolio and segment gaps in each region
- ✓ Deliver efficiencies of global supply chain
- ✓ Strengthen global innovation platforms utilizing technologies within LIXIL

Housing business

- ✓ Create demand and expand into renovation market (renovation for improving performance of houses)
- ✓ Develop attractive and differentiated products (design, technology, collaboration with international manufacturers, etc.)
- ✓ Renew product lineup to promote high performance window
- ✓ Enter new markets (promoting business incubation, business for the highly affluent market[1], etc.)
- ✓ Strengthen the international business (Asian markets)

LIXIL (1) See slide 27 "Launched NODEA for luxury market in Japan" 13

This is the slide that I mentioned earlier about the priority issues in the big flow and what to do this year, and I will mainly explain the above six priorities today.

In the water business and the housing business, there are various issues that need to be addressed, but the first issue for the entire company is to promote productivity reforms through the use of digital technology. This is often used in the world as DX, like a buzzword. I am from a digital business, so I believe that doing this properly will greatly change the cost structure of the company and change its character.

Secondly, this year, it is also important to consider how to respond to the risk of scarcity of wood supply. This part overlaps with what we have written in the housing business, but I would like to consider the next item, the diversification of renovation products in Japan, as a set.

What I mean is that, in Japan, the renovation business has not grown much in the past. It is often said that the renovation market is only about half the size of the new housing market in Japan. It was expected that, if the market for new housing is decreasing rapidly, the market for renovation will increase, but it is not increasing very fast. This is one area where Japan differs greatly from the West.

In the US and Europe, on the other hand, there are many markets where the renovation market is several times or even five times larger than the new housing market. The difference is that, in Europe and the US, secondhand houses are renovated and remodeled to make them better. In Japan, this renovation is almost exclusively limited to water-related products, which I believe is the main reason why the market has not grown.

This time, when the growth of new housing slowed down due to the scarcity of wood supply, I think that we can use this as an opportunity to promote the business of renovating secondhand houses to make them have high performance, thereby making remodeling a more versatile product in Japan.

In Japan, the number of new housing starts is about 900,000 per year. However, there are more than 60 million houses in stock. Most of those, over 60 million houses, are not highly insulated. People often talk about ZEH and reducing CO2 emissions, but buildings are the largest consumer of energy in the world, accounting for 32% of the world's total. In developed countries in Europe and the US, 40% is architecture.

The part of it that loses the most energy, this is the opening. This is the first time we have launched a solution to renovate, not only the opening, but also the entire exterior wall. Renovation that cleans the outside and the inside without destroying the house. If this kind of remodeling can be accepted as a different solution from new housing, I think it will be a good year for renovation in Japan.

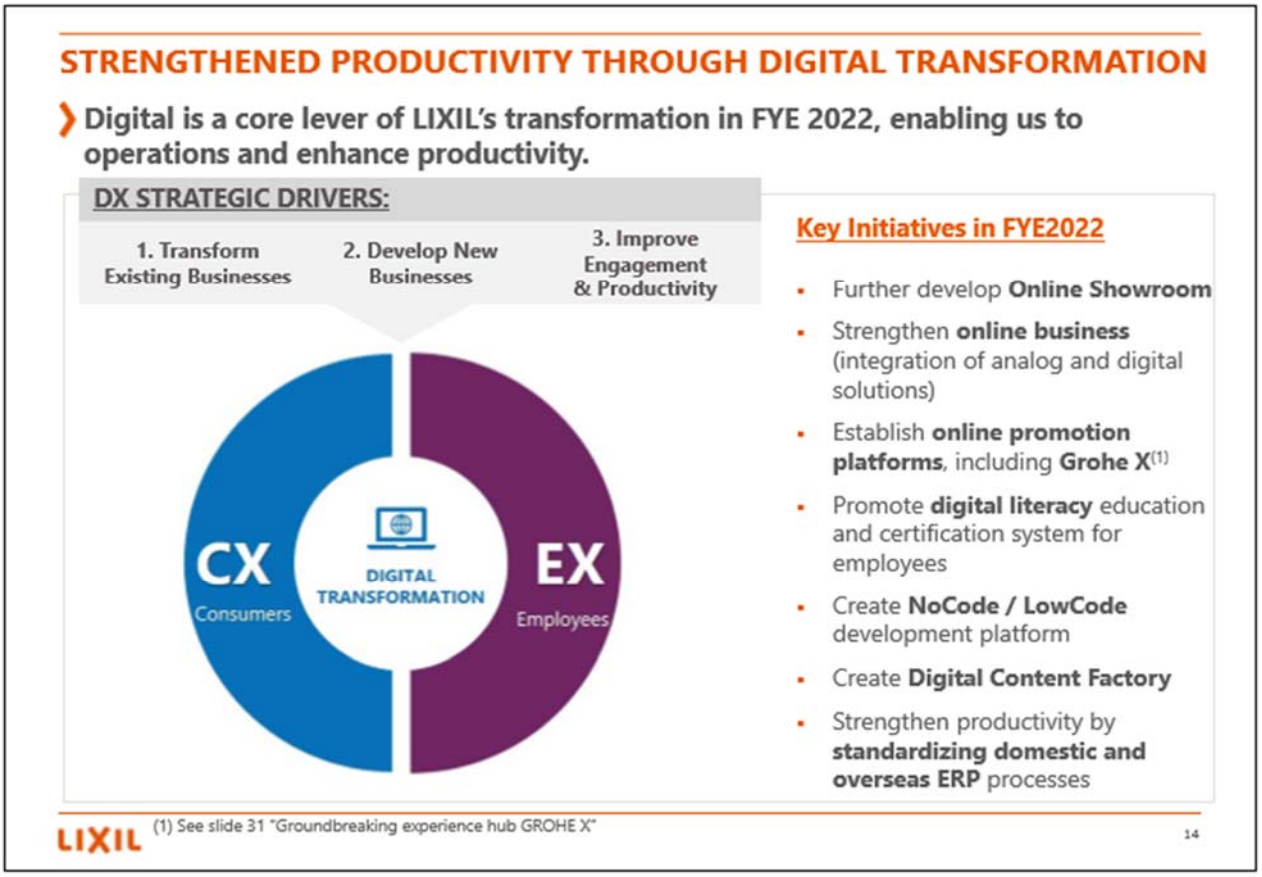
Secondly, as we seek to grow for international business, there are still many resources for innovation in Japan. Last year, we started to transfer Japanese resources for this innovation to international markets. This will be in full swing.

The fifth item is the reform of Japan's HR system. As I mentioned earlier, employees are the keys, after all. In order to apply meritocracy to those employees, and to have a diverse workforce with a meritocracy and an innovative entrepreneurial spirit within that workforce, we need to make major changes to the HR system.

In the past, LIXIL has taken steps to change its seniority-based system to a merit-based system, but this year, we will accelerate this process, and in this sense, we would like to reform our personnel system this year to the point where we can become a modern company.

Lastly, we held an ESG briefing the other day, and a few weeks ago, we got a rough idea of what we can do. So today, I would like to take a special look at our efforts to reduce our environmental impact, including some very interesting products that we thought we could do.

While there are many topics to discuss, today, I would like to explain two of them in detail: "the promotion of productivity reforms by digital technology" and "efforts to reduce environmental impact."



First, strengthened productivity through digital transformation. Let me explain this briefly, in the order of the points described on the right.

First, further develop Online Showrooms. The online showroom that LIXIL is currently running is not simply an online showroom that introduces products via Zoom. We are providing a solution that discussions can be done by designers, architects, and distributors together. This is a type of business model that is hard to find anywhere else in the world.

Then, we will take that business model and make it even more convenient by adding digital tools to various parts of it and automate the parts that can be automated.

In addition to that, we have been focusing on our showroom, but this is not just a showroom—for example, if we have specialists for each product, we can talk to them from the actual construction site. We are also planning to evolve the online showroom by collaborating with various organizations—for example, by having house builders and building firms use it when selling to their former customers.

Furthermore, for international markets, as an evolution of online business, a new form of business that seems to combine analog and digital, has started in the US this spring. This is also a slightly different form of evolution from the online showroom, but in the same way, the idea is to combine analog and digital technologies to make automation more and more advanced.

The third is GROHE X, which I'll explain on the following page later. This is an online platform for explaining products, handling instructions, maintenance, usage, and other things that we used to do at product fairs. We created this platform to explain these things with GROHE.

The reason for this is the world's largest exhibition for water-related products called ISH, which is held every two years in Frankfurt. This is where GROHE used to rent out an entire building for its presentations. It costs a lot of money, and the exhibition usually takes about a week to complete.

This time, since we had the COVID-19, we used the money to build a studio to properly introduce various products and create a platform incorporating contents, from the introduction of new products as I mentioned earlier, to maintenance, installation, and inquiries.

This GROHE X launched in March is getting a huge response and is getting traffic like no other exhibition has ever seen before.

One of the features is that we can now introduce new products at any time of the year, whereas in the past, it was usual to introduce such new products at the current ISH or MILANO SALONE. In this area, Japan business will do the same thing, and we will introduce more products online to increase productivity.

Also, we are asking employees to change in various ways, but we were told by some employees that it would be difficult for them to do so, so last year, we prepared the New Life program as an exit for those who wanted to take a different path from now on.

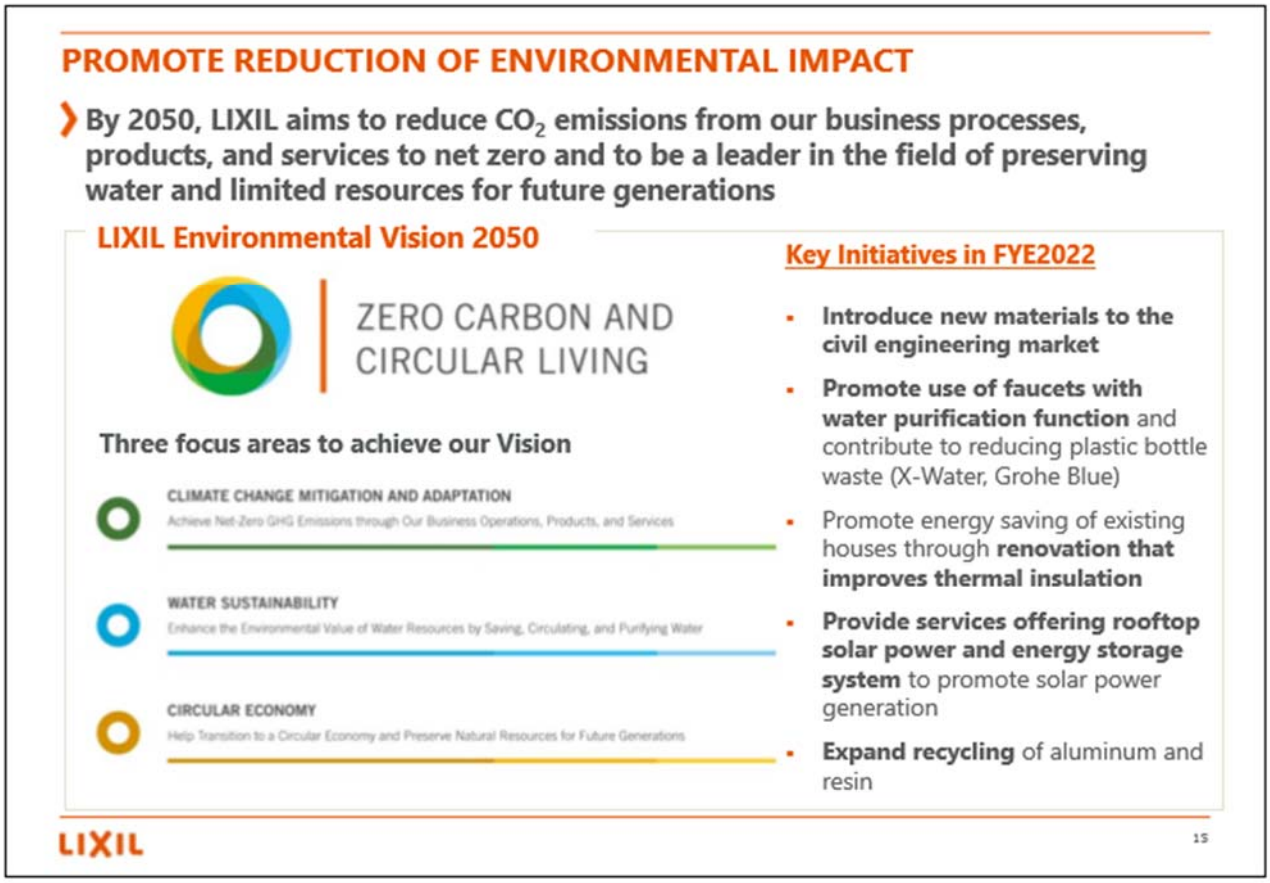
On the other hand, those who stay must change for the direction in which LIXIL is heading. LIXIL's future direction includes the need to be global, the need to be digital, and the need to market with the consumer centric. This is where we will strengthen our employees, as I mentioned earlier. Employees are the source of our competitiveness. In this sense, we will start digital human resources training and certification systems.

As part of this effort, we will develop NoCode and LowCode developers, so-called citizen developers. Last year, when we had new recruits, instead of sending them immediately to the sales field, we had them learn no-code and low-code, and then had them actually create solutions. Now that we know that we can do it, we will expand it further.

Therefore, in the past, the IT department would create the system, but now, especially with regard to the System of Engagement, we are going to create it onsite.

And then, the digital content factory. When I joined the company, we did not even have a product information management system. Therefore, when making a catalog, for example, the system would copy the photos and products from the paper catalog and correct the pages in red. We have created a proper information system for this, but now we don't have all the data of the products yet. As I mentioned earlier, by training employees to be able to do such things, we will be able to create data for these products in-house. This is the digital content factory.

And not only that, but the core system. As you can imagine, we cannot use system programmers for this core system, so our IT department will take the lead, but we will further increase productivity by standardizing this system both in Japan and international markets.



Promote reduction of environmental impact. I will explain this as well, on the lower right side. In this context, the story I would like to share with you for the first time is the introduction of new materials to the civil engineering market. I think we have made a major breakthrough in this area.

As you all know, there is such a thing as recycled plastic wood. This is usually using recycled pellets of PE or PP to make products. In Japan, for example, waste plastic is approximately 9 million tons per year, but only about 2 million tons are recycled in this way. It varies from year to year, about 5 million tons of the remainder is used as so-called fuel. It's not necessarily the preferred way to use it, but since it's originally oil material, it is used as fuel.

As for the last 2 million tons, there is no specific use for it. This is very embarrassing, but until 2016, it was exported to China. As you have all seen in the news, China has mentioned to stop exporting garbage. They don't need the garbage even if they are paid for it, so it has to disposed in Japan.

As for the parts that have to be disposed of, what is being done with them now is to landfill or burn them. This is a very big problem for Japan because burning without using it as fuel could mean that we are simply producing pollution.

However, unlike PE and PP, which I mentioned earlier, it is very difficult to recycle other materials. As a result of our past efforts to develop a process to recycle all plastic materials, we finally became able to do so.

We can use PVC, as well as PE and PP. We can also use lamination film. Laminated film, like potato chip packages, usually contains a little bit of aluminum. Recycling of such materials has been considered almost impossible in the world. We were able to take all of this and make recycled wood using the same formula as usual: 50% plastic, 40% wood, and 10% pine wood.

In this regard, it's a great material with one possibility to recycle the entire Japanese plastic, or even marine plastic. We have already confirmed the physical properties of this material last month. We have already established a test furnace plant that can produce 1,000 tons per year, and if we can sufficiently promote this to the market, we will invest in a mass production plant.

I think this part of the project will have a huge impact on the environment. First of all, it means that we can use all the plastic that is not being used. Also, we can reduce our CO2 emissions.

Another thing is the spread of faucets with water purification functions. As I mentioned earlier, plastic bottles are also a serious problem. If this trend continues, by 2050, there will be more plastic bottles floating in the ocean than there are fish swimming in the ocean. We need to reduce this. As one way to reduce this problem, we are expanding the use of faucets with water purification functions. In Japan, we call it X-Water, and in Europe, they are trying to expand it in the form of a faucet with water purification function and provides carbonated water called GROHE Blue.

Of course, GROHE Blue is going to be sold, not only in Europe, but also in China, the US, and Japan. I believe that, by doing so, we can reduce the number of discarded plastic bottles.

Then, there is the insulation renovation that I mentioned earlier. The biggest energy consumers in Japan are buildings and houses. In these areas, most of the current 60 million existing units are not insulated. Insulating these will greatly reduce CO2 emissions in Japan and also open up the possibility of energy conservation.

In addition, the service we provide is called *Tatetoku*. The point is that, if consumer buy our high insulation materials and solar power together, the solar power part will be free. In return, they will sell the electricity, but this year, we will also add electricity storage to the service.

The other day, Mr. Koizumi, minister of the environment, talked about solar power for all the houses in Japan, and if that is what is desired, then I think our service is exactly what it should be, and we can contribute to it.

Lastly, the expansion of recycled aluminum and resins. This is a much higher level of use of recycled materials for aluminum than what the industry has been looking for in the LHT category. We are also thinking of using recycled materials for resins.

FYE2022 FORECAST

Projecting increase of Revenue and Profits compared to the previous year. Forecast 80 yen per share for Annual dividend (dividend increase)

JPY billion	FYE2021 Results	FYE2022 Forecast	Change
Revenue	1,378.3	1,440.0	61.7
Core Earnings (CE)	57.3	80.0	22.7
Operating Profit (OP)	35.8	78.0	42.2
Profit before Tax	33.8	75.5	41.7
Tax expenses	-17.4	-26.5	-9.1
Profit (loss) from discontinued operations	21.2	-2.0	-23.2
Net profit attributable to non-controlling interests	4.5	0	-4.5
Net profit attributable to owners of the parent	33.0	47.0	14.0
EPS (Yen)	113.92	161.94	48.02
ROE (%) (1)	6.3	8.3	2.0pp
ROA (%) (1)	1.7	2.7	1.0pp
ROIC (%)	2.3	5.1	2.8pp
EBITDA(2)	137.9	162.0	24.1
Net debt/EBITDA(2)	3.5x	2.7x	-0.8
Dividend (JPY per share)	75	80	5
Payout ratio (%) Consolidated basis	65.8%	49.4%	-

LIXIL (1) Calculated on the premise of "redemption" for the Zero Coupon Convertible Bonds due 2022 for FYE2022 Forecast
(2) EBITDA=Core earnings + Depreciation

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With regard to the earnings forecast, core earnings will be JPY80 billion with an operating income of JPY78 billion. We have a very small extraordinary loss between core earnings and operating income. This year, we will not be doing the New Life like last year, but that part is shrinking due to the fact that our new reforms are now included in the normal overhead costs.

In addition, with JPY47 billion in net income, we feel that we are now in a position to sustainably pay back our shareholders to some extent, so we will pay an annual dividend of JPY80.

FYE2022 FORECAST – MARKET OUTLOOK & ASSUMPTIONS

Market outlook and assumptions

		FYE2021 Results	FYE2022 Forecast	Difference
Housing starts (YoY%)	Total	808,000[1]	840,000/+4%	-
	Renovation	-6%	+4%	-
FX rate (Average rate)	JPY/USD	106.17	105.0	-1.1%
	JPY/EUR	123.73	126.0	+1.8%
Raw material prices (JPY/ton)	Aluminum	199,000	226,000	+27,000
	Copper	603,000	708,000	+105,000

Business outlook

Japan:

- New housing starts and renovation demand are expected to recover
- Potential business risk include impact of scarcity of wooden materials supply on new housing starts, which could become apparent from July
- Strengthen effort around renovating existing homes up for resale

International:

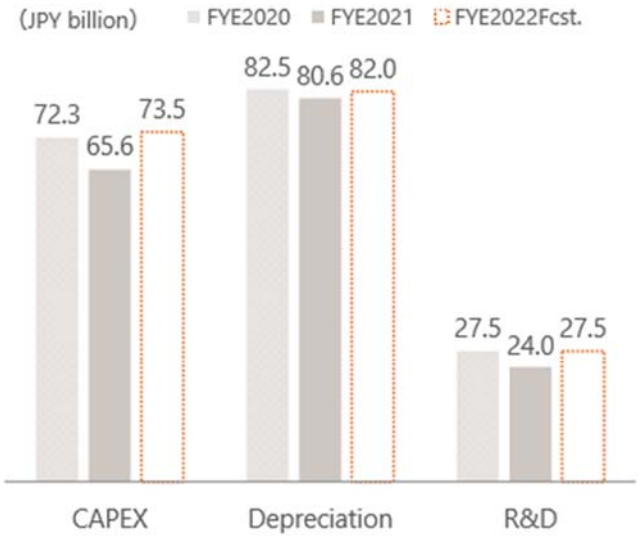
- Strong demand momentum expected to continue in the Americas, Europe, and China
- In Asia Pacific, India, Vietnam, and Indonesia are expected to drive the recovery from a comparably low previous year base
- Potential business risks comprise lockdowns due to re-emergence of COVID-19, subdued business activity in the hospitality and commercial buildings segments, balance sheet health of customers or suppliers, as well as inflationary pressures on supply chain inputs

LIXIL (1) Seasonally adjusted value for annual as of February 2021 17

As for the market conditions, as you can see and read here, there are, of course, many difficult issues that will arise. Scarcity of wood supply, raw material price hikes, and then the COVID-19. However, we believe that it is our job to take countermeasures for each and every one of them, so we have made this plan based on this premise.

CAPEX, DEPRECIATION, AND R&D EXPENDITURE[1]

› By setting investment efficiency and safety indicators such as Key Goal Indicator, we achieve both improvement of financial strength and profitability



Breakdown of CAPEX

JPY billion	FYE2020 Actual	FYE2021 Actual	FYE2022 Plan
IT investment	8.3	9.8	12.7
Excluding above	64.0	55.7	60.8
Total CAPEX	72.3	65.6	73.5

Breakdown of Depreciation

JPY billion	FYE2020 Actual	FYE2021 Actual	FYE2022 Plan
IT depreciation	10.5	10.8	11.4
Excluding above	72.0	69.8	70.6
Total Depreciation	82.5	80.6	82.0

LIXIL (1) Excludes discontinued operations. CAPEX and Depreciation includes intangible assets and IFRS 16 lease

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In terms of capital expenditure, we have been trying to reduce expenditure on non-IT items, especially for platform production, but last year, we were unable to do so in some areas, so the increase is a little higher than that.

In addition, this year, we are introducing new lines for the sash business, including resin, hybrid, and aluminum, and although the capital investment costs are a little higher than before, they are significantly lower than in the past, so the investment costs are still lower than in the fiscal year ended March 2020.

However, I believe that we still need to work on IT and R&D to some extent for a while.

We have prepared materials for the other segments and new product services, but due to time constraints, I think it would be better to give everyone plenty of time to ask questions, so I would like to conclude my presentation.

Thank you very much.

Question & Answer

MC: We will now have a question-and-answer session.

Now, let me introduce the first question. This question is from Mr. Mochizuki of Macquarie Capital Securities (Japan) Limited.

About page 17 of the slide, assumptions for the earnings forecast for the fiscal year ending March 2022. What will be the impact of scarcity of wood supply on the purchasing cost of lumber and the sales volume of commercial products? To what extent have you factored in the impact of the scarcity of wood supply in the business profit of the company's plan for this fiscal year, and what are the core earnings figures?

In addition, you have disclosed the assumptions for aluminum and copper in the raw material prices, but to what extent have the procurement prices for the fiscal year ending March 2022 been determined? Please let me know about the cost of building materials, as I think some of them have already been contracted.

Seto: I think there is probably no one in Japan who can answer the first question right now. I don't think anyone has any definitive figures on how much the scarcity of wood supply will affect the cost of purchasing lumber and the sales volume of commercial products.

In general, some of the large house builders have already signed long-term contracts, while the building firms were not prepared at all, so there is a possibility that there will be a big impact. I believe that the impact may become clearer, especially after July.

However, I don't think we should manage our business in such a way that, when a problem arises, if something happens, we should just lower everything. I think it is important to consider both the negative and positive effects of scarcity of wood supply.

As for the negative, I do believe that there is a possibility that new housing starts will decrease in the short-term. But on the other hand, if we don't have new housing starts, if we don't start constructions, I think it is more likely that they will move back or buy secondhand housing.

At that time, if we can provide a solution that allows us to build a house with high performance at a lower cost than constructing a new house, and if we can incorporate the renovation business into that part of our business, I think there is a possibility that we can make a positive contribution. I think this could be a positive thing.

So, in that sense, when it comes to the scarcity of wood supply figures here, we are trying to develop our business in such a way that, even if scarcity of wood supply occurs, we will be able to benefit from that part of the business.

As for your second question, first of all, in terms of procurement itself, we usually take about half of the aluminum and about three months of the copper in advance. As you mentioned, the impact of the price depends on the price, and we have written a figure of about JPY6.3 billion on the following page. In reality, if we were to lower the profit of these items as they are charged, I don't think such an attitude is appropriate as the management. We don't usually respond to that by lowering our profits. Of course, for example, in the case of aluminum, as I mentioned earlier, we will be releasing new products in order, so naturally, we will have to pass on the cost.

As for copper, countries outside of Japan usually demand this in the form of a surcharge, so there may be a slight delay in the timing, but I think we have to respond by raising the price of copper that has risen.

MC: Next, we have a question from Mr. Takegawa of Sumitomo Mitsui Trust Asset Management.

Although the latest financial results confirm that the company's performance is on a recovery track, the stock price has fallen since the announcement of the financial results yesterday, due to the TOTO shock. We are now concerned about the price impact of copper, iron, aluminum, et cetera. Please tell us about the impact and how to counteract it—for example, digital transformation, cost reduction, and price increase.

Seto: The first half is something I can't judge, so I'll refrain from talking about it. As for the price impact, as I mentioned earlier, we basically believe that, if the price of our materials goes up, we should not let it reduce our profits. We have a system in place to determine how to raise prices, and we will continue to do so.

Of course, if we were to do so, we would have to compete with those who do not raise their prices, and of course, we would have to respond by producing value-added products.

However, one of the reasons why we are now able to respond to some extent is because we are now able to do platform-based production, so we are able to update our products to some extent, and in that sense, we have a system in place in Japan that makes it easier to pass on prices. The biggest thing was that this was not possible in Japan until now. As for overseas, we do have a copper surcharge to some extent.

Another thing is that we are expanding the use of zinc coating. Zinc is basically better for the environment than copper, so in that sense, we are changing from copper to zinc, which of course increases the cost of zinc, but also reduces the overall cost.

Lastly, although this is about international business, we could change from hexavalent chromium to trivalent chromium and it is the first time in the industry. So, for consumers who are concerned about the environment, hexavalent chromium may be fine if it is treated properly, but if trivalent chromium is used, it is safer, and consumers will choose it. So, it would be easier to get a surcharge.

In this sense, we are trying our best to make positive use of the impact of this price in various ways.

MC: Next, we have a question from Ms. Okada of Goldman Sachs.

GROHE X will also be rolled out in Japan, but given the old industry practices in the Japanese housing equipment industry, it is unknown how far it will penetrate.

On the other hand, it is also true that digitalization has been progressing due to the COVID-19 crisis, so is it correct to say that the industry is getting ready to accept digitalization to some extent?

Seto: As a qualitative answer, I think it is yes.

First, there are two points. For one thing, there are people involved in construction, those involved in distribution, clients, designers, and many other people. Of these, consumers are the most positive about digital. It's also true that they would rather see the products in a comfortable situation rather than leaving their homes and going to various places to see it. The situation is becoming very comfortable for end users.

Some in-store people are not good at it, but on the other hand, for example, they can accept services that they can easily see when they install a product. I think there are many people who are willing to accept this.

Building firms sometimes ask us to visit them for help, but they have been using CAD for a long time, so they are not weak in the system itself.

Distribution, there are a lot of people who are a little uncomfortable there. Therefore, there are many people with different levels of experience, so I think there is a lot of debate about how long it will take.

However, in the big scheme of things, there is no doubt that, in the end, digital is going to increase. In that case, I believe that the person who does it first is likely to be able to reap the benefits and reduce the costs the most.

MC: Next, Mr. Takegawa of Sumitomo Mitsui Trust Asset Management.

In your plan for this fiscal year, you are forecasting an improvement in international profits and profit margins. Please tell us about the background and thinking behind this improvement, focusing on LWT.

Seto: First of all, the area where we think we can grow is, for example, when we were originally thinking about how to increase international profits and international business, we decided to choose a portfolio. Rather than blindly trying to expand all businesses, we decided to focus on products with high profit margins. We are trying to expand products with high profit margins in regions with high profit margins.

The products that have been selected will grow first. In terms of regions, the US and Europe have high profit margins, and it just so happens that demand is growing, especially in the US.

Also, we are changing the things that we had a hard time with in the past in the US. In the US, we used to have a single approach to retail, like Home Depot and Lowe's. In this case, the products they sell at these places are sometimes converted to private brands. Then, depending on the trend of demand, or when customers became more interested in lower prices, sales decreased at once.

We have been struggling with that for the past several years, so we need to appeal more to the consumers, and be able to communicate directly with them, with digital solutions and so on. Also, the remodeling business, which is being conducted by a company called LIXIL Home Services, is growing.

The way we do things will be closer to the consumer. Also, in terms of productivity, we will use digital technology more to improve productivity. In terms of products and regions, we are targeting areas with high profit margins.

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

There is a risk that scarcity of wood supply will lead to a decline in housing demand, but you mentioned that you should turn a crisis into an opportunity. Specifically, what kind of things are you talking about? You mentioned renovation of existing houses to make them have high performance. How much do you expect renovation sales to grow?

Also, as for the impact on the financial results for the fiscal year ending March 2022, to what extent do you expect the mix to improve due to the increase in renovation sales?

Please tell us about the sales trends of strategic products for international, such as touchless faucets and baths in the US.

Seto: First of all, what I mean by turning this crisis into an opportunity is that, although the demand for new housing will decrease, it does not mean that the demand for individuals to buy houses will decrease.

What will happen is that people who want a new house will go to consult with a housing manufacturer and find that the price is higher than they expected. Or, the delivery date may be longer than expected.

I think there will be a certain number of people who will simply say, “Well, I’ll wait a little longer” or “No, I’ll buy a secondhand house and make it better.” At that time, we are able to provide renovations that encourage people to buy secondhand houses.

This does not only apply to the secondhand house, but also to the rebuilding. For example, many of today’s houses are rebuilt every 20 years or so, so if people want to rebuild their houses after 20 years or so, instead of tearing them all down, we can put up exterior walls with insulation from the outside and improve the inside, as well. If they do that, they can do it at a much lower cost than rebuilding. In addition, they can use the extra budget to renovate the water-related products.

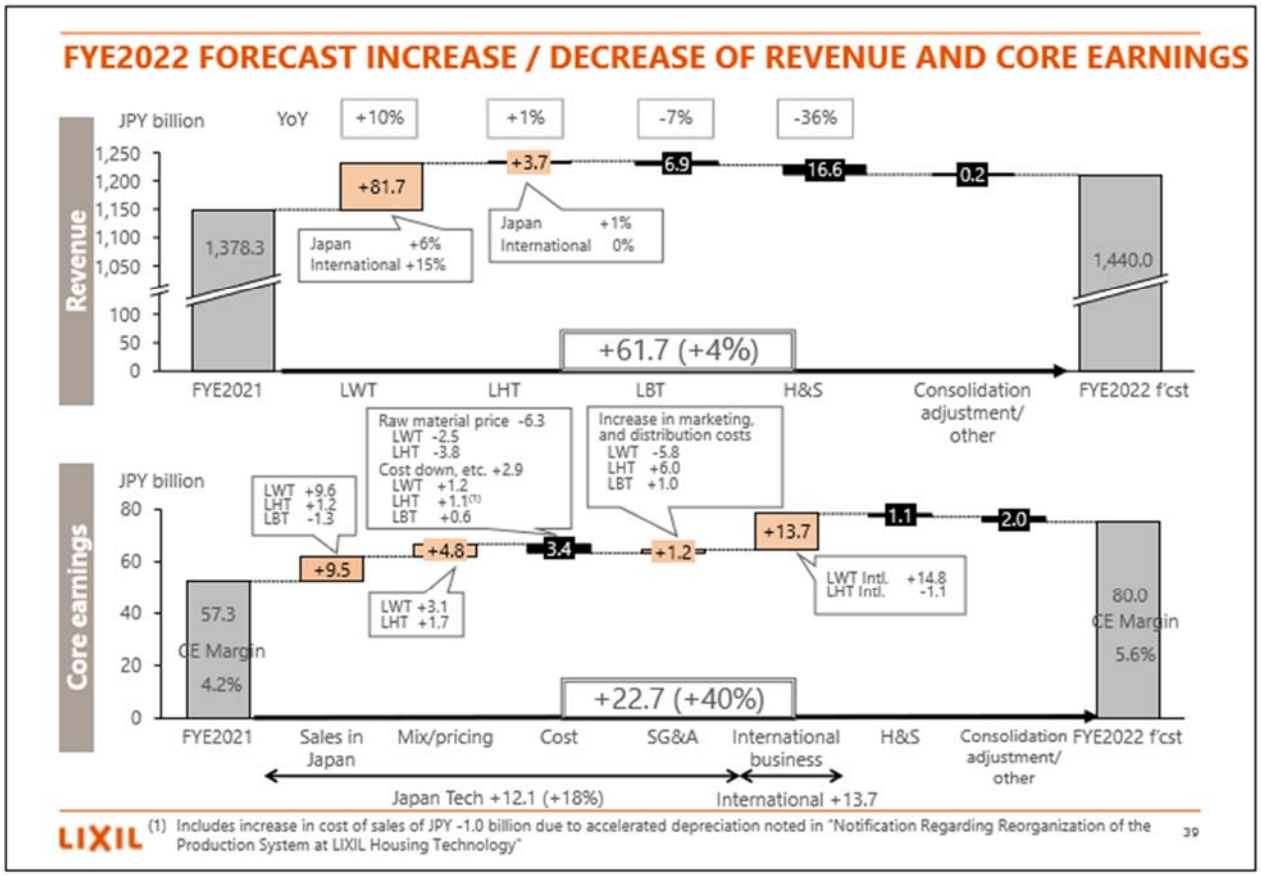
This is also a part of the government’s current subsidy system, the so-called Green housing points. And as for how much, I think it’s very difficult to put a number on it.

Regarding the demand for new constructions, among the price of building materials and housing equipment that are normally used, prices of our materials and housing equipment are very low as a percentage of new constructions. In the field of renovation, the percentage of our products is overwhelmingly high, and I believe that we are the only company that can offer this method of renovation, especially performance improvement renovation, as a solution, so in that sense, I believe that we have tremendous potential.

Also, in terms of sales of strategic products for international markets, you mentioned touchless faucets and baths in the US. Touchless faucets are already growing very fast all over the world. We were a little behind in Southeast Asia, where the impact of the COVID-19 was significant, but we are now seeing growth there, as well.

On the other hand, with regard to baths in the US, we have reflected on the mistakes we have made in the past, and by having our R&D people in Japan create baths properly and then sell them in the US, they are becoming more and more accepted. I think this is an area of great growth for us.

Currently, there is a shortage of resin, so we are lagging behind a little bit, but bathrooms in the US are also growing steadily.



MC: Next, we have a question from Mr. Kawashima of SMBC Nikko Securities.

Please tell us about the effects of fixed cost reductions in the fiscal year ending March 2022. Slide 39 shows a decrease in domestic SG&A expenses of JPY1.2 billion. You have said that you will reduce fixed costs by JPY23 billion over the next two years and that there will not be a significant rebound in the fiscal year ending March 2022 from the expenses reduced in the fiscal year ended March 2021. However, what is it like actually?

Hirano: As for your question, the group as a whole will reduce SG&A by JPY23 billion, and we announced the plan for the fiscal year ending March 2022, but the actual reduction is expected to be approximately JPY15.5 billion.

The difference between JPY23.0 billion and JPY15.5 billion is JPY7.5 billion. This is where the top line is growing. The increase in logistics costs due to the increase in sales, especially of the water related businesses, and the current surge in logistics costs, which is on top of the increase in sales, are the part of the surge. Other than that, the factors for the difference of JPY7.5 billion is due to costs for further productivity improvement and a slight resumption of promotions that we were not able to do last year.

Seto: Also, as I mentioned this a little earlier, the difference between core earnings and operating profit is very small this time. Last year, the cost of structural reform affected the difference there. In the big picture, it's something like New Life, for example. Most of the major costs of the restructuring of the business units that we will be working on this time are items that are included in SG&A expenses. That accounts for a large part of JPY7.5 billion.

In that sense, it would have looked that way there if it was included in other expenses, but it didn't. I think that's what happened.

So, in the area of natural increase in costs, as I mentioned, logistics costs. In addition to logistics costs, for example, the cost of real estate used outside of Japan has risen significantly, and we are also planning to increase the number of R&D and marketing commercials, as well as the promotion of performance improvements to cope with scarcity of wood supply, which I mentioned earlier. We are planning to increase this kind of promotion.

MC: Next, we have a question from Mr. Takegawa of Sumitomo Mitsui Trust Asset Management.

The stock price seems to have run out of material after the recent plan of JPY78 billion in operating income. What is your image of future performance and growth, including the outlook for profit growth and the review of the medium-term plan?

Seto: First of all, whether or not the material is exhausted is not something I can judge for a moment. In terms of profits, the productivity reforms that we have implemented will start to bear fruit in various businesses, so in that sense, I think profits will continue to increase in the future.

I can't commit to it, but this time, it is 5.6%, and I previously set it at 7.5% in the medium-term management plan. The numbers at that time are coming into view where we can do it in the next fiscal year, and when that happens, I think that we will be able to see the next 10% of business profit within a few years.

In addition to the extension of what we are doing now, we are also working on new materials for civil engineering projects, such as the performance improvement renovations, and new materials for civil work. They will be used for roadbed materials, which are used for more than 100 million square meters a year in Japan. I think these will be elements for growth.

MC: We have a question from Ms. Okada of Goldman Sachs.

Now that you have made significant progress in improving your finances, will your stance on investment change in the future?

Seto: I don't think it is necessary to make a high-risk investment. In that sense, we are investing in productivity improvement, and although this is not necessarily a fixed asset, we are actively investing in digital education, digitalization, and digital transformation.

Also, I wouldn't say that there is no possibility of making a major acquisition like we have done in the past, but for now, we are not thinking much about it.

Matsumoto: I would like to give an additional explanation. As Seto explained earlier, we place a great deal of importance on ROIC. In terms of investment, we will focus on investments that will generate future cash flow and investments that are efficient, i.e., investments in new and differentiated products, and investments in digital technology to improve productivity.

Every year, when we prepare our budget, we determine the amount of investment based on the ratio of how much we will allocate to the new products. In this sense, the new fiscal year, and even the newer fiscal year, will be more suitable for investments that generate future cash flow than the old one.

MC: We still have some time, so I would like to take questions from the participants. If you have any questions, please send them to us via chat or email.

As there are no further questions, this concludes the question-and-answer session.

This concludes the LIXIL Corporation's Financial Results Briefing for the Fiscal Year Ended March 2021. Thank you for your continued support. Thank you very much.

[END]

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Document Notes

1. This document has been translated by SCRIPTS Asia.

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