Medium-Term Strategic Plan

TOWARD SUSTAINABLE GROWTH

Kinya Seto
President and CEO, LIXIL Group Corporation

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LIXIL Link to Good Living

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MTP – Redefining LIXIL to Achieve Long-Term, Sustainable Growth

With an industry leading-global footprint, we are now positioned to drive further efficiency, synergies, and innovation to achieve sustainable competitiveness

I	II	III
FYE2017-FYE2018 (Establish Growth Foundation) **Simplify & Improve Balance Sheet**	FYE2019-FYE2021 (Structural Reform for Growth) **Strengthen Profitability**	FYE2022- (Growth) **Drive Revenue Growth**

PHASE I: SIMPLIFY & IMPROVE BALANCE SHEET (FYE2017 – FYE2018)



Phase I – Improving Balance Sheet and Flattening Organization to Respond Faster to Market Opportunities

1 Streamlined executive management

- Reduced existing executive management roles from 114 to 53 individuals (Jun 2016)
- Achieved improved governance and sped up decision-making with flatter organization
- Enhanced audit process and capabilities
- Development of entrepreneurial culture

2 Direct access to regional P&L

- Seto assumed concurrent roles of CEO for LIXIL Water Technology and Housing Technology
- Direct reporting lines significantly improved responsiveness and faster decision-making on strategic moves, improving control and risk

3 Realigned business portfolio

- Divested Shanghai Meite (Mar 2016)
- Divested HIVIC (Aug 2016)
- IPO of LIXIL VIVA (Apr 2017)
- Divestment of Permasteelisa (decided Aug 2017)

Resulted in a more focused business with improved balance sheet.

4 Secured early gains from LWT synergies

- Global fit and gap especially in ceramic
- Japanese technology plus European design
- Invested to strengthen brands

5 Marketing and data analytics

- Established central marketing HQ
- Built Digital Technology Center to inform business decisions
- Begin using digital analysis to enhance innovation
- Started to streamline the customer and product database

6 Established a bigger purpose for CR* Strategy

- Improving global sanitation through our know-how and expertise – SATO, Established Social Sanitation Initiatives Department
- Improving the lives of 100 million people by 2020
- Deliver 2030 Net Zero Sustainability Goals

*Corporate Responsibility

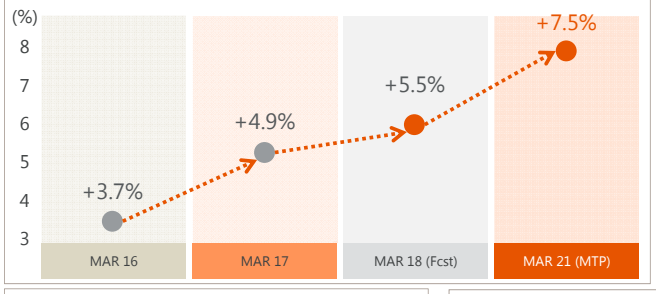
PHASE II: STRENGTHEN PROFITABILITY (FYE2019 – FYE2021)



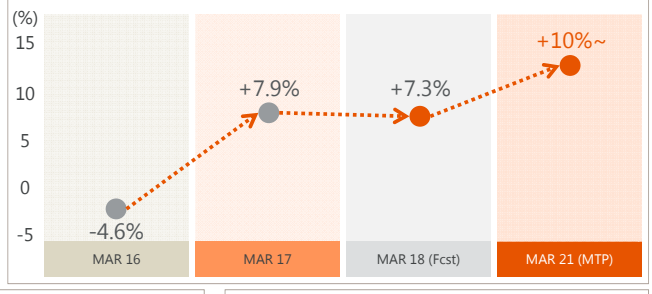
Phase II- Place top priority on Strengthening Profitability

Currency: yen

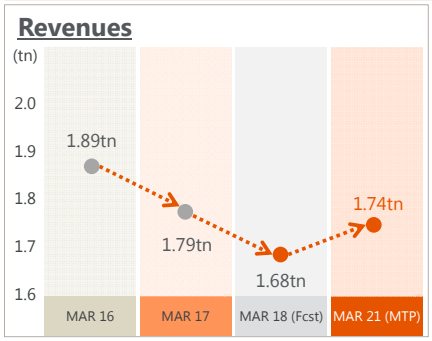
Core Earnings Ratio



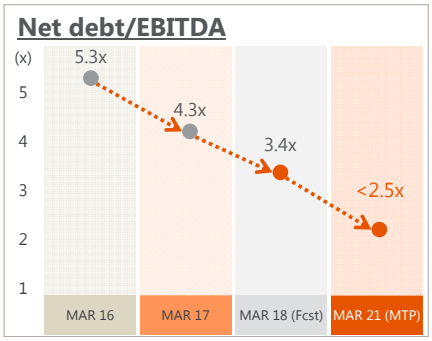
ROE



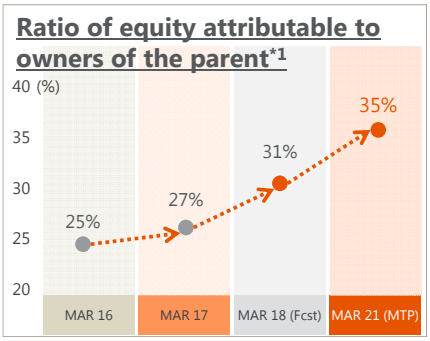
Revenues



Net debt/EBITDA



Ratio of equity attributable to owners of the parent*1



*1 Equivalent to equity ratio in JGAAP
*2 Based on the assumption that the tax hike will be introduced in October 2019, and no conversion of convertible notes issued in 2015

Water, Housing & Building are Key Drivers of Future Growth

JPY: billion	MTP BM*2 FYE2018(Forecasts) *3 Revenue	CE	%	MTP*1 FYE2021 Revenue	CE	%	CAGR % Revenue	Change pt CE
LIXIL Water Technology (LWT)	703.0	67.0	10					
LIXIL Kitchen Technology (LKT)	115.0	5.0	4					
Water	**818.0**	**72.0**	**9**	**940.0**	**107.0**	**11**	**4.7**	**+3**
LIXIL Housing Technology (LHT)	537.0	41.5	8					
LIXIL Building Technology (LBT)	109.0	4.0	4					
Housing & Building	**646.0**	**45.5**	**7**	**660.0**	**51.0**	**8**	**0.7**	**+1**
Distribution & Retail (D&R)	183.0	9.0	5					
Housing & Services (H&S)	57.0	3.5	6					
Retail/Housing & Services	**240.0**	**12.5**	**5**	**277.0**	**14.0**	**5**	**4.9**	**0**
HQ, Conso. adj., Others	-24.0	-37.0	-	-37.0	-37.0	-	-	-
Foreign currency risk*4	-	-	-	-100.0	-5.0	-	-	-
Total	**1,680.0**	**93.0**	**5.5**	**1,740.0**	**130.0**	**7.5**	**1.2%**	**+2.0**

Raise core earnings ratio to 7.5% in FYE 2021

*1 Currency assumption for FYE2019-FYE2021: 1USD=115JPY, 1EUR=120JPY (EUR/USD=1.04x)
*2 BM: Benchmark
*3 Some of the breakdown amount was corrected from the announcement on May 8, 2017. The forecast of total revenue and CE are not changed from the forecast announced on August 21.
*4 Risks on FX (Change of FX rate from plan rate) are incorporated in a section named "Foreign currency risk"

ASSUMPTIONS FOR THE MTP



External Factors Driving Our Operating Environment

MARKET OPPORTUNITY	Anticipated increased demand globally with growing overseas markets Environmental issues to become more critical
INDUSTRIAL TRENDS	Commoditization of manufacturing and sales Growing importance of design and development
NEW TECHNOLOGIES	Impact from digitization, data sciences, water technology innovation and advanced analytics Realistic approach based on our current capability
CHANGE OF THE JAPANESE HOUSING MARKET	Shift from new housing to renovation of existing homes Shortage of installation professionals
COMPETITORS	Entry from other industries
CUSTOMER	Definition and roles of Partner, Influencer and Customer becoming clearer and less ambiguous Compelling need to establish strong consumer brand equity

Internal Factors Shaping Our Business

BRAND	Understanding the importance of brand management Investment in brands is essential, but historically under-invested
DESIGN	In LWT, design is fast-becoming a competitive asset Recognizing the importance of design-led product development
MARKET SHARE	Extremely high market share across almost all categories in Japan Potential for collaboration with new technology or service providers is high
TECHNOLOGIES	Valuable capabilities and expertise in ceramics and faucets production Urgent need to develop new competitive technologies overseas
PRODUCTION CAPACITY	Excessive capacity in aluminum extrusion production Capacity of ceramics production should be enhanced to meet expected demand increase
ORGANIZATION CULTURE	Mix of cultures following integration to LIXIL Current culture is less entrepreneurial, tends to avoid disruptive innovation
COST	High SG&A ratio is structural and not easy to improve quickly

HOW WE WILL ACHIEVE OUR MTP TARGETS



Sustainable Growth Will Be Achieved By Leveraging and Further Developing Our Unique, Competitive Advantages

1. ESTABLISH A PURPOSE-DRIVEN ENTREPRENEURIAL COMPANY FOR SUSTAINABLE GROWTH
2. DEVELOP ATTRACTIVE AND DIFFERENTIATED PRODUCTS
3. ACHIEVE COMPETITIVE COSTING
4. STRATEGIC MARKETING TO DRIVE GROWTH

1 ESTABLISH A PURPOSE-DRIVEN ENTREPRENEURIAL COMPANY FOR SUSTAINABLE GROWTH

- **Become a Company We Can Be Proud of, Evoking Respect and Passion**
- **Key Behaviors Will Be a Source of Competitiveness**
- **Consistently Redefine the Business Domain**

1 BECOME A COMPANY WE CAN BE PROUD OF, EVOKING RESPECT AND PASSION



GLOBAL SANITATION AND HYGIENE

100 MILLION PEOPLE

By 2020, improve the livelihood of 100 million people through sanitation and hygiene solutions



WATER CONSERVATION & ENVIRONMENTAL SUSTAINABILITY

NET ZERO

By 2030, achieve a net zero balance between LIXIL's environmental footprint and the positive environmental contributions created through our products and services



DIVERSITY & INCLUSION

INCLUSIVE FOR ALL

By 2020, establish the culture of diversity and inclusion within our organization and with all employees

1 CASE STUDY: INVESTING IN A BETTER FUTURE - INNOVATIVE BUSINESS-FOCUSED APPROACH TO SANITATION CRISIS

Global Sanitation & Hygiene

By 2020, improve the livelihood of 100 million people through sanitation and hygiene solutions

Scaling up BOP Business through Innovative Products

- Launched SATO V-TRAP in India
- Expanded production to four countries - Bangladesh, Uganda, Kenya, and India
- Receiving continued support from Bill & Melinda Gates Foundation and Grand Challenges Canada
- Expansion of SATO products to countries including Nigeria, Tanzania, Rwanda and Vietnam on plan for this year (FYE2018)





Driving Awareness and Engagement

- Successful "Toilets for All" Cause-related marketing (CRM) promotion in Japan resulting in over 200,000 SATO products donation
- Promoting awareness and engagement internally and externally (e.g. World Toilet Day campaigns)

Thought Leadership through Global Advocacy

- Leveraging membership in the Toilet Board Coalition
- Elevating sanitation dialogue via global platforms such as the World Economic Forum

1 KEY BEHAVIORS WILL BE A SOURCE OF COMPETITIVENESS

Focus on Three Key Behaviors

Do the Right Thing

- Not only understand rules and ethics but demonstrate strong sense of ownership
- Make decisions and take actions with integrity despite past conventions or current way of doing
- Operate with self belief

Work with Respect

- Need to first understand others in order to respect others
- Exchange opinions and ideas openly and fairly regardless of gender, title, rank, and experience
- Mutual understanding creates a sense of unity and alignment

Experiment and Learn

- Encourage small experiments to enhance speed of action
- Recognize that failure can be an important investment in innovation
- Lessons learned from experimenting leads to more experimentation

1 CASE STUDY: REALIZING THE BENEFITS OF THE "EXPERIMENT AND LEARN" APPROACH

Piloting a new e-Commerce model in China

- **Concept: INAX, Simplicity For You -** Simplifying the consumer end-to-end journey by engaging the plumber as a key element of the online-offline experience
- **Strength:**
  - Expert brand delivering world class technology and solving consumer problems
  - Trusted Japanese Brand
  - Working with hundreds of plumber stores
  - Direct sales to end-user from plumber via APP
  - Price transparency on all online and offline platforms
  - Products with installation package
  - Low CAPEX
- **Start:** May 2017
- **Sales:**
  - Latest : $4,500/day
  - 2018 Plan : $6m
  - **2021 Plan : $90m**
- **Key learnings**:
  - Ensure good quality and consistent supply needed given high demand - e.g. Stock sold-out in the first 38 minutes in a campaign on June 18th



Mobile APP for Plumbers



Plumber Van



Factory tour and training by plumbers

1 CONSISTENTLY REDEFINE THE BUSINESS DOMAIN

2016 TO DATE

Divestment

- Shanghai Meite
- HIVIC
- Moritec
- Permasteelisa

IPO

- LIXIL VIVA

Investment

- Addition of ceramic production lines
  - Thailand, Vietnam, Mexico
- Acquisition of ceramic production lines
  - Dominican Republic
- Grohe Dawn WaterTech (GDWT)
- Grome*

Continue to redefine the business domain to achieve higher profitability than competitors, and defend ourselves from the impact of entry into the business by new players

*Sales distributor in Middle East

2 DEVELOPING ATTRACTIVE AND DIFFERENTIATED PRODUCTS

1. **Innovation**
2. **Branding**
3. **Design**
4. **Quality**
5. **Accelerate development, production and sales**

2 CASE STUDY: DIGITAL ENABLES GREATER PRODUCT DEVELOPMENT

The Idea…

- **Lack of water security solutions in the market**
  - 54% of consumers in Germany experienced water damage; 67% would like to purchase a water security system and only 3% own one
  - Lack of products combining detection and protection via shut-off
- Leverage GROHE brand credibility in water management solutions to enter **Smart Home**
- Expand GROHE offer to **intelligent, value-adding services** for B2B and B2C

…our Product…





GROHE Sense
Smart water sensor to detect leaked water



GROHE Sense Guard
Smart water controller that detects burst pipes and automatically shuts off the water supply



GROHE Ondus App
Smart App for complete water control

…and its Potential

- Build GROHE Ondus app platform to become **'the Google of Water'**
- **Leverage GROHE's installer base** to scale Sense Guard
- Contribute to **water saving**
- **Monetize collected data**
- Exploit Ondus App and cloud as modern infrastructure to further develop **other GROHE products**

2 CASE STUDY: DIGITAL ENABLES GREATER PRODUCT DEVELOPMENT

Video: GROHE Sense Guard



With GROHE Sense Guard you can take full control over your water supply

Video: Garbage Dog
4.5 Million views on YouTube



The GROHE Sense system detects water leaks, instantly alerts you and shuts off water automatically

2 CASE STUDY: ADVANCED TECHNOLOGY FOR BETTER LIVING

A WORLD-FIRST IN SANITARY WARE

- RETAINS SHINE FOR **100 YEARS**
- REDUCES TIME SPENT CLEANING



AQUA CERAMIC

A MOLECULAR-LEVEL CERAMIC INNOVATION



HARNESSES THE POWER OF WATER TO LIFT WASTE



RESISTS BUILD-UP OF HARD-WATER STAINS

2 USE DATA SCIENCE TO PURSUE NEW OPPORTUNITIES

Partnering with innovative startups

Accessing global information network

Addressing changing consumer needs

Examples of initiatives already started

PLUG AND PLAY Silicon Valley in a Box

WORKS

Quid

Secual



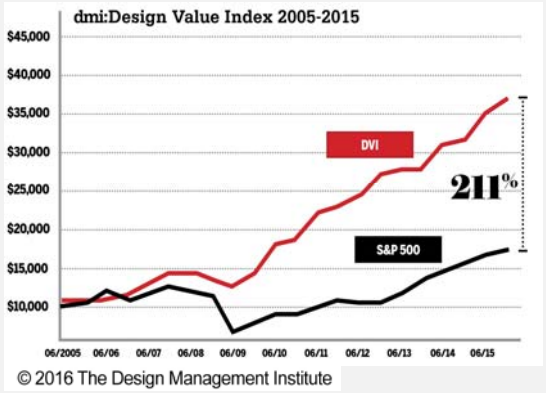


2 THE POWER AND VALUE OF DESIGN

Research shows that there is a correlation between the power of design and corporate value growth

Study on growth of "design-centric" companies

- Study by The Design Management Institute
- The study selects and compares design-centric companies' performance with that of the S&P500
- Criteria for inclusion in the Design Value Index include "Design operates at scale across the enterprise," "Design holds a prominent place on the company org chart," "Design sees a growing level of investment to support its growing influence," etc.
- 16 Companies included in the index, e.g. Apple, Coca-Cola, Ford, Herman-Miller, IBM, Intuit, NIKE, P&G, SAP, Starbucks, Whirlpool



© 2016 The Design Management Institute



GROHE Sensia Arena



GROHE SmartControl

Recognition from Prestigious Design Awards

Total # of awards* including those from Good Design, Red Dot, and iF Design:
- 67 in 2016 and 71 in 2017

GOOD DESIGN AWARD 2017 reddot award 2017 winner DESIGN AWARD 2017

* As of end of October, 2017

2 CASE STUDY: BRANDING – BUILDING BETTER BRAND EQUITY WITH NEW PRODUCT BRANDING STRATEGY

JAPAN : Strengthen brand power with high category awareness brands

- Refocused investment in brands from 2018 to add our brands to end user's shopping list
- Emphasis on design of all products as a part of brand equity

TOSTEM	INAX	RICHELLE	SPAGE	Interior *	EXSIOR	SUPER WALL
Windows, Doors	Toilets, Fixtures, Faucets, Tiles	Kitchen	Bathroom	Interior decorative materials	Exteriors	Construction method for high-performance houses and etc.









* Brand name is to be defined

GLOBAL : Leverage leading brands as brand equity in the global plumbing products market

- Segment brands by types of lifestyle

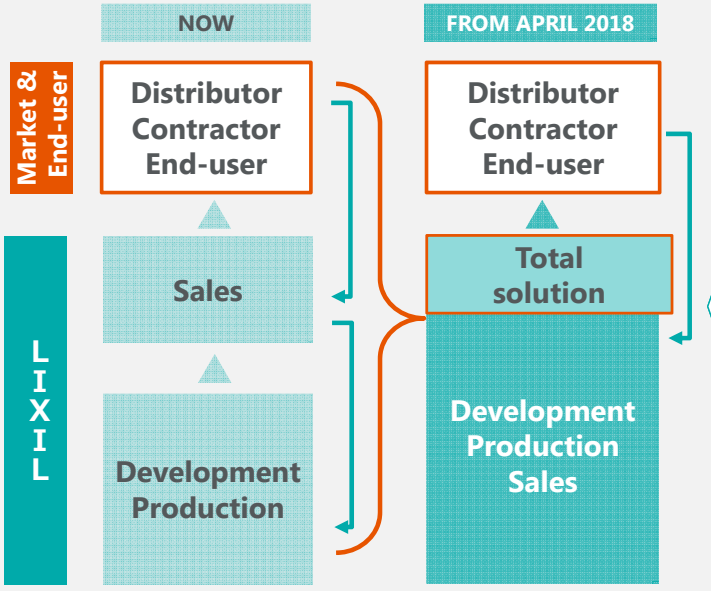
GROHE 

INAX 

American Standard 

2 CASE STUDY: ORGANIZATION STRUCTURE REFORM IN JAPAN

Strengthen competitiveness as a manufacturer by integrating development, production and sales functions to accelerate the business cycle reflecting market needs



Key points of organization reform

- Integrate development, production and sales functions
- Reflect market and customers' voice in product development directly
- **Strengthen competitiveness as a manufacturer** by accelerating business cycle of product development processes, production and sales
- **Maintain sales functions** that cut across all businesses by providing total solution with wide range of products

2 TRANSFORM TO AN ASSET-LIGHT MODEL

Build a structure that supports the launch of differentiated products in a shorter cycle

CURRENT ASSET-RICH MODEL

- Mass production of limited items is only appropriate for fast-growing markets
- Differentiate with production capacity and logistics/sales network
- Risk of prioritizing products we can make, rather than what end users want/need (manufacturer's convenience)

ASSET-LIGHT MODEL

- Allocate more managerial resources to design, development, and planning
- Differentiate by leveraging design capability, strong IP, and brand power
- Launch attractive products and deliver faster to the market
- Achieve high profitability

→ Started trialing this approach across various locations, e.g. US and Japan

3 ACHIEVE COMPETITIVE COSTING

1 Qualitative Supply Chain Improvement

2 Indirect Department Cost Reduction

3 Reduction of Development Cost

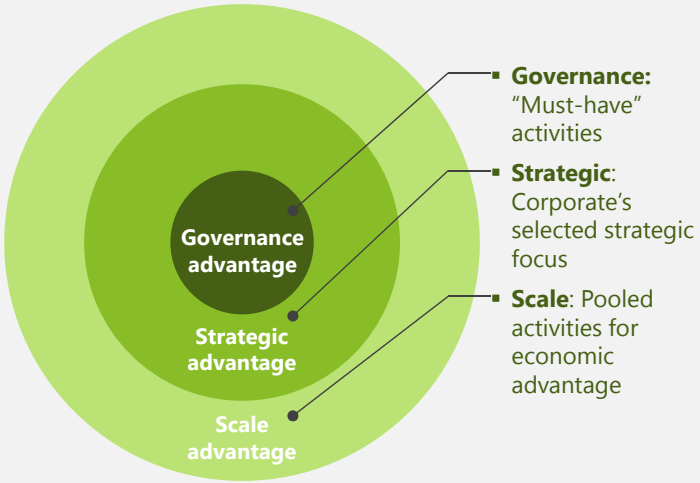
3 CASE STUDY: HQ EFFICIENCIES THROUGH HQ-FIT PROGRAM*

Implement "HQ-FIT Program" to become a more agile organization by redeploying personnel from HQ to customer-facing roles

HQ-FIT is…

- Focused on "active optimization of outputs" which was deemed to be insufficient in the past
- Led by an in-house specialist team with independent viewpoints to analyze the structure and work of back-office divisions
- A move from analysis to action to realize the full potential for redeployment of resources, resulting in a more agile organization

Three advantages of having HQ Functions



LIXIL * HeadQuarter: Focus on the Important Tasks

3 CASE STUDY: FLEXIBLE MANUFACTURING PLATFORM TO IMPROVE DEVELOPMENT TIME AND CUT COSTS

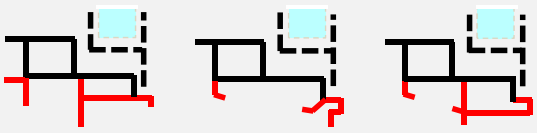
1) Implementation plan

- Create a unified core product platform that is modifiable for multiple uses
- Will reduce product development timelines by about 50% and streamline the product development framework

(Image of platform model)



The platform can be unified by just changing the shape of the house frame side



2) Benefits of the initiative

- Central platform modified for multiple usage
- Identify potential product development opportunities through cross-divisional activities
- Improve cost control and maintain market leadership through improved supply chain management structure, combined with new technologies and infrastructure development

LIXIL

4 STRATEGIC MARKETING TO DRIVE GROWTH



1 Influencers



2 End users



3 Manufacturer's Mindset

4 CASE STUDY: MARKETING TO INFLUENCERS THROUGH REAL-TIME QUOTATION TECHNOLOGY

Using digital technology to drive sales growth, reduce sales costs and streamline builder operations

Features of K-engine

- Unique database with over 5 million building materials from leading producer
- Digital cost and quantity survey for one house available in 5 minutes, resulting in real-time proposals and quotation
- Quotation to material delivery process streamlined and now managed digitally

K-engine



- **Reviewed sales and support functions**
- **Aim is to implement the system in 1,600 companies**

4 CASE STUDY: UNLOCKING DEMAND FOR HOME RENOVATION IN JAPAN

Launched LIXIL PATTO Reform Service to stimulate new demand for home renovation in Japan, shifting traditional product-driven focus to a more consumer-centric approach



Can make **simple** inquiries

Clear pricing

Fast installation

Offering small-scale home renovation solutions to eliminate common concerns faced by end users interested in renovating



Window reform
Reframe
Replus



Small size
Approx 110-150 thousand yen

Medium size
Approx 130-170 thousand yen

Large size
Approx 170-230 thousand yen

Minimum 1 window/ 1 hour

Entrance door
Rechent



One day replacement



For general area
Approx 380-480 thousand yen



Ventilating type
Approx 480-580 thousand yen



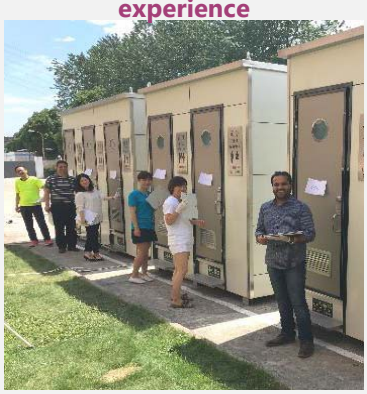
For cold district
Approx 500-570 thousand yen

4 CASE STUDY: EDUCATING THE MARKET TO DRIVE GROWTH

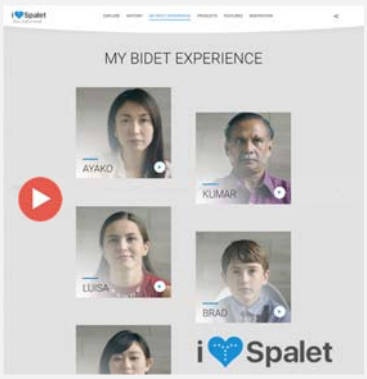
Marketing campaign in Asia aimed at positioning LIXIL as the SPALET* authority by leveraging INAX technology

Total design from involvement of both internal and external stakeholders to the engagement of end-user through education, experience and conversion

Offer employees and plumbers the opportunity to experience



Share experiences through online activation



Education platform: "SPALET Sensei"



 * Term used for Shower Toilet outside of Japan

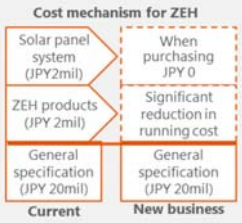
4 CASE STUDY: CAPITALIZING ON POSITION AS A MANUFACTURER AND POWER OF LIXIL BRANDS

Offering unique value for end-users beyond business categories

ZEH* new business

*ZEH=Net **Z**ero **E**nergy **H**ouse

- Promote **ZEH and maximize synergies within LIXIL** through new business for end-users combining ZEH products*1 and electricity service
- Promotion with **less upfront and ongoing costs**, and increasing product sales from one house
- Service will start from Autumn 2017



New House Cashback Campaign

- Prepare for reduction in New House Construction by **increasing sales per new house**
- **Cashback JPY 200K** by purchasing designated building materials (6 products*2, approx. JPY 2.4mil)
- Goal is for **end-users to choose LIXIL voluntarily**, increasing membership of **LIXIL Owners Club** enabling us to better understand end user data, and optimizing direct marketing and promotion campaigns



Well-coordinated space

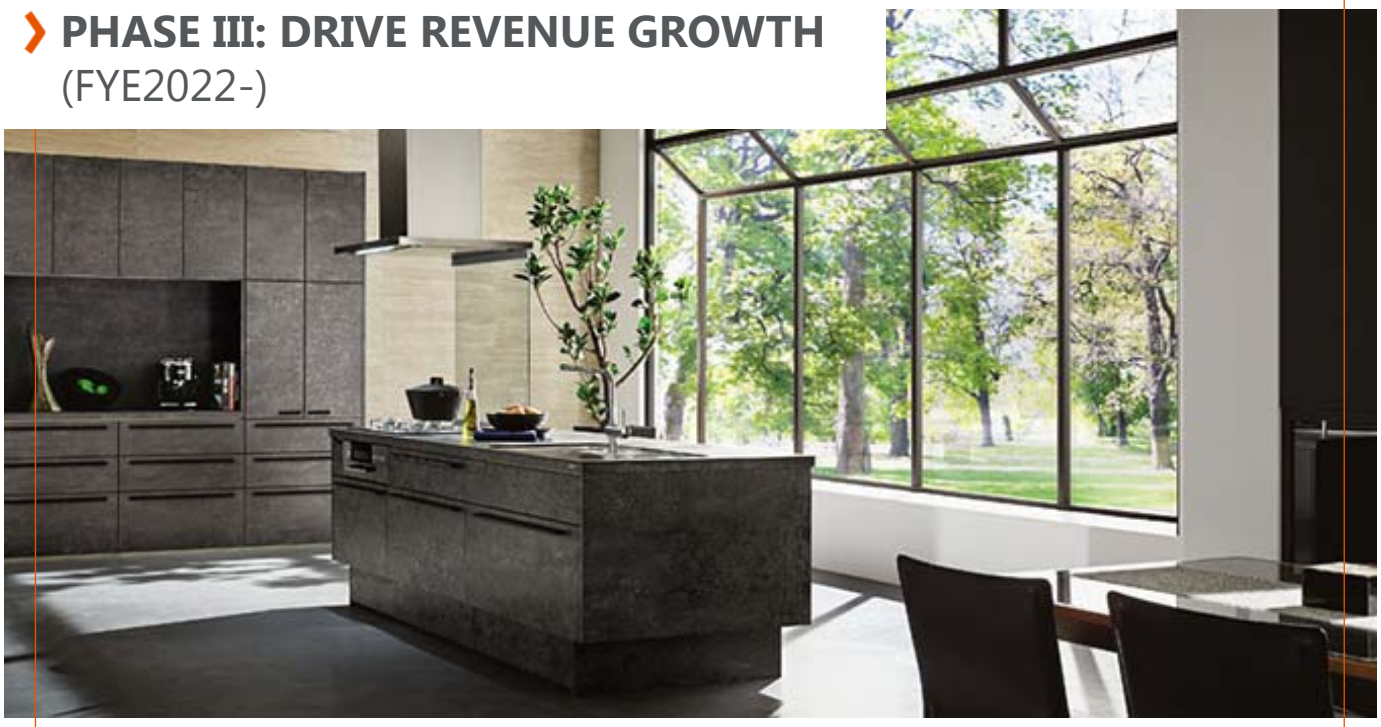
- **Offer "Coordinated space"**, better meeting end-user needs
- Planned and promoted products within BUs
- **Coordinated products between interior and kitchen** is under planning

Example: MINIMAL STYLE



*1 Insulation sash/door, structure panel, heat exchange ventilation, solar panel, kitchen/bathroom(save water), ZEH support in design
*2 More than one product of kitchen, bathroom, toilet, bathroom vanity, and entrance door, and all sashes for the house to be of LIXIL

PHASE III: DRIVE REVENUE GROWTH (FYE2022-)



Phase III – Beyond MTP:
Next Stage to Deliver Sustainable Revenue Growth

- Housing and water technology is an industry that demonstrates significant growth opportunities, in line with the growing global middle class population
- It is also an industry where it remains important to own the assets rather than being shared services
- If we are able to deliver differentiated products and services, we can expect revenue growth

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Cautionary Statements with Respect to Forward-Looking Statements
Statements made in these materials with respect to plans, strategies and future performance that are not historical facts are forward-looking statements. LIXIL Group Corporation cautions that a number of factors could cause actual results to differ materially from those discussed in the forward-looking statements.