LIXIL Corporation

Online Earnings Briefing for the H1 Fiscal Year Ending March 2026

October 31, 2025

Event Summary

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[Participants]		
[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]*	Daisuke Fukushima	Nomura Securities
	Sachiko Okada	Goldman Sachs
	Hiroki Kawashima	SMBC Nikko Securities
	Masahiro Mochizuki	CLSA Securities
	Hideaki Teraoka	Daiwa Securities
	Ryo Yagi	Morgan Stanley MUFG Securities
	Yoshihiro Nakagawa	Mizuho 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: Now that it is time to start, we will begin the H1 earnings briefing for the fiscal year ending March 31, 2026, for LIXIL Corporation. This briefing is being conducted via live online streaming. Please refer to the presentation materials posted on the Company's website under Investor Relations.

Let me begin by introducing today's attendees. Mr. Kinya Seto, Director, Representative Executive Officer, President, and CEO.

Seto: Thank you for your time.

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

Fujita: Thank you very much.

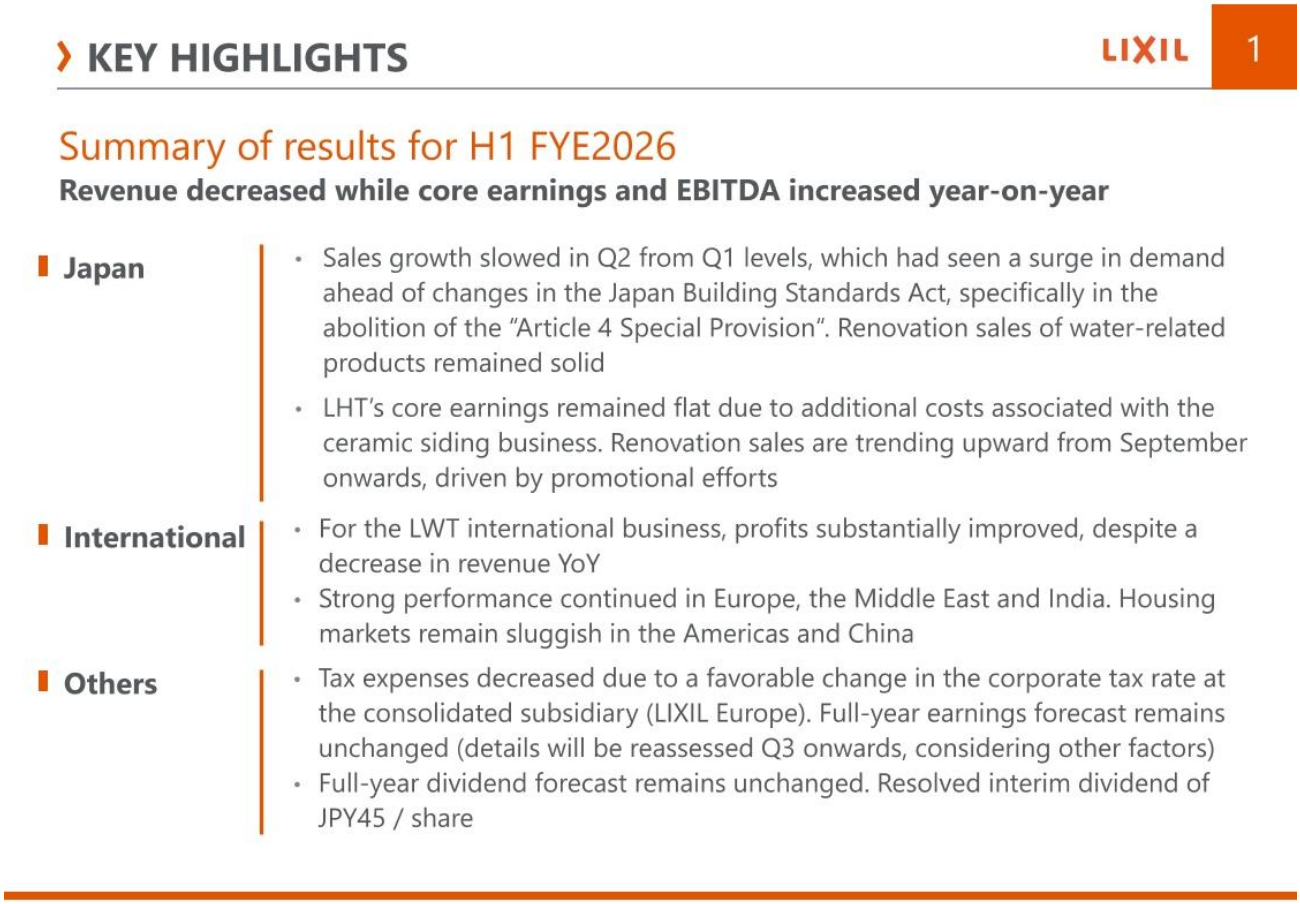
MC: Next, Ms. Aya Kawai, Senior Vice President and Leader of the Investor Relations Office.

Kawai: Thank you very much.

MC: My name is Setoguchi from the IR Office, and I will be chairing today's session. Thank you very much for your cooperation.

I will now explain today's proceedings. First, CFO Fujita will give an overview of the financial results. There will be time for a Q&A session afterwards. 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 begin.



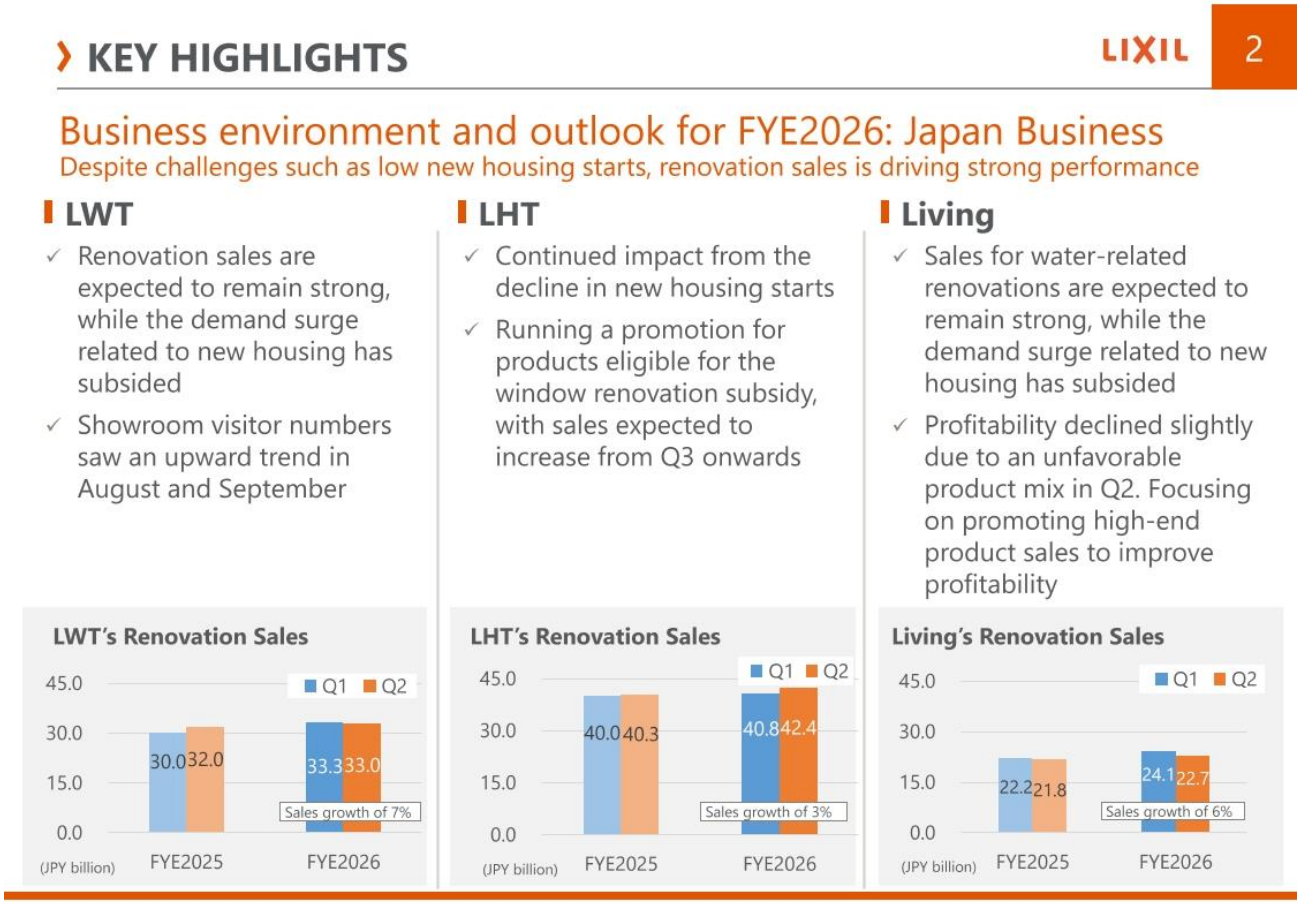
Fujita: Hello, everyone. I am Fujita. Today, I would like to discuss our performance for H1 of the fiscal year ending March 31, 2026.

This is a summary of the overall performance. Overall, although revenue decreased, both core earnings and EBITDA improved.

In Japan, although the surge in demand that emerged in Q1 slowed in Q2, sales of water-related renovation products remained strong. On the other hand, LHT's core earnings were affected by additional expenses related to the ceramic siding business. This resulted in a flat performance compared to the previous year. However, renovation sales have been on an upward trend since September, driven by promotional efforts.

For the international businesses, although revenue decreased, core earnings improved significantly. Europe, the Middle East, and India continue to perform well. In the US and China, the housing market continues to be sluggish.

Others include a decrease in tax expense due to a change in the corporate tax rate in Germany. The Company has not made any changes to its full-year earnings forecast regarding this. We are currently conducting a close examination of other factors as well. There is no change in the full-year dividend forecast. The Company has resolved to pay an interim dividend of JPY45 per share, as forecasted at the beginning of the fiscal year.



I will discuss the current business environment and future outlook.

I will begin with Japan. Overall, new housing starts are sluggish, but the Company continues to do well, especially in the renovation sector. Although the situation differs from business to business, LWT's Japan business has seen an increase in showroom visitors in August and September.

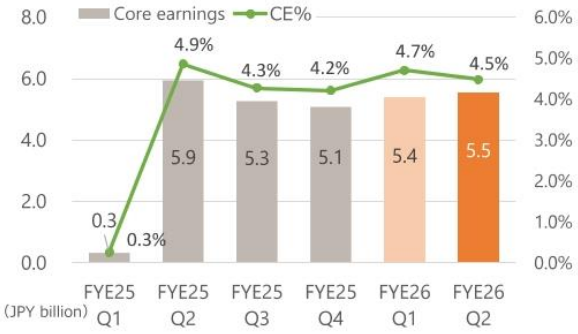
As for LHT, we are running a promotion for products that are eligible for the window renovation subsidies, and are expecting sales to increase in Q3 and beyond.

As for living, we are focusing on extending sales of high-end products.

Business environment and outlook for FYE2026: LWT International

LWT International

- ✓ Despite the global trend of interest rate cuts, delays in policy decisions to promote housing construction are being seen due to government instability in Europe which is our key market
- ✓ Profitability is recovering in Europe, driven by the positive effects of structural reforms and strong sales of color products
- ✓ Demand weakness continues in the US and China
- ✓ Demand remains robust in the Middle East and India



Americas

- Entering an interest rate cut phase; mortgage rates are declining somewhat compared to peak levels
- The housing market recovery is slowed due to tariffs and immigration policy, with difficult circumstances likely to last through this fiscal year
- Positive impacts from price optimization and structural reforms are expected to materialize gradually from FYE2026 (and substantially from FYE2027 onwards)

Interest Rates and Housing Starts Trends(1)

(1) Freddie Mac (prepared by LIXIL)

Next, I would like to talk about the business environment and future outlook for the international businesses.

For the international businesses, despite the trend of interest rate cuts, in Europe, our key market, there are delays in policy decisions to promote housing construction due to government instability.

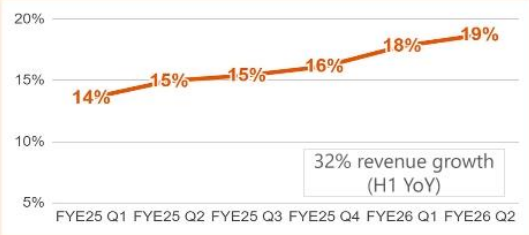
I would like to talk about each region. First is the United States. The US will also enter a phase of interest rate cuts, and mortgage rates are expected to decline compared to peak levels. Meanwhile, tariffs and immigration policies are slowing the recovery of the housing market. Therefore, we believe that the situation will continue to be difficult throughout this fiscal year. However, we believe that the effects of price optimizations and structural reforms will be realized in phases beginning this fiscal year and will not be fully realized until the next fiscal year. We believe that the bottom has been reached in H1 of the fiscal year.

Business environment and outlook for FYE2026: LWT International

Europe, IMEA (India, Middle East & Africa)

- A full market recovery is expected next year onwards; sales improved by 5% YoY (13% compared to two years ago), due to strong sales of color products and sales initiatives
- Profitability in Europe stabilized, driven by fixed cost reductions from structural reforms
- Sales in the IMEA grew by 16%, driven by robust project momentum in the Middle East, which in turn contributed significantly to profit

The sales composition ratio of color products to total faucet sales



Asia Pacific, China

- Vietnam shows signs of recovery following a prolonged real estate slump, with sales improving by 10% YoY
- Thailand remains sluggish due to weak economic conditions and intense competition
- While China's sanitary ware market remains challenging due to weak economic conditions and intense competition, GROHE product sales were a bright spot, improving by 25%

China: New Residential Construction Area YoY Change Trend (1)

(1) National Bureau of Statistics of China (prepared by LIXIL). Jan-Feb 2025: Adjusted for Lunar New Year impact

Next is about Europe and the IMEA region. As for Europe, we expect the market will not fully recover until next year or later, but color products are performing well and sales initiatives are being implemented, resulting in a 5% improvement in sales over the previous year. The graph below shows the sales composition ratio of color products to total faucet sales. The growth rate is also confirmed by the fact that it is 32% YoY.

Regarding the Asia Pacific region and China, I would like to talk about China. In the sanitary ware market, the situation remains difficult due to economic conditions and intensifying competition. We have been focusing on GROHE products, which is one of our strengths, and have recently seen a 25% increase in sales over the previous year.

› H1 FYE2026 PERFORMANCE HIGHLIGHTS

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Revenue decreased while core earnings increased year-on-year

- **Revenue: JPY735.9 billion, down JPY3.8 billion year-on-year**
  - Q2 (3 months) YoY: 0% in Japan and +1% in international markets (-1% excluding foreign exchange impact)
  - H1 (6 months) YoY: +1% in Japan and -4% in international markets (-3% excluding foreign exchange impact)
- **Core earnings: JPY16.9 billion, up JPY6.4 billion year-on-year**
  - Q2 (3 months) YoY: +JPY0.1 billion in LWT, -JPY1.5 billion in LHT, -JPY0.1 billion in Living, and -JPY0.6 billion for consolidation adjustment/other factors
  - H1 (6 months) YoY: +JPY6.5 billion in LWT, -JPY0.1 billion in LHT, +JPY0.7 billion in Living, and -JPY0.8 billion for consolidation adjustment/other factors
- **EBITDA(1): JPY57.8 billion, up JPY5.5 billion year-on-year**
- **Profit(2): JPY3.4 billion, up JPY7.3 billion year-on-year**
  - Q2 (3 months) YoY: Increased by JPY2.3 billion due to a decrease in income tax expenses, despite an increase in other expenses
  - H1 (6 months) YoY: Increased by JPY7.3 billion due to an increase in core earnings and a decrease in income tax expenses, despite increase in other expenses and finance costs

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

Here are the highlights of the H1 financial results. Revenue was JPY735.9 billion, and core earnings were JPY16.9 billion, a decrease from the same month last year. EBITDA and profit are also improving.

› H1 FYE2026 CONSOLIDATED BUSINESS RESULTS

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JPY billion	H1 (6 months) FYE2025	H1 (6 months) FYE2026	Increase/ decrease (YoY)	%	Q2 (3 months) FYE2026	Increase/ decrease (YoY)	%
Revenue	739.8	**735.9**	-3.8	-0.5%	**371.3**	+1.3	+0.4%
Gross Profit	241.2	**251.9**	+10.7	+4.4%	**127.1**	+3.3	+2.7%
(%)	32.6%	**34.2%**	+1.6 pp	-	**34.2%**	+0.8 pp	-
SG&A	230.7	**235.0**	+4.4	+1.9%	**119.3**	+5.3	+4.7%
Core Earnings (CE) (1)	10.5	**16.9**	+6.4	+60.4%	**7.8**	-2.0	-20.5%
(%)	1.4%	**2.3%**	+0.9 pp	-	**2.1%**	-0.6 pp	-
Profit for the year including Discontinued Operations (2)	-3.9	**3.4**	+7.3	-	**4.3**	+2.3	+121.4%
EPS (JPY)	-13.69	**11.67**	+25.36	-	**14.84**	+8.14	-
EBITDA (3)	52.3	**57.8**	+5.5	+10.5%	**28.5**	-2.1	-7.0%
(%)	7.1%	**7.9%**	+0.8 pp	-	**7.7%**	-0.6 pp	-

- **Gross profit margin:** Increased by 1.6pp YoY
- **SG&A expenses:** Increased by JPY4.4 billion YoY (Japan JPY4.7 billion increase, International JPY0.4 billion increase, forex effect JPY0.7 billion decrease) mainly due to higher personnel costs in Japan. SG&A ratio increased by 0.8pp
- **CE margin:** Increased by 0.9pp YoY

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

Next are the consolidated business results for H1 of the fiscal year. As for the numbers, as I mentioned on the previous page, if you look at the gross profit margin, I would like to highlight the 1.6 percentage point improvement over the same month last year.

H1 FYE2026 BUSINESS RESULTS BY SEGMENT

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Core earnings increased for both LWT Japan and International, driven by strong profitability in Europe and the Middle East. While LHT's revenue saw a slight decline, core earnings were flat, helped by price optimization and growth in renovation sales. Living achieved both revenue and core earnings increases, supported by strong renovation sales

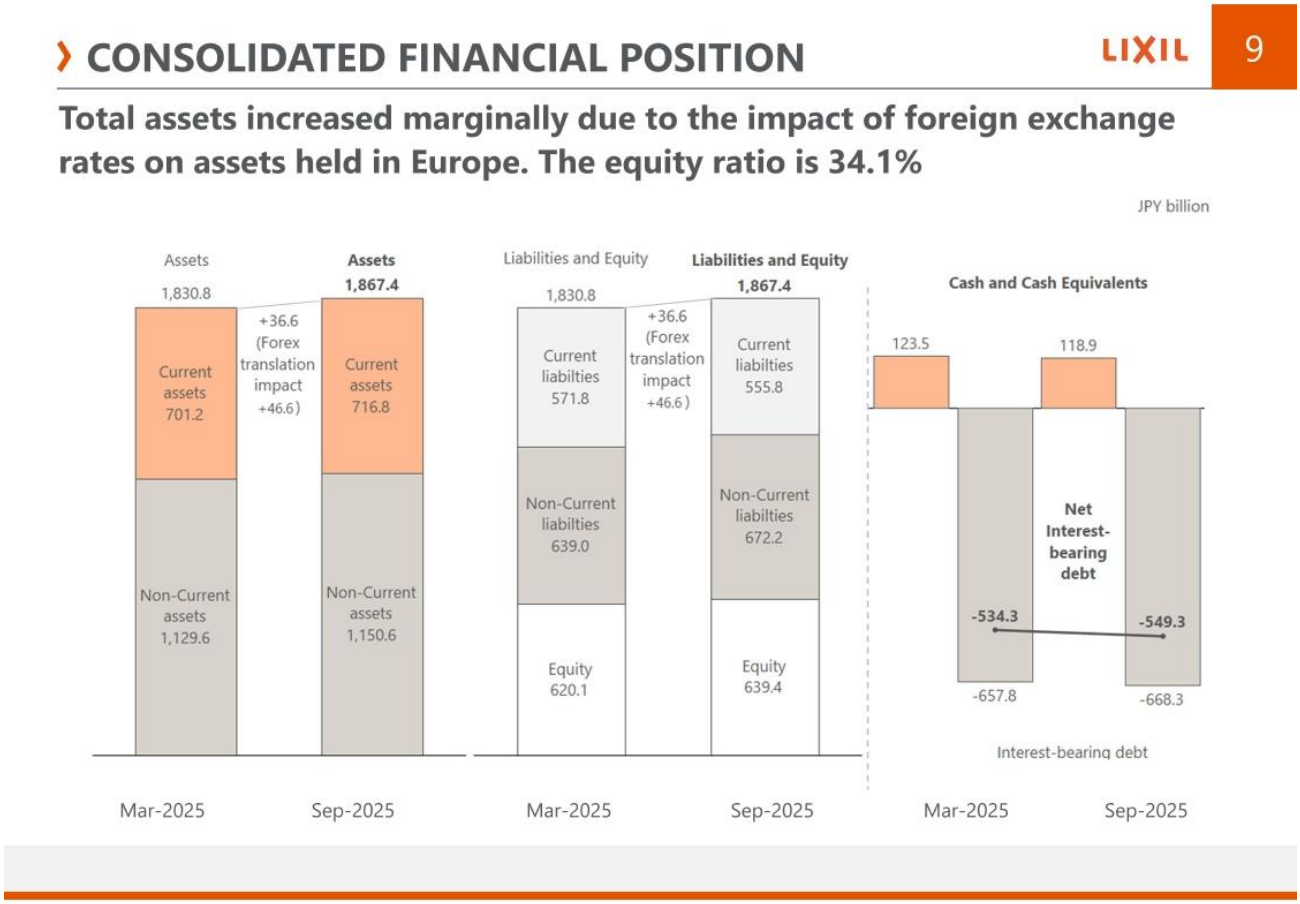
		H1 (6 months)			Q2 (3 months)	
JPY billion		FYE2025	FYE2026	Increase /decrease (YoY)	FYE2026	Increase /decrease (YoY)
LWT	Revenue	396.9	**392.9**	-4.0	**199.7**	+2.4
	CE	14.0	**20.6**	+6.5	**9.9**	+0.1
LHT	Revenue	261.2	**259.2**	-2.1	**130.9**	-1.2
	CE	12.3	**12.3**	-0.1	**6.2**	-1.5
Living	Revenue	97.8	**100.3**	+2.6	**49.1**	+0.2
	CE	2.7	**3.4**	+0.7	**1.3**	-0.1
Consolidation, Adj. & Other	Revenue	-16.1	**-16.4**	-0.3	**-8.4**	-0.1
	CE	-18.6	**-19.4**	-0.8	**-9.6**	-0.6
LIXIL	Revenue	739.8	**735.9**	-3.8	**371.3**	+1.3
	CE	10.5	**16.9**	+6.4	**7.8**	-2.0

Forex impact(1)
Q2 3months: Revenue +JPY2.9 billion, CE +JPY0.1 billion **H1 6months:** Revenue –JPY2.9 billion, CE +JPY0.1 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 reporting segments

I would like to continue with an overview of our business results by segment.

LWT increased revenue in both Japan and international operations. This is due to improved sales in highly profitable Europe and the Middle East. In LHT, revenue declined slightly, but core earnings remained flat due to price optimization and growth in renovation sales. In living, renovation sales have remained strong. As a result, both revenue and core earnings increased.



Continuing on, here is the balance sheet.

In terms of consolidated financial position, there was a slight increase with respect to total assets. This is due to the increase in assets in Europe from the impact of foreign exchange rates. The impact of foreign exchange rates was JPY46.6 billion.

CASH FLOW STATUS AND CASH BALANCE

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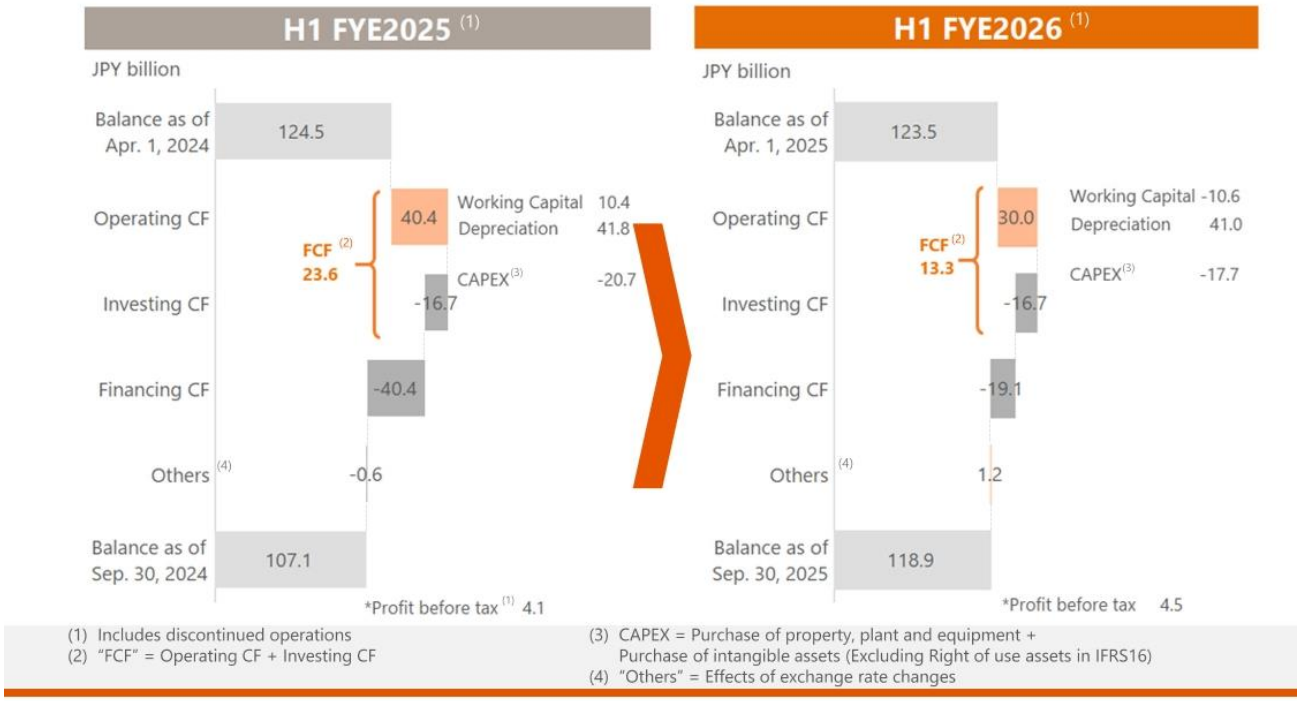
Operating cash flow declined due to an increase in inventories. Free Cash Flow (FCF) remained positive



(1) Includes discontinued operations
(2) "FCF" = Operating CF + Investing CF
(3) CAPEX = Purchase of property, plant and equipment + Purchase of intangible assets (Excluding Right of use assets in IFRS16)
(4) "Others" = Effects of exchange rate changes

This is the last page. This is cash flow and cash balance.

The Company has maintained a positive free cash flow. On the other hand, operating cash flow decreased compared to the previous year, but this was due to an increase in inventories, which we consider to be temporary.

That is all for my explanation today.

Question & Answer

MC [M]: We will now start the Q&A session. Before we take questions from participants, CEO Seto will provide a supplementary explanation of the financial results. Mr. Seto, please.

Seto [M]: Yes. Excluding the Middle East and India, if I may say so in a not necessarily good objective environment, we are happy to have done more than we planned.

As for Japan, the surge in demand in April from May was a bit of a singular point, but after that, the number of new housing starts deteriorated. The number of new housing starts from April to September was down 18% compared to last year, an unprecedented drop, but we managed to endure and increase profits. I think the positive aspect regarding renovations is that we were able to increase both revenue and core earnings. During this time, window-related renovations, which are the only weak section of renovation, has been rapidly improving since September again. As for Japan, I think it was very good that we were able to fight a good battle in a bad situation.

For the international businesses, however, our biggest concern is still the United States. As for the US, to be honest, we are confident that the bottom has been hit in H1. In fact, we have made some improvements in H2, and the results of the structural reforms that we have carried out so far, are starting to appear in H2. In that sense, while H1 was bad, we believe the US has now bottomed out.

On the other hand, in Europe, we have been able to increase our market share, especially in color products, and we are doing well. The only concern compared to H1 is that we were expecting strong growth next year, predicting that Europe would do very well, interest rates would come down, and then policies would be implemented, but so far, we have not seen those policies.

The reason policies are not implemented is that across Europe, there's a highly fragmented multi-party system and few nations have established stable governments. I feel that the real problem is that, without a stable government, it is difficult to implement policies.

However, in both Europe and the US, demand is extremely high, but the cost of supply has become so high that customers below the mass market are unable to purchase housing, creating a large supply-demand gap. I see this part of the problem as not only in Europe but also in the US, and I think this will not be resolved without invoking policies to some extent.

China, on the other hand, will be a tough market for some time, with or without policies. However, among these products, GROHE, our high-end brand, grew 25% YoY. This holds true in Europe as well, but regarding high-end products, I believe it's fair to say that even in challenging circumstances, they have managed to achieve reasonably good results.

Again, in the Middle East and India, the market is good, and we believe that we can increase our market share. There are no major concerns about H2 at this time, but I would venture to say that in the long run, if policies in Europe and the US are carried out quickly, we can expect very serious growth in profits.

MC [M]: Now, we would like to take questions from the audience. In order to allow more people to ask questions, we will limit questions to two at a time, and answer one question at a time. If you have additional questions, please raise your hand again.

Let us start with the first question. Nomura Securities, Mr. Fukushima, please state your questions.

Fukushima [Q]: I have two questions, and I would like to begin with the first one. First of all, as the president just mentioned, the number of new housing starts in Japan declined by 18% from April to September. I would like to know if this will have any impact on your company, and whether it is necessary to consider this as a risk or not.

Also, as for window renovations and advanced window renovations, the government's website shows that so far, the budget utilization rate is still 43%, which is quite low, and I am a little concerned about whether the budget will be properly allocated next year. I would appreciate your comments on this area as well. That is my first question.

Seto [A]: I don't think that the delay itself in new housing starts, when we look at it as we do, will flow late anymore. In this sense, the fact that we have been able to achieve this level of revenue even under these circumstances suggests that we have been able to strengthen our structure, including our renovation business. We believe that there is no need for you to worry so much here. The market as a whole is experiencing a decline in demand, but I believe we are definitely increasing our market share.

On the other hand, as you mentioned, window renovations were very slow in H1 of this year. Therefore, we conducted a very intensive campaign during the summer, mainly in the Tokyo metropolitan area. This is especially true in Tokyo, where there are separate subsidies for window renovations, one from the national government, another from the Tokyo Metropolitan Government, and another from the 23 wards of Tokyo. This means that in Tokyo, you can get window renovations done at a very low cost. As a result of the campaign in the Tokyo metropolitan area, orders in September and October were very strong and have recovered to a level exceeding last year's pace at this time.

On the other hand, we are not in a position to say what the national policy will be. However, what we are hearing from ministries and agencies is that, when considering future carbon neutral policies in Japan, it is clear that residential areas can be included. Within those residential areas, the Ministry of Economy, Trade and Industry, the Ministry of Environment, and the Ministry of Land, Infrastructure, Transport and Tourism all have a common understanding that windows in particular are highly effective. Therefore, we believe that there will be no change in the government's stance to support window renovations.

As for the status of discussions in this area, it is difficult for us to talk about the specifics since a new administration has started. Our assumption is that this will continue.

Fukushima [Q]: Second, I would like to ask about the sanitary ware business in the United States. As you mentioned before, the sanitary ware sold by your company in the US is manufactured in Mexico, and the competition is from Asian countries such as China, and the US tariffs are likely to be applied to Asian countries such as China. On the other hand, you mentioned that Mexico is not subject to tariffs, so you can expect to strengthen and improve your competitiveness and increase your market share. In fact, I would like to know if this is becoming the case now.

Seto [A]: What actually happened is that sanitary ware manufacturers in China and other Asian countries exported large quantities of sanitary ware under the assumption that the tariff would go up in April. This inventory is being consumed, and the surge in demand that came in at that time is gradually disappearing in September and October.

On the other hand, we, ourselves, have stopped imports from Asia, and while we have rather reduced the number of units we supply, we have taken measures to raise the overall average price by changing our portfolio and raising prices.

This price effect will be realized for the first time in October, then a significant portion in January of next year, and then the last stage in April of next year. Perhaps once in October and then once in January, as far as

profitability is concerned. Next April, the effects of last year's restructuring of the bathing business will finally be realized with the completion of the transition service agreement, so we expect to see three rounds of improvement.

Fukushima [Q]: In other words, the market share has not increased yet, but it will probably increase in the future. Your company's view is that profitability will improve from October onward because of the price increase as well, is that correct?

Seto [A]: Market share is not going to increase. The low-end, the unprofitable ones, should be stopped. The point is that in the US as a whole, when China and Asia entered the market, the market share of low-end products increased dramatically in the retail sales market as a whole. If low-end products are not exported from Asia, we would like to raise the structure of the US market itself a little by not producing too many products from Asia.

Therefore, we do not go and get the market share of low-end products. In other words, in terms of volume, we have a portion brought from Asia. We'll reduce that portion, so our overall market share won't necessarily increase. However, we are aiming to raise the average price significantly.

Fukushima [Q]: I understand. By the way, how much are you raising the price? The effect of this would be very helpful if you could give some quantitative information.

Seto [A]: There are a few distribution customers that we are working with. I can't give you any figures right now because of confidentiality issues. In particular, there is also the timing of the release for each, so if I say this number now, the customer side will know what we are doing, so I would appreciate it if you could spare me that part.

Fukushima [Q]: So, let me put it this way: is that something that is factored into this financial plan?

Seto [A]: We have incorporated it. However, when considering the balance between the entire April-September period and the October-March period, the balance is such that profitability is slightly higher in H2.

MC [M]: Goldman Sachs, Ms. Okada, it is your turn.

Okada [Q]: I have two questions. The first question is about the LWT business in Japan. As of Q1, revenue of renovation products grew quite a bit, plus 11% YoY, and in Q2, it was plus 7%, so the situation continues to be positive. However, compared to your competitors, I think the rate of increase in revenue is higher. Is it a situation where you are continuing to gain market share, or is it a situation where your competitors are becoming stronger? That is my first question.

Seto [A]: This is also a bit like a prisoners' dilemma. In a sense, we have been trying to send the message for many years that when overall demand is declining, it is better not to go after each other by lowering prices. That message has been understood in a way.

The industry as a whole is moving forward with some understanding that lowering prices in itself is pretty much digging a grave not only for your company, but for the industry as a whole, though. There are some companies that go after the market share with their reduced prices, which I won't say their name here because it would be rude to do so, but there are some companies that have that kind of structure. I believe that there is a point where they will reduce the price if their market share drops a bit sensitively on price regarding that very point.

So, in that sense, it is not easy to say, because it is not a game that we are playing alone. However, I believe that LIXIL's differentiated products, digital services that LIXIL itself is now creating, and digital services,

including distribution, are receiving a certain level of recognition from construction companies and contractors. In this sense, I believe that we will be able to continue to gain market share over the long term, and we are taking such steps.

Okada [Q]: Second, regarding the outlook for the US business, you mentioned earlier that profits will grow to a certain degree in the future as a result of the structural reforms that have been implemented so far. Mortgage rates have declined slightly, but we are also seeing some signs that the employment environment is starting to deteriorate a bit. Going forward, if there is a slight reluctance toward major renovations or home purchases, it could potentially have a negative impact on your company's US business. I would appreciate it if you could share what assumptions you are making regarding the market environment for next year and beyond. Thank you.

Seto [A]: Last fall, around this time, a builders' conference was held at Harvard University. At that time, builders from various companies were predicting that 2025 would be a very good year for them. However, when 2025 came, it was not good.

In fact, at the same conference this year and the week before last, builders were predicting that the coming year would be even more challenging. What this means is that, in fact, as a result of the supply shortage situation that has been going on for many years now, customers on the high-end of the market are rebuilding to a certain extent, but first of all, customers on the low-end cannot afford to buy a house, and then people cannot build a house to rent.

What this means is that in the US, as you mentioned, interest rates on loans are not necessarily that low. Then, there are natural disasters, etc., that are raising insurance premiums, and premiums are rising to build homes. In addition, the affordability of housing has been drastically reduced due to the rising prices of materials used to build houses, such as aluminum, steel, and lumber, including tariff policies, as well as our toilets. I think the numbers are probably from five or six years ago, but the average annual income to average home price was three times higher. In short, whereas one could buy a house with three times the average annual income, one now has to pay roughly five times the average annual income.

So, to put it simply, I think the current situation in the US is that everyone wants a house, and although there are many people who want housing, they cannot afford it. I am not a government official, so I am speaking about what I think, but I think that if we want to change this situation to some extent, it will be difficult without some kind of policy to promote homeownership for the middle class and below, whether it is done by President Trump as a nation or by the individual states.

Actually, this same problem occurs not only in the US but also in Europe. Interest rates in Europe have already dropped considerably, but Europeans have the same situation, where there are interest rates, and then there are many policies, including environmental ones, that make it difficult to build houses, as another problem.

It was expected that policies to promote home acquisition would be adopted in Germany, France, and other large markets this spring or so. However, as you all know, in European countries, when the ruling party is very weak, a minority party is in power, and the expected policy of housing promotion is not being taken.

As a result, what can be said of both Europe and the US is that demand is very strong, but supply is low, or if supply is available, it is at a very high price. The actual market situation is more difficult in the US than in Europe, but each country has its own problems. I believe that the only solution to these problems will probably be policy-based.

In this context, as related to Mr. Fukushima's question earlier, I think it is more important for us to improve our portfolio position than to try to capture market share. In that sense, TOTO, a competitor of ours, has done

very well and had a very high portfolio position from the previous period, so I think they have a relatively stable business compared to us, Kohler, and other competitors.

In this sense, what we need to do in the US is to reflect on the past, and I think it is important to increase its portfolio position, not its market share.

MC [M]: Mr. Kawashima of SMBC Nikko Securities, it is your turn.

Kawashima [Q]: Two questions, please. The first question is that you mentioned about the additional cost here for simple ceramic siding. I believe this was previously in other expenses, but I would also like to ask if there is any impact on core earnings.

And my second question, when comparing Q2 of core earnings in Japan to Q1, Q2 should be more profitable in general seasonality, but this time, it does not seem to be the case with LWT and living. The reasons for this could be a reaction to the surge in demand or the timing of SG&A expenses, but since the rate of increase in renovation revenue is slower in Q2 than in Q1, does this mean that Q1 was just a little too good? Is there a bit of a competitive environment issue, or is Q2 slowing down a bit for reasons that are not the ones I just mentioned? Please tell us the change when looking at this quarter on quarter. These are my two questions.

Seto [A]: I honestly believe that LHT probably would have grown a little more strongly over Q2 if we had not decided to stop the ceramic business and prolonged its life a little longer. As you say, the only thing that affects core earnings is that if we stop the business, orders will decrease, which will make it more difficult for the business. They are going to have a hard time getting fixed costs paid.

And even if there is inventory, for example, if it is long tail inventory, of course, it is normal inventory if you think it will sell in the future, but if you assume that you will stop doing business, then, of course, it will be inventory that you will have to get rid of.

Then the customers, to be honest, become more demanding. For us as well, the operating rate will naturally drop significantly. On the other hand, however, we also bear the responsibility for supply, so we are in a difficult position of having to continue this business until a certain point. Even for customers, I think there will naturally be complaints about putting it off.

Considering such manifestations, including a significant portion likely to emerge in Q2 and beyond, we have also made adjustments in areas where we thought it might be problematic to maintain such a pessimistic outlook, as it could become a major issue later on. So, the first fact is that there has been a large drop in core earnings. We are trying to prevent this from continuing by somehow putting an end to the entire ceramic business by the end of this fiscal year. In that sense, we carried out things by thinking ahead in Q2.

Kawai [A]: As Mr. Kawashima just explained, compared to Q1, in Q2, both LWT and living saw a slight decline in new housing due to a reactionary decline in new housing that originally appeared in Q1.

Comparing quarter on quarter, the growth rate of the renovation business also slowed down slightly in Q2 compared to Q1, which resulted in a slight decrease in core earnings. Additionally, regarding living, while the high-end kitchen segment performed quite well in Q1, the product mix deteriorated somewhat. Although it didn't deteriorate as much in Q2, it slowed down slightly compared to Q1, and this is the main factor. That is all.

Kawashima [Q]: About the first question, could you tell us quantitatively on ceramic siding if possible? For the second question, is the slowdown in the renovation business normal, or is it just that Q1 was too good, or is there any reason for the slowdown?

Seto [A]: Roughly speaking, I think it is about JPY2 billion, which is more than we expected as a whole in the ceramic business in Q2. We believe that this is the result of a major cut we made. In terms of the difference between Q1 and Q2, there was a surge in demand in April. Then, of course, it was a cohesive business there, so naturally, the costs would be lower, and then it was a business where SG&A would be less. I guess I can't deny that Q1 was a little too good, if you ask me.

MC [M]: CLSA Securities, Mr. Mochizuki, it is your turn.

Mochizuki [Q]: Two questions, please. The first question is a little broader. I believe you recently issued a release on October 27th stating that corporate tax expense will be reduced. I think it means that about JPY12 billion will be reduced this fiscal year due to the German corporate tax. Since this was not revised in the plan this time, I don't think it was included, but could you please tell me why it was not revised?

Since core earnings was better than planned, we do not know how much the upward revision will be, and in that sense, there are some uncertainties, and costs may increase. I believe this JPY12 billion reduction in corporate tax will have a significant impact, so I would like to understand the background behind why it was not revised.

Second, we have been told that you will enter a phase of considerably improved profitability in the next fiscal year. In this context, you mentioned that the US business will improve, but how long do you think it will take for the US to turn a profit? I can imagine that the deficit will shrink, but I would like to know when we should expect to see a surplus, and what your thinking is on this for my second question. Thank you.

Seto [A]: Yes, that's right. I think we can probably get some more clarification at the next disclosure, including whether or not we are going to make any revisions. The difficult part is that we have a large number of corporations in various countries, and I think that the corporate tax balance needs to be corrected. This is the hardest part to predict, to be honest.

In this case, the profit was due to a decrease in deferred tax liability, but as you may recall, there was also a case last year where the loss was due to a decrease in deferred tax assets. This is an area where we are in flux every year, and it is very difficult to forecast.

This itself is still a little way off, so I cannot say anything definitive at this point. However, we are currently implementing reforms, including changes to the corporate tax payment system, aimed at making this area more predictable. If possible, we would like to design next year's tax structure to be a little more predictable and still allow for stable payment of corporate taxes in a way that is optimized. In that sense, the answer to your first question is that we would like to ask for some time to consider this as well. Do you have anything to add, Ms. Fujita?

Fujita [A]: We have recalculated the deferred tax asset, deferred tax liability, and liability and asset side positions for the German corporation. Although this is the outcome we've reached this time, as Seto just mentioned, there are various tax-related developments occurring within each corporation. Since we are planning to properly review this area as a whole, we are temporarily suspending the review of this point.

Seto [A]: Moving on, your second question is about the surplus in the US. As I mentioned earlier, the order is basically, first, a price optimization in October, then a partial manifestation of structural reforms and a second round of price optimization in January, and then a major structural reform in April of next year. Perhaps, although we can't promise this, we would like to do the timing of the surplus at the beginning of next year's Q4. Depending on the manifestation of prices in this area and the results of structural reforms, we believe that it may be possible to return to profitability in January or February of next year, for example.

Mochizuki [Q]: By next year's Q4, do you mean the January-March period of 2026?

Seto [A]: Yes, that's right. January or February next year. I am not sure if there will be enough days in January, so it may be in February. We are thinking about that.

MC [M]: Next question. Mr. Teraoka from Daiwa Securities, it is your turn.

Teraoka [Q]: I have two questions, please. First of all, I would like to organize a few thoughts on the US price increase. I believe that sanitary ware is produced in Mexico and is not subject to tariffs, and some showers are imported to GROHE, and other products are subject to various tariffs.

Is it correct to understand this price increase as an approach to gradually raise prices to a level where the full impact–including the portion attributed to tariffs, including sanitary ware–can be passed on? Also, it would be helpful if you could include your thoughts on the trend of price increases by competitors and whether or not this price increase will have a negative impact on volume.

Seto [A]: Yes. Naturally, the price is raised for more cost. Other than that, we are changing our portfolio as the biggest factor in improving prices. In short, we will focus on offering high-priced tier products rather than low-priced ones. The reason why this is possible is that if low-priced products from China and other Asian countries are no longer available, the structure of the products to be sold must be changed.

To be more specific, for example, we have Cadet as an entry-level product and Champion as a product that sells at a relatively high price. We have offered to greatly reduce the volume of Cadet and increase the volume of Champion. We have had our distributors say that this is acceptable.

In doing so, we have been working in Asia, and I think we have produced a maximum of about 9.7 million pieces in a year. Based on Mexico's current production levels, we're looking at an output in the low eight million range, around eight million or so. Therefore, rather than increasing the volume, we are specifically trying to increase the profit margin of each piece by improving our portfolio.

I just gave a retail example of this, but there are others, for example, offering premium toilets for trade. We are also changing the price and composition of the commercial-grade products, of which about one million are commercial-grade. As for commercial-grade, specific price increases have actually been made.

So, the overall price increase will not be that great as of October. I imagine that this portfolio will change starting in January, so in October and January. As I mentioned earlier, the Asian products that came in at the last minute back in April are now just about running out of stock. If so, we believe that we may be able to consider adding more in April of next year.

Teraoka [Q]: Second question. Are competitors not selling the color products that are selling well in Europe? Or, if competitors haven't entered the market yet, is there a risk that they might do so in the future? I am asking this question because I would like to consider how long you can expect to continue to gain market share from color products. Thank you.

Seto [A]: Among our competitors, there are companies that offer the same color products. Competitors are also succeeding with color products. Within our company, and even among our color products, there are successful items and those that aren't quite as successful, so we must identify the popular products. As a rough idea, the supply capacity of color products is probably more than three times what it was this time last year. In response to that, since we still have a shortage, we are sourcing products from external suppliers and are proceeding step by step to install the necessary equipment.

Perhaps in that sense, what is now the bottleneck is not demand, but supply. While there is room to add more color products, given that this involves equipment-related issues, it's not feasible to significantly increase capacity all at once until around April of next year at the earliest. In this context, we have been narrowing

down our product line to a certain extent in order to meet supply delivery deadlines. When supply increases that much, I think we'll need to determine whether increasing the number of SKUs will still yield the same growth.

It's difficult to determine whether this is merely a passing trend, but considering our customers' expectations for us–that they want high-end, design-focused products rather than similar items–we believe this is an area we must continue to expand in going forward.

Another good thing is that we are very strong in the Middle East and India, and the Middle East and India are very fond of colors, especially certain colors. In that sense, I think we have taken a lot of exclusivity there.

MC [M]: Now, the next person. Mr. Yagi from Morgan Stanley MUFG Securities, it is your turn.

Yagi [Q]: The first question is if you could tell us about your future approach to business profitability in Europe.

Comparing the Q1 and Q2 figures, it appears that the core earnings margin worsened in Q2, but I would like to ask you to explain the factors of this again. Regarding Q2 and beyond, while we see improvement compared to last year's seasonal patterns, I'd like to understand your perspective on core earnings margin–specifically, whether we can expect similar trends this year, such as strong performance in color products.

Seto [A]: First of all, the supply of color products increased in April, and we made a lot of improvements in that area at once, but after that, as I mentioned earlier, we had the problem of limited capacity. While color products have seen some growth in sales figures, the reality is that over the past six months, we've been selling them without significantly increasing supply. This has led to a situation where we are increasingly choosing higher-priced items.

One thing we're a bit concerned about in terms of cost is that brass prices have risen somewhat. Therefore, while we must respond by flexibly raising prices here, we are indeed making progress on that front.

Also, as Fujita explained earlier, inventory is increasing somewhat because the variety of products is inevitably increasing, as they are color products. That part of the cost of inventory is still somewhat higher. However, I think this is an area where management must be very careful.

Yagi [Q]: The second question asks for a bit more detailed view about the US. In some parts, you mentioned that the bottom had been reached during your explanation. Regarding this point, is the idea that the bottom has been reached because the future effects of structural reforms are becoming visible? Regarding the demand side, could you please explain again your view that demand has already started to bottom out, specifically your perspective that demand bottomed out in this Q1?

Seto [A]: One of the reasons why the bottom of the market was a little deeper than planned in Q1 is that we were unable to ship enough products due to the installation of a new system. Also, in Q1, there was still quite a bit of competition from overseas, as I mentioned earlier, products from overseas, so we suffered from that price aspect as well.

However, from our perspective, we have decided to reduce our supply this time. With just toilets, we were able to produce 9.7 million units. However, since we stopped production in Asia and China, we have reduced the number to 8.2 million, 8.3 million. Therefore, the impact on demand from reduced supply is low, and I believe we can actually increase returns by adjusting our portfolio at that point.

This may be repetitive, but one reason for the judgment that the bottom has been reached in Q1 is that some of the cost effects of structural reforms will begin to emerge from October. The structural reform effect on the largest, full-scale bathing business will be more evident in January. This applies not only to personnel but

also to logistics for facilities like bathrooms and logistics equipment. By streamlining these areas, the restructuring effects will gradually materialize in October, January, and April.

Regarding pricing, the effect of upgrading the portfolio and raising prices was seen in October as the impact of the price increase, while January will see the combined effect of the price increase and the portfolio upgrade. As for April onward, we believe that we will be able to make more profit under the circumstance that there will probably be no more imports from Asia.

I talked about how we will break even in January or February for Mr. Mochizuki 's question earlier, but our original plan was to make the break-even from next April, at the latest. Given the current situation, however, the deeper the trough we've hit, the more likely it becomes that we might actually achieve it as early as January or February next year. We're working hard with that goal in mind.

MC [M]: Next question. Mr. Nakagawa from Mizuho Securities, please ask your questions.

Nakagawa [Q]: One straightforward question, please. Regarding living and water-related products in Japan, the briefing materials mentioned an increase in showroom visitors during August and September. Could you briefly explain the background behind this and which products saw particularly strong demand? Thank you.

Seto [A]: Actually, the number of visitors had been decreasing until about July, but it has been increasing in August and September. As for this part, the number of visitors itself is actually increasing, including new housing. The products themselves aren't particularly special, but coincidentally, during our August and September period, we ran energy-saving campaigns for windows. If the numbers were higher than expected, I believe it's because more windows were installed. Other than that, there has not been a tremendous increase in a product in particular.

MC [M]: We have answered all the questions we have received so far. We will now conclude the Q&A session.

This concludes the earnings briefing for LIXIL Corporation for the H1 of the fiscal year ending March 31, 2026. Thank you very much for your participation today.

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