



## **LIXIL Corporation**

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

April 30, 2024

## Event Summary

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<b>[Company Name]</b>	LIXIL Corporation	
<b>[Company ID]</b>	5938-QCODE	
<b>[Event Language]</b>	JPN	
<b>[Event Type]</b>	Earnings Announcement	
<b>[Event Name]</b>	Financial Results Briefing for the Fiscal Year Ended March 2024 for Investors and Analysts	
<b>[Fiscal Period]</b>	FY2024 Annual	
<b>[Date]</b>	April 30, 2024	
<b>[Number of Pages]</b>	28	
<b>[Time]</b>	17:00 – 17:59 (Total: 59 minutes, Presentation: 26 minutes, Q&A: 33 minutes)	
<b>[Venue]</b>	Webcast	
<b>[Venue Size]</b>		
<b>[Participants]</b>		
<b>[Number of Speakers]</b>	4	
	Kinya Seto	Director, Representative Executive Officer, President, and CEO
	Mariko Fujita	Executive Officer, Executive Vice President, and CFO
	Aya Kawai	Leader, Investor Relations Office
<b>[Analyst Names]*</b>	Sachiko Okada	Goldman Sachs
	Sho Fukuhara	Jefferies
	Masahiro Mochizuki	CLSA Securities
	Daisuke Fukushima	Nomura Securities
	Hiroki Kawashima	SMBC Nikko Securities
	Hideaki Teraoka	Daiwa Securities
	Ryo Yagi	Morgan Stanley MUFG Securities

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\*Analysts that SCRIPTS Asia was able to identify from the audio who spoke during Q&A or whose questions were read by moderator/company representatives.

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## Presentation

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**MC:** We will now begin the financial results briefing of LIXIL Corporation for the fiscal year ended March 31, 2024. This briefing is being conducted via live internet streaming. Thank you.

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

**Seto:** Thank you.

**MC:** Next, as we have also disclosed the change in structure, Ms. Mariko Fujita, newly appointed as Executive Officer, Executive Vice President, and CFO in April.

**Fujita:** Thank you very much.

**MC:** Ms. Aya Kawai, Leader of the IR Office.

**Kawai:** Thank you very much.

**MC:** My name is Fukushima from the IR Office, and I am the moderator for today's session. Please refer to the presentation materials posted on our website in the Investor Relations section.

First, let me explain today's proceedings.

First of all, CEO Seto would like to explain our financial results for the fiscal year ended March 31, 2024. This will be followed by a question-and-answer session. 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 limit each person to two questions first. Questions will be accepted at any time. The event is scheduled to end at 6:00 PM. Thank you for your cooperation.

Mr. Seto will now explain the financial results for the fiscal year ended March 31, 2024. Mr. Seto, please.

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## › KEY HIGHLIGHTS

### Summary of results for the fiscal year ended March 2024

#### Revenue and profits decreased year-on-year for Q4 (3 months) FYE2024

- Japan: Lower performance than expected due to the impact of LHT window renovation subsidies in a transitional period and a further decline in new housing starts
- International: Sluggish demand for LWT products has bottomed out, but performance concerns remain
- International structural reforms progressed more quickly than initially planned, resulting in an increase in "other expenses"

#### Revenue and profits declined for Q4 (12 months) FYE2024

- Japan: The number of new housing starts was significantly below LIXIL's forecast. In particular, owner-occupied and detached houses, areas of strong demand for LIXIL, both saw significant declines. At the same time, higher sales for window renovation supported results
- International: Weak performance throughout FYE2024 due to sluggish demand for housing-related products in Europe and the US due to high interest rates and prolonged inflation. Inventory levels on the customer side are decreasing, but demand has not yet recovered
- International: Have accelerated structural reforms in Europe and the US (Details to follow)

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**Seto:** Hello, everyone. I will now present the financial results for the fiscal year ended March 31, 2024.

First, we unfortunately had a slowdown in Q4, in the fiscal year ended March 31, 2024. The reason for the slowdown is that, until now, international sales, especially in Europe, have been poor for the entire fiscal year, but sales in Japan have deteriorated further. Especially in March, the number of new housing starts dropped 12.8% compared to last year. Therefore, it is true that Q4 was a difficult time for us, as we were not fully engaged in remodeling.

Nevertheless, the LHT window renovation subsidy, which supported us until December, was affected by the transitional period for applications, resulting in a slower-than-expected performance.

On the other hand, we made more progress than we had expected in implementing various structural reforms, partly because of sluggish demand in international markets. The progress we have made has, in a sense, resulted in an increase in operating costs, which affected core earnings, as well as in costs that come under core earnings. As a result, we consider that the results for Q4 were worse than planned for the full year.

Looking at the full year, I think the most significant factor during the past year was that housing-related conditions were poor, especially in Europe and the United States, due to high interest rates in international markets and the progression of inflation.

On the other hand, as for structural reforms in the US and Europe, I think we have accelerated ahead of schedule. In Japan, as I mentioned earlier, the number of new housing starts decreased by 5% to 6%. Our initial plan was to expect the same level as last year, so the result was disappointing because of the considerable drop in that part that we had expected.

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## › KEY HIGHLIGHTS

### Outlook for the fiscal year ending March 2025

#### Full-year forecast for FYE2025

- Forecasting revenue of JPY1,570.0 billion and core earnings of JPY35.0 billion
- Forecasting annual dividend of JPY90 per share

#### Business environment and outlook

- New housing starts in Japan are expected to be weak for some time, but demand for renovation products to improve home insulation in LHT, due in part to higher subsidies, is expected to contribute to profits
- LWT Japan's intensified competitive environment is leveling off. We are accelerating our response to renovation demand and launch new, differentiated products
- Interest rates, the primary reason for LWT International's underperformance, are expected to improve during the year, but FYE2025 demand is expected to be flat from FYE2024. Earnings are expected to improve due to structural reforms implemented in FYE2024
- Some structural reforms in international businesses will continue in FYE2025, however, most measures are set to complete in FYE2025 (optimization in production facilities will continue in FYE2026 onwards)

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In this way, the fiscal year ended March 31, 2024 was a difficult one, but the objective situation has not changed significantly for the fiscal year ending March 31, 2025. However, due to the results of our structural reforms and other factors, we have improved our core earnings to JPY35 billion, and we expect to pay an annual dividend of JPY90 per share.

Overall, structural reforms, some of which were started relatively early in Q4 as mentioned earlier, will continue until about Q1. Although we expect the economy to remain the same to some extent, the effects of the structural reforms we are undertaking will gradually appear later on.

The core earnings is JPY35 billion, and I estimate that the core earnings will be bottom-heavy in the latter half compared to the earlier half.

As I mentioned earlier, we expect the number of new housing starts to be weak, and although there is a possibility that the interest rate environment in Europe and the US will improve this fiscal year, demand itself is projected to remain at the same level as the previous fiscal year.

However, we consider the current results as a result of the structural reforms we are implementing this time, especially the improvement in earnings for the international business due to the structural reforms implemented in the previous fiscal year.

On the other hand, structural reform of the international business, of course, cannot be implemented forever, so we are planning to finish roughly 90% of it in this fiscal year. There are some structural reforms that need to be continued for various reasons, but we would like to terminate structural reforms that will drag down overall business performance this fiscal year.

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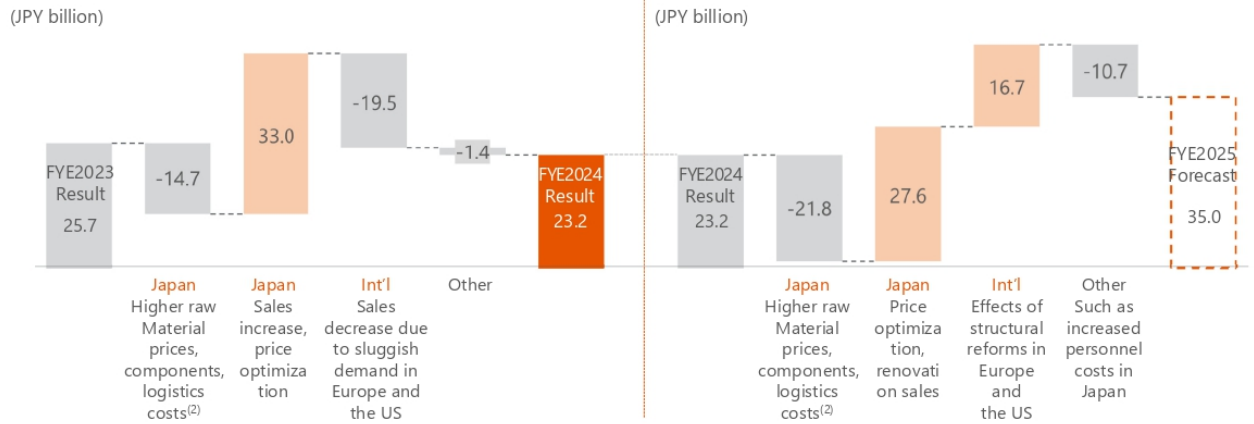
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## KEY HIGHLIGHTS

### Core earnings review of FYE2024 and outlook for FYE2025<sup>(1)</sup>

FYE2024	FYE2025
<ul style="list-style-type: none"> <li>Japan: Raw material prices remained stable. Component costs continued to rise, but were offset by price optimization</li> <li>International: Despite reductions in SG&amp;A expenses, core earnings declined significantly due to the impact of lower sales (sales decrease and increase in the fixed cost burden from the decrease in production volume)</li> </ul>	<ul style="list-style-type: none"> <li>Japan: Increased sales of window renovation will be a driver of profit growth. Component costs will continue to rise, but this will be offset by price optimization</li> <li>International: Economic recovery in Europe and the US will be delayed, but earnings will improve due to structural reforms</li> <li>Cost increases expected in all regions due to higher personnel and SG&amp;A expenses</li> </ul>



(1) Please refer to p.29-30 and p.34 for analysis on changes of core earnings by segment for FYE2024 results and FYE2025 forecast respectively.  
 (2) Including forex impact

As a key point of today's explanation, the waterfall chart, as shown in the presentation, shows that despite recent annual increase in costs, raw materials, and labor costs, we have increased sales by shifting towards renovation business and through window renovations, as well as price optimizations in Japan. Then, on the other hand, what struck us was the decline in sales due to the drop in demand in Europe and the US, which ultimately led to a decrease in profits.

To be honest, I am disappointed that we ended up with almost the same level of performance, and I regret that we were not good enough.

On the other hand, business environment has not changed significantly in the current fiscal year. At first, prices of various raw materials rose, and we responded by raising prices and enhancing reforms, but demand for our international business dropped more than we expected last year. We are now forecasting JPY35 billion based on this demand, and by boosting profits through structural reforms.

It is difficult to predict when a full-fledged recovery will take place, but with regard to the European economy, in the best-case scenario, if interest rates fall in June, most forecasts indicate that demand will begin to recover from around January.

On the other hand, in the US, the mainstream view is that interest rates are likely to fall in September, but demand has been rising in some areas as it becomes unbearable to endure any longer. Therefore, we believe that US business performance will probably remain close to flat year on year during the current fiscal year.

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## ➤ PROGRESS OF INITIATIVES IN THE LIXIL PLAYBOOK (1)

### Management Direction<sup>(1)(2)</sup> – Focusing on the strategic initiatives of the LIXIL Playbook

- Transform the management structure for sustainable growth and nurture an entrepreneurial culture
- Improve ROIC to 10% or more
- Improve core earnings margin aiming for 7.5%. Raise to 10% for mid-to long-term
- Maintain Net debt/EBITDA at 3.5x or less, providing a stable foundation to support mid-to long-term growth
- Aim for both sustainable corporate growth and creation of positive impact on society



**LIXIL** (1) Page 30-40 of LIXIL Integrated Report 2023 "Management Direction" [https://ssl4.eir-parts.net/doc/5938/ir\\_material\\_for\\_fiscal\\_ym41/137633/00.pdf#page=31](https://ssl4.eir-parts.net/doc/5938/ir_material_for_fiscal_ym41/137633/00.pdf#page=31)  
 (2) Page 6-8 of ESG Briefing Material in 2023 "ACHIEVING OUR PURPOSE THROUGH VALUE CREATION" [https://ssl4.eir-parts.net/doc/5938/ir\\_material\\_for\\_fiscal\\_ym33/153293/00.pdf#page=6](https://ssl4.eir-parts.net/doc/5938/ir_material_for_fiscal_ym33/153293/00.pdf#page=6) 5

However, I think we are doing what we should be doing in the long term, and in the short term, we are doing what we should be doing, despite the fact that commodity prices have really gone up since COVID-19, and there have been economic downturns in Europe and the United States. If demand returns properly, we are aiming for 10% ROIC, and then 10% core earnings in the long term.

However, as I will explain later, we aim to achieve both sustainable growth and social impact, both of which are important to us. I believe that we now have all the items we need to do this.

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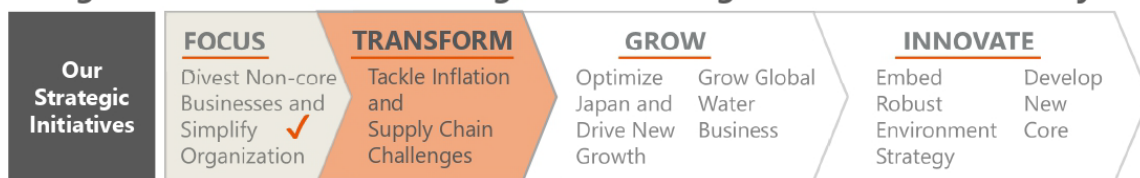
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## ➤ PROGRESS OF INITIATIVES IN THE LIXIL PLAYBOOK (2)

### Management Direction – Focusing on the strategic initiatives of our Playbook



- International business structural reforms are expected for the most part in FYE2025 (Primarily regarding restructuring of the supply chain)
- The effects of the initiatives implemented in FYE2024 are planned to materialize from FYE2025 onwards

#### Structural reforms

- ✓ **Optimize personnel allocation**  
Already implemented, primarily in Europe and the US
- ✓ **Restructuring supply chain**  
Reorganized some factories in Asia  
Continued implementation planned for FYE2025
- ✓ **Optimize business portfolio**  
Already implemented, mainly in unprofitable businesses and businesses where synergies are not expected

(JPY billion)	FYE2024	FYE2025	FYE2025
	Costs <sup>(1)</sup>	Effects	Costs
<b>Optimize personnel allocation</b>			
Optimize personnel allocation	4.0	3.0	
<b>Restructuring supply chain</b>			
Consolidation of Int'l plants	2.5	1.0	6.5
<b>Optimize business portfolio</b>			
Dissolution of DPI and others	5.5	2.0	
<b>Total</b>	<b>12.0</b>	<b>6.0</b>	

(Plan)



(1) Items that were accounted for as other expenses and other income within structural reform costs

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Many things have occurred in the past two to three years, and we have been dealing with inflation and supply chain issues related to transforming the Company.

As I mentioned earlier, we were able to accelerate our structural reforms a little, so we were able to spend JPY12 billion in the last fiscal year. Although core earnings have fallen in part, the effect of this part to be realized in FYE2025 will be JPY6 billion.

In addition, we are planning to spend up to JPY6.5 billion on structural reforms for FYE2025.

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## ➤ PROGRESS OF INITIATIVES IN THE LIXIL PLAYBOOK (3)

### Management Direction – Focusing on the strategic initiatives of our Playbook



- Japan: Advance our digital transformation, including embedding AI. Leveraging the expertise and technology from Japan to support growth of international markets
- International: Focus on faucets (especially US sales expansion) and flushing systems (Middle East)
- Stabilize our business portfolio by approaching potential markets and capturing demand in growth markets

#### Pursue growth in Japan water business

- ✓ Capitalize on the 100th anniversary<sup>(1)</sup> of our Japan water and tile business, accelerating development of new products
- ✓ New *SATIS X* launched in 2024, based on innovative technologies and expertise<sup>(2)</sup>



➤ Details on Topics p.40

#### Accelerate growth in international businesses

- ✓ Full-scale rollout of GROHE's premium sub-brand *GROHE SPA*
- ✓ Highlight brand value with unique, custom-made designs, premium materials, and the latest colors



**LIXIL** (1) News release <https://newsroom.lixil.com/ja/2024010904> (Japanese only)  
 (2) News release <https://newsroom.lixil.com/ja/2024030601> (Japanese only)

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On the other hand, in terms of growth, especially in the area of water-related products, we will advance our digital transformation in Japan using AI and other technologies to improve the efficiency of not only LWT but also LHT, while shifting actual development resources to international markets.

For international business, we need to focus on highly profitable faucets and flushing systems in order to stabilize our portfolio while achieving growth.

However, as for the Japan market, even though remodeling will increase, it will not grow that much, so how to contribute the Japan business in order to grow international business will be an important theme.

This year, we plan to launch more new products in the Japan water business than we have in the past few years. As for our international business, in April, we have introduced the full-scale launch of *GROHE SPA* in Milan, and in May, we will begin the launch of *KINUAMI* showers in China, which had a great impact in Japan.

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## EXPAND SALES OF NEW PRODUCTS WITH SOCIAL AND ENVIRONMENTAL IMPACT

- Aiming to achieve sustainable growth through the expansion of differentiated products and to create an impact on society at the same time
- The development of the following products has already been completed. The key is how far we can penetrate the market with differentiated prices

<p>Contribute to reducing CO<sub>2</sub> emissions Promote circular economy</p> <p><b>Expand sales of PremiAL<sup>(1)</sup></b>, a low-carbon building material using recycled aluminum</p>  <p>Mid- to long-term sales target: <b>JPY 300 billion</b></p>	<p>Creating new value through core technologies</p> <p><b>Rollout of KINUAMI<sup>(2)</sup></b>, a foam shower Japan: For caregivers, International: For public</p>  <p>Mid- to long-term sales target: <b>JPY tens of billions</b></p>	<p>Creating new value through core technologies</p> <p>Provide new value through <b>Greentap<sup>(3)</sup></b> and <b>GROHE Blue</b>. Contribute to the environment by reducing plastics use and logistics costs</p>  <p>Mid- to long-term sales target: <b>JPY tens of billions</b></p>
<p>Contribute to reducing CO<sub>2</sub> emissions Promote circular economy</p> <p><b>Expand sales of revia<sup>(4)</sup></b>, a sustainable material developed by combining waste plastic and wood</p>  <p>Mid- to long-term sales target: <b>JPY 100 billion</b></p>	<p>Creating new value through core technologies</p> <p>All shower toilets are equipped with <b>two nozzles</b>. Contribute to reducing health issues unique to women</p>  <p>Mid- to long-term sales target: <b>JPY 50 billion</b></p>	<p>Contribute to reducing CO<sub>2</sub> emissions</p> <p>Contribute to CO<sub>2</sub> emissions through <b>increased sales of renovation products for better heat-insulation</b>, such as sashes, doors, and exterior walls</p>  <p>Mid- to long-term sales target: <b>JPY 80 billion</b></p>

**Plan to launch Everstream Shower, trivalent chromium compatible faucets, Re-invented Toilet<sup>(5)</sup>, and environmentally friendly bathtub products going forward**

**LIXIL** (1) News release [https://newsroom.lixil.com/20231010\\_01](https://newsroom.lixil.com/20231010_01) (4) News release <https://newsroom.lixil.com/2022101802>  
 (2) News release [https://newsroom.lixil.com/ja/20230915\\_01](https://newsroom.lixil.com/ja/20230915_01) (Japanese only) (5) News release [https://newsroom.lixil.com/20240321\\_g2rt](https://newsroom.lixil.com/20240321_g2rt)  
 (3) News release <https://newsroom.lixil.com/ja/2024032801> (Japanese only) 8

Today I want to focus on explaining this slide. First, as I mentioned earlier in the Playbook, we would like to differentiate our products by their contribution to society and the environment. In fact, we have already done a great deal of work on the development of such products.

However, how to expand sales of this product, how to market it, and how to increase its profitability as a differentiated product, are issues that will need to be addressed in the future.

The first of these large products is *PremiAL* in the upper left corner. This is a product that can reduce CO<sub>2</sub> emissions by 97% on an extrusion product basis, because it is made mainly from scrap rather than from bauxite in the aluminum-making process. In reality, we were able to launch *PremiAL R100* at the end of last year, and we are now able to make up to 75% of our raw materials from scrap on average.

We have to sell these products at a premium because they are *PremiAL*. In fact, we and a Norwegian company called Hydro are the only two companies in the world that can do this, and we would like to make this a premium product that will serve as a trump card for various companies to reduce CO<sub>2</sub> emissions.

We have already received offers from several companies to buy it at a premium, and it is selling well, not only for buildings but also for automotive applications, for example. We estimate our aluminum-related product business is about JPY450 billion, but in reducing CO<sub>2</sub> emissions in Japan as a whole by 2030, I think that we can expect about a significant figure of JPY300 billion.

And below it, *revia*. As I have introduced several times, this is a material called *revia*, which is made by combining waste plastic, which is said to be unrecyclable, with waste wood. This year, we will begin factory production of this material for the first time. So far, we have been selling products made in our experimental facilities in small quantities, but we believe that full-scale production can begin this year.

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Achieving the sales target will depend on how much the market appreciates the product and how seriously the world takes the current waste plastic problem, but we believe that the goal of selling JPY100 billion by 2030 is a feasible figure.

Then there is *KINUAMI* up the middle. As I mentioned earlier, this year we will start selling these products around the world. Originally, we started these products for people with sensitive skin, for beauty, and for nursing care for people who cannot fully use their arms.

In international markets, we have received a lot of positive feedback on the shower's ability to save time and keep the body moist, so we are planning to sell it around the world this year, starting with China. We are planning to expand by first introducing the product in China in May, and then introducing it extensively in Europe this winter or early next year.

Then, next is the shower toilet. The biggest difference between us and other companies is that our products have two nozzles. The idea is to have a separate nozzle for washing women's delicate body parts from the nozzle for washing the anus, so that women can comfortably use this nozzle to wash cleanly even when they go outside. It can contribute to society by allowing people to work outside without discomfort even when they are menstruating.

We believe that this is also an SDGs product, and as Femtech (products and services that addresses health issues unique to women), we are trying to differentiate ourselves not only with this product, but also with the direction of making toilets that are friendly to women.

Then *Greentap*, *GROHE Blue* in the upper right corner. This is an ingenious way to make sure that you can drink good tasting water from the faucet. For *Greentap*, we are working with Suntory to bring out Suntory's mineralized water from the faucet, and for *GROHE Blue*, we bring out carbonated water from the faucet.

If we enable this, we will not have to use gasoline or spend money on transportation to bring water to homes, and we will also be able to reduce the volume of plastic containers used to transport the water, and I believe we can make a significant contribution to the environment as well.

It is difficult to determine the size of the market, but in southern Europe, Spain, Italy, and France, for example, sparkling water is used. Considering this demand, it is said that there is really a need worth several hundred billion yen here alone, so I think that taking a profit of several tens of billions of yen here is a figure that is quite feasible.

Then the heat-insulation renovation in the last lower right corner. In addition to sashes and doors, for which we have been receiving subsidies, Japan must insulate exterior walls as a matter of national policy. As Japan continues to attract semiconductor factories and data centers one after another, I think it is clear to some extent that there will be a shortage of electricity. In this context, I believe that there is a high level of attention to this insulation renovation in terms of what can be done at home and how much electricity can be reduced.

In that sense, we have achieved sales of more than JPY50 billion in FYE2024 since the subsidy for sashes was introduced, and we believe that JPY80 billion is a very realistic figure if we add these other products to that total.

All these products I just mentioned are already made as products. They are all products that we could sell if someone asked us to do so tomorrow.

In addition to that, the *Everstream Shower* is an ingenious device that allows you to reuse the warm water from the shower once you have used it, using the filter. Then there are faucets that use trivalent chromium on the surface instead of hexavalent chromium, which is said to be harmful to the body. *Re-invented Toilet*,

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which eliminate the need for septic systems in toilets. All of these technologies have also been perfected. Then we will add the final touches to the product, such as the design, and I think it will become a product that will be sold over the next year or two.

If we add all of these products to our lineup, and if we are able to fully introduce the value of these products to society, and if society is willing to buy these products, I believe that we will be able to sell these differentiated products at differentiated prices, and that the portion of our sales that is attributable to the environmental and social impact of these products alone will account for more than half of our total sales.

I believe that this is one of the paths to finally achieve the high core earnings margin that I mentioned earlier.

## › FYE2024 PERFORMANCE HIGHLIGHTS

### Revenue and profits decreased year-on-year

- **Revenue: JPY1,483.2 billion, down JPY12.8 billion year-on-year**
  - Q4 (3 months) YoY: -4% in Japan and -4% in international markets (-14% excluding foreign exchange impact)
  - Q4 (12 months) YoY: Flat in Japan and -4% in international markets (-12% excluding foreign exchange impact)
- **Core earnings: JPY23.2 billion, down JPY2.6 billion year-on-year**
  - Q4 (3 months) breakdown: JPY2.5 billion in LWT Japan, JPY0.5 billion in LWT International, JPY3.0 billion in LHT, and -JPY9.5 billion for consolidation adjustment/other factors
  - Q4 (12 months) breakdown: JPY20.9 billion in LWT Japan, JPY1.8 billion in LWT International, JPY35.9 billion in LHT, and -JPY35.4 billion for consolidation adjustment/other factors
- **Profit for the year<sup>(1)</sup>: -JPY13.9 billion, down JPY29.9 billion year-on-year**
  - Decreased by JPY29.9 billion YoY primarily due to an increase in costs associated with structural reforms, an increase in financial expenses due to rising interest rates, and an increase in tax expenses due to a temporary decline in profitability

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

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However, going back to the highlights of the most recent financial results, unfortunately, revenue for this fiscal year fell not only in international markets but also in Japan due to the decline in demand, and core earnings also unfortunately fell due to the overall decline in demand, despite the positive impact of subsidies for LHT and other factors.

As for the profit for the year, we have implemented structural reforms this time. Also, we wanted to organize this to be an issue in the past, but regarding Permasteelisa, we have likely conducted the final liquidation this time. Although profit for the year was negative due to a slight increase in financial expenses caused by higher interest rates and an increase in some tax expenses, there are still many areas where we did not lose cash. As I will explain later, I think it is safe to say that we have a stable financial base.

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## ➤ FYE2024 CONSOLIDATED BUSINESS RESULTS

	Q4 (12 months)				Q4 (3 months)		
	FYE2023	FYE2024	Increase/ decrease (YoY)	%	FYE2024	Increase/ decrease (YoY)	%
JPY billion							
<b>Revenue</b>	1,496.0	<b>1,483.2</b>	-12.8	-0.9%	<b>360.3</b>	-11.9	-3.2%
<b>Gross Profit</b>	468.6	<b>472.7</b>	+4.1	+0.9%	<b>110.4</b>	-5.7	-4.9%
(%)	31.3%	<b>31.9%</b>	+0.5pp	-	<b>30.7%</b>	-0.6pp	-
<b>SG&amp;A</b>	442.9	<b>449.6</b>	+6.7	+1.5%	<b>113.9</b>	+2.5	+2.2%
<b>Core Earnings (CE)<sup>(1)</sup></b>	25.7	<b>23.2</b>	-2.6	-10.0%	<b>-3.5</b>	-8.2	-
(%)	1.7%	<b>1.6%</b>	-0.2pp	-	<b>-1.0%</b>	-2.2pp	-
<b>Profit for the year Including Discontinued Operations<sup>(2)</sup></b>	16.0	<b>-13.9</b>	-29.9	-	<b>-20.7</b>	-25.7	-
<b>EPS (JPY)</b>	55.54	<b>-48.43</b>	-103.97	-	<b>-72.05</b>	-89.37	-
<b>EBITDA<sup>(3)</sup></b>	107.6	<b>104.5</b>	-3.2	-2.9%	<b>17.5</b>	-7.6	-30.2%
(%)	7.2%	<b>7.0%</b>	-0.2pp	-	<b>4.9%</b>	-1.9pp	-

- **Gross profit margin:** Increased by 0.5pp YoY
- **SG&A expenses:** Increased by JPY6.7 billion YoY (Japan JPY2.4 billion decrease, International JPY3.4 billion decrease, forex effect JPY12.5 billion increase) due mainly to foreign exchange impact. SG&A ratio increased by 0.7pp
- **CE margin:** Decreased by 0.2pp YoY

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

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In such an environment, as I will explain later in the dividend section, core earnings was very disappointing, but even under these circumstances, we were able to maintain 7% EBITDA. We were able to secure JPY104.5 billion in EBITDA as a whole, which I would like to emphasize.

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## › FYE2024 BUSINESS RESULTS BY SEGMENT

Revenue was flat YoY in the Japan business, but declined due to sluggish demand in the int'l businesses. Core earnings increased in LHT due to price optimizations and subsidies for window renovation, but decreased in LWT due to the significant impact of sluggish demand in int'l markets

		Q4 (12 months)			Q4 (3 months)	
		FYE2023	FYE2024	Increase/ decrease (YoY)	FYE2024	Increase/ decrease (YoY)
JPY billion						
LWT	Revenue	915.3	<b>896.9</b>	-18.4	<b>228.5</b>	-3.6
	CE	47.3	<b>22.7</b>	-24.5	<b>3.0</b>	-8.2
LHT	Revenue	598.2	<b>596.4</b>	-1.8	<b>133.9</b>	-10.0
	CE	19.4	<b>35.9</b>	+16.5	<b>3.0</b>	-0.9
Consolidation, Adj. & Other	Revenue	-17.5	<b>-10.1</b>	+7.4	<b>-2.1</b>	+1.7
	CE	-40.9	<b>-35.4</b>	+5.4	<b>-9.5</b>	+0.9
LIXIL	Revenue	1,496.0	<b>1,483.2</b>	-12.8	<b>360.3</b>	-11.9
	CE	25.7	<b>23.2</b>	-2.6	<b>-3.4</b>	-8.2

Q4 (12 months) impact from segment reclassification<sup>(1)</sup>

LWT: Revenue JPY0.0 billion, CE -JPY2.2 billion

LHT: Revenue -JPY7.4 billion, CE +JPY2.2 billion

Consolidation adj.: Revenue +JPY7.4 billion

CE JPY0.0 billion

Forex impact<sup>(2)</sup>

Q4 12 months: Revenue +JPY42.7 billion, CE +JPY2.6 billion

Q4 3 months: Revenue +JPY14.7 billion, CE +JPY0.9 billion



<sup>(1)</sup> 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

<sup>(2)</sup> Forex translation effect gain(loss) from international subsidiaries

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By business segment, LWT in particular struggled this year. In the Japan business, while new housing starts dropped sharply, we did not increase remodeling sufficiently, which we regard as an issue that we need to improve. In addition, the biggest factor in the decrease in profits was Europe, the main source of earnings.

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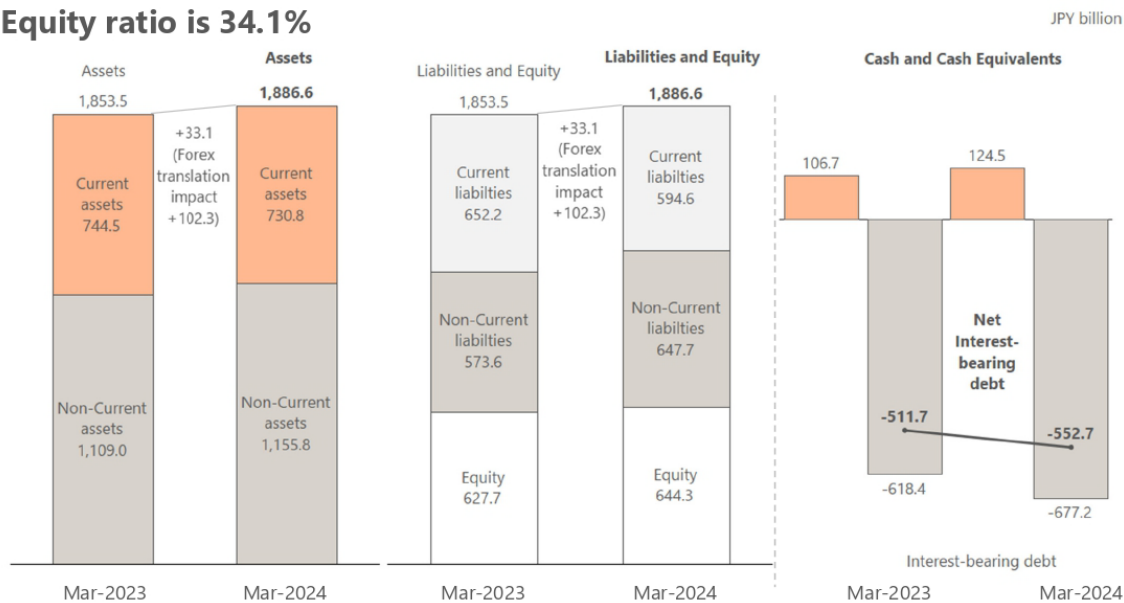
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## › CONSOLIDATED FINANCIAL POSITION

Total assets increased slightly, due to foreign currency translation<sup>(1)</sup>. Net interest-bearing debt increased from FYE2023 due to an increase in working capital but decreased by JPY18.5 billion from Q3.

Equity ratio is 34.1%



**LIXIL** (1) Excluding the forex translation impact, the total assets decreased by JPY69.2 billion, of which JPY44.0 billion was for lower inventories. <sup>12</sup>

In terms of the consolidated financial position, net interest-bearing debt decreased by JPY18.5 billion in the most recent quarter, and the equity ratio is currently 34.1%. We have been saying for some time that 35% is our ideal, and I think we are getting closer to the number we had in mind.

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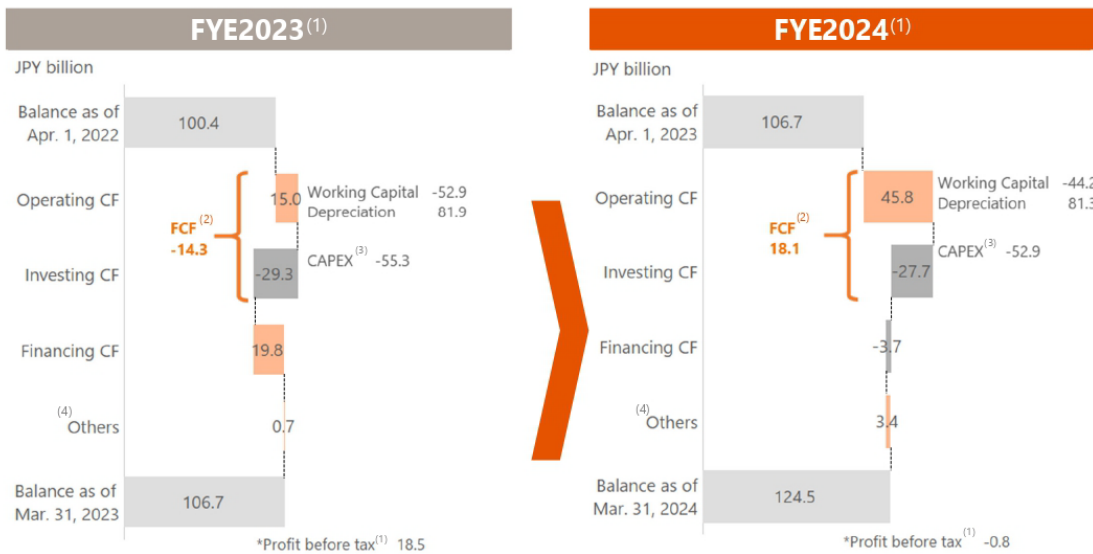
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## ➤ CASH FLOW STATUS AND CASH BALANCE

Free Cash Flow (FCF) turned positive and increased by 32.4 billion yen compared to the same period last year as progress in inventory reduction contributed to a significant improvement in operating cash flow



**LIXIL** (1) Includes discontinued operations  
 (2) "FCF" = Operating CF + Investing CF

(3) CAPEX = Purchase of property, plant and equipment +  
 Purchase of intangible assets (Excluding Right of use assets in IFRS16) 13  
 (4) "Others" = Effects of exchange rate

Cash flow, on the other hand, has improved significantly. Although there were some problems, such as a large increase in accounts payable due to the Declaration for Building Partnerships, etc., JPY32.4 billion improvement in cash flow over the same period last year is good news in this profit situation.

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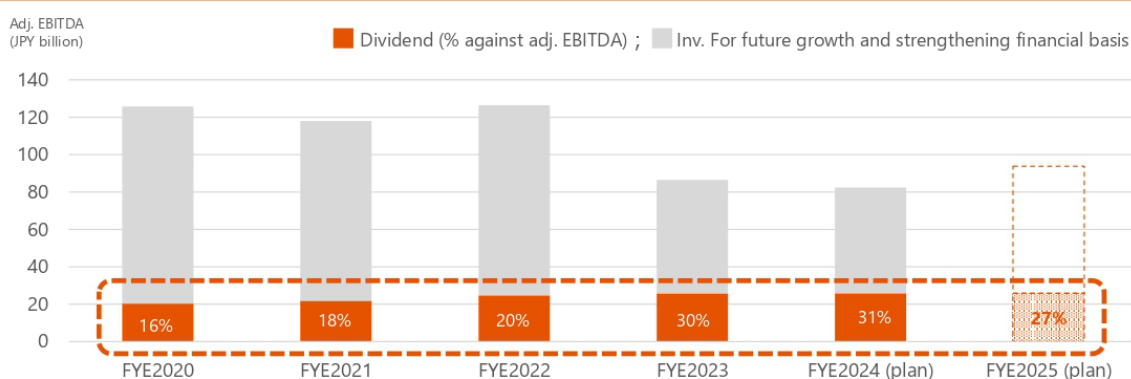
## ➤ CHANGE IN DIVIDEND POLICY

### Shareholder return policy

The LIXIL Corporation policy on profit allocation is to make decisions based on a comprehensive assessment of all management factors, including periodic earnings, cash flows, retained earnings, and financial strength. With regard to retained earnings, the company will prioritize investments for growth, such as capital investments (including new product development, rationalization, and IT investments) to strengthen its competitiveness, in addition to strengthening its financial position, taking into consideration the cash flow situation at that point in time. The company policy on shareholder returns is to pay stable dividends to shareholders over the long term, and to determine the amount of annual dividends based on the medium-term EBITDA level, as well as to buy back shares in a flexible manner.

### Dividend forecast for FYE2025

Forecast for the DPS is JPY90, unchanged from the previous year (27% of adj. EBITDA<sup>(1)</sup> forecasted for FYE2025)



**LIXIL** <sup>(1)</sup> Adj. EBITDA (Earnings before interest, taxes, depreciation, and amortization): Core earnings + Depreciation (adjusted for the amount of depreciation recorded as a cash outflow due to the application of lease accounting under IFRS) 14

Next, regarding our dividend policy. We previously had the dividend payout ratio, but in reality, what we have been doing for the past several years is that we have earned money, invested what we should have invested with the cash we earned, paid taxes, paid interest, and as I mentioned earlier, we have investments for maintenance as well as for the future, and if all these investments are well earned, then we will actively return the money to our shareholders to some extent. Therefore, I think it is appropriate to consider dividends based on EBITDA.

At this point, our earning power itself has weakened somewhat, but if we look at the ratio of the dividend against adjusted EBITDA, we can still achieve about 30%, so we have set our annual dividend per share forecast at JPY90 for the current fiscal year.

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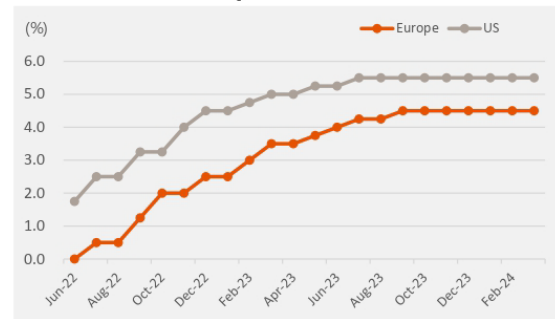
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## > FYE2025 FORECAST – MARKET OUTLOOK & ASSUMPTIONS

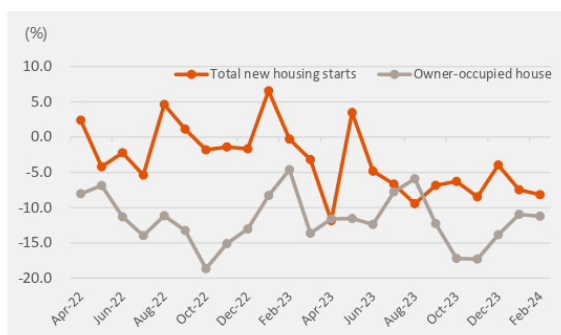
### Market outlook and market indicators

		FYE2024 Results	FYE2025 Forecasts
Housing starts (Units/YoY)	Total	808,000 <sup>(1)</sup>	808,000/0%
	Renovation	+1.5% <sup>(1)</sup>	-1%
FX rate (Average rate)	JPY/USD	144.4	150.0
	JPY/EUR	156.8	162.0
Raw material prices (JPY/ton)	Aluminum	335,000	400,000
	Copper alloy	1,009,000	1,096,000

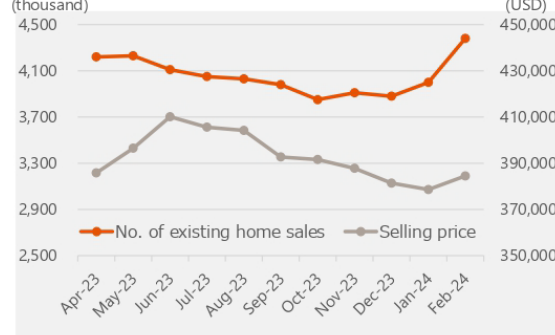
### Interest rates in Europe and the US<sup>(3)</sup>



### Number of new housing starts in Japan<sup>(2)</sup> (YoY)



### The US existing home market<sup>(4)</sup>



**LIXIL** <sup>(1)</sup> Company estimate as of February 2024  
<sup>(2)</sup> Created by LIXIL based on housing starts data from the Ministry of Land, Infrastructure, Transport and Tourism

<sup>(3)</sup> Created by LIXIL based on data from Federal Reserve Board and European Central Bank  
<sup>(4)</sup> Created by LIXIL based on data from National Association of Realtors

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As for the number of new housing starts as an assumption for the current forecast, to be honest, I am concerned about the slow movement of the number of new housing starts. Given that the number of new housing starts decreased by 12.8% in March, it seems that the current situation is quite difficult.

On the other hand, what we are watching very closely is the level of interest rates in the upper right-hand corner of this page. Within Europe, the Netherlands, which is said to be relatively hawkish, is seen to be lowering the interest rates in June, so I think that the ECB, Germany, and most of Continental Europe is expected to have agreed to lower interest rates in June.

On the other hand, I think the US is currently in a situation where even if interest rates drop, it will be by a small amount.

I have heard from various market participants that it takes six months for interest rates to have an impact on the market, so if interest rates were to drop in June, the earliest we could expect to see an impact will be in January. Since we do not know if the impact will be that sharp, we are looking at the same demand as the previous year for the forecast for this fiscal year.

In the US existing home market, while interest rates have been tight, I suspect that there is a trend that some people are buying second-hand homes impulsively. The market is expected to remain flat, just as in Europe, but I think that the US market may be better than European market over the course of a year.

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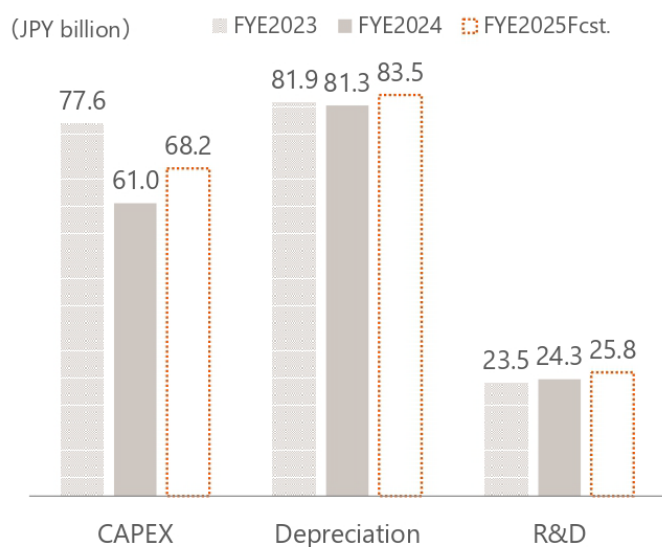
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## › CAPEX, DEPRECIATION, AND R&D EXPENDITURE<sup>(1)</sup>

By increasing investment efficiency, we aim to improve financial strength and raise profitability



### Breakdown of CAPEX

JPY billion	FYE2023 Actual	FYE2024 Actual	FYE2025 Plan
IT investment	12.6	15.1	13.5
Excluding above	65.0	45.9	54.7
Total CAPEX	77.6	61.0	68.2

### Breakdown of Depreciation

JPY billion	FYE2023 Actual	FYE2024 Actual	FYE2025 Plan
IT depreciation	12.3	11.5	13.7
Excluding above	69.6	69.8	69.9
Total Depreciation	81.9	81.3	83.5



(1) Excludes discontinued operations. CAPEX and Depreciation includes intangible assets and IFRS 16 lease

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Lastly, about how to use money as I mentioned earlier. To ensure that our stakeholders feel assured looking at this slide, we will keep capital expenditures low enough to be covered by depreciation, while at the same time gradually use R&D expenses. As a result of these efforts, a variety of wonderful products have been created, as I mentioned earlier, and we believe that we are making a good investment in the creation of products that contribute to society and the environment.

I have explained our financial results for this fiscal year and what we intend to do in the future. Thank you.

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## Question & Answer

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**MC [M]:** We will now begin the question-and-answer session. If you have any questions, please click on the Q&A button at the bottom of the screen and enter your company name, your name, and your question on the input screen.

I will now read out the first question. Ms. Okada of Goldman Sachs Securities Japan has asked us two questions.

**Okada [Q]:** The low margins in the international LWT business have been greatly affected by the rapid changes in the industry environment. What strategies, including the effects of structural reforms, will you take in the short, medium, and long term to improve margins to the previous level?

**Seto [A]:** I think it's a straightforward thing, but the biggest cause of the low margin is that the demand has decreased, and the margin is low because it cannot support the fixed cost. Rather than the so-called cost push, the fixed costs have become a bigger percentage of the total cost. In the case of Europe in particular, the market demand has fallen sharply by more than 20%, and I believe that if demand returns, the margins for this area will automatically improve.

However, not only that, but we are also making efforts to reduce costs through structural reforms in this opportunity. One thing I can say is that our faucet business in particular has a relatively high profit margin, but we make and sell almost all of our products ourselves, and in this sense, the high fixed costs make us vulnerable to fluctuations, and we are trying to change this structure.

I have just introduced a variety of products, and, in terms of new products related to the environment and society, other companies have not announced that they are producing such products. So, in that sense, I think that, over the long term, launching such differentiated products will have a great effect.

**Okada [Q]:** Regarding the dividend policy, you have decided to use the adjusted EBITDA basis. Do you have the consent of the financial institutions? Also, please provide some background on this policy change.

**Seto [A]:** I have not asked about it, but as I mentioned earlier, the adjusted EBITDA basis is basically the normal way of thinking about how to divide the money earned after the necessary investments, interest, and taxes are paid, and what is left over.

On the other hand, the problem in our case is that although our EBITDA is at a high level, the profit is highly volatile due to high depreciation expenses that do not generate cash, and thus the volatility of the absolute value is high. To be honest, I think it was unreasonable for a company like ours to have a dividend payout ratio in the first place. I think we can come to an understanding in that sense. I believe that the change in policy is a change in accordance with the state of the Company.

**MC [M]:** Next, we have two questions from Mr. Fukuhara, Jefferies Securities.

**Fukuhara [Q]:** I have a question regarding the change in dividend policy. You mentioned the dividend amount considering medium- to long-term EBITDA and flexible share buybacks, but do you have any hints as to numerical targets, such as a dividend payout ratio? What are the internal standards for share buybacks, since the Company did not announce a share buyback this time, even at the most recent share price level? With the remaining challenge of improving the Company's financial soundness, can we expect the Company to buy back its own shares?

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**Seto [A]:** We don't think about what is often used in terms of dividend payout ratios, such as 30% or 40%. Basically, as I told earlier, I think the first thing to do is to use the investments that should be used in EBITDA, and then pay the taxes and interests, and then think about the rest of it.

In the medium term, I think it is possible to continue at the current level, because we are able to produce good products in our current investment activities, and I think we will be able to increase the absolute amount. But considering that, for example, if EBITDA increases by 30%, will the dividend also increase by 30%, I don't think that is what the issue is about. This is not something for the CEO to say, but something for the Board of Directors to think about. If we are to give a hint as to our numerical targets, we believe that dividend stability is an important factor.

As for share buybacks, we have no immediate plans to do so. Of course, there are good and bad aspects to share buybacks, but I think share buybacks are possible when, for example, a company has temporarily generated a large amount of cash by selling some assets but has no immediate plans to use that cash for investment. However, we have no specific plans to do so at this time.

**Fukuhara [Q]:** This is about the business plan for the fiscal year ending March 31, 2025. The Japan business is expected to see a small increase in profit relative to the increase in revenue. While it can be assumed that increased procurement costs, etc., are factored in, the effect of subsidies on window sashes can also be expected. Could you please provide us with some more assumptions for your Japan profit forecast?

In addition, how much of the increase in international sales, the acquisition effect of Basco, the price increase, and the volume effect, respectively, are incorporated in the plan for Americas to increase its sales by 3%? The EMEA revenue growth plan of 6% appears to incorporate a recovery from H2 of the previous fiscal year, perhaps because there were signs of a recovery in current orders.

**Seto [A]:** First of all, regarding the performance forecast for Japan, the increase in profit is small compared to the increase in revenue, but it is certain that labor costs and other costs have risen. Within procurement costs, there are elements where our suppliers are raising their own labor costs. Therefore, we have factored in the timing issue of raising prices in this regard.

As for subsidies for window sashes, we have included in our forecast as it is that JPY100 billion will increase to JPY135 billion.

International business, in the US, there is the effect of the dissolution of DPI. In this sense, revenue will naturally decrease, but since DPI was in the red, we believe it will be effective in terms of increased profits.

We believe that the market assumptions are basically the same for both the US and Europe. However, in Europe, to be honest, we are seeing the effects of gaining some market share, from which we are seeing a recovery in volume. This is especially the case for showers and new products in showers, as well as for e-commerce and retail, where our sales have been sluggish, but our market share has increased more than we expected. I think that the situation in Europe has improved somewhat. But we see the demand itself as the same in our plan.

**MC [M]:** Next, we have two questions from Sumitomo Mitsui Trust Asset Management, Mr. Takegawa.

**Takegawa [Q]:** Regarding your measures, namely numbers 1, 2, and 3, specifically when and what will be done by, as stated on page 15 of the presentation material, the slide entitled "Actions to better focus on cost of capital and share price," I understand the possibility of impact by market and economic fluctuations. In order to return to 1x P/B ratio, please provide us with a time frame and a perspective on the measures to be taken. Note that restructuring has been ongoing, but why has restructuring not been effective in light of the fact that profits have been declining year after year?

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**Seto [A]:** I think COVID-19 had a big impact on the period from 2020 to 2021. Then, as for the period from 2021 to 2022, after the COVID-19, the price of components rose sharply. Regarding the rise in copper, aluminum, etc., especially copper, we were not able to respond sufficiently in time.

As for the period from 2022 to 2023, after the recovery from the COVID-19 pandemic, we had a slowdown in shipping, then the invasion of Ukraine, etc., which caused problems in the supply chain in H1 of the year and a recession in Europe in H2. Lastly, the recession in Europe has directly contributed to the problem of inadequate production in relation to demand.

Therefore, if no such things had happened, we would have had a satisfactory result. This is the story of measures 1, 2, and 3, all connected. As for the third measure, if demand increases, core earnings will naturally improve, and in turn, once the structural reforms are completed, net profit will improve. I believe that order of the measures is such that the measures 1 and 3 are quite strongly linked, and as for measure 2, it will improve to some extent when the effects of structural reforms are completed this fiscal year.

**Takegawa [Q]:** This is regarding the change in your return policy. Is my understanding correct that if there was no change in the environment, both in Japan and international markets, and that if EBITDA declines compared to the plan, there may be a reduction in dividends, with priority given to strengthening the financial soundness and investment?

**Seto [A]:** In the first place, dividends are not decided by myself alone, but by the Board of Directors, so in that sense, I don't think I should overstate the situation too much. However, if we are talking about a hypothetical situation, there is, of course, a judgment to be made that prioritizing dividend is not right when there are great investments. On the other hand, the financial position is currently in the process of improvement, and there is not much probability that we will have to spend a large amount of money in this area.

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

**Mochizuki [Q]:** While interest rates remain high in the US and Europe, LWT's guidance for FY2025 is for sales to be plus 3% in the US and plus 6% in Europe on a local currency basis. What is the background behind the increase in sales?

**Seto [A]:** I am repeating myself in both cases, but I am assuming that the market environment is the same. However, in the US and Europe, we believe that the market share will basically increase. This is a reality that is showing up in the numbers: the sale of faucets in the US will increase. In Europe, as I mentioned earlier, this reflects the increase in shower products, e-commerce as a sales channel, and retail.

In terms of numbers, we are assuming that Europe has already achieved this, but the US will be able to do so in the future. In the US, especially due to the dissolution of DPI, there will be a temporary decline in the first part of the fiscal year, so the overall effect in local currency terms will be felt mainly in the latter part of the fiscal year.

**Mochizuki [Q]:** The Company's plan for the fiscal year ended March 2024 has also been revised downward. While the accuracy of the Company plan remains low, what are the positive and negative factors that may cause the Company's performance for the fiscal year ending March 31, 2025 to deviate from the Company's plan?

**Seto [A]:** I am very sorry about this, but the main reason for the low accuracy of the Company plan is that the level of core earnings and profit for the year is low, and even a small impact can make a big change. The fact that our sales in the international business, especially in Europe, have changed so drastically, especially in response to changes in demand, is due to our inability to predict that the recession in Europe would continue for the rest of the year as of March and April.

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On the other hand, regarding positive factors that may deviate from the Company's plan, we believe that a change in the environment, such as a hypothetical interest rate drop in Europe in June, which will improve from January, would be a positive factor.

On the other hand, as for negative factors, I think that few people can honestly say that they have a good forecast for China and Asia, and although the amount is small, there may be some negative impact.

Also, we believe that the possibility of a further decline in new housing starts is a possible negative factor in Japan. There are many other things as well, but our biggest negative concern is regarding the demand in the world, that whether we are facing the possibility of a double-dip recession.

On the other hand, I would like to conclude on a brighter note, so when I look at the positive factors, I am not sure what will happen in the Middle East and India, but the fact that there are a number of major projects that are coming up, is a positive factor. Especially in the Middle East, we have a very high market share, so if various projects are realized, this is a part that we have not included in our calculations, and I think it will be a positive thing.

**MC [M]:** Next, we have two questions from Mr. Fukushima from Nomura Securities.

**Fukushima [Q]:** You are implementing structural reforms in the international business, and what exactly did you do in the fiscal year ended March 2024? Please tell us what you did in Europe and the US, respectively. And what will you do in the fiscal year ending March 2025? And what is the equivalent of 10% that will be carried over to FY2026?

**Seto [A]:** Structural reforms involve people, so it is difficult to give detailed breakdowns, but for the fiscal year ended March 2024, we have dissolved DPI and closed some sanitary ware factories, as mentioned earlier. As for the international business, the last thing we did was to reduce the number of personnel to what we call *LI Fit*, which is optimizing the number of personnel needed, especially in Europe and the US.

In the fiscal year ending March 31, 2025, in addition to the above, we will also be finalizing the last part of the *LI Fit* that I just mentioned, and we will also be working on the factory liquidation that we believe is necessary, since we have not been able to complete that part of the project.

As for the 10% equivalent that will be carried over to the fiscal year ending March 31, 2026, it is basically similar to the structural reforms that I just mentioned.

**Fukushima [Q]:** On page 23 of the document, on the slide on international revenue by region for the water technology business, there is a percentage increase in sales in local currency terms for the fiscal year ending March 2025. Why do you see higher increases, such as 10% in Asia and 6% in Europe? What products would increase your revenues?

**Seto [A]:** Within the region, the situation differs considerably from country to country, and in fact, Vietnam was very bad in the fiscal year ended March 2024. The bad situation in Vietnam is still continuing, so I don't know if sales will decrease, but it is a difficult situation.

On the other hand, we think the big increase will be in India. In India, we are growing very rapidly, and two of our growing products, showers and flushing systems, are doing well.

In Europe, as I have mentioned several times before, new shower products are performing very well, and market shares of e-commerce and retail in Europe has already shown good numbers in April. In this sense, the market environment in Europe will not change, but it will improve with an increase in market share. The numbers are small in Asia, so there is inevitably the possibility of a blip, but India will be the main focus.

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**MC [M]:** Next, we have a question from Mr. Kawashima, SMBC Nikko Securities.

**Kawashima [Q]:** Since you have top-class market shares in each of your main products in Japan, the US, and Europe, I think you need to raise profit margins, especially for products in the popular price range in Japan and the US. What strategies do you have in mind? Or will the strategy be to earn added value from products that have a social and environmental impact, while products at the lower end of the price range should be sufficient to contribute to occupancy rates?

**Seto [A]:** First of all, the difficult part is in the US. We have been making efforts for a long time, but in the US, in order to increase the overall profit margin, we have been trying to increase the number of faucets by shifting focus from sanitary ware to faucet, and we are gradually making progress in this area. As you mentioned, our main mid- to high-end priced products are sanitary ware, which accounts for a large portion of our sales.

Among these, there are two types: retail and trade. Retail products are very low-margin products that compete with private brands, while trade products are relatively high-margin products, and it is necessary to increase the number of trade products. This naturally requires shifting resources from retail to trade, so the strategy is to improve the product mix, even at the expense of some sales growth in sales in the US.

We have been developing products for the US market that compete with private brands, but for products we sell to retail, we are now planning to change our development to a slightly upgraded version of different products that will not cannibalize our retail products.

On the other hand, the low profit margins in Japan are due to the product mix when it comes to water-related products. Our major water-related products include toilets, sinks, kitchens, bathrooms, and faucets, of which kitchens have the lowest profit margins and bathrooms the next lowest. These two have a very high market share for us. On the other hand, in the relatively high-margin areas of toilets, sinks, and faucets, we are far behind our competitors, resulting in a low profit margin due to product mix.

Therefore, it is very important for us to get closer to the competitors' market share for toilets, washbasin, and faucets. In this sense, I think it is very important to bring differentiated products, such as Femtech, which I have been previously talking about to the market.

Then, like the shower, as I have explained earlier, I think it means bringing products that have a social and environmental impact. Normally speaking, it would be very difficult for us to win in the toilet, faucet, and washbasin categories against our competitor with the same products. In this sense, we believe that the key to success is to create products that have an impact on society and the environment, and that are desired by end users.

On the other hand, what we need to think about in terms of bathrooms and kitchens is a shift from the current business model and a rethinking of how to do business with a large asset. And the big challenge in the kitchen and bathroom business is distribution pricing. It is said that this is the first year of responding to new government regulations to limit logistics workloads. In part because of the high cost of logistics, it is not profitable.

I think we have to come up with products that provide solutions to those areas. Such products are in fact the products under development within the product lineup for addressing social and environmental issues I mentioned earlier. I have not yet announced it, so I will only say this much, but there are some products that we will add on the list next year that will have an impact on society and the environment that I have just shown you.

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

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**Teraoka [Q]:** The FY2023 results of the European companies that sell water-related products have not been as depressed as Grohe's. How do you analyze this difference?

**Seto [A]:** I think there are two factors. One is that, as I mentioned earlier, the European water-related competitors, I think, basically have fewer facilities than we do. In short, we use almost all of our own equipment, so when demand falls, we are responsible for a very large portion of the decline in equipment utilization. In this sense, they only need to reduce the amount of money spent by OEM vendors, so one problem with their business model is that fixed costs related to equipment utilization rates are not falling.

And second, as for products with low profit margins to begin with, when they fall, they naturally fall significantly as a rate. So, for example, if a 20% product falls by 5%, the profit margin falls to 15%, but if a 10% product falls by 5%, the profit margin falls to 5%, and the ratio of the overall decline in profit margin becomes higher. We believe that the second problem is structural in nature. However, the biggest problem is fixed costs, which have tended to be positive when the economy is booming.

**Teraoka [Q]:** What do you envision these products, which you showed on slide eight, "Expand Sales of New Products with Social and Environmental Impact," to be as a percentage of sales from FY2024 to FY2025?

**Seto [A]:** Actually, for example, *PremiAL*, which I explained earlier, has already sold JPY300 billion as a product, but it is not selling as *PremiAL*. Shower toilets have sold JPY55 billion, but we have not yet been able to sell them in a way that fully appreciates their impact.

If we consider that about JPY50 billion has already been sold as a premium for window products to improve home insulation, then the overall sales of those products is still less than JPY100 billion. Conversely, if we are able to properly evaluate and market the products we are already selling, we would like to achieve a ratio of about half of the total by 2030.

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

**Yagi [Q]:** The first question. You plan to keep the dividend unchanged at JPY90 under the current dividend policy. Can JPY90 be considered as a lower-limit dividend? Or, if the Company's performance were to deteriorate significantly in the future, would there be a risk of a dividend cut?

**Seto [A]:** As I have said many times before, this is basically a decision to be made by the Board of Directors, so I don't think it is something for me to answer, and I also think it is my job to prevent a major deterioration in performance that would cause such concern. Of course, if the Company is unable to generate cash, there is a risk of a dividend cut, but that is just a hypothetical situation.

**Yagi [Q]:** You expect operating income of international LWT to improve significantly. Please tell us about the improvement factors, Grohe and ASB, respectively.

**Seto [A]:** Grohe, especially in Europe, has clearly started to increase its market share, as I have already told you. There are effects from shower, e-commerce, and retail sales that I mentioned earlier, and basically, the main reason why Grohe's profits have declined is that the overall fixed ratio has increased as a result of the decline in demand. I believe that this will be improved.

As for American Standard, I believe that the elimination of the loss-making DPI business will be the first positive factor. Other than that, the faucet business that I mentioned earlier is increasing, especially in the trade, and I think that is a positive thing, because the faucet business is basically more profitable than the sanitary ware business.

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As for ASB, conversely, as related to your earlier question, I think that in the long run, the key point is how to change the quality of the retail business, which is currently earning a high volume of business.

**MC [M]:** This concludes the question-and-answer session.

This concludes the presentation of LIXIL's financial results for the fiscal year ended March 31, 2024. We look forward to your continued support for LIXIL. Thank you.

[END]

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### **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.*
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