

# The 82nd Annual Shareholders' Meeting QA

July 4, 2024.

At the 82nd Annual Shareholder's Meeting held on Wednesday June 19, 2024, the Company answered as many questions as possible that were asked by shareholders either in advance or on the day. In order to ensure transparency of the operation of the Shareholders' Meeting, we have compiled and published these answers.

Given the high number of questions asked and the similar nature of many questions, in the Company's answers and publication, emphasis has been placed on the clarity of information disclosure, and similar questions have been grouped together and answered (this explains the difference in the number of questions and the number of answers).

On the day of the Shareholders' Meeting, in order to fairly provide as many shareholders as possible with an opportunity to ask questions, and taking into consideration the Q&A time constraints and other factors, the Company selected questions from among matters that relate to the objectives of the Shareholders' Meeting, and matters it believed to be of significant interest to shareholders. Some questions that were unable to be answered on the day were answered [in writing on the Company website in advance](#), or have been covered in this document. The responses are listed in the order the questions were asked at the Shareholders Meeting (questions on the day that were answered subsequently are broadly in the order they were submitted).

In accordance with the policy outlined in "1. Policy for handling questions" in the Notice of Convocation, all questions have, in principal, been answered in writing in advance, on the day of the Shareholders' Meeting, or in this Document, however please note that the Company has refrained from responding to and publishing some questions regarding individual matters not relevant to the objectives of the Shareholders' Meeting and questions relating to the privacy of specific individuals.

Category	Questions in advance	Questions on the day
Financial Results and Business	4	5
Stock Price	2	5
Dividends and Shareholder Returns	5	2
Directors and Board of Directors	4	5
Executive Compensation	2	1
Impact Strategy & Human Resources	1	2
Digital Transformation and IT	-	2
Operation of Shareholders' Meeting	-	5 On volume and screen operation, etc.
Individual Matters	-	4 On specific issues and matters concerning individuals, etc.
Others	8 Fraud prevention, products and websites, etc. (including 3 questions of unclear purpose)	-
<b>Total</b>	<b>26</b>	<b>32</b> (One question is split into two questions)

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[Breakdown of advance questions and questions on the day of the Shareholders' Meeting]

- 26 questions were received in advance, of which five questions were [answered prior to the Shareholders' Meeting on the Company website](#) after combining similar questions, and of which nine questions were answered on the day.
- 32 questions were received on the day, similar questions were grouped together and 10 questions were answered on the day and five questions were answered in this Document (One of the 32 total questions was split into two questions for clarification in answering because it contained two questions).
- For the convenience of shareholders, the responses to questions answered on the day are also contained in this Document. For further details of the Q&A sessions on the day, [please view the archived video on the Company website](#).

## 1. Questions received in advance that were answered on the day (nine questions)

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### Q1. Improvement of earnings (initiatives for new businesses, streamlining of and withdrawal from unprofitable businesses, etc.)

#### CEO Seto answered

We believe there are two factors causing the downturn in our business. The first is that the sharp rise in interest rates overseas has dampened investment in housing, leading to a downturn in the European business, which we had anticipated would be a major revenue driver. The other cause is the sharp decline in the new construction market in Japan.

The international market should recover as interest rates fall, and with a rising population, we still believe the major trend of rising demand remains unchanged.

For Japan, we believe that the new housing market will continue to contract due to the declining population. Regarding the reasons for the market contracting more than anticipated, we think there was a temporary steep fall in housing demand among younger buyers due to the recent higher inflation. For renovations, renovation demand for water-related products has been strong in Japan, but we expect factors such as government subsidies for window renovations to increase renovation demand for window products and other products.

In this way, we expect earnings to recover as international market conditions improve, and in the meantime, we will implement structural reforms and take initiatives to cut costs and increase competitiveness. In Japan, we intend to shift demand from water-related products towards complete renovations.

For unprofitable businesses, we have now almost completed initiatives in line with "Divest

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non-core businesses and simplify organization," which is one of the strategic initiatives in the LIXIL Playbook that serves as the Company's management guidelines.

Regarding past unprofitable businesses, the sale of the Italian curtain wall business and other businesses have already been completed and will have a negligible impact on our business results going forward. In our Japan business, in anticipation of a decline in demand for new housing due to the population decline, we are already proceeding with the consolidation and closure of some factories and moving to an asset-light structure.

We are also continuing to develop new businesses that we expect to have growth potential, and believe that we will be able to improve our profit margin through this market development

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### Q2. Continuation of international business

#### CEO Seto answered

With the Japan market shrinking due to the declining population, we are focusing on our international business as we believe that even amid the slowing growth rate of the global population, income levels will rise from the low to the middle, leading to increased investment in housing which will in turn result in a larger international housing facilities market in the long term. With high-end demand increasing in Europe and North America in particular, we think the international business has extremely important economic value. We also believe that releasing products abroad, which are being developed in Japan and that address social and environmental issues will become a major business opportunity.

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### Q3. Stock price improvement

#### CEO Seto answered

We apologize for any concern caused by the slump in the Company's share price. We believe that improving profitability is an urgent priority as a measure for share price recovery. We need to complete the structural reforms that have been ongoing since last fiscal year within this fiscal year, reduce fixed costs, ensure that we capture the demand recovery period in our international business, and improve profit margins. We are working hard to restore our valuation in the stock market by achieving the results we are targeting for this fiscal year. In addition, we will further improve our profit margin in the future through the global rollout of the differentiated products, which we believe will bring us closer to achieving the core earnings margin of 10% under the indicator of becoming a company that is necessary for everyone.

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### Q4. Changes to dividend policy and dividend in the fiscal year ended March 31, 2024

#### CEO Seto answered

The Company previously adopted a dividend policy based on consolidated dividend payout ratio, but in light of the Company's actual situation, a dividend policy based on cash flow is easier to understand and it is also in line with the company's target of stable dividend policy, so we have revised our dividend policy. Under the new dividend policy, the annual dividend amount will be determined based on the medium-term EBITDA level according to a comprehensive judgment of various factors with long-term stable dividend as its basis. The new dividend policy will take effect from the interim dividend for this fiscal year, but as for the year-end dividend for the fiscal year ended March 31, 2024, the Company has recently generated EBITDA of over 100 billion yen, and so we believe that even in the current situation, paying a dividend of yearly 90 yen per share is not a problem in terms of funds.

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### Q5. Additional shareholder returns (stock split, rewards for long-term shareholders, etc.)

#### CEO Seto answered

Thank you very much for continuing to hold the Company's shares over the long term.

Our basic philosophy is to provide returns to shareholders through stable dividend payments over the long term. Dividends are ultimately determined by a resolution of the Board of Directors, but we have increased dividends in accordance with our policy of stable dividends over the long term. We apologize for the temporary deterioration in our current business performance, but we plan to improve profitability and cash flow going forward and will determine the annual dividend amount based on the medium-term EBITDA level.

In addition, our policy is also to acquire treasury stock in a flexible manner, as we did two years ago when we had surplus funds.

Going forward, as profitability improves, we will consider additional shareholder return measures. We appreciate your continued support.

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### Q6. Age and term of director candidates, and hiring of LIXIL-related directors

#### Director Nishiura, Nomination Committee Chairperson, answered

Regarding the older candidates, we believe that age is only one perspective, and we will make a comprehensive judgment of the abilities, skills and knowledge required of an outside director or board member. In addition, we do not place particular importance on whether or not the candidate is the person who comes from LIXIL. However, among the executive officers

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who execute operations, we have Mr. Yoshida from Tostem and Mr. Oonishi from INAX, who are leading the business.

Regarding age and tenure, the Company's policy stipulates that outside directors must be no older than 75 years of age when they assume office, and that their total term of office be a maximum of 10 terms and 10 years.

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### Q7. Number of members and role of board of directors

#### Director Matsuzaki, Board of Directors Chairperson, answered

Of the 10, only two are internal directors, the CEO and CPO, which is not that many compared to other companies, so I think the gist of the question is, "Is it necessary to have eight outside directors?" Two things were considered when determining the appropriate number of outside directors at the Company.

The first is the number of people needed for the proper functioning of the three committees stipulated by law for a Company (Nominating, Audit and Compensation Committee). Since the Company's policy is to have the committees consist solely of outside directors so that internal directors can concentrate on their executive duties, we need a reasonable number of outside directors to make up the committee.

The second is the number of people needed to request explanations from the executive side from various angles regarding various management issues, or to express opinions based on information that they collected on their own. For example, our Europe business is currently struggling due to sluggish demand, and it is an important issue for outside directors to confirm whether we have a system in place that will truly enable us to recover our performance when demand recovers. In order for outside directors to confirm this from various perspectives, including sales, product development, production bases, structural reforms, and labor issues, it is necessary for them to have a variety of viewpoints, and as a result of discussions led by the Nomination Committee, we have decided to propose the appointment of eight outside directors.

On the other hand, we recognize that if there is a large number of outside directors, there is a need to steer discussion by the chairperson to prevent it from breaking down into arguments, so the shareholder's concern is a real issue. We believe that it is necessary to continuously consider the appropriate number of directors at the Company.

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### Q8. Payment criteria for executive compensation

#### Director Watahiki, Compensation Committee Chairperson, answered

Compensation for Executive Officers consists of annual base salary, performance-linked

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compensation, and stock-linked compensation.

Annual base salary is determined based on the executive officer's responsibilities, the degree of difficulty of his/her duties, retention, and other factors, while referring to the compensation levels of peer companies inside and outside Japan based on objective surveys conducted by outside professional organizations. For Executive Officers who are responsible for hands-on management of global business, we also place importance on the compensation levels of their peers in international markets.

For the fiscal year ending March 31, 2025, we upwardly revised the annual base salary for some Executive Officers in recognition of their expanded responsibilities and accompanying business performance, but did not upwardly revise base salary for other Executive Officers in light of the difficult business performance in the fiscal year ended March 31, 2024.

Performance-linked compensation is calculated based on the percentage of actual achievement against the consolidated performance forecast disclosed to shareholders at the beginning of the fiscal year, and is designed as compensation that reflects the Company's performance for the fiscal year.

For the fiscal year ended March 31, 2024, performance-linked compensation was not paid to all Executive Officers because, as you pointed out, the Company's performance was sluggish and fell far short of the performance forecast.

With respect to stock-linked compensation, we have decided to grant 50% phantom stock and 50% restricted stock. These are structured in such a way that the amount of compensation ultimately granted is linked to the stock price, with the aim of sharing the shareholders' interests with the Executive Officers and enhancing their incentives to improve the medium- to long-term corporate value.

In our company, 75% of the CEO's compensation is linked to business performance and stock price, and we believe that management responsibility for results is fully reflected in his compensation.

Lastly, regarding your question about the pay ratio, as reported in last year's Annual Securities Report, we are aware that the pay ratio was 49.4 times.

While we understand that the pay ratio is an indicator to determine the appropriateness of the compensation level, we would like you to understand that, under the compensation design as explained so far, the compensation for Executive Officers is linked to the stock price, which reflects the business performance and medium- to long-term corporate value for the relevant period.

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### **Q9. Prevention of unauthorized and fraudulent reports**

#### **Ms. Kimijima, Executive Officer, answered**

We believe that there are two types of frauds such as false reports: organizational frauds

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and frauds caused by individuals.

In order to prevent organizational fraud, it is necessary, first of all, to have a sound and open corporate culture and, secondly, to have an appropriately functioning internal control system.

In order to maintain and strengthen a sound and open corporate culture, all officers and employees are expected to "do the right thing," one of the LIXIL Behaviors, under the LIXIL Purpose.

To enable employees to raise their voices without fear of retaliation, the Group has a 24-hour concern reporting system and whistleblower protection system, and any concerns reported are appropriately investigated and measures taken to prevent recurrence.

In order to prevent fraud and misconduct and to detect and respond to such incidents as early as possible, we conduct daily training, compliance awareness measures, operational audits by the internal audit department, and data analysis by the accounting auditor using an AI anomaly detection system, not only at the front lines but also at the second and third defensive lines, and other measures, we are striving to detect and respond to fraud and misconduct at an early stage from both on-site and data perspectives.

In addition, these executive operations are appropriately monitored and supervised by the Audit Committee consisting of only independent outside Directors.

## 2. Questions asked on the day at the Shareholders' Meeting that were also answered on the day (10 questions)

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### Q10. Please tell us your outlook and response with respect to rising aluminum ingot prices

#### CEO Seto answered

As you say, aluminum prices have risen recently due to factors such as the economic recovery in China. Prices are currently within our expectations, but may have a negative effect if they exceed our expectations. We do hedge raw material prices, so any impact on profit would appear several months later. We will focus on future price trends, and if the price continues to rise, we will consider flexible price revisions.

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### Q11. Losses relating to Permasteelisa

#### CEO Seto answered

We believe there will be no additional losses relating to Permasteelisa after the current fiscal year (ending March 2025). Of course, there is the possibility (contingent liability) of litigation in relation to buildings that were constructed in the past, but we think this is unlikely.

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### Q12. Inclusion of Director candidates that do not own company shares

#### Director Nishiura, Chairperson of the Nominations Committee, answered

We are aware that most outside directors do not own shares in the Company. Although we have no plans to require the ownership of shares in the Company, we are thinking of recommending this. Over 20% of the total remuneration of Outside Directors is received in the form of phantom stock, which is linked to the stock price, meaning they have common interests with shareholders, allowing us to say with certainty that they will strive to improve the share price and corporate value.

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### Q13. CEO's responsibility in relation to share price and earnings decline

#### CEO Seto answered

As CEO, I feel responsible for the current share price failing to meet expectations, and for current profitability failing to reflect the Company's true profitability. However, I am confident that I can improve the situation and am fully committed to doing so despite the current challenging circumstances. I believe that my responsibility is to strive wholeheartedly in my work. While the nomination of CEO is determined by the Nomination Committee, I can answer with confidence that I am doing my utmost.

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### Q14. CEO compensation relating to stock price and earnings decline

#### Director Watahiki, Chairperson of Compensation Committee, answered

The CEO's compensation consists of annual base salary, performance-linked compensation and stock-linked compensation. 75% of the CEO's compensation is paid in the form of performance-linked compensation and stock-linked compensation. We believe that lower earnings and stock prices are sufficiently reflected in compensation through this structure. Based on the comments of shareholders, the Compensation Committee will consider ways to further discuss a compensation structure that incentivizes earnings and stock price improvement.

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### Q15. Inclusion of D&I (diversity and inclusion)

#### CEO Seto answered

I believe inclusion means different people feeling part of a group and being accepted. We

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believe that aiming for inclusion is a purpose and diversity is its consequence, and feel it is important to create an inclusive environment for bringing out the potential of our diverse workforce. The Company has an impact strategy that aims to simultaneously create sustained growth and a positive social and environmental impact, and respect for diversity is one of the priority initiatives in our Impact Strategy. As for the diversity in D&I, we believe this will materialize as a result of promoting inclusion.

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### Q16. Earnings recovery and growth scenarios, target achievement

#### CEO Seto answered

The LIXIL Playbook envisages the Company withdrawing from non-core businesses, streamlining our organization, transforming our businesses in Japan, and incorporating international business opportunities into the Company's portfolio, driving innovation. In practice, however, we have experienced many external environment issues such as the impact of COVID-19 and rising interest rates in Europe and North America. Amid such conditions, we have built a structure capable of responding to such circumstances, for example, by reconfiguring supply chains, further improving efficiency of the international businesses and increasing flexibility in our price optimizations.

Demand is currently at a very low level in both Japan and international markets, and in order to change this situation and attain our medium-term and long-term core earnings margin targets of 7.5% and 10% respectively, we will need to expand our presence in the Japanese renovation market to include external walls, etc. and not just water-related products, be able to take advantage in the international business when market conditions recover, and develop high value-added and differentiated products relating to environmental and social issues. We believe that shareholders understand that the dramatic changes in the external environment over the past few years make it difficult for us to specify a target year for achieving these targets, and we intend to treat this as a matter for discussion going forward.

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### Q17. Exodus of personnel to competitors

#### CEO Seto answered

We are aware that some of our personnel are now working for other companies and organizations. Although outflows of personnel are unfortunate, the mobility of human resources is increasing, and we consider it a source of pride that personnel who have learned with us are now active at other companies. There are also cases in which personnel who have left us have returned after working elsewhere.

The Company has clarified its goals in the LIXIL Purpose. We are making company-wide

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efforts to achieve the LIXIL Purpose in a way that contributes to the environment and society, and we believe that some HR flexibility is in fact positive for the Company in the sense that it attracts personnel who share the LIXIL Purpose. It is of course also important that we create incentives for staff to remain at the Company, such as personnel development, improving the office environment, and maintaining adequate compensation.

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### Q18. Measures for aging population in domestic housing market, expansion in overseas market such as India

#### CEO Seto answered

The Company has been working on a strategy for taking into account the future housing situation in an aging society. We have released products aimed at social issues, with some success. These differentiated products are gaining prominence in China and other countries in particular. For example, our *KINUAMI* was the focus of much attention at China's largest housing exhibition, and we think our products that respond to social issues are starting to offer a major business opportunity overseas. India is becoming the largest growth market for the water and LHT building material businesses. As well as India, markets from India through to the Middle East are growing while Europe and North America housing markets are slumping, so we intend to expand sales in these markets using our local networks.

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### Q19. Information security measures such as unauthorized access measures

#### Mr. Kanazawa, Executive Officer, answered

The Company has perimeter defenses such as firewalls, intrusion detection, and other defenses in place. However, with diverse workstyles such as remote work now the norm, we are taking a zero trust approach. This approach involves protection without trusting each access, rather than simply defending boundaries by monitoring access. We are also shifting to a Cloud model, as storing sensitive information on employees' personal computers increases risk, and are moving very important information to a safe location on the Cloud to reduce areas for attack and provide defense. Finally, we now also use multifactor authentication (MFA) technology to prevent identity hijacking.

### 3. Questions asked on the day that will be answered in this document (five questions)

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### Q20. Volume of live transmission on day of the Annual Shareholders' Meeting

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### Secretariat answered

We have been informed that the audio volume was low and difficult to hear during the live transmission of the Annual Shareholders' Meeting. As far as we could confirm, although there appears to be no issue with the transmission environment on the day of the Annual Shareholders' Meeting, we will look into this, and make any improvements we can so that shareholders can attend meetings more comfortably in the future. Thank you for the valuable feedback.

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### Q21. Details of voting results for resolutions

#### Secretariat answered

Details of voting results are contained in the June 20, 2024 extraordinary report submitted to the Kanto Local Finance Bureau. This report can also be viewed on the Investor Relations section of the Company website (Only in Japanese).

"Extraordinary Report" dated June 20, 2024.: [https://ssl4.eir-parts.net/doc/5938/ir\\_material\\_for\\_fiscal\\_ym7/158063/00.pdf](https://ssl4.eir-parts.net/doc/5938/ir_material_for_fiscal_ym7/158063/00.pdf)

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### Q22. Access method for virtual annual shareholders' meeting

#### Secretariat answered

We received feedback that the method for accessing the virtual annual shareholders' meeting was confusing. We will review the convocation notice and notations on the virtual shareholders' meeting platform, etc., and try to make improvements to make access more convenient. Thank you for the valuable feedback.

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### Q23. Reason for Director Watahiki's absence at Board of Directors meetings and Committee meetings in Fiscal Year ending March 2024

#### Secretariat answered

We are unable to give a detailed answer, but Director Watahiki missed one of the fifteen Board of Directors meetings held in the fiscal year ended March 2024 due to unavoidable circumstances.

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### Q24. Specific amount of DX investment and IT investment and future plans, etc.

#### Secretariat answered

We aim to both improve our financial performance and profitability by increasing investment

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efficiency, and we disclose our capital expenditures, including IT investments, in our financial results for the fiscal year ended March 31, 2024 (page 20). We are also working on digital transformation (DX) to improve customer experience (CX). To this end, we believe it is important to proactively incorporate digital technology into the way our employees work and enhance the employee experience (EX) as well.

Please refer to page 40 of the Company's Integrated Report 2024 for details of the Company's 2024 digital transformation.

"Financial Results for the Fiscal Year Ended March 31, 2024": <https://ssl4.eir-parts.net/doc/5938/tdnet/2427536/00.pdf>

"Integrated Report" website: [https://www.lixil.com/en/investor/library/annual\\_reports.html](https://www.lixil.com/en/investor/library/annual_reports.html)

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