LIXIL Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending March 2023 for Investors and Analysts

October 31, 2022

Event Summary

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[Participants]		
[Number of Speakers]	3	
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	Sachio Matsumoto	Director, Representative Executive Officer, Executive Vice President, and CFO
	Kayo Hirano	Senior Vice President, Leader, Investor Relations Office and Leader, Finance & Treasury Corporate Accounting & Treasury/Tax
[Analyst Names]*	Sachiko Okada	Goldman Sachs Securities
	Yoshihiro Nakagawa	Mizuho Securities
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Ryo Yagi	Mitsubishi UFJ Morgan Stanley Securities

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

Presentation

MC: Now that it is time, we would like to begin LIXIL Corporation's financial results briefing for Q2 of the fiscal year ending March 31, 2023. This briefing is being conducted via live internet streaming. Thank you very much for your cooperation.

First, let me introduce today's presenters.

Kinya Seto, Director, Representative Executive Officer, President, and CEO.

Seto: Thank you very much.

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

Matsumoto: Thank you very much.

MC: Kayo Hirano, Senior Vice President, Leader, Investor Relations Office, and Leader, Finance & Treasury Corporate Accounting & Treasury/Tax.

Hirano: Thank you very much.

MC: I am Fukushima, the moderator for today's session, from the IR Office. Please refer to the presentation materials posted on the Investor Relations section of the Company's website.

I will then explain today's proceedings.

First, Seto, our President and CEO, will begin by explaining the financial results for Q2 of the fiscal year ending March 31, 2023. There will be time for questions afterward.

If you have any questions, please enter your company name, your name, and your question using the Q&A button displayed at the bottom of the viewing screen. Please note that each person is limited to two questions first. Questions are always welcome. The event is scheduled to end at 6:00 PM. I hope you will stay until the end.

Now, Seto will explain the financial results for Q2 of the fiscal year ending March 31, 2023. President Seto, please go ahead.

› KEY HIGHLIGHTS

- **Revenue increased while profits declined year-on-year for H1 FYE2023**
- **Cost of sales was sharply impacted by the rapid depreciation of JPY beyond our estimation, additional price increases for components, and cost increases due to supply chain disruptions**
- **Revised full-year forecasts also reflect economic slowdowns in the Americas and China**
- **Dividend forecast remains unchanged (Resolved interim dividend of JPY45)**

Summary of results for H1 FYE2023 and outlook

- Steady progress has been made for price optimization(1)
- Revenues increased due to stable supply of products despite a challenging business environment, but profits decreased due to the rapid depreciation of JPY beyond our estimation, the accelerated increase in component prices, and the impact of logistics cost increases
- Despite supply constraints in H1 due to the supply chain disruptions caused by COVID-19 and the conflict in Ukraine, the situation is expected to improve from Q3 with the launch of new distribution centers in Europe(2)

(1) Press release announced on June 23, 2022 "Partial Revision of Manufacturer's Suggested Retail Prices for Building Materials and Equipment" (Japanese only)
(2) Q1 FYE2023 presentation material p.26 Business and ESG related topics "Responding to supply chain disruptions and higher logistics costs"

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Seto: Hello, everyone. I am pleased to present our financial results for Q2 of the fiscal year ending March 31, 2023.

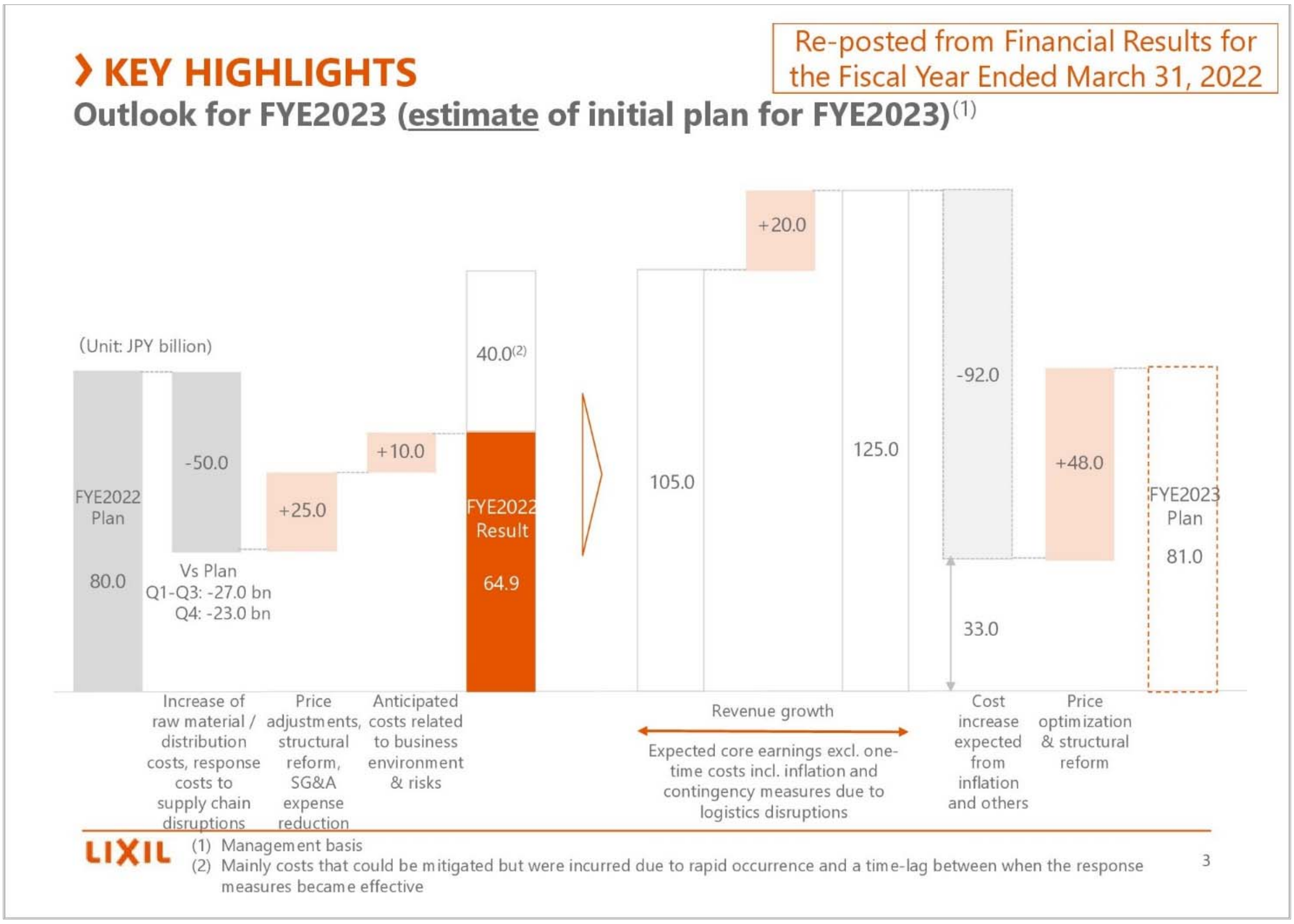
Unfortunately, the H1 results showed a YoY increase in sales and a decrease in profit, and also , we have decided to revise our full-year forecast to increase in sales and a decrease in profit. Unfortunately, the cost of goods sold deteriorated due to a more rapid depreciation of the yen than we had expected, an unexpected additional increase in the price of components, and an increase in costs due to disruptions in logistics in the international business.

However, to put it a little differently, we have been trying our best to ensure a stable supply of products even in an extremely difficult and fluid business environment, and as a result, although sales increased, profit decreased due to various factors. I think that was more than we had anticipated.

In addition, we have revised our full-year and overall forecasts in light of the economic slowdown in the Americas and China. No change has been made to the dividend forecast.

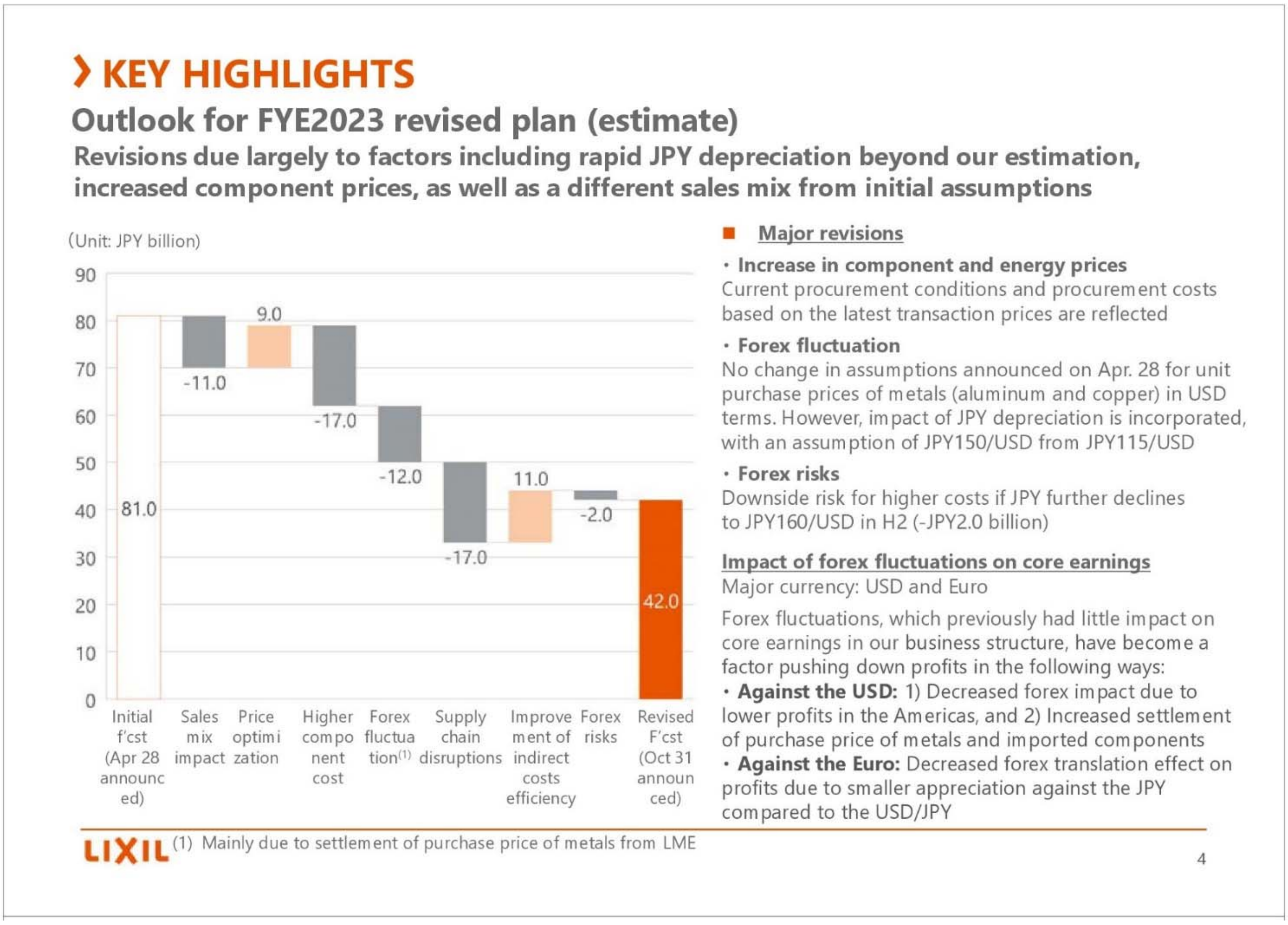
On the other hand, we are making improvements in the supply chain disruption that we suffered considerably in the previous fiscal year. In Europe, in particular, there was a major problem in H1 of this fiscal year, but by establishing distribution centers, we anticipate that the situation will improve from Q3.

We suffered more than expected in H1 of this fiscal year, but we are now entering a recovery process, albeit delayed, from H2, and we hope to resolve various issues within this fiscal year so that we can achieve proper results starting next fiscal year.



Originally, we thought that we would be able to generate about JPY125 billion in core earnings this fiscal year if we could pass on the various cost increases that occurred last year, but at the time, we were forecasting JPY92 billion in inflation and other projected cost increases. In contrast, we had expected to recover JPY48 billion through our pricing strategy and structural reforms during the period, and then to achieve JPY81 billion.

I will now explain the changes from here.



I will explain in the bridge chart, but before that, let me start with the fluctuation in foreign exchange rates, which was the most significant factor in this situation. That is what I think I need to explain to you first.

Although only JPY12 billion is shown here for exchange rate fluctuation, in fact, exchange rate fluctuation has a large impact on other areas as well, which I would like to explain first.

I have said in the past that LIXIL is able to offset, or in other words, combine the effects of a strong and weak JPY to a certain extent. I have explained this because, although there are differences in timing, the so-called transaction risk and translational risk can be almost offset.

What exactly is transaction risk? It is a situation in which imports of goods transacted with US dollars into Japan will cause losses if the yen depreciates, and gains if the yen appreciates.

On the other hand, translational risk is explained with approximately one-third of the total sales of our international operations. When this is translated into profit, a strong yen results in a loss, and a weak yen results in a gain, which is the opposite of transaction risk. Moreover, we have explained that we can offset the deficit because the monetary scale has been about the same size as in the past. One major reason is that this could not be offset this time.

There are several factors as to why we were not able to offset this.

The first factor is that the euro did not appreciate as much as the dollar this time, which is a major factor. We have said that about one-third of our total business is generated in international market, and of our international business, nearly half is valued in euros.

Many European businesses and other businesses in other countries were linked by the euro. On the other hand, the Americas market, which is directly linked to the US dollar, did not turn out to be good for us from a business perspective.

In other words, it would be better if the strong US dollar were to affect the final profit, rather than sales, in terms of earnings. However, in the Americas, each channel actively adjusted demand due to the rise in interest rates, especially from July to September. As a result, the stoppage in this area took effect, eventually putting us into a situation where there was almost no profit in the Americas.

Thus, there was no translational benefit in the Americas, while translational benefits in other currencies, including the euro, were limited. The fact that Chinese and Asian currencies did not fluctuate that much meant that there was little translational benefit. One of the main reasons for this is that the sudden depreciation of the currency to JPY150 has caused only transaction risk.

Secondly, it says here higher component cost. As for the components, especially for LWT Japan, there is one area where we could not have anticipated, that our vendor raised its prices. This is because the price increases occurred when they were barely mentioned at hearings at the beginning of the fiscal year.

For one thing, there were commodities that had sharp price increases, like lumber, but also the commodities they were buying in dollars became more expensive than they had anticipated. Therefore, we were told that they would not be able to continue their business if they cannot raise prices, which is something we had to accept here. These factors have affected the exchange rate.

There is another impact of supply chain disruption in this context. In early spring, due to container availability and other issues, many containers went to the Americas at high ocean freight rates. Of those, especially those that went to the Americas, we were unable to unload them. Or, because of a sudden influx of unloaded goods, the cost of inventory went up. The fact that most of these logistics costs are transacted in dollars is also a major factor.

How we have responded to this situation is that, originally, we used to raise prices once a year, but this time we did it twice a year. We had raised prices only in April, but this year we raised prices in October as well. The effect of this price increase was explained on the previous page, but we also looked for other items to raise prices, both in Japan and international markets, and raised those that we could. The JPY9 billion is the result of our efforts to deal with past price hikes in various ways, including renegotiations for items for which there was no price list.

Regarding the streamlining of indirect costs, I would like to cite the example of GROHE X. GROHE X is an online and video promotions, which we are also doing in Japan in the form of LIXIL-X. This has reduced the number of physical trade shows, stopped the printing of catalogs by digitizing them, and reduced sales costs in various ways by using online showrooms as an opportunity for presentations.

Through streamlining of these indirect costs, we have reduced expense by JPY11 billion. Then we were able to recover JPY9 billion from the additional price optimization, but the other factors were too large, and we ended up with a figure of JPY42 billion.

As for the actual figures, first, there has been a change in the sales mix. This is due, of course, to the poor economic environment in relatively high-margin areas such as China, where sales have not been as good as they could have been. In addition, as I mentioned earlier, in terms of individual products rather than categories, we had to buy expensive items to maintain supply, and as a result, there were more items with high costs and low profit margins than usual.

On the other hand, as I mentioned earlier, our suppliers have raised their prices for components and energy beyond what we had planned. I think there are some areas here where we should have considered the situation of our suppliers, anticipated it, and reflected it in our price increases from the beginning. This is one of the reasons why this has happened.

Another is the cost of dealing with COVID-19 and other situations. For example, a typical example would be a product called anti-vibration rubber used in bathrooms. When this was completely unavailable due to spread of the COVID-19 in China, we made the molds ourselves. If we make them ourselves, it may cost us a certain amount of money, and the cost of the components will naturally bounce back to us as the cost of the components. Of course, we not only supplied anti-vibration rubber, but also a variety of other products in this way.

Regarding energy prices, this is part of our forecast for H2 of this year, especially in Japan where electricity and other costs are predicted to increase.

Regarding the impact of exchange rate fluctuations, we are only looking at the direct impact of exchange rate fluctuations. A big part of this is aluminum, especially in H1, we have been hit quite a bit harder than expected by the exchange rate fluctuations with respect to this aluminum import. As for exchange rate fluctuations, we are making a prediction not only for H1 of the year, but also for H2 of the year. Aluminum is a major element here, especially for sashes and exteriors, but there are some other products that are imported, such as copper.

Then there is an impact from disruption in the supply chain. As I mentioned earlier, there is a situation where it is difficult to send containers to the Americas and Europe. On the other hand, the cost of containers, which was initially five times the normal cost, increased up to 20 times the normal cost, and we had to pay a higher freight rate than the price of the goods. In addition, we were unable to unload the goods or deliver them, which had a significant impact on our business.

On the other hand, we are including the impact if the rate will depreciate to JPY160. We are looking at the supply chain disruption impact at JPY150, but at the end, we are looking at an additional JPY2 billion, which is the difference between JPY150 and JPY160. If the JPY does not depreciate to that extent, this is no longer relevant, but we estimate JPY42 billion based on our calculations so far.

This is the result of H1 and H2 combined, but the impact from price increase of components and energy are larger in H2. As for exchange rate fluctuations, I see a gradual change in H1 and a flattening out at JPY150 in H2, but we forecast H2 as having a greater impact. Then the supply chain disruption impact, we think this has started to ease in H1 of the year and will be gone in H2 and beyond.

In any case, since we will be able to eliminate the effects of components, and foreign exchange rates in the next fiscal year and beyond, we believe that profits will recover sufficiently. The price increase will begin in October, so recovery will start in October, but we are making good progress so far. As I will explain later in the last part of this report, we suffered a lot in H1, but I think we will be able to show recovery from H2.

KEY HIGHLIGHTS

Revision of FYE2023 forecast: Business outlook and assumptions

Group wide

- Mitigate the impact of sharp JPY depreciation and increase in cost of sales due to an unexpected increase in component prices by implementing additional measures for price optimization scheduled for H2
- Prepare for a business performance recovery in FYE2024 by responding within FYE2023 to rapid changes in the business environment over the past two years

Japan

- **New houses**: Closely monitor impact of increased component prices on housing starts
- **Renovation**: Expect renovation demand to increase from December due to strong demand for products that improve heat insulation, especially windows, driven by rising energy prices and government policy responses

International

- **EMENA:** Despite concerns of a recession in Europe due to rising energy prices and interest rate hikes, there is growth opportunity from a healthy order book and a stabilizing supply chain
- **Americas:** Expect inventory adjustment in each sales channel to settle in October. However, due to rising interest rates, a full recovery in demand is not expected until FYE2024
- **China:** Expect low demand growth as in H1 caused by challenging real estate market conditions
- **Asia Pacific:** Expect continued economic recovery

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As I will repeat, company-wide, the rapid depreciation of JPY and the unexpected rise in the cost of components caused a large portion of the cost increase, and although we took some price measures and cost-saving measures, the result was a level at which we had to revise our earnings forecast. On the other hand, we are trying to somehow address this during the current fiscal year, so that we can improve our performance completely from the next fiscal year onward.

Regarding Japan and international markets, I honestly believe that everyone is anxious about new construction in Japan. Certainly, with the rising cost of components, some local construction companies are saying that it will be difficult to start construction as a practical matter. Although the numbers are not falling that significantly, there is a point of concern here.

On the other hand, we have high expectations for renovation in the housing business, whereas renovation has usually focused on the plumbing area.

This is due to the dual reasons of rising energy prices and increased attention to environmental issues, while the demand for thermal insulation is becoming more and more important. In addition, the government announced economic stimulus measures last Friday, and one of the measures is a major focus on home renovation, especially heat insulation.

This is something we have been advocating to the government for a long time, but there are many houses in Japan that are very poorly insulated compared to those in other countries, especially in Europe and the Americas. The problem that cannot be easily solved by improving new construction is that there are more than 60 million existing homes, compared to about 800,000 new homes built each year, so existing homes must be improved.

However, in the process of improving an existing house, just by fixing the windows and doors, which are 58% of the heat outlets, we can make a big difference. In particular, if single-paned windows, which are said to be almost non-existent in international markets anymore, are replaced with triple-paned windows, the thermal efficiency can be improved by more than 80%. Just by doing this, about 14 million tons of CO_2 emissions can be reduced. This would be the largest if seen in a single industry.

The government and others are very much in agreement on this issue, and with the support of the government's policy to improve windows in Japan, we expect to see a large increase in the renovation of these windows from next January onward.

As for international markets, Europe, the Middle East, and Africa, it is fact that there is a talk that Europe is going into a recession when viewed based on demand. On the other hand, our products are relatively unaffected by the economy, especially when looking at past GROHE product demand. In other words, replacement demand is very large. We are not relying on new construction demand, as is the case in Japan, but on replacement demand, and with the order book doing very well, the supply chain has finally stabilized, so we expect things to improve in H2 of the year. The Middle East is very good.

In the Americas, it is true that demand for new construction has rapidly cooled due to higher interest rates. As a result, our customers, rather than us, experienced rapid inventory adjustments during the July-September period. For us, the supply chain problem had finally been resolved to the point where we were able to ship, but as soon as we shipped the goods, we had faced this inventory adjustment. The result was a very unfortunate inventory buildup, which had a significant impact on profitability.

There are various views on the timing of this inventory adjustment, but we expect that orders will come in under normal conditions around the beginning of next year. At this point, all channels are saying that inventory adjustment will be completed in October, but we are thinking that it will be next year on a conservative basis.

As for China, things are only slightly better now. The Chinese government has allowed real estate companies to receive a certain amount of money because the real estate market has deteriorated so much, and construction has resumed in some areas while orders have resumed in some areas. However, we still expect demand to grow at the same low rate as in H1 of the year, as we believe this will be a difficult situation in the long run.

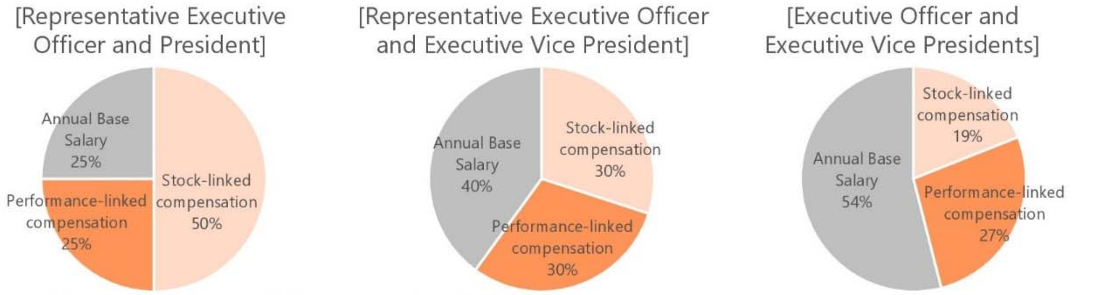
Asia Pacific, on the other hand, remains good. This means that demand is getting better, as hotels and projects are coming back in a big way after being released from COVID-19 restrictions to a certain extent.

› KEY HIGHLIGHTS

Executive Compensation

Annual performance-linked compensation, which represents 25% to 30% of total compensation for Executive Officers, is expected not to be paid, in case that the profits are recorded as the revised performance forecast (announced today), since it will be less than the lower limit of the performance target(1).

Percentage of performance target for the performance-linked compensation consists of ROIC (40%), Core earnings (30%), and Net profit (30%).

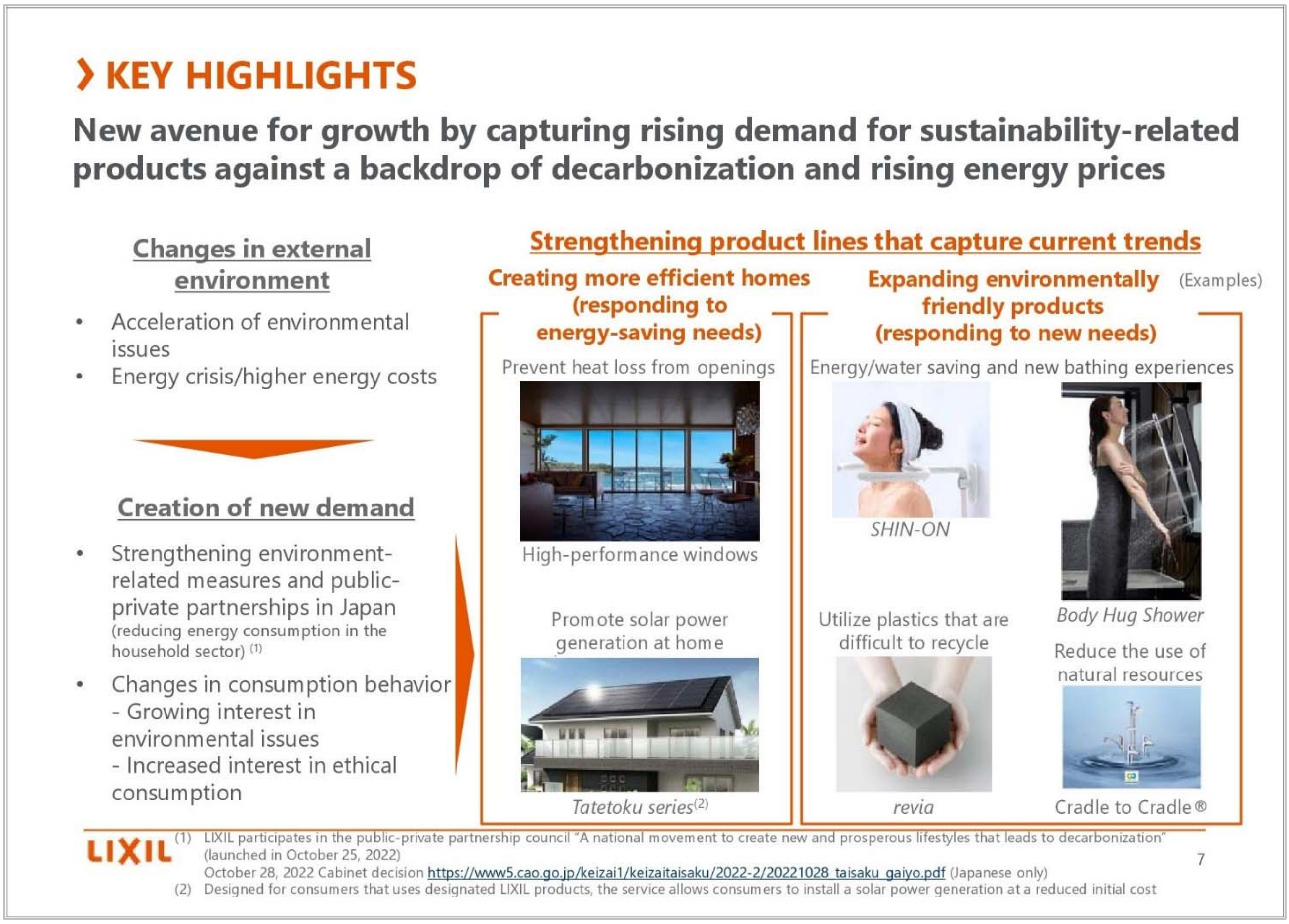


Payout Rates According to Achievement Level of Performance Targets

Achievement level of performance targets	Payout rate
Less than 50%	0%
50% or more but less than 100%	Same as achievement level of performance targets
100% or more but less than 150%	{(Achievement level of performance target-100)×2+100}%
150% or more	200%

LIXIL (1) With regards to the payment of performance-linked compensation, it is decided after the determination of the Compensation Committee. 6

Under these circumstances, we prepared this slide in anticipation of questions about how much the performance-linked compensation would be decreased if the anticipated business results are realized. As for myself and CFO Matsumoto, we believe that the performance-linked portion will be almost completely eliminated eventually.



We believe that the business environment is becoming very good in the long run.

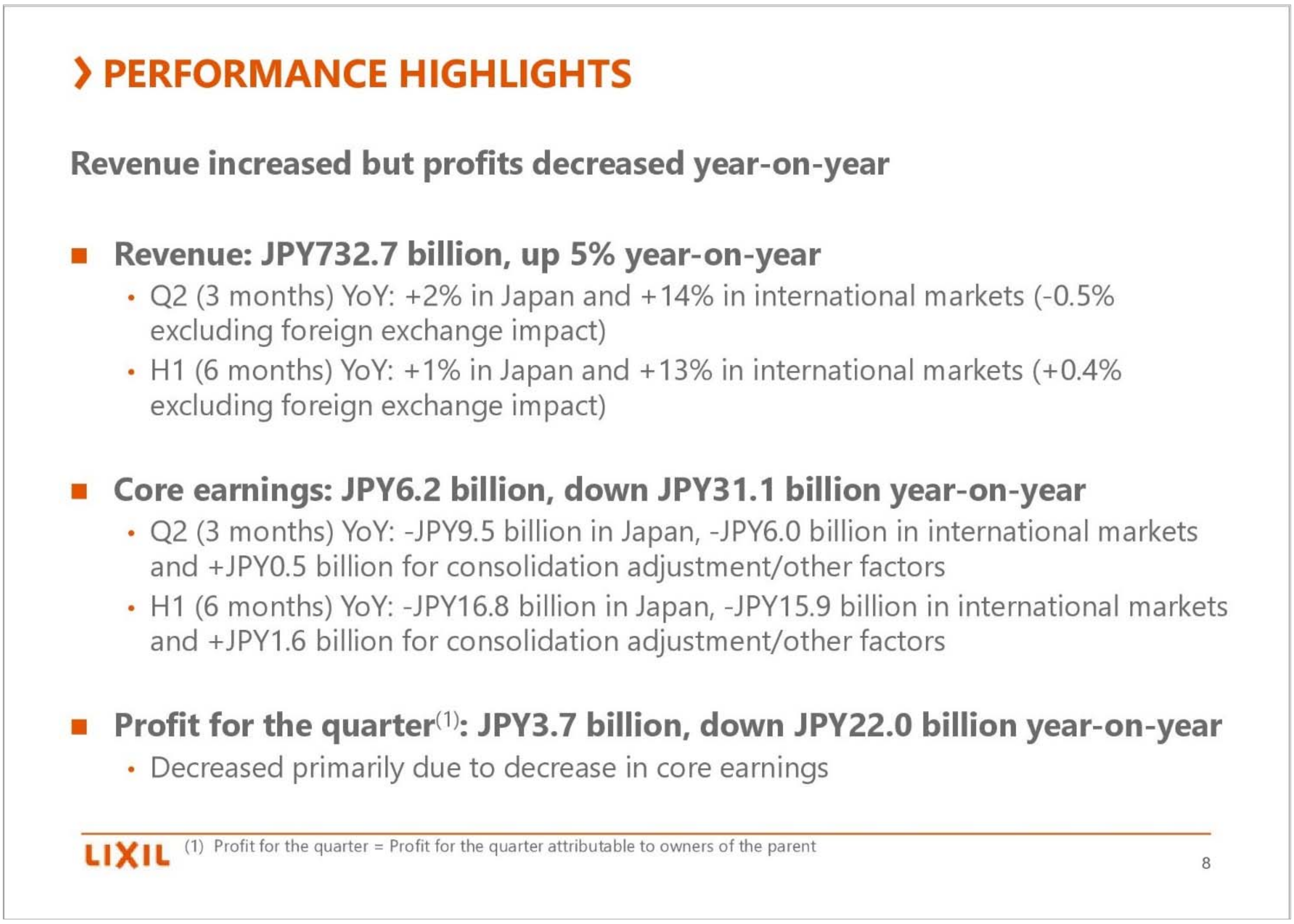
The environmental problems, energy crisis, and price hikes are, after all, the reason why we have so many good products for windows, doors, walls, and roofs, which we had considered mature industries in the past. Not only that, but I believe that in the future, we will finally see the light of day regarding new products such as *Revia*, which is a product made from waste plastic, as mentioned here, to which we have put a lot of effort in innovation.

The Ministry of the Environment has also mentioned the National Movement to Create New and Prosperous Lifestyles that Leads to Decarbonization, which is a public-private partnership for environmental measures in Japan. In the short term, we believe that this will be a major business opportunity for us since insulation of housing is advocated as one of the major pillars of this major economic policy.

I have talked only about insulation, windows, and doors, but I believe that insulation products such as the *Tatetoku series* utilizing solar power generation, the *Super Wall* series with strong heat insulation, and the *COCOECO* series with partial heat insulation will grow very rapidly in the future. Specifically, as the price of components increases and new construction becomes more difficult, demand for renovation that involves the frame of the house will increase, and I believe that this is an opportunity.

Also, regarding energy, I think that the hot water supply part, the part where we are going to focus not only on baths but also on showers, will receive quite a lot of attention. The *SHIN-ON* and *Body Hug Shower* technologies described here can warm the body to the core in the same way as taking a bath, and we think they are highly evaluated. In addition to *KINUAMI*, which is already on the market, I think that LIXIL's innovation in showers should receive a great deal of attention in the future.

Then there is the newly launched *revia*, which we recently announced is the first in the world to enable recycling of all types of waste plastic. We intend to develop this into a major product in the long term. In international markets, we are increasing the number of Cradle-to-Cradle® certified products, which is the most advanced recycling method.



Please turn to page eight. These are the financial highlights for Q2.

Again, as for sales and earnings, we did our best by maintaining the supply. However, to be honest, we were not able to respond well to the sudden increase in costs this time. It is true that we were somewhat disappointed with the results and that the recovery was delayed. However, although the recovery was delayed, we have been working to restore profitability by revising prices from October.

FYE2023 FORECAST – BY SEGMENT (1)

JPY billion		H1 Actual		H2 Plan		Full-year		
		FYE2023 Actual	Increase/ Decrease	**FYE2023**	Increase/ Decrease	FYE2022	**FYE2023 Revised forecast**	Increase/ Decrease
LWT	Revenue	**446.1**	+25.6	520.9	+79.2	862.2	967.0	+104.8
	CE	**20.7**	-20.1	37.3	+1.5	76.6	58.0	-18.6
LHT	Revenue	**293.2**	+8.9	313.8	+13.9	584.2	607.0	+22.8
	CE	**6.0**	-12.6	25.5	+12.4	31.7	31.5	-0.2
Consolidation adj. & other	Revenue	**-6.7**	+1.9	-7.3	+1.9	-17.8	-14.0	-
	CE	**-20.5**	+1.6	-27.0	-5.7	-43.4	-47.5	-
LIXIL	Revenue	**732.7**	+36.4	827.3	+95.0	1,428.6	1,560.0	+131.4
	CE	**6.2**	-31.1	35.8	+8.2	64.9	42.0	-22.9

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I'm going to skip a few pages, but please turn to page 16.

As shown, business profit and the same period of the previous year have worsened with respect to H1. JPY20.1 billion worsened for LWT and then JPY12.6 billion for LHT.

One of the reasons for this is that the same period last year, especially from April to June last year, was very good. This period was precisely the time before the start of the inflation surge. Rising inflation began from this time, and the price optimization could not keep up with the inflation. In this sense, we believe it is necessary to quickly return to the situation that existed in H1 of last year, especially from April to June.

Then, in H2 of the year, from October, we gradually began to climb out of the bottom. I think the July-September period was the bottom. In H2 of the year, it was JPY1.5 billion for LWT. Then JPY12.4 billion in LHT, getting better compared to last year, I think we are finally climbing from the bottom.

Originally, we had planned to bottom out between April and June of this year, but as a result, we were unable to respond to the weak JPY and other factors and bottomed out between July and September instead. However, when comparing H1 results and H2 plan with the same period in the previous fiscal year respectively, we saw a JPY31.1 billion decrease in H1 and an JPY8.2 billion increase in H2. We expect a turnaround here. For the next fiscal year, we think we can take a stronger view in that sense.

This has been a bit long, but I hope I have left you enough time to ask your questions, and from here I would like to answer your questions in the form of taking questions.

Question & Answer

MC [Q]: Okay, we will now have time for questions and answers.

If you have any questions, please click the Q&A button at the bottom of the screen and enter your company name, your name, and your question.

Now, let me introduce your first question. Mr. Takegawa of Sumitomo Mitsui Trust Asset Management has raised four points related to the revised plan for the full year, which I will introduce first.

" Please explain the detail of change in sales mix. Will this affect the next fiscal year?"

And the second point. "It appears that you have not been able to keep up with the additional pricing, but how are you planning to address this in the future? How are demand and consumers reacting to repeated price increases? Please give us your thoughts focusing on new construction and remodeling in Japan."

And the third point. "How have sales conditions in the Americas and Europe changed compared to three months ago? In light of the economic downturn, how has consumer sentiment deteriorated?"

The fourth point. "Regarding the increase in energy prices, I believe it will have a significant negative impact for the next fiscal year, but are there any measures other than price pass-on?"

Mr. Seto, please respond to this question.

Seto [A]: We do not expect a worsening of the sales mix to affect the next fiscal year and beyond. Conversely, in terms of the sales mix impact, China and Europe, where profit margins are relatively high, did not reach the planned level. However, aside from China, the situation in Europe is that we have received orders but have not been able to ship, so in that sense, if we can ship enough of our products, of course the sales mix will improve.

As for the Americas, the sales mix was poor in that the ratio of ceramics increased in general and the ratio of fittings decreased. As I mentioned earlier, once the inventory adjustment on the channel side is completed, we will be able to sell as usual. As for the Americas, I think it is unlikely that the next fiscal year will be worse than the current one.

On the other hand, as I mentioned earlier, Japan will no longer have to buy and sell expensive items to maintain supply. In that sense, I do not feel that this will have any impact on the next fiscal year and beyond.

The sales mix can be good or bad, but this time it was a little too much in the wrong direction, and unfortunately, the forecast did not work out.

Additional price optimization, not keeping up, that's right. Always a lot of things happening rapidly these days. I don't want to say too much about this because it would be an excuse, but I think no one probably predicted, for example, that aluminum would be USD4,000 per tonne or that copper would be USD10,000 per tonne. We did not anticipate the yen's depreciation after that, so we were not able to catch up there, but as expected, I think we will be able to catch up with all of this in January and February of next year.

The reason why I think so is that the highest prices of aluminum and copper were marked in March of this year. I think we'll be almost caught up by February or March, since it's about January when we finish using what we bought, hedged, and then stocked at this time.

On the other hand, the weak yen had the greatest impact on aluminum, although this is a bit complicated. As for aluminum, what was USD4,000 per tonne has come down to about USD2,200, but on the other hand, the hedged area was USD3,000 or USD3,200 or something. There are some things that are hedged, and they are still there. Then, when converted to JPY150, it means that the price is not that lower and it will stay for a while. This situation will continue until about January of next year, after all. However, we will be revising prices again next April for this part, so I think we will be able to catch up here.

I think it is unlikely that the price of aluminum or copper will rise further, given the current situation in China. On the other hand, when the price comes down, it is an opportunity for us to make a profit. The time lag is not always a bad thing, so I can't say which is better.

On the other hand, how are demand and consumers reacting to repeated price increases was your question. For international markets, as I mentioned earlier, there is a great deal of replacement demand for our products , which does not necessarily be affected by the trend of new construction. However, in Japan, I believe that new construction will decrease because of this inflation.

Specifically, we believe that when real estate prices rise, it is only natural that there will be a decrease in the number of users who used to buy land together at low-cost. In that sense, we have been closing factories, reorganizing production lines, and promoting platform-based production on the prediction that the number of housing starts will be reduced to 600,000 by 2030, so I believe that we can do business accordingly.

The good news, is that, as I mentioned earlier, subsidies are now available, and our housing business used to be 90% new construction, but the remodeling business, which is more profitable, is increasing rapidly. I think this will be a good story for us.

I think we will see an increase in remodeling in the water area, such as kitchens, and bathrooms as well. In terms of remodeling, we are trying to find a way to compete with TOTO and other competitors. One thing I can say is that it is true that everyone must raise prices in order to do business, and I believe that there is no manufacturer that will not raise prices in response to the various events that have occurred this time, so in that sense, we will win.

Also, I must choose my words very carefully here, but I don't think consumers have a certain image of our products in terms of price. As for new construction, they have an idea of how much it would cost. For example, I don't think there are many consumers who are familiar with the price of kitchens and windows and think that they must be this price.

In that sense, it is difficult to assume that this price increase will be a major demand stopper in the remodeling area. In short, raising the price of a product for which the customer does not have an image of the price is a matter of timing only, and I do not think this is necessarily an important factor. As for new construction, though, it does have a certain impact.

I would like to talk about the sales market in the Americas and the sales market in Europe. The economy is getting worse and the demand for new construction is getting worse. In Europe, we have not seen a major drop in demand for our business at this point. That probably means that remodeling is the major focus.

As for the Americas, adjustments are clearly being made on the channel side. I think this is a situation unique to LIXIL, but in the case of LIXIL, inventory adjustments were made through the channel at the time the products were delivered, and I think this may have increased inventory.

If you ask whether the channel sells a lot of these products at a discount because of the economic downturn, I don't think they have taken that kind of action in the past. However, if you look at inflation, it is true that it is not so obvious that the economy is getting worse in the Americas, so I think it is natural that the present value of asset prices will get worse, and then there will be several years of bad conditions for buying and building new real estate. In that sense, we are not better off than we were three months ago. However, we do not believe that we need to change anything definitively.

Regarding energy price increases, we do not see much of a negative impact. As of now, our international plants are 50% renewable, and 50% inhouse green energy. Naturally, I believe that there is a certain amount of potential for the 50% of renewable energy price to rise. However, in terms of cost, it is not so large as to be a major factor when it comes to the international business.

On the other hand, Japan will be greatly affected by aluminum, and gas prices will naturally have an impact on the sanitary ware related business.

However, as a practical matter, if we look at this year, for example, it is not likely to be at the level of billions of yen next year. We are also making progress in energy conservation, and we will set prices in April of next year, including that part of the price increase that will be included in the energy costs that will rise this fiscal year.

Then, with the cost of energy from this October to next March, and the cost of energy after next April, I don't think there is necessarily a probability that energy prices will always be higher after next April. Naturally, we are going to take various measures. Right now, I think the global consensus is that the peak will probably be reached this winter.

MC [Q]: I would like to present the following question. We have received two questions from Ms. Okada of Goldman Sachs Securities.

The first question: "The Europe-and the Americas business, how did your company perform compared to your competitors? Please let us know the present status of your orders."

The second question: "I understand that you have been implementing structural reforms, but to what extent would margins have improved in the LHT and LWT businesses had it not been for the recent depreciation of the yen and the sharp rise in component prices?"

Seto [A]: Yes. Ms. Hirano will answer this later since most of the figures are already in, but in general, I think there were almost no good points this time. I want to stress that this was such a difficult situation. However, we believe that the difference is caused by where the business is centered. I think there is a big difference in two areas: where the business is centered, and whether the focus is on sanitary wares or fittings.

From my recollection, I see that LIXIL have done well compared to the whole as far as Europe is concerned. As for the Americas business, I have the impression that the Americas business was bad only to the extent that there were large supply of sanitary wares .

Also, as for what you said about structural reforms, it is quite difficult to make this calculation.

Maybe if we consider that everything is settled in March next year, I think that core earnings margin 8% is the figure that is being put out, if we go by one month only on a March basis next year. Conversely, it is quite possible that those were this year's numbers. Even so, we are not in a situation where everything has recovered, so our goal is to achieve better numbers next year than we would have if nothing unprecedented happens.

MC [Q]: Next, we have a question from Mr. Nakagawa, Mizuho Securities.

"Inventory adjustment in the Americas could end in October, but if consumer final demand continues to weaken, it could take some time to recover. What are your thoughts on the outlook for final demand?"

Seto [A]: This is difficult. In fact, many of the forecasts I've seen from Fortune Brands, Masco, and others seem to be taking the view that it will all be gone by the end of the year and that it will be fine after January.

On the other hand, our sales channel customers are saying that it may end in October, but this may also change depending on the company. In fact, it is true that we have been dealing with inventory adjustments for a little longer every month nowadays.

I can't say whether my opinion will be that helpful or not, because I think everyone will be judged on the results of this biggest shopping season in November and December. But if I may just speak in general terms, the public view is that the Americas will be better from January. I think the general view is probably that it will get better as end-user demand improves.

Incidentally, the worst demand period for each channel, not end-users but our customers, was from July to September. That is because of their own inventory adjustments.

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

The first question: Is the price increase from October progressing as planned at the beginning of the fiscal year? Is there a need for a larger price increase or rate?

The second question: I am aware that in the Americas, there is less demand for new construction and more for existing homes and renovation, but why was the top line negative on a local currency basis as well? I believe the volume of existing homes in circulation is weakening, but will your company's sales continue to be poor?

Seto [A]: Regarding the price increase from October, we had no choice but to raise prices as we assumed at the beginning of the fiscal year. Especially in Japan, we have a very precise price list, so it is difficult to change it later. So basically, it is not possible to change only the range of the price increase. It is a great progress that we are now able to do it in six months instead of in a year. In that sense, of course, next April the price will reflect this, but if something extraordinary happens between October and March, we can't reflect this in April.

As to the earlier question about when we will be able to catch up, if various things keep happening, we will always lag behind in catching up. However, given the current situation where commodity prices are falling, if the yen weakens, for example, from JPY170 to JPY200, there will naturally be a delay in catching up again.

However, to be honest, I think that JPY200 to the dollar is quite unlikely. We believe that JPY160 to the dollar is a good level of probability.

On the other hand, there are few factors that would cause a rapid price increase for commodities. The only thing that could cause a rapid increase is the cost of electricity, which would raise the price of aluminum, but from the standpoint of demand, this is a bit unlikely.

As for the second part, this is the result of our users adjusting their inventory numbers, especially regarding sanitary wares, which did not sell because the inventory adjustment had been made by the time it arrived at the site, even though we shipped a lot of it to meet demand. This was the reason for the negative impact of the inventory buildup.

It is not that the actual end-user demand has changed that much, but it just so happens that the demand during July-September was very bad, not only for our channel, but for all channels. As for whether the poor demand and sales situation will continue, as per response to the earlier question, I don't think anyone has the right answer, but everyone, including our competitors, expects that the situation will improve after January.

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

"Since you have a high market share in Japan, the Americas, and Europe, it is inevitable that your business performance will deteriorate due to the adverse effects of the external environment, just like other companies. Please explain any of your company's unique top-line growth strategies, cost reduction, and productivity improvement measures that have been effective."

Seto [A]: Perhaps it is difficult to see, but if you consider only sashes, our sales share has not changed that much over the past year, around 40%, but our profit share has increased to over 80%. I believe that the fact that we have managed to produce results even in a bad situation is one of the results of our platform production and other price policies that have been implemented ahead of other measures.

As for water-related products including toilets, because of our efforts to somehow connect the supply chain even in the face of COVID-19 and other problems, we have been able to grow in sales, although costs have deteriorated.

Also, this is more on the tactical side of our plan, but the most important thing for us, however, is to provide products that match the environment. The most important issue facing the world today is environmental problems, and I believe that the timely release of products that address these environmental issues is an important growth strategy for the future.

When I came back to this company, I promised four things. One is that we will concentrate on core businesses. That is why we divested some of our businesses. One of the important things that has been working for us is that we have reduced the number of subsidiaries and investment in retail businesses. As a result, they were able to sell to retailers all over Japan. If you go to various electric appliance companies, such as Yamada, EDION, and other home centers, you will probably see that our products are the most widely distributed.

And secondly, regarding the Japanese business, we are turning to a cash generator rather than being a cash eater. The fact that costs are going up like this makes it temporarily difficult to see this, but as I mentioned earlier, I think the results are easy to understand, at least when compared within the housing business in terms of profit share.

In terms of our international portfolio strategy, we are working hard to increase the quality of our profits. To be honest, there have been some problems this time, for example, the suffering caused by the large supply of sanitary wares in the Americas and the challenges in the real estate market in China, but I believe that things are getting better and the quality of business is definitely improving in the future.

Lastly, regarding innovation, we are focusing on “environment” as the key word. In that sense, examples are products such as *revia* and *KINUAMI, SHIN-ON*, and *Body Hug Shower*, which can reduce the amount of hot water used.

In the context of the growing importance of thermal insulation, I think the fact that we are developing renovation products for windows and exterior walls is in line with the environmental policy today, and the direction that Japan and the world is heading.

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

The first question：ASB's core earnings was in the red in H1 of the year, but when will it turn around? What measures are being taken to ensure profitability?

The second question：When should we expect to achieve 5% ROIC? It still seems difficult to achieve 5% in the next fiscal year.

Seto [A]: For the first question, as I mentioned earlier, we had to work very hard to bring in the products at freight rate which was 20 times higher than usual but the home centers had to cancel the order due to inventory adjustments for the products that we brought in. This was an extraordinary situation. Once we pass H2 of the year, when this inventory is expected to be eliminated, I think it will be natural for us to be more profitable.

However, it is still true that the profit margin of sanitary wares is low in the Americas. Therefore, we are planning to increase the fittings business, which has been very successful in other regions. There were several points on which to reflect that our products were not in line with the market. For example, water-pressure. We are now able to produce improved products, so I think we are talking about a turnaround, or rather, a slight deficit one time, so I would like to ask for your patience.

As for the second question, ROIC of 5%, if the conditions I mentioned earlier are met, we will be able to achieve it in the next fiscal year.

MC [Q]: Thank you very much. The next question is from Mr. Yagi of Mitsubishi UFJ Morgan Stanley Securities.

"Can you give us an idea of the JPY22.5 billion downward revision of core earnings of LWT international business by country? Please also provide information on the factors involved."

Seto [A]: This is something we have not disclosed until now, so please bear with us, but I think the major factor is the poor performance of the Americas and China markets.

MC [Q]: Okay, last question. Additional question was received from Mr. Fukushima of Nomura Securities.

"In terms of sales in Europe, the Middle East, and Africa, you mentioned last time that the negative sales in Europe were offset by the strong sales in the Middle East. Do we need to think much about the risk of declining sales in Europe?"

Seto [A]: This explanation is that we have offset the negative in Russia and Ukraine with a strong performance in the Middle East region. In Europe, the supply chain disruptions mentioned earlier have become less frequent, and the situation is improving.

I don't have much time, so I will explain briefly. The reason why we had the hardest time in Europe this time was partly due to the delay in delivery of parts coming from China, and partly due to the freight cost, but the biggest problem was that the Russian distribution center could no longer be used due to the Russian /Ukraine crisis.

On the one hand, the Russian distribution center covered the whole of Eastern Europe, so we had to ship the products which used to be shipped from the Russian distribution center, from the German distribution center. The German distribution center, however, was originally a mother distribution center that sent products to regional distribution centers, and it was not an operation that could provide products to detailed customers in Eastern Europe. We did both, and a situation arose where we just couldn't get the shipment out in time.

On the other hand, we had already started up other new distribution centers, and they are now up and running, so there is no longer any risk of a decrease in sales due to shipping problems from October. At this point, the order book continues to perform very well, so we do not see any risk of a decline in sales in Europe.

MC [M]: Thank you for all your questions. This concludes the question-and-answer session.

This concludes LIXIL Corporation's presentation of the financial results for Q2 of the fiscal year ending March 31, 2023. We look forward to your continued support of LIXIL.

Thank you very much.

[END]

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