



LIXIL Corporation

Q3 Financial Results Briefing for the Fiscal Year Ending March 2024 for Investors and Analysts

January 31, 2024

Event Summary

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[Number of Speakers]	3	
	Kinya Seto	Director, Representative Executive Officer, President, and CEO
	Sachio Matsumoto	Director, Representative Executive Officer, Executive Vice President, and CFO
	Kayo Hirano	Senior Vice President, Leader, Investor Relations Office
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Presentation

MC: It is now time to commence the quarterly financial results briefing session for Q3 of the fiscal year ending March 31, 2024 of LIXIL Corporation. This briefing is being conducted via live internet streaming. Thank you very much for your cooperation.

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

Seto: Thank you for your time.

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

Matsumoto: Thank you very much.

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

Hirano: Thank you very much.

MC: I am Kawai, IR Office, and I will be in charge of today's proceedings. Please refer to the presentation materials posted on the Company's website and in the Investor Relations section of the Company's website.

I will then explain today's proceedings. First of all, Mr. Seto, President and CEO, will explain the financial results for Q3 of the fiscal year ending March 31, 2024. There will be time for questions and answers afterwards. If you have any questions, please enter your company name, your name, and your question using the Q&A button displayed at the bottom of the viewing screen. Please note that we would like to limit each person to two questions first. Questions are always welcome. The event is scheduled to end at 6:00 PM. Please stay until the end.

Now, Mr. Seto will explain the financial results for Q3 of the fiscal year ending March 31, 2024. Mr. Seto, please begin.

Seto: Hello everyone. I would now like to provide an overview of the financial results for Q3 of the fiscal year ending March 31, 2024. First of all, we would like to express our deepest sympathies to all those affected by the Noto Peninsula Earthquake of 2024, which occurred on January 1, 2024. We also sincerely wish for the earliest possible reconstruction of lives and recovery of the affected areas.

Our purpose is to make better homes a reality for everyone, everywhere. It is truly sad that such a tragic disaster has occurred for such a company. As a manufacturer of building materials and housing equipment, we would like to cooperate as much as possible to help people rebuild their lives as quickly as possible.

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› KEY HIGHLIGHTS

Summary of results for Q3 FYE2024

Revenue decreased while Core Earnings increased year-on-year for Q3 (9 months) FYE2024

- Revenue was flat year-on-year, while core earnings increased by JPY5.6 billion to JPY26.6 billion
- For the Japan business, profitability significantly improved due to stabilization of variable costs such as raw material prices and component prices, the transfer of cost increases to selling prices, and an increase in demand for renovation products to improve home insulation continuing from the first-half
- For international businesses, expectations for interest rate cuts in both Europe and the US are rising, with currently subdued demand expected to recover
- Structural reforms are underway to improve management resilience, particularly in international businesses
- Recorded Permasteelisa-related loss of JPY4.8 billion (loss from Discontinued Operations: evaluation losses on amount to be refunded to LIXIL out of capital contribution at time of sale). No cash outflow or additional loss will be recorded regarding this matter⁽¹⁾

LIXIL ⁽¹⁾ Announced on January 22, 2024, "Announcement on Recording a Loss for the Quarter from Discontinued Operations (Consolidated) and Extraordinary Loss (Stand-alone), and the Consolidated Financial Forecast for the Third Quarter of the Fiscal Year Ending March 2024" ² <https://ssl4.eir-parts.net/doc/5938/tdnet/2382590/00.pdf>

Let me begin by discussing the financial results. For the fiscal year under review, sales revenue is almost on a par with the previous year. On the other hand, we believe that we were able to increase core earnings by JPY5.6 billion over the previous year.

The actual decrease in net sales would have been a little larger if not for the impact of foreign exchange rates. On the other hand, as for core earnings, the Japan business did better than expected, and while the recovery of the international business was delayed, we were able to significantly reduce head office expenses, which we believe led to the current recovery.

In the Japan business, as noted here, in addition to stabilization of raw material prices and variable costs, we have been able to recover market share. As a result of passing on higher costs to our customers before our competitors, we had lost market share, but our competitors have also raised their prices. Another good thing about the Japan business is that thanks in part to subsidies, demand for renovation products to improve home insulation has increased, resulting in a very large improvement in profitability, especially with respect to LHT.

On the other hand, the international business continued to do particularly poorly in Europe, and the situation in the United States was not so good. As I have explained repeatedly, when interest rates are rising and inflation is rising, people tend to avoid investing in housing because they would rather invest in other inflated products first, rather than in housing materials and housing, which have long product life spans. This is one of the reasons why investment in housing has been avoided.

Also, when thinking about loans, especially for new housing or replacement loans, if the cost of the new loan is higher than the loan previously taken out, I think there were some areas where people were deterred. However, if interest rates remain high for a long time, that will mean that housing demand will revive at some point, but conversely, it has become somewhat more probable that interest rates will fall here.

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In Europe and the US, there are various forecasts, but when it is predicted that interest rates will fall in June or so, it is better to wait until then. Conversely, I think that because of the fall in interest rates, there is a temporary tendency for the emergence of demand to be rather delayed.

However, as I mentioned earlier, there is a reasonable probability that interest rates will probably fall this year. Given the fact that inventories at wholesalers and wholesale dealers, which are our customers, have been decreasing and are now at about the same level as usual or lower, we believe that once it becomes clear that demand will return, the probability that orders for us will also increase is also increasing.

Also, with regard to the US, the demand situation is actually improving a little bit. In the US, our strategy is to shift our business model from selling relatively cheap toilets to more profitable faucets, such as taps and showers. Although the volume effect will not be seen immediately, we are certain that the overall recovery will be a major boost to the company's business.

However, to repeat, it is very important to increase management resilience in times like these, so we will continue to carry out structural reforms, including in assets such as personnel and factories, to change our structure to achieve reasonable results even in bad times and very large results when times are good.

On the other hand, the loss of JPY4.8 billion related to Permasteelisa was not a loss of cash outflow. At the time of sale of Permasteelisa, LIXIL contributed a certain amount of capital, which was to be refunded to LIXIL in the event that the cashflow of Permasteelisa meets certain conditions at a certain point in accordance with the agreement. However, Permasteelisa did not eventually reach such a situation and the capital contribution was not refunded.

However, when I think about it, the fact that there was COVID during that time, and the fact that many projects unexpectedly stopped, I honestly think it was a good decision for us to have sold Permasteelisa at that point in time. There are no cash outflows or additional future losses related to this matter.

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> KEY HIGHLIGHTS

Summary of results for Q3 FYE2024 and business outlook (by segment)

■ LHT (Japan)



- The penetration of price optimizations and increased profits due to higher renovation demand for home insulation products contributed significantly to profitability improvement. This is expected to slow in Q4 due to sluggish demand for new housing
- Some factories were affected by the January 1 Noto Peninsula earthquake, but operations are continuing and the impact on business performance is minimal
- The Japanese Government approved the subsidy program for advanced window renovation projects as part of the supplementary budget for fiscal 2023. The budget was increased from JPY100 billion last year to JPY135 billion. In addition to renovation projects for higher insulation with windows, door was added to the list of eligible products⁽¹⁾. Orders received temporarily declined in January due to the transitional period between new and old subsidies in terms of shipments

■ LWT (Japan)



- Profitability improved due to recovery of our market share with the normalization of the competitive environment
- However, demand is temporarily declining for both new housing and renovation in Q4 due to seasonal factors, and the situation needs to be monitored closely

LIXIL (1) Program website https://jutaku-shoene2023.mlit.go.jp/news/touroku_continuation.html (Japanese only)

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First of all, regarding the Noto Peninsula earthquake I mentioned earlier, there were no casualties at our company. We have not suffered any major damage. We have a factory in Hokuriku region, so we had to make repairs to some extent, but there was almost no impact on our business, such as shipments.

In this context, as I mentioned earlier, subsidies for thermal insulation renovation have become a tailwind, and the budget has increased to JPY135 billion from the previous budget of JPY100 billion. Not only windows but also doors are now covered. I think the LHT business is getting a tailwind from this increase.

However, the first subsidy of JPY100 billion was originally intended for the period from April of last year to March of this year, but the situation became so severe quite early, that we had to cut back on orders in the fall of last year, when the subsidy was almost exhausted.

As a result, the next subsidy was issued and we were able to use it ahead of schedule, but there was a period when orders stopped due to some changes in the scope and content of the subsidy. Therefore, in terms of shipments, there were fewer orders in January, but in the long run, I believe that this is a significant tailwind.

Not only in this advanced window renovation project, but also in Japan as a whole, there are subsidies for renovation to save energy. In the world as a whole, if energy costs go up, we could be in trouble, and in some cases, power outages could occur in the summer. Due to those risks, people are gradually beginning to invest in energy-saving measures, such as thermal insulation. I think it is a very good trend that renovation used to be about the water-related items, but now it is also affecting housing business.

On the other hand, in the LWT business, as I mentioned earlier, we have recovered or gained market share in the past three months in areas where we lost market share because we were ahead of our competitors in

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terms of price increases for various cost increases. In this sense, profitability has improved, partly because we are now able to produce some volume.

However, as far as new housing is concerned, my impression is that it is coming down faster than expected. From this point on, I still think that we need to work a little harder on renovation, and that it is important to increase the ratio of renovation more than ever before. In addition, as for Q4 itself, Japan as a whole is going to do its best, even though it is an annual period when business is on the margins.

> KEY HIGHLIGHTS

Summary of results for Q3 FYE2024 and business outlook (by segment)

■ LWT (International)

Period	Core earnings (JPY billion)	Core earnings margin (%)
FYE23 Q3	3.1	3.1%
FYE23 Q4	6.7	6.7%
FYE24 Q1	-1.3	-1.3%
FYE24 Q2	0.6	0.6%
FYE24 Q3	1.9	1.9%

- Expectations for interest rate cuts in both Europe and the US are rising, with currently subdued demand expected to recover
- Positive effects from structural reforms underway in Europe and the Americas are expected to be realized starting from Q4
- Impact of the Red Sea disruptions is expected to result in route changes and higher freight rates, but details are under scrutiny

Structural reforms to improve management resilience

- Optimize personnel allocation
- Major restructuring costs are expected to be recorded in Q4
- Restructuring supply chain
- Short-term benefits are under scrutiny and are expected to be included in the forecast for FYE2025
- Optimize business portfolio
- Further expand in potential markets
- Approaching potential growth markets

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For international businesses, a major factor is that Europe, our main source of profits, has yet to recover, especially in the housing sector. As I mentioned earlier, investment in housing is lagging due to high interest rates and high inflation, but I think it is just a matter of time.

On the other hand, we are pursuing structural reforms. There is the effect of lower costs, and there are also good signs that our customers' inventories are decreasing, so we are certain that things will improve in the future, and we believe that they will improve at some point this year.

Last but not least, the Houthi attack on a ship in operation in the Red Sea, which has been causing some concern, will result in a change of route, which may take two to three weeks longer than the normal route, and also increase the fuel costs.

With regard to the products in question, in our case, for example, we have some parts from China that are destined for Europe. We also believe that goods shipped from Europe to the Middle East are the main potential targets of damage. As I mentioned earlier, we may need to add a month or so to the inventory when take the route around the Cape of Good Hope.

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However, as you will see later in my explanation, the inventory for the company as a whole is finally coming down now. Both Europe and the Americas. So, considering that in the midst of that big drop, I don't think we are seeing a big impact so far. But of course, if this conflict in the Middle East were to spread far and wide, I believe there will be other problems.

For example, I think there is a natural risk that rising oil prices will cause inflation, which will delay the recovery of the housing recession, and if the Red Sea becomes dangerous, demand in the Middle East may drop, as there are quite a few mega projects by Saudi manufacturers that are close to the Red Sea. Therefore, we believe that there may, of course, be a possibility that demand in the Middle East will fall. However, we do not see any visible negative effects at this point.

One important point is that what we can do now is to carry out structural reforms. There is also the placement of people there, and then things like where to make things. Then, what assets will we hold on to as our own, or will we change our business portfolio? We have been doing this in the first place, but we will accelerate it. In addition, there are things that are difficult to proceed with without this kind of timing, so it is important to carry out these things this fiscal year, and I think that these restructuring costs will be recorded in Q4.

I believe that working hard to achieve these goals this fiscal year will be a positive thing in the long run, and that a full-fledged recovery in Europe and the US will be difficult to achieve by the end of this fiscal year. The recovery will probably take place somewhere in the middle of the next fiscal year. However, we feel that we can have a certain level of confidence in the fact that we were able to achieve this level of results even with such a poor performance in international markets this time.

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> Q3 FYE2024 PERFORMANCE HIGHLIGHTS

Core Earnings increased year-on-year

- **Revenue: JPY1,122.9 billion, down JPY0.9 billion year-on-year**
 - Q3 (3 months) YoY: +1% in Japan and -5% in international markets (-12% excluding foreign exchange impact)
 - Q3 (9 months) YoY: +1% in Japan and -4% in international markets (-11% excluding foreign exchange impact)
- **Core earnings: JPY26.6 billion, up JPY5.6 billion year-on-year**
 - Q3 (3 months) breakdown: JPY10.2 billion in LWT Japan, JPY2.2 billion in LWT International, JPY14.3 billion in LHT, and -JPY8.9 billion for consolidation adjustment/other factors
 - Q3 (9 months) breakdown: JPY18.4 billion in LWT Japan, JPY1.3 billion in LWT International, JPY32.9 billion in LHT, and -JPY26.0 billion for consolidation adjustment/other factors
- **Profit for the quarter⁽¹⁾: JPY6.8 billion, down JPY4.2 billion year-on-year**
 - Decreased by JPY4.2 billion YoY primarily due to recording loss for the quarter from Discontinued Operations of JPY4.8 billion resulting from the transaction at the time of sale of Permasteelisa

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

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Sales revenue would have declined by about 10% if the impact of foreign exchange rates had not been a factor. On the other hand, we believe that the increase in core earnings is one sign that the structure is improving. I thought the improvement of LHT in particular was very remarkable.

As for the profit for the quarter, as I have said repeatedly, the temporary loss of the Permasteelisa portion, which is not a cash outflow, nor is it something that will continue in the future, so in that sense, I think it was a good quarter.

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› Q3 FYE2024 CONSOLIDATED BUSINESS RESULTS

	Q3 (9 months)				Q3 (3 months)		
	FYE2023	FYE2024	Increase/ decrease (YoY)	%	FYE2024	Increase/ decrease (YoY)	%
JPY billion							
Revenue	1,123.8	1,122.9	-0.9	-0.1%	390.7	-0.5	-0.1%
Gross Profit	352.5	362.3	+9.8	+2.8%	128.1	+4.9	+4.0%
(%)	31.4%	32.3%	+0.9pp	-	32.8%	+1.3pp	-
SG&A	331.5	335.7	+4.2	+1.3%	110.4	+2.0	+1.8%
Core Earnings (CE) ⁽¹⁾	21.0	26.6	+5.6	+26.7%	17.8	+2.9	+19.8%
(%)	1.9%	2.4%	+0.5pp	-	4.5%	+0.8pp	-
Profit for the quarter including Discontinued Operations ⁽²⁾	11.0	6.8	-4.2	-38.5%	6.3	-1.0	-13.9%
EPS (JPY)	38.24	23.62	-14.62	-38.2%	21.91	-3.55	-13.9%
EBITDA ⁽³⁾	82.5	87.0	+4.4	+5.4%	38.4	+2.3	+6.3%
(%)	7.3%	7.7%	+0.4pp	-	9.8%	+0.6pp	-

■ **Gross profit margin:** Increased by 0.9pp YoY

■ **SG&A expenses:** Increased by JPY4.2 billion YoY (Japan JPY3.6 billion decrease, International JPY0.6 billion decrease, forex effect JPY8.4 billion increase) due mainly to foreign exchange impact. SG&A ratio increased by 0.4pp

■ **CE margin:** Increased by 0.5pp YoY

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

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As for the consolidated results for Q3, the gross margin is improving. SG&A expenses appear to have risen slightly, but considering foreign exchange rates and other factors, I think they have been reduced. We also believe that the significant drop in head office costs has also had a significant effect.

Also, I would like to reiterate that one of the characteristics of our company is that we are still in a disappointing core earnings situation, but we believe that we are able to maintain a certain level of ratio with respect to EBITDA. Especially since it has returned to 9.8% in the last three months, in this sense, we have sufficient ability to generate profit, and although the depreciation of heavy assets may not be sufficient for the core earnings figure, I think this part of the business is also subject to structural reform.

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› Q3 FYE2024 BUSINESS RESULTS BY SEGMENT

LWT revenue and profits decreased on sluggish demand in Europe and the Americas. Profitability for LHT improved due to price optimization and higher sales of renovation products for insulation

	JPY billion	Q3 (9 months)			Q3 (3 months)	
		FYE2023	FYE2024	Increase/ decrease (YoY)	FYE2024	Increase/ decrease (YoY)
LWT	Revenue	683.2	668.5	-14.8	232.4	-4.8
	CE	36.0	19.7	-16.3	12.4	-3.0
LHT	Revenue	454.3	462.5	+8.2	161.7	+0.6
	CE	15.5	32.9	+17.4	14.3	+4.8
Consolidation, Adj. & Other	Revenue	-13.7	-8.1	+5.6	-3.4	+3.7
	CE	-30.5	-26.0	+4.5	-8.9	+1.1
LIXIL	Revenue	1,123.8	1,122.9	-0.9	390.7	-0.5
	CE	21.0	26.6	+5.6	17.8	+2.9

Q3 impact from segment reclassification⁽¹⁾
 LWT: Revenue JPY0.0 billion, CE -JPY1.7 billion
 LHT: Revenue -JPY5.4 billion, CE +JPY1.7 billion
 Consolidation adj.: Revenue +JPY5.4 billion
 CE +JPY0.1 billion

Forex impact⁽²⁾
 Q3 9 months: Revenue +JPY28.0 billion, CE +JPY1.6 billion
 Q3 3 months: Revenue +JPY9.2 billion, CE +JPY0.5 billion

LIXIL (1) Reflects reclassification of a subsidiary from Q1 FYE2024 to encompass both LWT and LHT (originally classified only to LHT), reflecting its P&L impact. The reporting segments changed to LWT and LHT
 (2) Forex translation effect gain(loss) from international subsidiaries

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The results for Q3 are shown here. The overall core earnings improved significantly due to the improvement in LHT, mainly in renovation for thermal insulation, and the decrease in expenses at the head office.

As for LWT, compared to October 2022 to December 2022, the figures for the international business have dropped significantly compared to that period. This is because Europe was not yet in a bad shape at that time and it was before the housing recession reached this level. Therefore, the fact that the figures are down significantly compared to those months is a significant change in the figures.

Also in Japan, the government is trying hard to shift from new housing to renovation, but I think it is undeniable that the sudden drop in new housing has had a negative impact.

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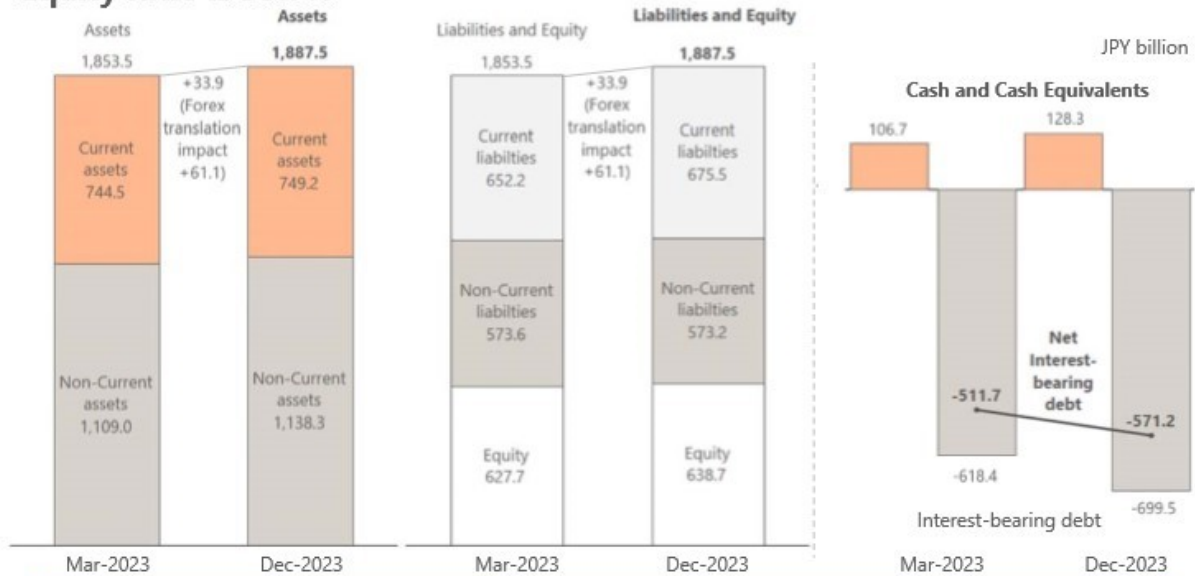
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› CONSOLIDATED FINANCIAL POSITION

Total assets increased slightly, due mainly to foreign currency translation⁽¹⁾. Net interest-bearing debt decreased by JPY17.1 billion from Q2 but was higher than end-FYE2023 due to an increase in working capital.

Equity ratio is 33.7%



LIXIL (1) Excluding the forex translation impact, the total assets decreased by JPY27.2 billion, out of which JPY31.4 billion was for inventories decrease.

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As a result, on a consolidated basis, assets have increased due to the impact of foreign exchange, but I think it is safe to say that the contents of the assets have not increased, rather they have decreased.

Looking at the big news in this context, it appears that net interest-bearing debt has increased in Dec-2023 compared to end of Mar-2023, but on the contrary, if we look at from Q2 to Q3 of this fiscal year, it has decreased by JPY17.1 billion. In other words, we are finally in one of those periods where the overall momentum is changing for the better, and we are finally in a period where things are getting a little better structurally. The main reason for this, we believe, is that inventories are decreasing.

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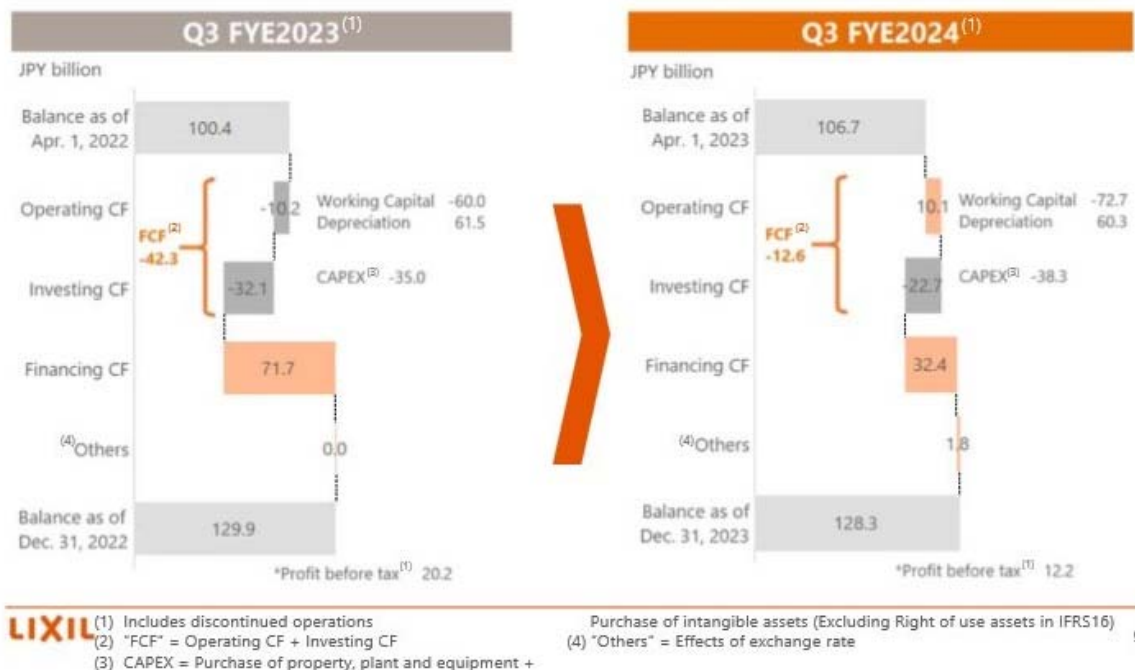
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› CASH FLOW STATUS AND CASH BALANCE

Free Cash Flow (FCF) increased by 29.7 billion yen compared to the same period last year as operating cash flow turned positive in the current Q3 due to progress in inventory reduction



Cash flow is similar, and one big piece of news is that operating cash flow has turned positive. We believe that the improvement in working capital, or in other words, the improvement in inventories, is the major impact here.

Naturally, there is seasonality in cash flow and interest-bearing debt, but the good news is that the momentum is clearly improving as a major structure.

The above is a general overview of the situation. I would like to cover the details in response to your questions. Thank you.

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Question & Answer

MC [M]: Okay, we will now have time for questions and answers. If you have any questions, please click the Q&A button at the bottom of the screen. On the input screen, please enter your company name, your name, and your question, and then submit it.

Now, let me introduce the first question. Mr. Mochizuki from CLSA Securities, we received one question.

Mochizuki [Q]: The profitability of GROHE is deteriorating rapidly, but am I correct in understanding that the core earnings margin to GROHE in Q4 will be about the same as Q3? If I understand correctly, of the increase/decrease in LHT's core earnings, SG&A expenses are plus JPY0.7 billion in Q3 cumulative total, compared to the full-year plan of minus JPY7.9 billion. Will the Q4 profit decline by JPY8.6 billion?

Seto [A]: As for GROHE's rapidly deteriorating profitability, I think the point is that over the course of one year, compared to where it is, but first of all, if you compare the Q3 (9 months) ended December 31, 2022 to the Q3 (9 months) ended December 31, 2023, this is of course worse.

The reason for this, as I have already mentioned, is basically that, because of higher inflation and higher interest rates, investment in housing is no longer being made, and the volume of sales has decreased significantly, which has caused the fixed ratio to increase and become worse. In that sense, rather than rapidly, I think the fact that it has already become worse in the past. I don't think the situation is getting worse and worse, but rather that the situation has been going on since last March.

As for whether Q4 is about the same as Q3, it is difficult to say at this point, but it really depends on demand, and as I mentioned earlier, I think the bottom has already been hit, so it is hard to imagine that it will get any worse.

The reason for this, is that there may be some reluctance to buy because they see that interest rates are going to fall, and that may have some impact on overall sales, but looking at the situation in January, it has not gotten that bad. So I don't think it will get any worse. In that sense, we think it could be about Q3 or even better.

I think the issue is when things will get better from here on out.

As for the increase/decrease in LHT core earnings, one thing I understand is that it is an addition and subtraction to the current full-year plan, so in that sense, there will be no decrease in profit. There is no reason to think that because progress has been made, the situation will worsen later.

On the other hand, in terms of SG&A expenses, although there will be some expenses in March, we do not see any material factors that would result in a significant decrease in profits.

MC [M]: Next, we have two questions from Mr. Kawashima of SMBC Nikko Securities.

Kawashima [Q]: This is the first question. With regard to the full-year results, how will you compensate for the difficult progress of your international business?

Seto [A]: In Q3, I would like to conclude by saying that the difficult progress in the international business has been compensated for by the progress in the Japan business, especially LHT, and by the effects of our structural reforms. In terms of structural reform, more progress has been made in Q4 than in Q3.

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On the other hand, there is a point in Japan's business where Q4 is worse than Q3 at times, so I think it is a question of how to balance the two.

MC [M]: Next, we have a second question from Mr. Kawashima.

Kawashima [Q]: Please tell us about the sales volume trend in Japan. Excluding the effect of price optimizations, please indicate what the volume of new housing and renovation has been for your main products.

Seto [A]: Excluding the effect of the price optimizations, as I mentioned earlier, the Japanese market has also decreased excluding the effect of the price optimization. This means that there has been a large decrease, especially with respect to new housing.

As I mentioned earlier, we lost market share in the first half of the fiscal year due to the price hikes, and we are finally recovering in Q3, so we are seeing a decline in the kitchen market, I think that the decline in new housing was also significant.

As for the bathrooms, on the contrary, I do not think they were bad. We believe that the new housing was also good, especially with regard to renovation. In terms of toilets, we were too dependent on new construction during the current fiscal year, and I think that is why we did so poorly.

In the area of water-related products in general, compared to our competitors, we still have more weight on new housing than renovation, and we have not been able to shift enough our business to renovation. We think that we suffered a little bit in that regard.

On the other hand, in the case of LHT, excluding the window insulation renovation this time, products that are inevitably the result of new housing, such as ordinary sashes and exteriors, are sold in a very large number of cases of new housing. In this sense, I think that since new housing sales dropped this time, the sales volume must be bad even if the effect of the price revision is not excluded.

But as for the LHT, again, I think that the insulation reform eventually made up for that. As for the numbers, Ms. Hirano will respond later to the extent that she can disclose them.

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

Yagi [Q]: The first question. What is the background behind ASB's loss in Q3 and what is the outlook for core earnings in the future?

Seto [A]: Q3 is profitable for three months. Therefore, as you can see from the comparison with Q2 figures, I think it is safe to say that the deficit is narrowing.

Given the fact that overall demand was declining in 2023, I think the main reason for the decline was that the volume in the US decreased to some extent, including at other companies. On the other hand, we have also been able to turn Q3 into a profitable business due to the structural change and decline in inventories in our business.

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PERFORMANCE OF MAJOR INTERNATIONAL SUBSIDIARIES

ASB (ASD Holdings) USD million	Q3 FYE2023	Q3 FYE2024	YoY
Foreign exchange rate (Average rate)	135.40	142.76	-
Revenue	990	974	-2%
Core earnings	-53	-14	-
Core earnings margin	-	-	-

Accounting period	FYE2023	Q3 FYE2024 (9 months)		
	Balance	Amortization	Others ⁽¹⁾	Balance
Foreign exchange rate (Current rate for balance, Average rate for amortization)	133.53	142.76	-	141.83
Goodwill ⁽²⁾	247	-	0	248
Intangible assets ⁽²⁾	249	-5	0	244

Grohe Group (GROHE) EUR million	Q3 FYE2023	Q3 FYE2024	YoY
Foreign exchange rate (Average rate)	140.42	155.19	-
Revenue	1,328	1,076	-19%
Core earnings	130	19	-86%
Core earnings margin	10%	2%	-8.1pp

Accounting period	FYE2023	Q3 FYE2024 (9 months)		
	Balance	Amortization	Others ⁽¹⁾	Balance
Foreign exchange rate (Current rate for balance, Average rate for amortization)	145.72	155.19	-	157.12
Goodwill ⁽²⁾	1,201	-	-6	1,195
Intangible assets ⁽²⁾	1,404	-8	0	1,396

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(1) Forex translation differences, and others

(2) Please refer to p50-56 of the FYE2023 Consolidated Financial Statements "14. Goodwill and Other Intangible Assets" for assessment of goodwill and intangible assets https://ssl4.eir-parts.net/doc/5938/ir_material_for_fiscal_vm35/138482/00.pdf#page=51

Matsumoto [A]: If you on page 22 of the Q3 earnings presentation material, we went from a loss of USD53 million for nine months last year to a loss of USD14 million for the same period this year, which is a significant improvement here. The first point I would like to make is that while sales are down 2%, we are still in the red here, but we are improving.

The other thing is, as just mentioned by Mr. Seto, if we take out only Q3, this is now in the black. We believe that the profit margin has improved as a result of various structural reforms and a shift to higher-margin faucet products among those that sell.

MC [M]: Next, we have a second question from Mr. Yagi.

Yagi [Q]: I would appreciate it if you could comment to the extent possible on your view on dividends for the next fiscal year.

Seto [A]: As I always answer, basically, comments on dividends cannot be answered by the management alone, but are a decision of the board of directors, so I would like to go as far as possible. One of our basic concepts is the dividend payout ratio, but another concept is EBITDA.

In that sense, I personally do not feel the need to make such a major change now, given that the overall cash-generating capacity has not deteriorated significantly, and is even improving now.

MC [M]: Next, we have four questions from Mr. Takegawa, Sumitomo Mitsui Trust Asset Management. We will introduce them in turn.

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Takegawa [Q]: First question, on a basis excluding insulated window subsidies in Japan, what are the market trends for new housing, renovation, and for the next fiscal year?

Seto [A]: First of all, new housing, as a whole, is getting worse first of all, probably at a faster pace compared to the most of projections issued by institutions, as far as new housing is concerned. Especially decreasing are the so-called owner-occupied houses. On the other hand, the number of houses for sale increased in December, so although there is some unevenness, the decline in the number of owner-occupied houses, which we consider our main battleground, is hard in that sense.

On the other hand, among new housing, when it comes to buildings for B2B, if we consider the relationship between supply and demand, the market is rather growing. I think the market environment is getting better for us, regardless of how long this will continue.

As for renovation, I can't say that it is increasing compared to the decrease in new housing, frankly speaking. As I have already mentioned, as for the LHT, it is already really, because the insulated windows are the basis for quite a large renovation, and we believe that the growth in sales of LHT renovation products will be very limited for other products.

On the other hand, when it comes to LWTs, we do not think that the demand for renovation is as strong as the decline in demand for new housing. In this area, we ourselves need to do more to offer interesting renovation products and change the way we sell them.

Another major trend is that customers are gradually changing the route they use to purchase renovation products. I think we have to adopt a strategy to deal with this.

MC [M]: Next, we have a second question from Mr. Takegawa.

Takegawa [Q]: This is about shareholder returns. What kind of discussions do you have at board of directors' meetings regarding dividends? Is there any mention of human and capital investment rather than dividends?

Seto [A]: We are of course making investments in human resources, but in terms of capital investment, we believe that we need to improve our facilities regarding the overall demand. In fact, we are currently increasing our investments in upstream R&D, product development, and marketing brands.

We are trying to strike a balance in this area, but in the past, we have made a number of acquisitions, and we do not believe that we are necessarily in a situation where we need to increase the number of facilities.

MC [M]: Next, we have a third question from Mr. Takegawa.

Takegawa [Q]: Regarding restructuring costs, how much should we expect for the current and next fiscal years?

Seto [A]: We do not have any disclosure on this cost right now. In that sense, though I cannot answer immediately, I believe that there will be more in this fiscal year than in the next.

MC [M]: One last question. Mr. Takegawa.

Takegawa [Q]: Is it time to release the new medium-term management plan?

Seto [A]: We do not have a plan to put out at this time. At this point, we do not think that the business environment is stable until the economic situation in Europe and the US changes, and the situation in China and other countries stabilizes. We will have to think about whether or not we will be able to do so at that time, including the inevitability of such a move.

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MC [M]: Next, we have two questions from Mr. Teraoka, Daiwa Securities.

Teraoka [Q]: This is the first question. Inventory appears to be decreasing overall, but when do you expect the inventory adjustment to be completed? It would be helpful if you could tell us by region.

Seto [A]: This is a very difficult question to answer. In terms of inventory adjustment, we have large factories, especially in Europe, and I think the biggest factor in Europe is that the wholesalers and we have to think together when we look at the market as a whole. In this regard, given that the wholesaler's inventory adjustments has already been completed, I think the next question is when they will start buying.

It is difficult to answer the question of how the inventory adjustment period will end, because it is impossible to calculate the end of the inventory adjustment period without some degree of stable demand, but if interest rates were to fall this summer and inflation were to remain stable, we believe that this would be a time when inventory adjustment would proceed at a relatively rapid pace in Europe.

In the US, on the other hand, we have been consciously restraining aggressive sales of low-profit products and highly commodity-oriented products, while at the same time shifting to highly profitable products. In other words, since highly commodity-oriented products always sell well, we expect that adjustment for these products will probably be finished first.

In terms of volume, for example, in Asia Pacific and China, at this point, many of the products are project-based, so there is not much inventory. However, I would venture to say that as far as China is concerned, we are now clearly being told that retail wants to hold inventory from now on, so we are thinking that retail will improve.

MC [M]: Next, we have a second question from Mr. Teraoka.

Teraoka [Q]: So far you have explained that there is no need to take the risk of impairment of goodwill of GROHE, but what should we think about if the European market remains sluggish in the next fiscal year?

Matsumoto [A]: Thank you. Matsumoto will answer. I am wondering if there are two elements. One of the positive factors is that interest rates themselves will be declining in the future, and the discount rate on future cash flows, which had been high, has been gradually decreasing.

On the other hand, as Mr. Seto has explained several times, the market situation is extremely severe, and we are proceeding with structural reforms to improve the profit margin by reducing SG&A expenses and manufacturing costs. We believe that this will positively affect future cash flow. I hope you understand that we are not simply sitting back and waiting because the market is bad.

Seto [A]: If I may add one more factor, we are conducting the impairment test on the assumption that the situation is bad for the time being, so if interest rates fall or inflation stabilizes after this summer, there will be a positive effect on the demand side. In this sense, I do not think that there is basically anything worse than the current situation.

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

Mochizuki [Q]: As confirmation, ASB's business loss was minus USD10 million in H1 and minus USD14 million for Q3 total. Is this understanding correct? If so, I think we will post a business loss of minus USD4 million for Q3. What is the background of the business loss in Q3?

Seto [A]: I will check and answer. It may be a difference between statutory and our management accounting, so I apologize if my wording is misleading.

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MC [M]: I have answered all the questions we have received so far. Since the above questions have been answered, we will now conclude the question-and-answer session. Thank you for your many questions.

This concludes the quarterly financial results briefing session for 3Q of the fiscal year ending March 31, 2024 of LIXIL.

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

[END]

Document Notes

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

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