

The logo for LIXIL, featuring the word "LIXIL" in a bold, orange, sans-serif font. The letters are closely spaced, and the "X" is particularly prominent.

Link to Good Living

LIXIL Corporation

Q1 Financial Results Briefing for the Fiscal Year Ending March 2022 for Investors and Analysts

July 30, 2021

Event Summary

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[Participants]		
[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
[Analyst Names] *	Hiroki Kawashima	SMBC Nikko Securities Inc.
	Sachiko Okada	Goldman Sachs Japan Co., Ltd.
	Hideaki Teraoka	Daiwa Securities Co., Ltd.
	Masahiro Mochizuki	Macquarie Capital Securities (Japan) Ltd.
	Arisa Katsuyama	Morgan Stanley MUFG Securities Co., Ltd.
	Ryo Yagi	Mitsubishi UFJ Morgan Stanley Securities

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North America 1.800.674.8375
Email Support support@scriptasia.com



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

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Presentation

MC: Now, we will begin LIXIL Corporation's financial results briefing for the first quarter of the fiscal year ending March 2022.

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

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

Seto: Hello. Thank you.

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

Matsumoto: Thank you for your continued support.

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

Hirano: Thank you very much.

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

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

Next, I would like to explain how we will proceed today. First of all, President Seto will explain the financial results for the first quarter of the fiscal year ending March 2022. We will hold a question-and-answer session afterwards. The session is scheduled to end at 4:30 PM. Thank you for your cooperation in advance.

Well then, Mr. Seto would like to explain the financial results for the first quarter of the fiscal year ending March 2022.

President Seto, please.

Seto: Hello, everyone. This is Seto from LIXIL.

I think it was another good financial result. I think we got off to a good start in the first quarter.

Now, please turn to the next page.

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

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

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



First of all, since we have adopted IFRS, operating profit in JGAAP is equivalent to our core earnings.

I would like to reiterate that we look at profit mainly through the core earnings.

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PERFORMANCE HIGHLIGHTS

› Summary of results for Q1 FYE2022

- **Revenue and profit increased year-on-year** due to the recovery from restrictions on economic activity from the previous year, strong demand mainly in Americas and Europe, and progress of structural reform in Japan
- Structural reform measures that have been implemented have come to fruition, resulting in a **record high core earnings, operating profit, profit before tax, and profit for the quarter⁽¹⁾ for Q1**
- **Gross profit margin improved by 5.0pp year-on-year. The core earnings margin increased to 6.7%**

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

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For the first quarter of the fiscal year ending March 2022, revenue and profit increased YoY.

Above all, I think it was very good that we were able to achieve record high core earnings, operating profit, profit before tax, and profit for the quarter for the first quarter.

Gross profit margin improved significantly, and as a result, the core earnings margin came to 6.7%.

If you look at our company's financial results, the first quarter is not always a good time.

Normally, the third quarter from October to December is the best, followed by the second quarter, the first quarter, and then the fourth quarter. So, we usually don't have a good start.

However, I think it was very good that the core earnings margin increased from the first quarter to 6.7% this term. This time, we were able to achieve the figure close to the 7.5% target we had set in our mid-term management plan.

Also, even though it was an instantaneous wind speed, if we look at June alone, the core earnings margin was 8.1%.

So, in that sense, I think we were able to achieve a good figure.

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KEY HIGHLIGHTS

› Achieved record high profit for Q1. Revenue and profit up driven by strong LWT performance in Americas and Europe and progress of structural reform in Japan

■ Revenue: JPY 345.8 billion, up 11% year-on-year

- Decreased 1% (+2% growth excluding impact from divestment) year-on-year in Japan and increased 50% in international markets

■ Core earnings: JPY 23.1 billion, up JPY 25.7 billion year-on-year Record high for Q1

- Driven by LWT sales growth in Americas and Europe and progress of structural reform in Japan

■ Profit for the quarter⁽¹⁾: JPY 16.8 billion, up JPY 20.5 billion year-on-year Record high for Q1

- Increased due to business recovery from restrictions on economic activities from previous year and progress of structural reform

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

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In the financial results for the first quarter, revenue in Japan decreased slightly by 1%, but this was due to the divestment.

Excluding the impact of the divestment, revenue increased by 2%. In addition, international sales were very strong, increased by 50%, despite the impact from COVID-19 last year.

Compared to the first quarter of the fiscal year ended March 2020, revenue and profits grew very well, especially in international markets.

In terms of core earnings, of course, revenue from international markets grew, especially in Americas and Europe. But we also made great progress in structural reform in Japan, and we were able to achieve very good figures as well.

As a result, we were able to generate core earnings of JPY23.1 billion.

Profit for the quarter was JPY16.8 billion.

Again, I would like to repeat that we have achieved a record high profit, which I think is a very good result.

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Q1 FYE2022 CONSOLIDATED BUSINESS RESULTS

	Q1 FYE2021	Q1 FYE2022	YoY	
	3 months Actual	3 months Actual	vs Results	
JPY billion	Results	Results	Increase/ decrease	%
Revenue	310.5	345.8	+35.3	+11.4%
Gross profit	96.7	125.0	+28.3	+29.3%
(%)	31.1%	36.2%	+5.0pp	-
SG&A	99.3	101.9	+2.6	+2.6%
Core earnings (CE) ⁽¹⁾	-2.6	23.1	+25.7	-
(%)	-0.8%	6.7%	+7.5pp	-
Profit/loss for the quarter including Discontinued Operations ⁽²⁾	-3.7	16.8	+20.5	-
EPS (Yen)	-12.82	57.91	+70.73	-
EBITDA ⁽³⁾	17.7	43.1	+25.4	-
(%)	5.7%	12.5%	+6.8pp	-

- CE margin improved by 7.5pp (gross profit margin improved by 5.0pp and SG&A ratio improved by 2.5pp)
- Improvement of gross profit margin and core earnings margin due to increase in sales composition ratio of higher-margin international business and increase in factory utilization rates as well as benefits from various transformation initiatives in previous years
- SG&A expenses increased by JPY2.6 billion in three months due to increase of revenue

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

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The first thing that stands out in the results for this fiscal year is gross profit margin improved by 5 percentage points over the past year. I think this is a very large number.

There are various factors; but of course, if revenue increases by 10% or more, as there are costs, and costs that are close to fixed costs that are not directly related to the revenues, the cost to sales ratio goes down to a certain extent.

One of the more important factors was the fact that we were able to select our own portfolio of international businesses and increase sales to those portfolios with high profit margins.

Then, Japan's structural reforms were underway. Among the structural reforms in Japan, we have shifted to businesses with relatively high profitability, and our shift to renovation has all had an effect resulting in 5 points.

I believe that LIXIL has never seen a 5 percentage points improvement in gross profit in the past, even in my memory.

And as a result, the core earnings margin grew to 6.7%. The EBITDA ratio is 12.5%, which is also a record high. We have been working hard on it.

On the other hand, SG&A expenses have not increased much. Considering the fact that we couldn't do much due to COVID-19 last year, I think we were able to control this area pretty well. I believe that this is one of the results of the structural reforms we have been making in various ways over the past years.

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Q1 FYE2022 BUSINESS RESULTS BY SEGMENT

› Strong LWT business drove revenue increase and core businesses drove core earnings growth

		Q1 3 months		
		FYE2021	FYE2022	Increase/ decrease
JPY billion				
LWT	Revenue	165.5	210.6	+45.1
	CE	3.0	23.7	+20.7
LHT	Revenue	117.3	114.8	-2.6
	CE	5.2	10.4	+5.1
LBT	Revenue	21.3	18.0	-3.3
	CE	-0.9	-0.8	+0.1
H&S	Revenue	11.3	7.2	-4.1
	CE	0.4	0.1	-0.4
Consolidation adj. & others	Revenue	-4.9	-4.7	+0.2
	CE	-10.4	-10.2	+0.2
LIXIL	Revenue	310.5	345.8	+35.3
	CE	-2.6	23.1	+25.7

Forex impact :

Q1 three months: Revenue +5.5 billion, Core earnings -0.1 billion

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By business segment, LWT, mainly from international markets, has grown significantly. Core earnings have also increased significantly. One of the major factors was that we were able to turn our portfolio around, and in Japan, the business structure has changed.

LHT was also able to make major structural reforms. As I mentioned earlier, revenue has declined due to the divestment, but core earnings have already doubled.

The only thing we are still struggling with is LBT. In the area of LBT, revenue and core earnings have declined, due to the fact that projects for the Olympic Games have ended and projects have been prolonged mainly due to COVID-19, and in particular, projects in the first half of this year have been moved to the latter half of the year.

I think another reason for this is that we are selectively trying to choose the most profitable ones.

However, as I will talk about later, we have been selectively picking up good businesses, but the biggest difference between the building business and the housing business is that once we pick up a business this year, we will actually realize it over the next year and the year after that.

In other words, we have to average it with the bad profit margin of the business we have been taking for the past several years. We are confident that we will be able to recover enough here to make up for the drop.

In H&S, there were also some divestments, so if we exclude the factor of the divestments, the results were basically almost the same as last year. We believe that we were able to achieve a very good improvement in core earnings as a whole.

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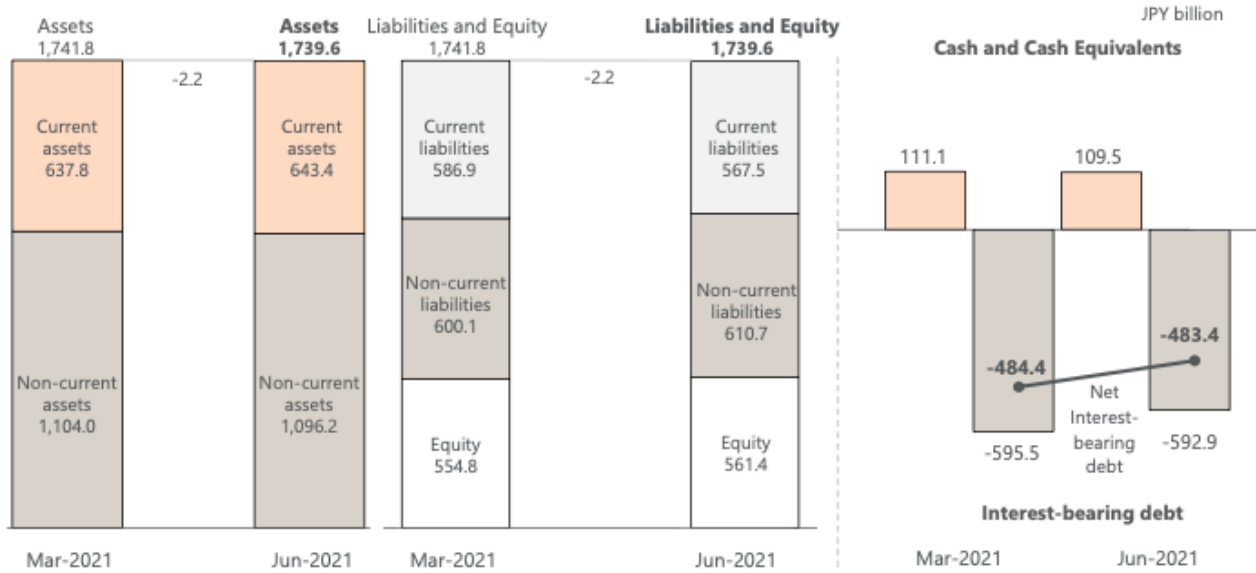
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CONSOLIDATED FINANCIAL POSITION

› Equity ratio improved by 0.4pp to 32.1% from March 2021



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In terms of the equity ratio, we have improved the equity ratio by reflecting the results of the current fiscal year, which were fairly good.

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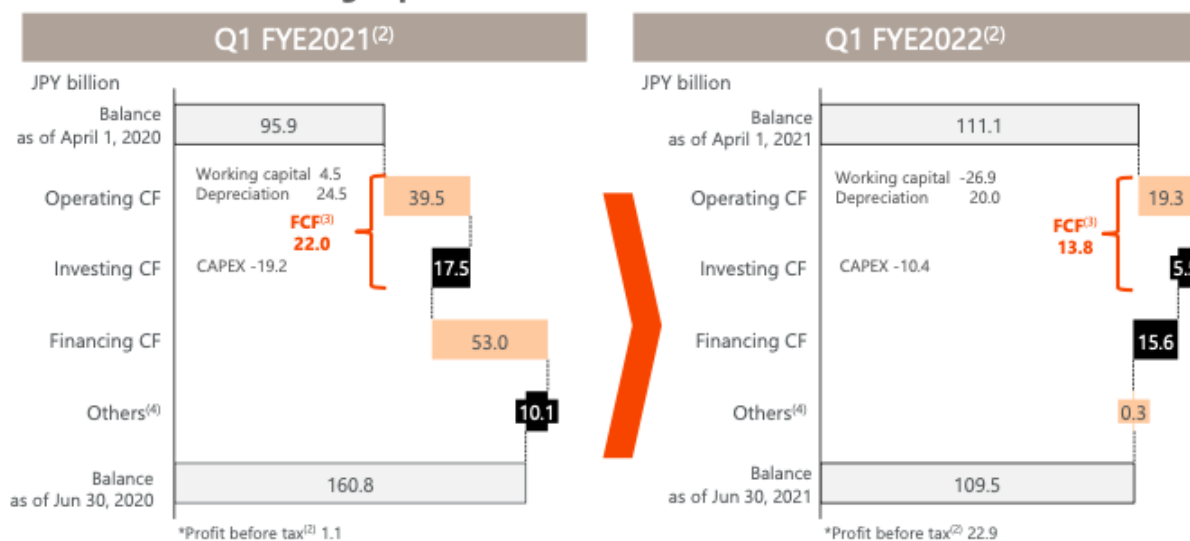
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CASH FLOW STATUS AND CASH BALANCE

Free Cash Flow (FCF) declined by JPY8.2 billion due to increase in profit before tax and lower needs for investment as a result of the asset-light investment strategy despite various one-time costs for structural reform⁽¹⁾ totaling JPY18.3 billion and an increase in working capital due to business reform



(1) Voluntary retirement program and divestments
 (2) Includes discontinued operations
 (3) *FCF* = Operating CF + Investing CF

(4) *Others* = Effects of exchange rate changes + Net increase/decrease in cash and cash equivalents included in assets classified as held for sale

Next, in terms of cash flow, business contracted last year due to COVID-19 and then expanded, which naturally resulted in a negative working capital.

In addition, we introduced a voluntary retirement program last year, and costs for structural reform such as payment for the voluntary retirement outflow, so this part is negative.

On the other hand, we are trying to be as good as possible at turning our business into a platform basis, so our capital expenditure is decreasing.

Capital expenditure, including this part, dropped from JPY19.2 billion to JPY10.4 billion, which was compensated for by the improvement in cash flows from investing activities to some extent, resulting in an overall decrease in free cash flows of JPY8.2 billion.

On the other hand, with regard to cash flows from financial activities, since we borrowed a large amount of money last year because of COVID-19, that part has naturally decreased.

When you combine these factors, I think it is fair to say that the changes in cash flows occurred in the process of becoming more solid as a whole.

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WATER TECHNOLOGY

› International revenue and CE increased due to recovery from the impact of COVID-19 of previous year and continued strong demand in Americas and Europe. Japan revenue and CE increased due to strong renovation demand

Apr-Jun In JPY bn		Q1 FYE2022 (Results)	YoY	
Revenues by region ⁽¹⁾	Americas	36.7	+35%	
	EMEA	48.9	+66%	
	China	14.3	+8%	
	Asia Pacific	9.7	+58%	
	Japan	99.2	+9%	
	Adj. & other	1.9		
	Water Technology	210.6	+27%	CE margins
Core earnings by region	International	15.9	-	14.2%
	Japan	7.8	+167%	7.9%
	Water Technology	23.7	+689%	
	Margin	11.2%	+9.4pp	

Revenue

- **Americas·EMEA**
 - ✓ Revenue increased significantly against the comparably low Q1 in prior year recovering well above pre-COVID levels
 - ✓ Growth is broadly spread across all key geographies, channels and product categories
- **China**
 - ✓ Revenue increased mainly driven by the Retail channel and strong sales of GROHE products
- **Asia Pacific**
 - ✓ Overall revenue increased due to continuing gradual recovery despite the impact of fluctuating levels of restrictions on economic activities from COVID-19
- **Japan**
 - ✓ Strong demand for renovation and mid-to-high-end products
 - ✓ Touchless faucets and washstand cabinet units and bathroom units with touchless faucets are performing well due to growing interest in hygiene and effect from new products

Core earnings

- **International·Japan**
 - ✓ Intl.: CE increased mainly driven by strong sales in Americas and Europe
 - ✓ Japan: CE increased due to increased sales ratio of renovation and mid-to-high-end products

LIXIL (1) Region: Management basis, Water Technology Total: Statutory basis Management basis currency : 10
 Statutory basis currency : Comparing by FYE2022 current & previous year 1USD=105JPY, 1EUR=126JPY
 Q1 FYE2022 Results 1USD=110.00JPY, 1EUR=131.78JPY

Looking at the results by segment, first of all, in LWT, again, revenues from international markets, especially Americas and Europe, were good. Europe has a high profit margin and is growing. We are talking about an improvement over the previous year here. But of course, comparison versus the previous year should be good because of the COVID-19. However, the numbers were better even when comparing with the year before previous year. So, I think that Europe and America have contributed a lot.

On the other hand, we divide the region into Europe, the Middle East, and Africa, and in our case, Africa is South Africa. Although the volume is very small, we had a difficult time in terms of business because of the riots and other disturbances that occurred during this fiscal year.

As I mentioned last time, China is now implementing restrictions on the total amount of real estate, and the situation is similar to the end of the bubble economy in Japan.

Many things can happen, so we have to be very careful about how we collect the money for projects, which would be with developers. Then, we are making a business shift to increase our renovation business, selling many small items. If it were not for that, I think China would be able to grow even more as a business. But I think the shift itself is going in a healthy direction for us, and I am quite satisfied with these numbers.

On the other hand, in the Asia-Pacific region, we suffered greatly from COVID-19 last year. So, it is natural that we have recovered. However, lockdowns are still held in various places from June to July. In that sense, the situation in the Asia-Pacific region is far from perfect.

On the other hand, Japan is also experiencing a huge increase in demand right now. Of course, there are areas where things are going well. As a whole, however, the structural reforms made a significant contribution, and we were able to show very high growth in both markets in international and Japan in terms of core earnings.

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The first quarter's core earnings margin, excluding head office expenses, is 11.2%, which is also a very good figure.

HOUSING TECHNOLOGY

› Ongoing corporate restructuring and higher demand for renovation-related products resulted in increased revenue and core earnings when excluding the impact from divestment in the previous fiscal year

Apr-Jun In JPY bn		Q1 FYE2022 (Results)	YoY	■ Japan
Revenue by region	Japan	112.8	-3% ⁽¹⁾	<ul style="list-style-type: none"> ✓ Despite the challenging business environment, core earnings rose from productivity improvement in both production and operation side, continued progress in reinforcement of corporate structure, and renovation sales growth ✓ Core earnings margin improved by 4.6pp ✓ Sales grew on growing demand for hygiene-related products following COVID-19 and greater interest in renovation as more people worked from home. <ul style="list-style-type: none"> • <i>Rechent</i> (renovation door): increased by 41% YoY • <i>Inplus</i> (renovation resin inner window): increased by 36% YoY • <i>IoT Enabled Smart Delivery Box</i>: increased by 55% YoY
	International	1.9	+21%	
	Housing Technology	114.8	-2%	
Core earnings	Housing Technology	10.4	+98%	<ul style="list-style-type: none"> ✓ The promotion of "#Make time at home happy with easy renovation" and the green housing point system supported renovation demand
	Margin	9.0%	+4.6pp	

LIXIL (1) +2%YoY growth excluding impact from divestment

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Next page, please.

In Housing Technology, if we exclude the impact from divestment as I mentioned earlier, both revenue and core earnings have increased.

In terms of the business environment itself, the new housing starts from January to March this year is the mainstay in the first quarter, and it appears in our sash business. But such an environment itself is not necessarily a good environment.

In the midst of this, the business that normally relies heavily on new construction has increased its renovations to the fullest extent. In addition, we have been changing our business structure and this year, most of our products will be manufactured through platform-based production, so we have been able to increase our profit margin in that sense.

Our core earnings margin has improved significantly, almost doubling.

I believe that the Housing Technology did a very good job with this as well.

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BUILDING TECHNOLOGY AND HOUSING & SERVICES

› Revenue declined due to longer timeframes in building construction, especially large-scale projects, delaying delivery of necessary building materials but level of loss in core earnings decreased

Apr-Jun In JPY bn		Q1 FYE2022 (Results)	YoY
Building Technology	Revenue	18.0	-15%
	Core earnings	-0.8	-
	Margin	-4.3%	-0.1pp

- Revenue declined due to longer timeframes in building construction, especially large-scale projects, delaying delivery of necessary building materials
- Level of loss in core earnings decreased by continued measures to reduce SG&A and to reinforce business structure
- Improvement in core earnings is expected from FYE2023 onward since building projects gradually recognize profits, leading to the difference in timing in taking measures and recognizing improvements

› Revenue and core earnings decreased due primarily to the impact on divestment in previous year

Apr-Jun In JPY bn		Q1 FYE2022 (Results)	YoY
H&S	Revenue	7.2	-37%
	Core earnings	0.1	-84%
	Margin	1.0%	-2.9pp

- Q1 revenue and core earnings were largely unchanged from the previous year when excluding the impact of divestment measures

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On the other hand, Building Technology, as I mentioned earlier, is struggling a bit. However, as written here, the earnings will be recognized in stages over a long period of time. So, if we continue with our current efforts to increase the profit margin, even at the cost of some revenues, by considering the overall structure of the Company, and only taking projects that have a good profit structure, we should be able to make a large improvement in profits from the next fiscal year onward. I am confident in what we are doing, and the results will eventually come out.

On the other hand, in H&S, as I mentioned earlier, the first quarter, excluding the impact of the divestments, was generally at the same level as the previous year.

So, for the first quarter of this fiscal year, I think things have gone well as planned. The people who actually contributed are the people on the frontlines. So, the results of their efforts in dealing with various problems, such as the need to raise prices, as well as the difficulties of marketing and manufacturing in the midst of COVID-19, really came through.

As a result, we had renewed confidence in the quarter.

Thank you very much.

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Question & Answer

MC: We will now have a question-and-answer session. Questions are still welcome and can be sent via chat or email.

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

On page 19 of the material, the Q1 results and full-year plans for each segment are listed, and the core earnings margins for LWT and LHT in Q1 results are progressing better than the full-year plan, so we estimate that Q1 results were better than planned.

Is there a possibility that the core earnings margins of LWT and LHT for the full year will exceed the guidance, or is it premature to assume that the core earnings margins for the full year will be higher than the plan because of the possibility that soaring lumber prices and other material prices will become risk factors in the second half?

It would be helpful if you could provide us with your current forecast, with explanations of items that may cause fluctuations in the profit margin.

Seto: Yes, we believe that the Q1 results were well and better than planned. We believe that there is of course a possibility that the core earnings margins of LWT and LHT for the full year will exceed our guidance.

On the other hand, in the second half of the fiscal year, you mentioned that there is a possibility that materials-related factors, such as soaring lumber prices, will become a risk factor, but this is a risk factor that we have been considering since last year.

As I explained last time, we will basically pass on the price increases in copper and aluminum to our products. In that sense, there may be times when profit margins temporarily drop due to timing differences, but I think the management needs to keep those times as short as possible.

On the other hand, I honestly believe that the impact of the soaring lumber prices on overall new construction starts will be less than initially expected. But I do believe that there will be some impact especially on small construction companies.

However, we have to do within the impact that we have predicted to some extent, and we have focused on the renovation accordingly. This is also the case with COVID-19, soaring lumber prices, and commodity price hikes, but they are all basically one-time issues that can be dealt with.

I don't think it's a fundamental problem, although management has to make some efforts to prevent the problems from becoming a huge spike.

There are some factors that can affect the profit margin, such as commodities, container shortages, soaring lumber prices, foreign exchange rates, COVID-19, and other issues. But basically, I don't think we need to change the major steps we are taking or the direction we are heading.

If there are any bumps in the road, we will dodge them. We will be fine as long as we keep doing so.

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MC: Now, I would like to introduce the next question. We have received several questions from Mr. Takegawa of Sumitomo Mitsui Trust Asset Management. I will divide them into three parts.

First of all, how do you view the market environment, competition, consumer sentiment, new construction, renovation, etc., in Japan and international markets?

Seto: First of all, I would like to talk about the domestic market first because it would be very difficult to talk about the domestic and international market environment all at once.

Basically, the number of new housing has been decreasing steadily, and I thought that the number would decrease considerably due to COVID-19 and soaring lumber prices, but it has not reached that level.

In fact, we don't think the situation is any worse than last year, because new housings are being built for people going to the suburbs, for example.

However, towards the end of the fiscal year, some small construction companies may not be able to procure lumber due to the effects of the soaring lumber prices, so there is a possibility that the start of construction itself will be delayed a little towards the end, but I don't think it will be fatal.

On the other hand, I believe that the international market is very strong, especially in Americas.

As for Americas, many people have already made various predictions as to how long the situation will continue, but at least for the demand for renovation, we have received commitments for the future, so the current situation in Americas will probably continue to be good for a few years.

In Europe, the situation for our water-related products is very good, and the European market itself is gradually changing to a situation where it is difficult for low-priced products from emerging countries to enter. I think that the situation will continue to be good for a while.

The market with the most uncertainty in a fundamental sense is China. Although there are fundamental issues, such as what will happen to the real estate market, and whether or not the bubble will burst, we are gradually succeeding in changing the direction by focusing on small renovations, as we are doing now. There are a lot of people living in China, and I am sure that income and earnings level are rising, so I don't think this will get much worse.

In the short term, Southeast Asia is going to have a very difficult situation due to COVID-19. However, I believe that this is a kind of spike, and I believe that we will recover in the long run.

So, I think it's one of the bumps I mentioned earlier, although there are delays in many ways regarding the market environment.

In terms of the competitive environment, we have been dealing with global competition for a long time now. However, I think the situation is changing a little bit and becoming stricter because many of our competitors are importing products from China to the US.

In Europe, there are various regulations for importing products from China and other emerging countries, including resource regulations in relation to ESG. On the contrary, I think that the competitive environment is getting a little easier for us.

In terms of consumer sentiment, as I have mentioned many times in these briefings, the COVID-19 crisis has made people want to improve their homes rather than go on trips or eat out. I think this is something that is

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common throughout the world. So, it's more of a project than a consumer sentiment. I think that the project sentiment, such as for hotels, is getting a little weaker.

MC: Next, we have the second question from Mr. Takegawa.

Domestic LHT core earnings were JPY10.9 billion in the first quarter. What are the reasons for the improvement, such as the type of products and the strong performance of renovation?

International LWT core earnings were JPY15.9 billion. Please explain the reason for the improvement in ASB and GROHE.

Seto: In terms of domestic LHT, as I mentioned earlier, the basic revenues have not changed significantly. One of the things that changed is that renovation business has increased.

We think this is a very important point. The point is that in the past, renovation in Japan was usually limited to the water related, but now, due to environmental issues, people are becoming more interested in windows and exterior walls. With the increase in natural disasters, demand for shutters has increased. This has had a positive effect on our profit margin.

Also, since this is an important issue for us, I think we need to promote the window for environmental improvement as a public issue.

Then, of course, there is the part of business reform that we have been working on. One is that we will not engage in foolish competition, which may be a bit of an exaggeration, but we will pursue businesses that are profitable. Also, in terms of cost reform, I believe that we have been able to make significant improvements in areas where we have been overextending ourselves, such as platform production and reducing the number of businesses.

In that sense, this is all fundamental, so rather than a major market condition, we have become really strong. In the future, this is related to the question that was asked earlier. But for example, the price of aluminum is going up very high right now, so depending on the timing of the transfer of this price, it may get worse in a certain month. But I think we can do our best in the long term.

On the other hand, in LWT, all products improved, but it was especially good in Europe and Americas. I think this is a field where we can expect a lot in terms of consumer sentiment for a while, as I mentioned earlier.

In the newspapers, there are stories about how interest rates have risen and fallen, and houses may not be built as fast as they used to be in Americas.

However, in the case of Americas, renovation is the first step. Renovation has a certain connotation like building a new house instead of buying used houses. In that sense, considering the demand for used houses, and for our renovation business, I think this is something that will continue.

As for American Standard and GROHE, both greatly contributed. Especially for American Standard, Americas, it was a big problem that we could not make any profit from sanitaryware. We negotiated to increase the profit margin, we negotiated to pass on the cost, and we also worked hard to sell more products for faucet.

I think it can be said that portfolio management, which has increased the variety of products themselves, has been effective in general.

MC: This is the third question from Mr. Takegawa.

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To what extent, and how will, the impact of soaring lumber prices, material price hikes, and cost increases be affected? And how will this be covered, including price pass-through?

In addition, the major structural reform phase is running its course, and the market is seeing growth.

Please explain the timing of the announcement of the revision of the medium-term plan, and how you plan to grow it.

Seto: I think the first half is probably what I just explained to you. Basically, we are trying to reflect what is happening in the prices, so I think that timing gaps may occur in products.

In terms of soaring lumber prices, in a sense, the customer will have to bear the cost, so I'm not sure if this will reduce demand, but I don't think so.

On the other hand, we have no choice but to pass on the rising cost of materials. That's the part where we do what we have to do.

I didn't include it earlier, but I think iron is probably the hottest topic in regard to raw material price hike right now. Until now, the majority was copper and aluminum, but the price of iron is also rising rapidly. And in bathrooms, for example, the price is also rising rapidly. However, we have no choice but to pass on the cost, even though we have to deal with the timing and other issues.

In terms of structural reform, I believe that there are still many things that need to be done. If you look at it now, you will probably understand that we are growing international first, focusing on profitable regions and profitable products.

As for international business, they have grown by 50% this quarter year-on-year. Of course, we had the COVID-19 spike, but even without it, our international business grew significantly, for example, 15% in Americas and more than 30% in Europe compared to two years ago.

In terms of international growth, I believe that our strategy is working well.

Also, depending on the product, the products for new housing is decreasing to a certain extent. But this time, the most important point for renovation is not only water-related products, as I mentioned earlier, but also windows and exterior walls, which we are expanding strategically and as a matter of policy.

MC: Now, I would like to introduce the next question. From Ms. Katsuyama of Morgan Stanley MUFG Securities.

LHT core earnings margin of 9.7% is impressive, but it appears to be due, not only to the effects of structural reforms, but also to a significant improvement in the product mix, thanks to the strong performance of renovation amid sluggish growth in new construction.

What are your thoughts on the momentum of renovation and the sustainability of LHT core earnings margin?

Seto: First of all, renovation is one of the most important strategies for our company in terms of domestic strategy. As we have been talking about before, it's not just about water related, but also about windows, exterior walls, interior and exterior. Especially about windows and exterior walls, we need to reduce our carbon footprint as a national policy. That's the biggest thing to reduce, at least in Scope 3.

In Japan, as a whole, about 40% of energy is consumed by buildings, and windows are the part of the building that loses the most energy. We are planning to launch countermeasure products for these windows and I believe we can further expand this area.

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In that sense, it is in line with national policy. I think that the ability to offer products that match the trends of the world will lead to significant and sustainable growth in the renovation business for us.

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

Sales were strong both in Japan and international, but to what extent does your analysis include the impact of the reactionary increase from the COVID-19 crisis last year? Do you think that the same revenue growth trend will continue in the future?

Seto: In our case, there are some areas where it is difficult to get people to understand the numbers, but they are decreasing. For example, one effect is that we have been selling our operating companies in order for the past two years.

In addition, the number of new housing has been decreasing naturally, and the profit margin increased by choosing not to take on projects that are unprofitable.

Then, even if there is something that is growing elsewhere, I think that there are places where the effect is offset, and it becomes difficult to see.

In reality, as I mentioned earlier, international business is growing very strongly, and I believe that the measures we have taken to achieve growth are now bearing fruit.

On the other hand, the renovation business in Japan also grew by 15% compared to last year. So, in that sense, we should focus our efforts on areas that are highly profitable and have future potential. And where sales are growing, these areas are actually growing strongly all the time. I think they will continue to grow in the future.

However, on the other hand, there are parts that we are organizing and reducing through structural reforms, so there will inevitably be some pluses and minuses. I think it will be in the next fiscal year that those negative factors will disappear to a certain extent, so the figures for the next fiscal year and beyond will show a pure increase. Even so, I believe that the decrease in new construction starts will inevitably have a negative impact.

MC: Next, Mr. Teraoka from Daiwa Securities.

You have been focusing on renovation, but what is the background to your success?

Seto: For example, we have competitors, such as TOTO. TOTO is a water-related company, and we have metal-related business, such as windows. But most of our metal-related business is for new housing, which was one of our weaknesses.

In order to change this weakness, we are going to change the focus of renovation from water-related renovation to metal-related renovation. I think this is a very important point.

The reason I believe this is absolutely possible is that, as I always say, overseas, for example in Europe and the US, the ratio of renovation/remodeling business to new housing is 3 or 4 to 1. On the other hand, in Japan, the ratio of new housing to renovation has been 2 to 1 for a long time. When we look at the differences by product type, metal products make a big difference.

In the past, people in Japan would only buy metal products when they were building a new house, but now there is a clear trend to take care of the entire earth. Government subsidies are available, and we will continue to release more and more products to meet this trend.

As a result, the movement to change things to be more in line with the global environment will be very different. So, we have been able to ride on that, and I think we will be able to continue to do so in the future.

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Also, it is not just about the environment. Nowadays, when we talk about the environment, we tend to talk about temperature, but there are other things as well, such as the increasing number of natural disasters. Then, we can talk about protecting the house in various ways, such as adding more shutters.

So, I think there is one area where Japan has been able to catch up, where it lags behind Europe and the United States.

Also, we are losing to TOTO in the field of renovation of water-related products. After all, TOTO is strong in renovation. So, the profit margin is high. We are strong in new housing, so our profit margin is low, which is why we have been losing in the field of water-related products. We are trying to learn what we need to learn and focus more on renovation. I believe that this is where our products are gaining recognition and growing at the same time.

This time, I dare to say that compared to TOTO, we are strong in kitchens and bathrooms, while TOTO is strong in toilets and washstand cabinets, as I always say. Toilets and washstand cabinets have a higher profit margin, while kitchens and bathrooms have a lower profit margin. So, we were losing out on profit margins in those areas.

This time, it wasn't necessarily just the kitchen and bath, but also, for example, the faucets and washstand cabinets, which have been very strong and successful in the renovation.

Lastly, I think the online showroom is still a major factor. I think this is a major differentiator.

Fukushima: Next, we have a question from Mr. Yagi of Mitsubishi UFJ Morgan Stanley Securities.

What is the status of the review of the medium-term management plan? Please explain the concept of each segment to the extent possible.

Seto: We are currently working on a plan for our strategy, which is similar to the medium-term plan, but we have not yet decided whether to disclose it or not. For our part, we think that not actually disclosing this part may actually give us a competitive advantage as a company, so please forgive us as we are still considering this part.

Also, as far as each segment is concerned, again, the biggest problem for us in Japan is that new construction is decreasing in the long term. We will continue to provide products that are environmentally friendly, as well as renovation-related products.

Last time, we talked about recycled wood. And this time, we are introducing Japan's first recyclable resin frames. This is something that our competitors are not doing. So, in that sense, I think it is possible for LHT to actually grow by increasing the number of such products.

In the past, however, because the profit margin of LHT was so low, it was difficult to respond to various issues such as the soaring cost of materials, and the volatility of the business was very high. I think that this part has already been resolved.

On the other hand, the same thing is happening with LWT, but for LWT, we need to reform the distribution system to speed up the digitization process. We mentioned earlier that the structural reforms have been completed, but we are going to attack the digital market more and more. So, in that sense, we will be able to make structural reforms in that area and increase the profit margin.

On the other hand, for international business, we are always talking about portfolio management where we take more and more resources and focus on the most profitable areas and let them grow.

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If we think beyond the medium-term plan, we will need to innovate to take it to the next level. A company that cannot innovate cannot win, so in that sense, it is very encouraging to see the emergence of various seeds of innovation.

MC: Thank you very much. Mr. Takegawa of Sumitomo Mitsui Trust Asset Management sent us an e-mail with the same question that CEO Mr. Seto just answered, so I would like to skip that one.

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

About the strong performance of LWT international, especially in Americas and Europe, apart from the market factors, please tell us about your company's measures that have been effective.

Seto: First of all, in Americas, sanitary ware was not profitable which accounted for a large part of the revenues. One of the things we did was to narrow down the SKUs early on and then raise the prices of what we needed to sell to our customers.

As a result of this effort to narrow down the SKUs in Americas and Europe, one thing that can be said about COVID-19 is that people tend to buy what they know when they buy things at home. When you go to a showroom, you sometimes buy something new as a form of serendipity for something you don't know, but when you are sick or have to stay at home, you tend to buy something you know.

We have known statistically for a long time that demand tends to concentrate on the products we know, so the first thing we did when COVID-19 emerged last year was to clarify the production system for the best-selling SKUs. We avoided running out of these top selling SKUs. Since we were producing the SKUs that were selling well in various parts of the world, we created a structure that even if some factories are shut down due to the COVID-19, other factories could produce it. I think this was a very good structure for supply.

So, we raised that price to some extent to make sure we could make a decent profit and narrowed down the SKUs. We did both of those things, and the one that worked best for us was in Americas.

In Europe as well, we have been able to tie down the faucet to a large extent, and we may also have had success with the flushing system of our new product.

The other thing is that we are shifting our focus to segments that are profitable and have growth potential, which is what we have been doing for a long time.

For the other segments, we have been steadily and carefully doing business.

In that sense, Americas also had to bend over once before it grew. But now, I think we could build the structure which enables to grow more and more at full capacity.

In China, the situation has been changing for the past two years, and we are working on changing the situation there. I think that such measures for China will probably come out by 2030.

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

This concludes the LIXIL Corporation's financial results briefing for the first quarter of the fiscal year ending March 2022.

Thank you for your continued support of LIXIL.

Seto: Thank you very much.

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