

[This is an English translation of the original text written in Japanese]

The LIXIL logo is displayed in a bold, orange, sans-serif font. The letters are spaced out, with the 'X' being a double-width character.

> Nikkei CNBC “Dialogue with the Top”

LIXIL’s President and CEO, Kinya Seto appeared on
September 28, 2021 program

LIXIL Corporation
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Nikkei CNBC “Dialogue with the Top”

Anchor: Kaori Takahashi, Editor Board Member, The Nikkei newspaper

Guest: Kinya Seto, Representative Executive Officer and President, and Chief Executive Officer, LIXIL Corporation



Kaori Takahashi: Now we present Dialogue with the Top. Today’s guest is Mr. Kinya Seto, President and Chief Executive Officer of LIXIL Corporation. Mr. Seto, thank you for coming today.

Kinya Seto: Thank you for having me here today.

Takahashi: During the COVID-19 situation, we are spending longer at home than before, aren’t we? I expect many people are considering remodeling?

Seto: Yes, I see that as the current situation, especially for countries that are relatively affluent. Given that people are staying home for a certain amount of time, the number of people who have started to consider investing money in making their living spaces more comfortable, rather than spending money on travel, dining out, or buying luxuries, is growing remarkably. Especially for water-related spaces, such as bathrooms or kitchens, I see it as a big global trend.

Takahashi: Actually, my residence is also being remodeled. It might be because of higher demand or because of the shortage of semiconductors, but a delay in the delivery of some necessary parts is causing a slight delay to the remodeling. Is it true that high demand and a shortage of semiconductors or parts is affecting the progress of construction work?

Seto: Yes, that is true. However, compared to other companies, I think LIXIL is managing those business risks relatively well. There were two things we did. One was narrow down the product line-up. In a situation where people became unable to go out because of COVID-19 spread, in general, the majority of end-users or our customers tend to look for specific products or regular sellers. Because they don't look for and select the items from a broader product line-up, what we must do is narrow down the line-up. We must narrow down the products we sell. And the other thing we did was to diversify our supply-chain.

Seto: However, because the same types of products and parts or electronic components tend to be manufactured in the same area or regions, they can all be badly affected by times such as a lockdown. Therefore, we diversified suppliers and manufacturing locations as much as possible. I think these two measures have been working well for us so far.

Takahashi: I see. You diversified and standardized.

Seto: Yes, exactly. To some extent we were able to diversify suppliers and narrow down the product line-ups we sell.

LIXIL		国際会計基準	
連結			
(億円)	21年4~6月期 (前年比)	22年3月期予 (前期比)	
売上収益	3457 ▲ 11%	1兆4400 ▲ 4%	
事業利益	230 黒字転換	800 ▲ 40%	
税引前利益	229 黒字転換	755 2.2倍	
純利益	168 黒字転換	470 ▲ 42%	

※事業利益は売上収益から売上原価、販管費及び一般管理費を控除して算出した金額

トップに聞く LIXIL(5938)瀬戸 欣哉 社長
在宅時間をより快適に、リフォーム市場を掘り起こし

Takahashi: I see. So, it means that thanks to those efforts, LIXIL is growing stronger even during the COVID-19 pandemic, doesn't it? Looking at the first quarter results for the current fiscal year, it's a very good start. And, according to the full-year forecast, it says Core Earnings (CE) will be 40% up on the previous fiscal year.

Seto: For the first quarter of the fiscal year ending March 2022, we were able to achieve record high core earnings, profit before tax, and net profit for the quarter. However, to be honest, in the latter half of the fiscal year, we have to be a little conservative because a time may come when we might be unable to sell as many products as we want, due to the impact on the supply chain caused by the lockdown that I mentioned earlier, and the rising prices of commodities. Even so, with these numbers achieved in the first quarter, we are at a pretty good level numerically, and the idea that we can confidently continue to get better is a sign of confidence, I think.

Takahashi: I see. Even though the first quarter was very strong, you didn't revise the full-year forecast from the original plan because you were viewing the situation cautiously?

Seto: That's right. Now it's very difficult to foresee what will happen next. Recently, people are talking about Evergrande in China, but it is not just Evergrande. For example, China now faces a massive power shortage. The lockdowns in India and Vietnam are happening in unexpected ways, so I feel it is better to be cautious at this time.

Takahashi: The Evergrande incident is weighing a bit on the stock prices of some housing stocks. In the case of LIXIL, how concerned are you about a global crisis... or rather this crisis coming from China?

Seto: In terms of "sales," naturally the slowdown of the real estate market in China was something we expected, and we Japanese have all experienced the bubble economy. At LIXIL, we have been shifting our focus from project sales to retail and renovation.

Another thing we did was to shift the products that were concentrated in the first and second tier cities to the third and fourth tier cities. Basically, in the real estate business in China, many buildings are sold as "skeletons", and toilets are usually bought from different places, so in that sense, we shifted our focus. In the beginning, we were selling a large volume per building (in terms of projects), but we have been changing our sales focus to retail channels and the renovation market, so in that sense, we have not suffered much damage. Having said that, in our case sales in China account for about 3.5% of the total. So, if you are talking about concerns regarding sales, I think they are limited.

Takahashi: That makes sense.

Seto: However, there are always concerns about the impact of China on the global economy—and also, as I mentioned earlier, risks in the area of purchasing electronic parts. If you are manufacturing electronic parts in China, I think there are always reasons to be concerned about what will happen due to the current power shortage.

Takahashi: I understand. It is very exciting to see how far the full-year performance will grow.

Takahashi: Regarding the water-related business that you mentioned earlier, first of all, I would like to ask how you plan to capture the growing demand for remodeling in Japan.



Seto: Yes, looking just at the situation “right now”, I think that interest in “comfort,” “health,” and “safety” has been increasing dramatically. In that sense, perhaps we’ve been lucky, but many of our products have been strong in these areas. For example, we have products such as touchless faucets and water purifiers. You don’t have to go out to buy water bottles, and you don’t have to touch anything. There are also products such as *Dokodemo Hand Wash (Washing hands everywhere)*, which allows you to wash your hands as soon as you walk through the entrance of your house, and *SPAGE*, which lets you take a shoulder bath when you want to relax a little. There is also a wall-hung toilet, *Float Toilet*, that is very easy to clean. The tank of the wall-hung toilet is behind the wall, so it is easy to clean. As I mentioned earlier, we have been able to narrow down our product line and strongly promote the areas that our customers are definitely interested in—which I believe is

likely the reason for our success.



Takahashi: I see. This looks easy to clean because there's empty space under the toilet. We use the toilet every day, so it feels good.

Seto: That's right.

Takahashi: What about another of your core businesses, housing materials?

Seto: The housing materials business is very important. It is important for us in the long run. As the population gradually declines (in Japan), so does the number of housing starts, and renovation is important for everyone. However, looking at the demand for renovation and new housing, the demand for renovation is X and the demand for new housing is twice that, which has always been the situation in Japan.

However, in Europe and the United States, the demand for renovation is usually three or four times the demand for new housing. The reason for this big difference is that in Japan there is a recognition that remodeling means replacement of water-related products, but in Europe and the United States, renovation is a necessary treatment or a maintenance for using houses for a long time. Therefore, we think that it is very important for the building materials related renovation business to grow.

Meanwhile, right now I think the biggest paradigm shift is the issue of climate change risk.



Seto: As you can see here, 32% of the world's primary energy consumption is due to building sector, which is the largest contributor. Next is the mobility-related sector such as automobiles. In developed countries such as Japan, I think it is probably around 40%. So, the degree to which CO₂ emitted from buildings can be reduced becomes very important. That means reducing energy consumption.

That's why our industry is working to make new houses net zero energy houses. The country is also making efforts, and various house makers are also working on it. Yet, even with this, only 800,000 households change every year. Meanwhile, there is a housing stock of 62 million residences, so it would take about 70 years through the current approach to switch all the residences in Japan from current specifications to highly insulated houses. And 90% of existing houses are houses that do not meet the 2016 energy saving standards. To put it another way, energy is leaking and being wasted. The energy that comes out of the opening space like windows is 58% (of the entire building), so just changing the single-glazed windows that are widely used in Japan to triple-glazed windows would be an approximately 90% improvement. Therefore, I think the most important point regarding Japan's CO₂ countermeasures is whether or not this can be changed.



Seto: People are talking about electric vehicles and hydrogen vehicles, but buildings are very important. To change the current situation, we have been promoting such things as *Super Wall construction method* and insulation remodeling. This is changing the outer wall of a house without building a new house. This method enables the exterior of existing houses to be renovated to improve heat insulation even while people live in those houses. In a sense, this will be a trigger for a switch to remodeling amid rises in commodity prices and higher prices for new homes due to lumber shortages. We believe such effort is necessary to change to a situation where demand for remodeling is higher than for new houses.

Takahashi: I see.



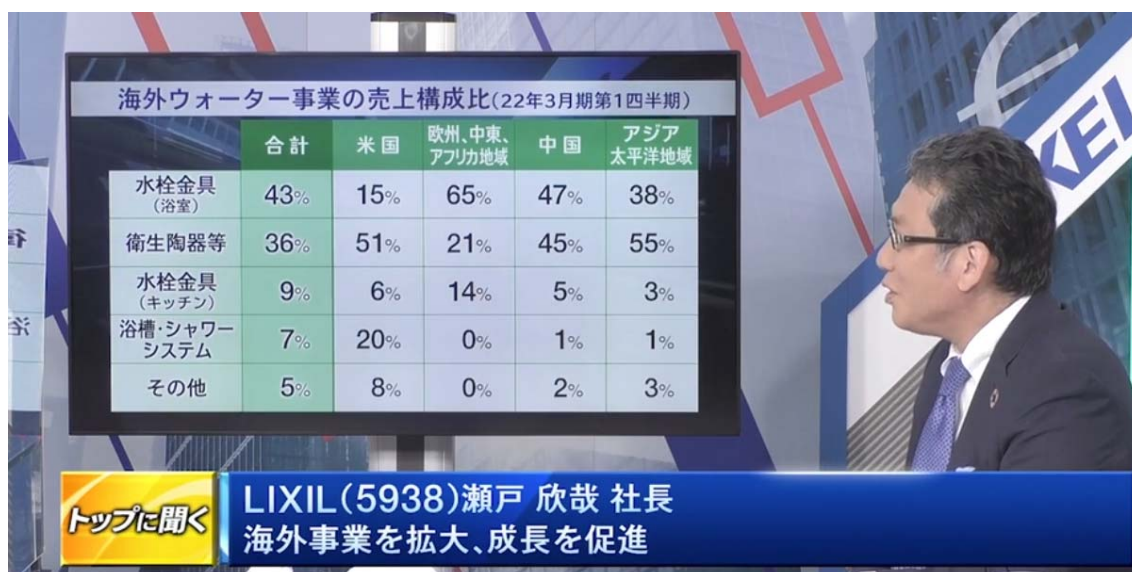
Seto: Other than that, when it comes to climate change, doors as well as windows will play an important role. It is already getting hot, so external sun shades and window blinds will be a way to adapt. Also, typhoons are becoming very severe and people won't be able to feel secure without shutters.

Takahashi: COP26 will be held this year and climate change measures are one of the focus areas of the Biden administration. This looks likely to have a huge impact on house building.

Seto: That is true. The government is starting to focus on this area and is giving subsidies in various forms, but unlike water-related products there are hidden issues. This is not just an energy issue. It is very important in terms of health considerations, for example preventing heat-shock

Takahashi: I suspect LIXIL will attract a lot of attention from this global environment perspective.

Seto: I agree. Thank you.



Takahashi: Next, I would like to ask you about LIXIL's expansion into international markets. Regarding your international operations, I heard that one distinctive feature is that you are working on expansion to all regions.

Seto: Yes. Although there are a number of water-related companies developing globally, we are the only company which handles almost all housing-related products in almost all regions. We are developing our businesses in more than 150 countries.

Seto: You may think that what I'm saying sounds boastful, but our profitability is actually low compared to our global competitors. It is a terrible shame, but this table shows the reason for our unfortunate low profitability.

We are not achieving much profit in strong areas. For example, we are very strong in hygiene ceramic products such as toilets in Americas, but ceramic products in Americas are a low profit business. Similarly, the profitability of hygiene ceramic products is said to be low in China and Asia Pacific as well.

We have high market share in the product categories with low profitability, while conversely our presence is not enough in the area of kitchen faucets, even though it is a very highly profitable business. But as per the Chinese proverb, one can also say that "weak is strong". If you already have high market share in a high profit area, you cannot lower the profitability. In order to succeed over our competitors, we need to strengthen our weak areas as well as improve profitability. This is one reason why our first quarter went well. For example, in Americas, we have been able to drastically grow our faucets business, although it was said that hygiene ceramic products were our only strong area there to date.

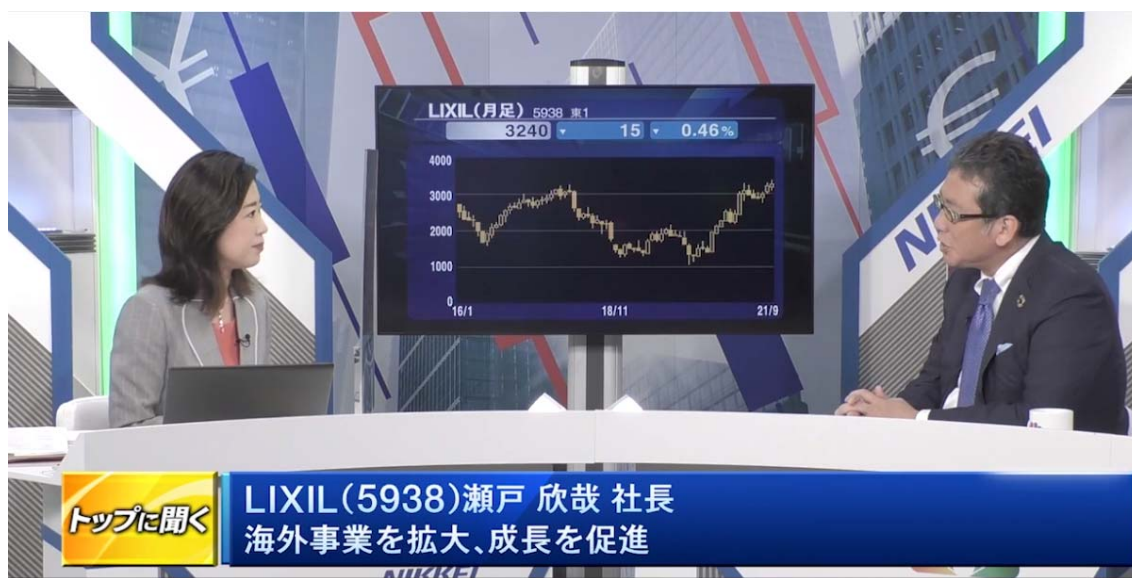


Seto: And, in Europe, faucets were the business area where we originally had strength. However, kitchen faucets are a better business than bathroom faucets for profitability. In particular, we have launched *GROHE Blue*, a chilled and sparkling water filter system in Europe and Japan. This product is extremely well suited to current times. People do not want to buy bottled beverages and discard plastic bottles. This is a very high profit product for us. So, in other words, I think that the reason we succeeded so well in Q1 is that we could grow our sales in such high profit areas in

Europe (namely, kitchen faucets and water systems).

Takahashi: So this is one of the reasons for the extremely strong performance in Q1?

Seto: Yes.



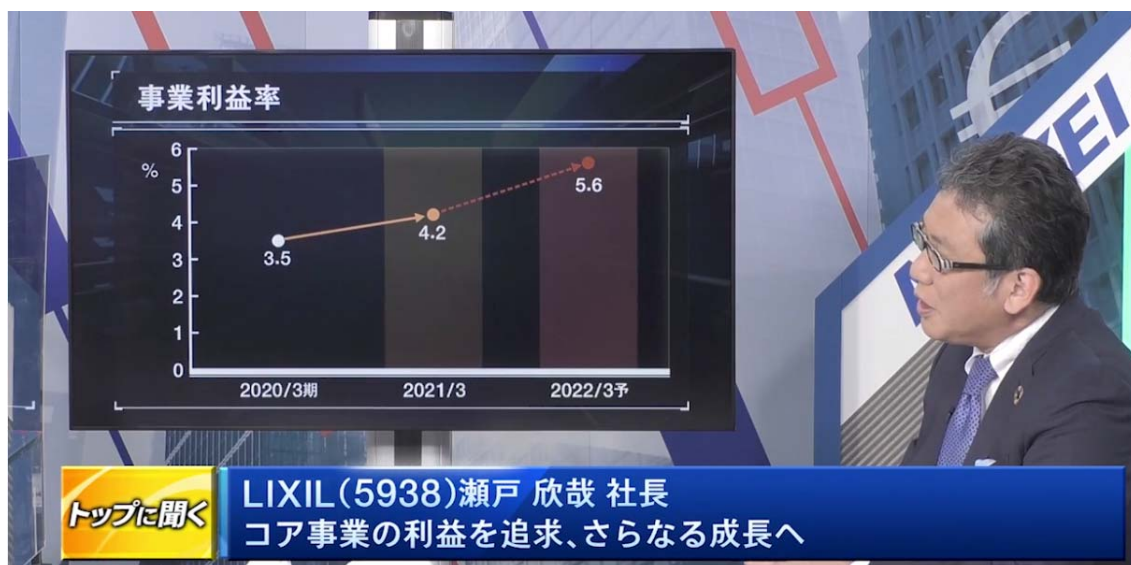
Takahashi: You returned to your role as LIXIL CEO in June 2019. And now the company is celebrating a tenth anniversary as LIXIL, having been created in 2011 when five companies including TOSTEM and INAX integrated. The stock price is been going up since your reappointment. Could you explain your management direction?

Seto: I feel very sorry for causing shareholders and investors great worry and anxiety due to my eight-month absence. But having done that painful proxy fighting, now I do believe current management members are firmly united and have sense of urgency to change the current company. We need to accelerate digitalization. And in terms of company direction, we need to promote production reform. We need to implement painful reforms, and I feel we are doing so with a great feeling of speed.

Seto: As you may know, I ran a venture company called MonotaRo before coming to LIXIL. One of MonotaRo's strengths as a venture company was its speed. And the speed of reform at LIXIL now is the same as I felt when I was running MonotaRo. So, I am confident that I can grow LIXIL even more. This confidence was born out of the fact that everyone in the team has come to agree on what part of the business should be reformed. For example, in Japan that we should reform the cost or

innovate products. Or international, it is agreement about where we should focus our business. I think it is from that.

Takahashi: I agree. Mitsubishi UFJ Morgan Stanley has raised the target price of LIXIL to JPY 3,500.



Takahashi: Can you tell us about the improvement in Core Earnings (CE) margin that you mentioned earlier?

Seto: Yes. We believe that 10% CE margin is ultimately required at a minimum. In the case of our company, when the CE margin goes up to 10%, the ROIC also goes up to about 10% coincidentally, which is very important for the sustainable growth of the company. However, in order to reach that point, we have to first set a goal of 7.5% as a CE margin, and I believe we must do it quickly. On the other hand, we are confident that once the CE margin reaches 7.5%, we will have the momentum to naturally reach 10%.

Takahashi: To conclude, the CE margin is currently 5.6%. The next step is 7.5%, and LIXIL further aims for 10%.

Takahashi: You are closely associated with MonotaRo in my mind and you have a very strong background in digital. The LIXIL Online Showroom is attracting lots of interest during the COVID-19 pandemic, isn't it?

Seto: Yes. The LIXIL Online Showroom is beneficial to many people. I think it's especially beneficial for our customers. They don't have to go out to see the showroom. Also, it makes it easier for our showroom employees to provide consultation services to our customers at night. Additionally, our Online Showroom doesn't just involve having a conversation via Zoom—we can assemble products on the spot. For example, if it is a kitchen, we can do things such as display the customer's kitchen using AR (augmented reality). We have also added an AI assistant function that analyzes interactions with the customer and makes suggestions to make it easier for the customer to choose. In that sense, we haven't just switched to Zoom, and there is high future potential. We have a customer satisfaction rate of 93%, and I think we'll probably have 5,000 Online Showroom visits this month.

Takahashi: You can visit the LIXIL Online Showroom after work while home at night. I'd really like to try it too.

Seto: Yes, please do so!

Takahashi: We would like to thank Mr. Kinya Seto from LIXIL for joining us today. Thank you, Mr. Seto.

Seto: Thank you very much.

[ENDS]

Cautionary Statements with Respect to Forward-Looking Statements

Statements made in this material with respect to plans, strategies and future performance that are not historical facts are forward-looking statements. LIXIL Corporation cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.