LIXIL Corporation

Online Earnings Briefing for the Q1 Fiscal Year Ending March 2026

July 31, 2025

Event Summary

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[Number of Speakers]	3	
	Kinya Seto	Director, Representative Executive Officer, President, and CEO
	Mariko Fujita	Executive Officer, Executive Vice President, CFO, Finance, Treasury, IR, and Risk Management
	Aya Kawai	Senior Vice President, Leader, Investor Relations Office
[Analyst Names]*	Sachiko Okada	Goldman Sachs
	Hideaki Teraoka	Daiwa Securities
	Ryo Yagi	Morgan Stanley MUFG Securities
	Masahiro Mochizuki	CLSA Securities
	Hiroki Kawashima	SMBC Nikko Securities
	Sho Fukuhara	Jefferies Securities
	Daisuke Fukushima	Nomura Securities

*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.

Presentation

MC: We will now begin LIXIL Corporation's financial results briefing for Q1 of the fiscal year ending March 31, 2026. This briefing is being conducted via live internet streaming.

The disclosure time of financial results has been changed to 1:00 PM starting this time. Please refer to the presentation materials posted on the Company's website and in the investor relations section of the Company's website.

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

Seto: Thank you very much.

MC: Next, Ms. Mariko Fujita, Executive Officer, Executive Vice President, and CFO.

Fujita: Thank you.

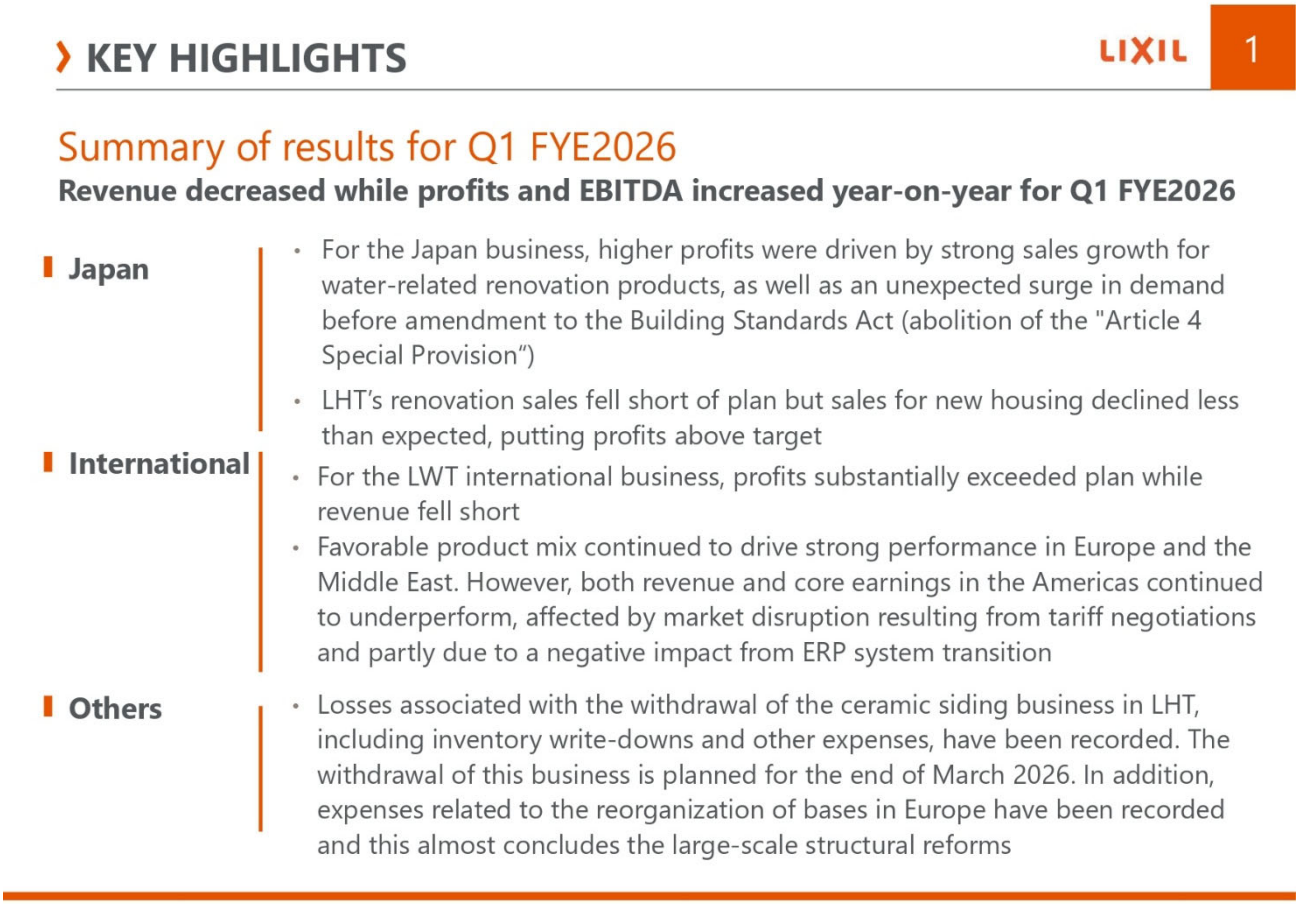
MC: Next, Ms. Aya Kawai, Senior Vice President and Leader of the Investor Relations Office.

Kawai: Thank you.

MC: I am Setoguchi from the IR Office, and I will be chairing today's session. Thank you.

First, let me explain today's proceedings. First of all, CFO Fujita will give an overview of the financial results. This will be followed by a question-and-answer session. CEO Seto will join us during the Q&A session to answer your questions. The event is scheduled to end at 3:45 PM.

CFO Fujita will now give an overview of the financial results. Ms. Fujita, please go ahead.



Fujita: Today, I would like to explain the financial results. Thank you.

Let me begin with today's key point, a summary of Q1 results.

In Japan, sales of LWT and water-related renovation products expanded steadily. In addition, the revision of the Building Standard Law generated surge in demand more than expected, driving earnings. Although LHT's renovation sales fell short of the plan, sales for new housing did not decline as much as expected, and core earnings were able to meet the plan.

For the international businesses, however, sales declined from the previous year. However, core earnings improved significantly. Particularly in Europe and the Middle East, the shift to higher-priced products has also progressed and continued to be strong.

In the US business, external factors included market turmoil such as tariff negotiations, while internal factors included ERP system transition. As a result, both sales and profits were weak.

Other items of note include the decision to withdraw from the ceramic siding business at LHT. Losses were incurred as a result of this transaction. The business is scheduled to be withdrawn at the end of March 2026. In addition, the Company recorded expenses related to the reorganization of its bases in Europe.

The large-scale structural reforms I have been talking about are now largely complete.

Business environment and outlook for FYE2026

Japan	Outlook: **Remain strong**	• There is no change from the initial outlook as expansion of renovation sales for water-related products is trending favorably while a slight decline in new housing sales from Q2 onwards is expected after a surge in demand prior to abolition of the "Article 4 Special Provision" • LHT aims to expand renovation sales by strengthening sales promotion measures
International	Outlook: **Europe/APAC: On a recovery trend** **Americas/China: Remain sluggish** **IMEA: Remain strong**	• While there is no change in outlook that a full demand recovery for the European business is expected to occur from next fiscal year onwards, revenue improvement is expected to continue in this fiscal year • Uncertainty in housing demand continues in the US and China. Particularly in the US, the housing market could worsen due to the possibility of rising inflation driven by the tariff policies, along with the higher long-term interest rates
Others		• No significant costs are expected from structural reforms going forward. The positive impacts from sale of the US bathing business are expected to materialize after FYE2027
FYE2026 Outlook	**No change**	• Japan, Europe and the Middle East are expected to sustain high performance. However, with the uncertainty in the US housing market, it is required to remain vigilant from Q2 onwards • There is no change to the full-year forecast

I would like to continue by discussing the current business environment and the outlook for the future. As I mentioned earlier, due to surge in demand for the reduction of item 4 special exception due to revision of the Building Standard Law, a reactionary decline in sales for new construction is expected from Q2 onward. Sales of water-related renovation products are expanding steadily, and at this point we do not anticipate any changes from our initial forecast.

LHT renovation sales are currently strengthening sales promotion measures. With this, we aim to expand sales.

For the international businesses, we expect a full-fledged recovery in demand in our European operations in the next fiscal year or later, and we have not changed this outlook. We expect sales to continue to improve in the current fiscal year.

In the US and China, housing demand remains uncertain. In the US in particular, we believe that there is a risk of further slowdown in the housing market due to the possibility of higher inflation and long-term interest rates due to tariff policies and other factors.

As I mentioned earlier, with regard to structural reforms, we do not expect to incur a large amount of expenses, as we consider they are largely completed with a certain degree of success.

As we have informed you from the beginning, we believe that the effects of the restructuring we have implemented at the end of last year through the sale of the US bathtub business will be manifested from next year, after FYE2027 onward. In light of these factors, we do not anticipate any changes to our earnings forecast at this time.

Q1 FYE2026 PERFORMANCE HIGHLIGHTS

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Revenue decreased while core earnings increased year-on-year

- **Revenue: JPY364.7 billion, down JPY5.1 billion year-on-year**
  - Q1 (3 months) YoY: +3% in Japan and -8% in international markets (-4% excluding foreign exchange impact)
- **Core earnings: JPY9.0 billion, up JPY8.4 billion year-on-year**
  - Q1 (3 months) YoY: +JPY6.4 billion in LWT, +JPY1.5 billion in LHT, +JPY0.8 billion in Living, and -JPY0.3 billion for consolidation adjustment/other factors
- **EBITDA(1): JPY29.4 billion, up JPY7.6 billion year-on-year**
- **Profit for the quarter(2): -JPY0.9 billion, up JPY4.9 billion year-on-year**
  - Profit for the quarter was -JPY0.9 billion due to increases in other expenses (structural reform costs), finance costs (losses on foreign exchange differences), and tax expense (impact from tax benefit)
  - Q1 (3 months) YoY: Profit grew by JPY4.9 billion due to higher core earnings despite increases in other expenses and finance costs

(1) EBITDA=Core earnings + Depreciation + Amortization
(2) Profit for the quarter = Profit for the quarter attributable to owners of the parent

Here are the Q1 financial highlights. Revenue decreased while core earnings increased from the same period of the previous year.

Revenue decreased JPY5.1 billion to JPY364.7 billion, core earnings increased JPY8.4 billion to JPY9 billion, and EBITDA increased JPY7.6 billion to JPY29.4 billion. As a result, profit for the quarter was minus JPY0.9 billion. This is a plus of JPY4.9 billion compared to the same period last year.

Other expenses included a large amount of restructuring costs, foreign exchange losses on financial costs, and the impact of tax benefit on tax expense. This resulted in a minus JPY0.9 billion profit for the quarter.

Q1 FYE2026 CONSOLIDATED BUSINESS RESULTS

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JPY billion	Q1 (3 months) FYE2025	FYE2026	Increase/ decrease (YoY)	%
Revenue	369.8	**364.7**	-5.1	-1.4%
Gross Profit	117.4	**124.8**	+7.4	+6.3%
(%)	31.7%	**34.2%**	+2.5 pp	-
SG&A	116.7	**115.8**	-1.0	-0.8%
Core Earnings (CE) (1)	0.6	**9.0**	+8.4	-
(%)	0.2%	**2.5%**	+2.3 pp	-
Profit for the quarter including Discontinued Operations (2)	-5.9	**-0.9**	+4.9	-
EPS (JPY)	-20.39	**-3.17**	+17.22	-
EBITDA(3)	21.7	**29.4**	+7.6	+35.0%
(%)	5.9%	**8.0%**	+2.2 pp	-

- **Gross profit margin:** Increased by 2.5pp YoY
- **SG&A expenses:** Decreased by JPY1.0 billion YoY (Japan JPY1.2 billion increase, International JPY0.4 billion decrease, forex effect JPY1.7 billion decrease) mainly due to a decrease in SG&A expenses for int'l business from foreign exchange impact despite higher personnel costs and activity costs in Japan. SG&A ratio increased by 0.2pp
- **CE margin:** Increased by 2.3pp YoY

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

Here are the details of the numbers I mentioned earlier. It is important to note that the gross profit margin improved from 31.7% to 34.2% compared to the previous year. The core earnings margin also improved from 0.2% to 2.5%. EBITDA also improved from 5.9% to 8.0%.

Q1 FYE2026 BUSINESS RESULTS BY SEGMENT

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Core earnings increased for both LWT Japan and International, driven by strong margins in Europe and the Middle East. Increased core earnings for LHT due to price optimization despite a slight decline in revenue. Living achieved both revenue and core earnings increases, supported by strong sales across all product categories

JPY billion		Q1(3 months) FYE2025	Q1(3 months) FYE2026	Increase /decrease (YoY)
LWT	Revenue	199.5	**193.2**	-6.3
	CE	4.2	**10.6**	+6.4
LHT	Revenue	129.2	**128.2**	-0.9
	CE	4.6	**6.1**	+1.5
Living	Revenue	49.0	**51.3**	+2.3
	CE	1.4	**2.2**	+0.8
Consolidation, Adj. & Other	Revenue	-7.8	**-8.1**	-0.2
	CE	-9.5	**-9.8**	-0.3
LIXIL	Revenue	369.8	**364.7**	-5.1
	CE	0.6	**9.0**	+8.4

Forex impact(1)
Q1 3 months: Revenue –JPY5.8 billion, CE JPY0.0 billion

(1) Forex translation effect gain(loss) from international subsidiaries
(2) The segment breakdown has been changed from FYE2026. Please refer to the next page for the results under the former segments

I will now report on the Q1 results.

LWT increased in both Japan and international operations. Core earnings increased 64% YoY. Improved sales in highly profitable Europe and the Middle East contributed to the increase in profit.

As for LHT, sales slightly decreased, but the price optimization led to a decrease in sales and an increase in profit. As a result, the YoY increase was JPY1.5 billion.

As for living, sales of all products were strong. This led to an increase in both sales and profit, and core earnings were up JPY0.8 billion. As a result, overall core earnings increased by JPY8.4 billion.

Q1 FYE2026 BUSINESS RESULTS BY SEGMENT

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Business results for Q1 (three months) under previous reporting segments

	JPY billion	Q1 (3 months) FYE2025	FYE2026	Increase/decrease (YoY)	due to the segment change (2)	excluding the segment change
LWT	Revenue	228.9	**224.3**	-4.6	+1.7	-6.3
	CE	4.9	**12.2**	+7.3	+0.9	+6.4
LHT	Revenue	143.4	**142.6**	-0.8	+0.1	-0.9
	CE	5.3	**6.6**	+1.3	-0.2	+1.5
Consolidation, Adj. & Other	Revenue	-2.5	**-2.3**	+0.3	+0.5	-0.2
	CE	-9.5	**-9.8**	-0.3	+0.0	-0.3
LIXIL	Revenue	369.8	**364.7**	-5.1	-	-
	CE	0.6	**9.0**	+8.4	-	-

Forex impact(1)

Q1 3 months: Revenue –JPY5.8 billion, CE JPY0.0 billion

(1) Forex translation effect gain(loss) from international subsidiaries
(2) Includes consolidation adjustments resulting from the change from 2 reporting segments to 3 reporting segments

This is an overview of business performance under the two-segment classification prior to the three-segment change, so please refer to it for reference.

CONSOLIDATED FINANCIAL POSITION

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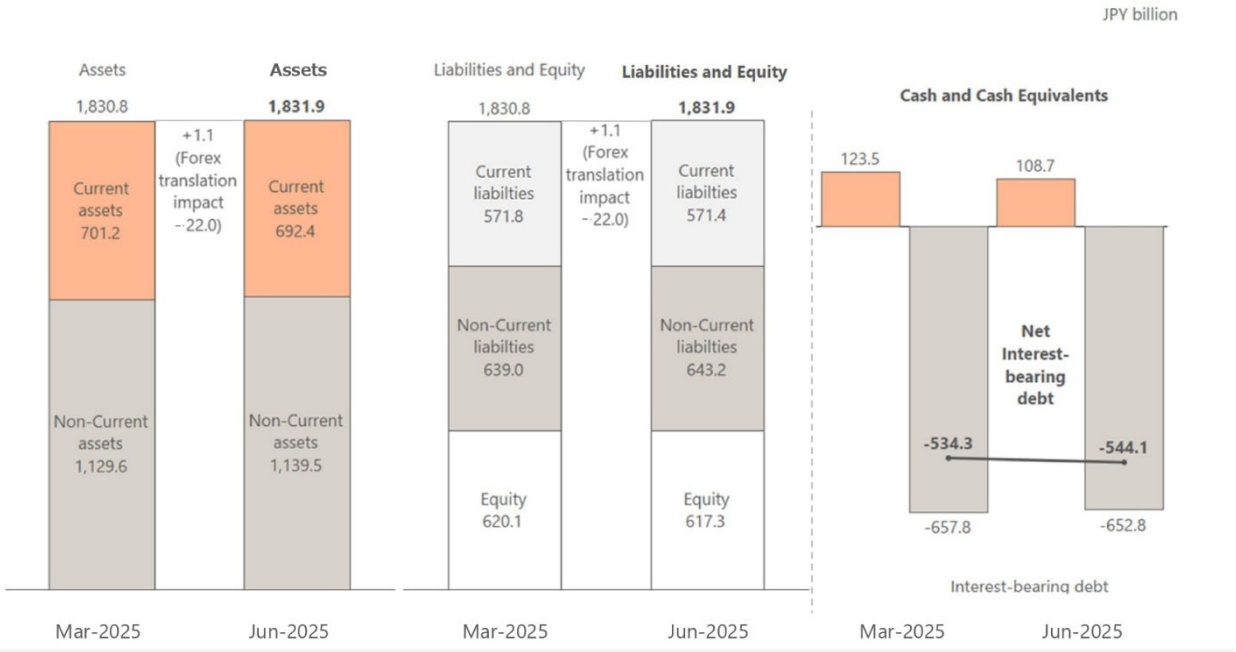
Total assets increased marginally due to the impact of foreign exchange rates on assets held in Europe. The equity ratio is 33.6%

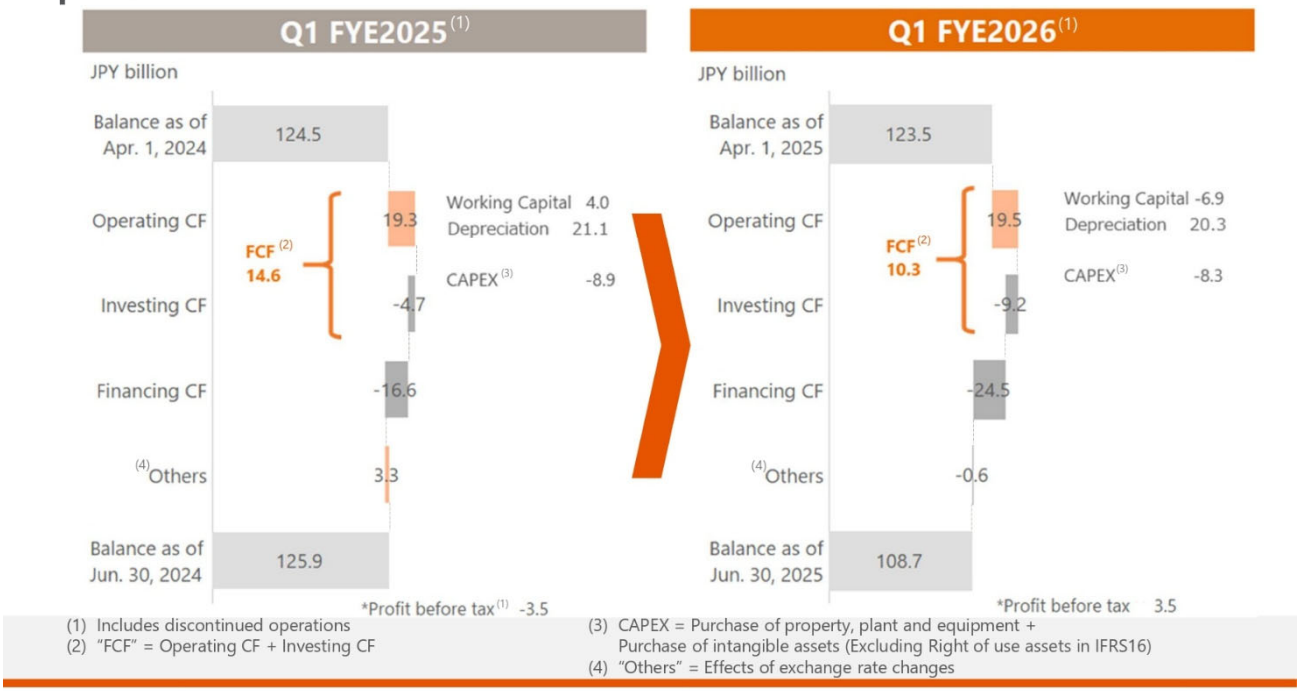


I will now discuss the consolidated financial position.

Total assets increased slightly. This was largely due to the impact of foreign currency translation of assets in Europe. The equity ratio is maintained at 33.6%.

CASH FLOW STATUS AND CASH BALANCE

Despite a slight increase in working capital, operating cash flow remained flat due to improved profit before tax. Free Cash Flow (FCF) remained positive



Let's look at the last page. This is the status of cash flow and cash balance.

Working capital increased slightly, but improved profit before tax helped operating cash flow to land at the same level as the previous year. As a result, we were able to end the Q1 with positive free cash flow.

This concludes our report on Q1 results. Thank you.

Question & Answer

MC [M]: We will now begin the question-and-answer session.

Before taking questions from the participants, CEO Seto will give a supplementary explanation of the financial results.

Seto [M]: The business situation for housing equipment and building materials worldwide continues to be very difficult, with the exception of the Middle East and some other regions. Under such circumstances, I think it is a very good competition that we were able to increase our profits so much while our sales did not change very much.

I believe that the good results can be attributed to the fact that we all worked hard together to achieve structural reforms and to the fact that we were able to increase profit margins by selling differentiated products with high added value. I would like to thank our employees.

As for structural reforms, we have completed all the major items that we had planned two and a half years ago, including the withdrawal of Asahi Tostem Exterior Building Materials Co., Ltd. (AT exterior), the ceramic siding business, and the reorganization of logistics bases in Europe. The phase of structural reforms in which major costs were incurred has finally come to an end.

In this sense, considering both of these factors together, we feel that we have created a structure that will enable us to increase profits very much in the next fiscal year if the housing economy in Europe recovers and stabilizes, as we expect it to.

On the other hand, I think the only area of concern is the United States. As for the US, the situation remains very uncertain. In terms of housing demand, the situation is basically difficult for both new construction and remodeling.

After all, this means that the price of housing itself has become very high. Housing is now roughly five times the price of an American's income. After all, this used to be about three times as much.

For one thing, of course, inflation has been going on for a long time and tariff policies have raised the prices of basic materials such as aluminum, steel, copper, and so on. In addition to that, in the case of the US, labor costs have gone up.

And finally, the price of home insurance has gone up because of the recent hurricanes and wildfires that have been going on, for example. There is a part of the world where housing is no longer very affordable.

In this situation, if housing cannot be built, the number of renters naturally increases, but the so-called multi-family construction boom for these renters has also stopped because prices have become too high.

So, single family housing is also getting smaller, and in that sense, there is a very large gap between supply and demand in terms of the nature of housing, and in essence, housing is in a situation of large demand and small supply. The reality is that housing demand has been suppressed by the fact that housing is not affordable, and as a result, the overall housing economy is expected to be in a poor state.

However, on the other hand, in terms of our own competition, aside from major competitors such as Kohler and TOTO, we have been giving our products to companies such as Home Depot, Lowe's, Walmart, Costco,

and so on. Private brands are mostly Asian and Chinese manufacturers, so I think there is a probability that the tariffs will reduce their volume.

In that case, competition will become less severe to the extent that supply decreases, so it is very difficult for us to predict what will happen when we consider the possibility that demand will decrease and supply will also decrease.

On the other hand, looking at it from the perspective of our individual company's situation, we were able to sell the bathtub business to ABG last year. This effect, in fact, will be manifested starting next spring. This is because we have been making a deal during the past year that the assets are theirs, but we will take care of the business, and the cost effect will not be fully realized. This means that the true effect of restructuring in the US will not be seen until next spring.

In this sense, the situation in the US continues to be very uncertain, so we must be cautious about this year.

In addition, although each of our businesses did a very good job this quarter, there is still some uncertainty regarding demand in the future. At this point, considering the uncertain situation in the US, I thought it would be too much to expect that Q2 through Q4 would continue to go up at this rate. Therefore, we have made a cautious judgment and decided not to change our forecast. However, I believe that we have been able to successfully build up the history of the project as well as a milestone for the future.

MC [M]: Now I would like to take your questions. In order to encourage more people to ask questions, we will limit the number of questions to two per session in a one-question, one-answer format.

First question. Ms. Okada from Goldman Sachs, please.

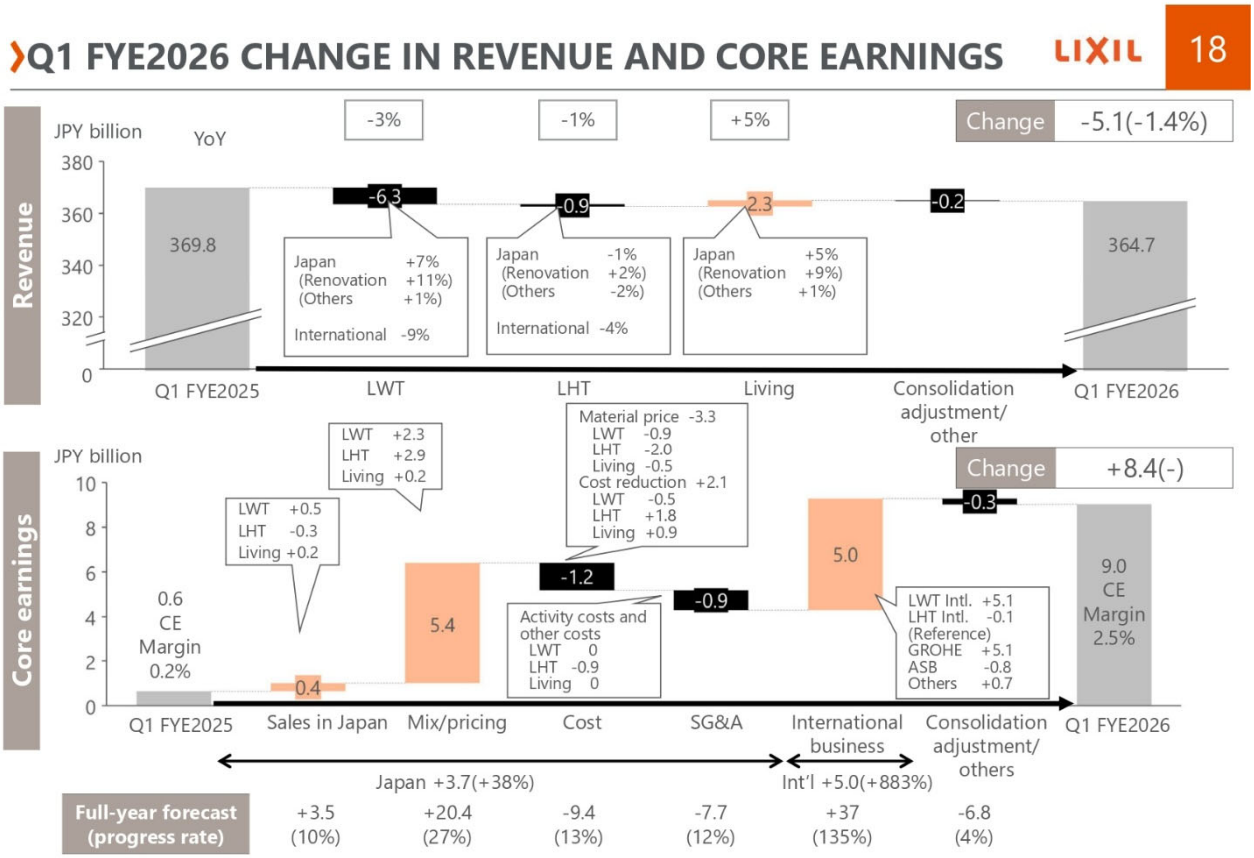
Okada [Q]: I have two questions. First, I have the impression that it is taking quite some time for sales in the US to recover, but I would like to know your current view on the risk of goodwill impairment.

Fujita [A]: I will answer your question. Regarding your concern about the risk of impairment of our US operations, we conducted impairment tests last fiscal year, including with our audit firm. As a result, the judgment is made such that there is necessity of impairment so far. Of course, there is a possibility that this will change in the future, but at this point we do not anticipate that this will be the case.

Seto [A]: It is true that the objective environment is that the economy is deteriorating, but we assume that the profit-and-loss situation will change significantly next year, as a matter of course, after the dissolution of DPI and the sale of the bathtub business last year.

In this sense, we do not have any concerns because we have been told that it is safe to have the impairment assessed, including such future effects.

Okada [Q]: Second, the profit margin in LWT Japan business has improved and it seems to have slightly exceeded the full-year forecast. Which had a greater impact on this, the effect of the price optimization or the effect of increased sales in Japan?



Kawai [A]: The specific waterfall is shown on page 18, and this is a comparison with last year's results, but the mix/selling price here shows that LWT had a selling price of JPY2.3 billion, in other words, a price optimization effect. Of course, the renovation contributed to sales, but I hope you understand that the effect of the price optimization from April was also significant.

Seto [A]: Without a doubt, renovation is more profitable. However, our focus is on renovation, which is highly profitable but also labor-intensive, so the key is how much SG&A can be controlled.

In that context, LWT is up 2.3 percentage points this time, quite a bit with respect to renovation. So far, the renovation ratio, which was 54% in Q1 of last year, has risen to 57%. But on the other hand, SG&A is being controlled, so in that sense, I think there are aspects of the Company that are successfully using AI and BI (Business Intelligence) to increase productivity.

MC [M]: Next, Mr. Teraoka of Daiwa Securities, please.

Teraoka [Q]: I would like to ask you two questions.

I think the recovery of GROHE's profits has been very strong this time, and you have explained various factors such as sales in Europe and the Middle East, a shift to higher-priced products, and the effect of improved operations. My first question is that I would like to see which factors are working a lot.

Seto [A]: I mean, the mix of products went up to the top. Specifically, the percentage of sales of called "colors", from ordinary single-color chrome to various colors, has been increasing, which has led to an increase in the average unit price itself and, as a result, an increase in gross profit.

Since we made such a request to the distributor, we were able to quickly sell the product and increase our profit margin. Depending on how that continues in the future, whether or not this high profit margin can be maintained may change.

Teraoka [Q]: Secondly, I would like to confirm two points regarding the US. First, you mentioned the impact of the core system renewal as a negative factor. I would like to confirm what exactly this means.

Also, I understand that the effect of the structural reform of the sale of the bathtub business will begin next spring, but how much of an impact effect should we expect in terms of core earnings? I would appreciate it if you could provide some additional information about this. Thank you.

Seto [A]: First of all, we revamped our core system, replacing the old SAP system with a new one in the middle of May. In the process, there were some unfamiliar parts and bugs in the system, which caused a lot of shipping delays. As a result, when shipping delays occur, for example, the e-commerce business is transferred from our company to the other side, resulting in loss of sales and delays in the delivery of products to our customers.

Of course, this is something we must avoid, but things are back to normal at this point.

As to your second question, how much profit will be generated after transfer of the US bathing business is completed, it is difficult to answer this question because we have not yet completed a thorough examination. However, we expect that we will be in a position to make a stable profit.

MC [M]: Mr. Yagi of Morgan Stanley MUFG Securities, please address your question.

Yagi [Q]: I have two questions. I would like to ask one question each about GROHE and American Standard.

You explained that one of the reasons for GROHE's good core earnings margin was its good product mix. However, even if the product mix is excluded, core earnings margin appears to be quite solid. Based on the current business environment, what would you consider the pace of profit margins? To what extent, relative to that, would this product mix be positive if it came out well? I would like to ask you to explain GROHE in terms of this current competence value.

Seto [A]: This is a very difficult question, because we have not yet been able to disclose the breakdown of the mix, so I think it is difficult to answer.

As I mentioned earlier, we have always tried to sell as many high value-added products as possible. In that sense, we honestly did not anticipate that color would sell this well, and it is true that we have a large upward swing in that area.

On the other hand, I believe that the next thing that could affect revenue is whether more volume will be produced. At this time, there has been no growth from last year in terms of the number of units. As for the question of whether or not the volume will grow, perhaps looking at projects now, projects are inevitably the leading indicator, but projects are filling up very well right now. And once the volume of projects becomes visible around the end of the year, we believe that we will be able to generate a high profit margin for our company.

On the other hand, if you look at DIY and other things as a whole, they are going down. So, it is difficult to answer because there is a mix of good and bad right now, but I think the next positive factor that will come up is definitely quantity.

In other words, we actually see little likelihood of a return to normal with respect to its product mix. This is because we believe that once a product that has been converted to color penetrates the market, it will continue to appear in that color for some time until the evaluation of the color settles down in the market. Conversely, I am concerned that as the number of colors increases, we will have to increase our ability to produce them.

Sorry, this is not a straight answer, but I would appreciate your understanding that we are unable to provide a breakdown at this time for competitive reasons.

Yagi [Q]: Other than the product mix, is my understanding correct that there were no special factors in Q1?

Seto [A]: That's right. There are no special factors. I would venture to say that if the product mix changes to color, the ratio of color at the very beginning is higher than normal, and although there is a fact that the ratio is higher in April than in May and June, I think it will almost level out.

Yagi [Q]: This is a reverse question, but American Standard was in the red in Q1 due to factors such as system renewal, etc. Is there still a possibility that the Company will continue to be in the red in Q2 and beyond, given the current demand environment?

You mentioned earlier that the realization of the US business will be in the next fiscal year, and that once that is in sight, the business will be profitable. I would like to ask you again about American Standard's core earnings concept from this Q2 onward.

Seto [A]: If you look at it as a major factor, there are two uncertainties. So, the biggest uncertainty in the short term is going to be supply and demand. As for supply and demand, we see demand as weak, but what will happen to supply is a difficult question to answer.

As I mentioned earlier, if the volume of competing products from China and other Asian countries were to decrease due to tariffs, or if prices were to rise, our profitability could improve considerably in the short term.

These products were actually shipped in large quantities in March in anticipation of the April tariff increase, and they are now being processed rapidly. The next change in this trend is that retailers will start building up inventories toward the end of the year in October, and negotiations for this will take place in one to two months from here. At that time, if there is a price increase or supply disruption of products from Asia, we believe it will be very advantageous to our profitability in the short term.

Another factor is product mix. Basically, many of the products for builders sold in the trade are new construction. On the other hand, with regard to retail, there are many products used in so-called remodeling. As we talked about earlier, if housing is not selling well enough, in that sense, if business for the trade is reduced, I think it will result in a lower profit margin as a product mix.

It is not that there are no houses being built at all. There are some very profitable houses being built, for example, for the rich, but unfortunately, we do not have a large share in this market. Therefore, unless the actual housing market recovers a little more, the recovery of profit margin as a product mix will not come soon.

So, although we have the elements to improve considerably in the short term, the ratio of trades that will improve prices in the long term will not increase until next year or later.

This area is influenced by many policies and external factors, so as far as self-help efforts are concerned, the completion of restructuring of the bathing business, for example, as Mr. Teraoka asked earlier, have a significant effect.

So, to put it simply, at the moment, what we can do is to concentrate on reducing costs.

MC [M]: Next, Mr. Mochizuki of CLSA Securities, please.

Mochizuki [Q]: I have two questions.

First of all, I would like to confirm the first point, since you have not revised the forecast of core earnings this time, as you have explained, and looking at this Q1 alone, what was the progress against the plan in your feeling? Simply looking at the rate of progress alone, I think it has been very good over the past few years, but was this Q1 good or bad relative to the plan? I would also like to know about the reasons for this. This is my first question.

Seto [A]: In conclusion, it was good. As it turns out, one of the better-than-expected aspects was that the special exception for item 4, which saw a sharp increase in housing starts in March as a result of the rush, had an effect on how much it would have an impact over the year. As a result of the resulting slow approval with respect to the item 4 special exception, we were originally of the opinion that the April to June period would not necessarily be good, and it would gradually rise.

On the contrary, it was quite unexpected that both April and May were not bad as a result of the tremendous rush in the item 4 special exception. In that sense, there were, of course, unexpected positives.

However, as I mentioned earlier, there were several areas where we were able to achieve better results than expected; color products sold very well in Europe, high value-added products sold well, and the percentage of renovation sales rose significantly, while SG&A sales did not rise. I think it would have been better if we had evaluated mainstream only and if there had been no uncertainty since July, I think it would have been possible to be more bullish about the future.

However, it is not only the US that is quite uncertain. If the US becomes uncertain, the economy will naturally affect other countries as well. For example, if China is getting worse and cannot export to the US, there could be Chinese exports to Southeast Asia, which could cause an economic downturn, and so on.

As for Japan, on the other hand, it is a bit difficult to read at the moment regarding how new construction will change in the future.

However, what we can say for sure is that we need to increase renovation and remodeling in other countries as well, as renovation and remodeling are more likely to be successful than new construction. I am determined to build on the good aspects of this to make it even better than it was this time.

Mochizuki [Q]: Secondly, I would like to ask about the impact of the Trump tariffs.

In your explanation, you mentioned that there may be an impact on how much inventory retailers buy at the end of the year, so in that sense, I guess that means that the impact of the Trump tariffs will be reflected in our analysis in Q3 or Q4. Is that correct?

Seto [A]: I think October and November are the biggest. In fact, at that time, we are hoping that we can see the improvement of product mix rather than a quantity.

In short, I think it would be very good if we could easily request a profitable product mix.

Mochizuki [Q]: As a pricing strategy, I am hoping that the price will not go up by about 20%, but I am a little unsure about some aspects. How much of a price range should I assume, and what is the combined effect of these factors?

Seto [A]: I think it will be a complicated equation, but one thing to start with is whether Asia/China will raise the tariff amount as it is. Or will they also lower their prices and match them to some extent, as Japanese auto makers used to do, is one of the first unknown factors, which I think we will find out from here until about August.

Another factor is that if Asia and China eventually decide not to produce in terms of volume, we will change our product mix from a focus on two-piece to a focus on one-piece in order to change the market environment when Asia and China are able to produce in the future. We hope that by making such efforts, we will be able to fix, to some extent, the portion of the price increase that we have made at this time.

At that time, I think it is possible to raise prices considerably, but conversely, I think it would be more sustainable to raise prices by creating more difficult products rather than raising prices of the same products, so if possible, we would like to change the entire market.

In fact, in the Chinese market, there are many manufacturers, but in the end, the market as a whole has decreased in volume, of course, but on the other hand, the composition of the market is changing to better priced products. We would like to take the lead in the US in this way. China is now mostly turning to one-piece toilets.

MC [M]: Next, Mr. Kawashima of SMBC Nikko Securities, please ask your question.

Kawashima [Q]: I have two questions.

First, regarding new housing construction in Japan, how much of the effect of surge in demand did you see in Q1, and how do you expect it to rebound in the future? I wonder if the new housing starts in June, which just came out, did not return to that level. is it possible in the future that an event like this could trigger the level to go down with a thud? Originally, new housing construction is on the decline, how do you see this coming in in the short term, or are the assumptions about the nature of the business changing?

I understand that you are withdrawing from ceramic siding business this time, but will you need to review your business more? The first is that we would like to know the current outlook for this new housing and how it is evaluated.

Seto [A]: First of all, as to how long the delay will be, generally speaking, about a month after the results of the construction start, the so-called LHT products will show significant results.

This is the first thing to be ordered, windows and then bathrooms to some extent. Then the water-related products are gradually ordered, and I think it is normal for the water-related products to be ordered two or three months later.

However, because of the sudden increase in March, the actual speed of construction starts may have been slower than in the past, so it is difficult to say whether the March increase was all completed between April and June.

However, as it turns out, the total sales between April and June did not change that much from the forecast, when summed up. If we look at it from the viewpoint that April was a good month for sales, which gradually worsened in May and June, it has not gotten that bad. Therefore, we do not expect sales to drop sharply again from this point on.

In reality, looking at the current situation and so on, I think that to some extent, new construction is stabilizing despite the bad situation. As a result, we believe that the renovation of water-related products did much better than we had anticipated.

On the other hand, to be honest, window renovation was lower than expected, and we are now taking measures to raise this level. As I have said before, we were originally focused on new construction too much, and I think it is important to raise the ratio of renovation.

In this context, we have been able to increase the ratio of renovation by 1.7 percentage points overall this time compared to last year, and I believe that continuing this trend will be sufficient to compensate for the gradual decline in new construction.

Another thing I would like to mention is that, as for each individual product, and this is related to the first question from Ms. Okada of Goldman Sachs, since it is easier to get a gross profit margin on each individual product in renovation, we will use AI, etc., to avoid further increase in SG&A, and to ensure profit. As for sales, we should be prepared for some decline, and we should take a good profit and lower overhead costs to that extent.

I think the structural reform was to create a system that would allow us to do such things. So, I think we have been able to make structural reforms in that sense.

If there is a possibility of further decline from here onward, we have a proper plan for what we will do with our plants, so we are confident that we can respond to changes in the supply-demand balance in Japan without having to make any special, costly structural reforms.

Kawai [A]: I would like to add a little numerical supplement.

On page 18 of this disclosure material, there is a waterfall, and in the upper part of this page, we have disclosed the growth rate of sales in the area other than renovation in Japan.

In terms of the impact of new construction, LWT and Living in particular showed growth of 1% each, compared to last year.

The LHT is still at minus 2%, due in large part to the impact of new construction, but there has been some impact from the elimination of such special exceptions.

Incidentally, if you look at last year's results, most of the sales of the area other than renovation in Japan were new construction, but LWT was minus 2% and LHT was minus 3%, so I think you can see from the figures that this Q1 was minimized by the impact of these declines.

Kawashima [Q]: Another point, which has been brought up earlier, is the GROHE part. In terms of sustainability here, I believe that the effects from operational improvements and other effects were seen in the middle of the last fiscal year, so from Q2 onward, the pace of increase in sales and profit will probably be a little less dramatic than in Q1, but is it correct to accept that the increase in sales will continue to be accompanied by a steady increase in profit?

Or will the numbers be quite volatile depending on the volume of colored products as mentioned earlier? Can you tell us what you envision for the future?

Seto [A]: To be honest, there are many things we are not sure, but in terms of the orders we are getting and the base of projects, we are getting them in a bad economy, so I don't feel there is a big growth in Q2.

However, in Q3 and Q4, there are still some bright spots in the project's priorities. So, I think the big change is whether that will change or not.

As you say, with the current order situation, we do not expect Q2 to grow as fast as Q1.

MC [M]: Mr. Fukuhara of Jefferies Securities, please ask your questions.

Fukuhara [Q]: My name is Fukuhara from Jefferies Securities. I also have two questions. The first is about GROHE. We have talked a lot about profit margins, and I would like to ask about GROHE's presence in the market. In short, in terms of market share or other such changes, have there been any changes between Q4 that ended and Q1 of this year? That's my first question.

Seto [A]: Market share has been gradually increasing since last year. We believe we were able to increase our market share mainly in the shower area and now in the color area.

Fukuhara [Q]: Can we expect to see more of these trends in the future?

Seto [A]: Of course, that is our intention, and of course we will come back when we have captured market share, but so far, we have a very good feeling.

Also, when I say GROHE, I am not only referring to Europe, but other regions as well, such as the Middle East, where we are currently experiencing tremendous growth. I believe that this part of our growth is quite distinctive compared to other companies in the Middle East.

On the other hand, China is also suffering from other products and other brands, not only ours, but they are actually growing as far as GROHE is concerned.

In Southeast Asia and India, the GROHE's high-end products will be released later, and inquiries for these products have been very strong, so I think the situation for GROHE as a whole is very good, except for the United States.

Fukuhara [Q]: My second question is, although you have left the full-year plan unchanged, what are your projections for H1 and H2?

Q1 was good, but in Q2, it will go down. And in Q3, given the traditional quarterly trend, I guess that it will go back up. In short, will the traditional seasonality still hold true this year?

Seto [A]: That is a difficult question to answer. The reason for this is that we have traditionally allocated profits over the past several years in such a way that Q1 is one, Q2 is two, Q3 is four, and Q4 is close to zero, although there have been some fluctuations in the numbers.

Therefore, if we were to make such calculations, we would have to change our forecasts, but we have not done so because of the uncertainty involved. So, I think the reality is that it is difficult to answer your question straightforwardly. However, as for Q3, I have high hopes that it will get better.

Fukuhara [Q]: I'm going to change the wording a little bit, but is there a risk that we don't have to worry too much about profits in this Q2, like a big drop?

Seto [A]: At this point, there is no factor that would cause concern there.

MC [M]: Mr. Fukushima of Nomura Securities, please ask your question.

Fukushima [Q]: I have two questions.

The first is about United States. You have disclosed that there was a loss of USD19 million in Q1, so breaking down this USD19 million, how much loss has been incurred by sanitary ware?

I understand that the bath area is still in the red despite the sale of assets, but how much of the loss is in the mainstay sanitary ware? I would also like to receive an answer to my question with the measures to restore profitability of sanitary ware, your mainstay products. This is my first question.

Seto [A]: Actually, there are a lot of factors, and we have not broken it down by product before, so please excuse us for that.

In terms of products, I think it's fair to say that a significant portion of our sales come from American Standard ceramics, so if we break it down by product, that's where a significant portion of our sales come from. Of course, this time it was not a good situation with regard to faucet fittings either.

However, based on the questions you mentioned, I think it is basically safe to assume that most of them are ceramic.

Fukushima [Q]: Second, I understand that you have decided to withdraw from the ceramic siding business, and that the losses have been incorporated into these financial statements, but how much of an annual loss did the ceramic siding business generate in the first place? Am I correct in understanding that the withdrawal will have a positive effect on profit and loss for the next fiscal year? This is my second question.

Kawai [A]: Operating income has been disclosed, and since we do not have it immediately at hand, we will respond here at a later date, but it is only slightly negative.

Seto [A]: I don't think we divide it into ceramic business. It is put out as an AT exterior. In fact, AT exterior had a ceramic business, a metal business, and a resin business, and while the metal and resin businesses were profitable, the ceramic business was in the red. In that sense, that is why we decided to stop the ceramic industry, so I don't think we disclose figures for the ceramic industry alone.

I think I will give you a figure for operating income as I mentioned earlier, but up to now, the figures have been almost even, as I recall, with some ups and downs, but the level of loss and profit has been a few hundred million yen, but for the ceramic business itself, the loss has been a little larger than that, in fact, and we have been recording losses for a long time.

And actually, this time, we have stopped the ceramic siding business, but in fact, in terms of the ceramic siding business, it is a business that has suffered for a long time in the past. The reason for this is that, although we were originally the third largest manufacturer in the ceramic siding business, we were always in the red when sending our products west of western Japan because we only had a plant in one site, Kashima.

Because of this, we have stopped doing business in western Japan and shifted to eastern Japan, and our sales have dropped by about half over the past six years. In that sense, this was also a questionable project as to whether or not it was sustainable.

To give you some details, in the business of exteriors, the ceramic industry is the only one where the demand is almost 100% new construction. In contrast, resin and metal, on the contrary, are businesses that are made for remodeling. So, I think it is important to note that when we went with the new construction falling in the future, there was a risk that we might create a big loss in the future with respect to the ceramic business.

On the other hand, when it comes to metals and resins, the alternative to metals and resins for insulation has been paint. Compared to painting, this remodeling has a very impressive insulation effect, so the background is that this is a promising business, and this is the only area that has been separated out.

Seto [M]: Please forgive me for not being able to give you a sufficiently straight answer regarding your question. I would like to ask for your understanding that it is difficult for us to answer questions about figures that we do not disclose.

Also, as I mentioned earlier, we believe that the structural reforms that we planned about two and a half years ago and are about to undertake have now come to an end.

However, of course, if the situation changes further in the future, we may have to do more, but especially in Japan, we have already been working on the assumption that demand will decline for some time, and we believe that we have created a system that will allow us to make the necessary changes and reorganizations without incurring significant costs. In that sense, we have almost reached the end as a matter of the numbers.

However, the only thing that we have not seen in terms of numbers is how we will respond to the uncertain situation in the US. We are not sure that we have a clear view of the situation yet.

However, we have continued to implement structural reforms despite the difficulties we have been facing, and we believe that we are gradually gaining a sense of confidence in the results.

MC [M]: Since there are no further questions, this concludes the question-and-answer session.

This concludes the presentation of financial results for Q1 of the fiscal year ending March 31, 2026 for LIXIL Corporation. Thank you all very much for your participation.

[END]

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