

For Immediate Release

October 30, 2020
LIXIL Group Corporation

LIXIL Revenue and Profits Signal Recovery in Q2; Transformation Initiatives Gain Momentum

- *First-half revenue and core earnings decrease year-on-year but all segments recover in Q2*
- *Full-year FYE 2021 revenue forecast stays at ¥1,350 billion, down 11% year-over-year, core earnings revised up to ¥40 billion, a 24% decrease year-on-year*
- *Accelerating transformation in Japan to improve profitability and achieve sustainable growth*

Tokyo – LIXIL Group Corporation (“LIXIL Group”, TSE Code: 5938), maker of pioneering water and housing products, today announced results for the second quarter and first six months of the fiscal year ending March 31, 2021 (FYE 2021).

CEO Statement:

“Although our lives continue to be significantly impacted by COVID-19, markets are signaling a recovery from the second quarter. The situation remains unpredictable but demand in international markets has been rebounding while the Japan market is showing signs of bottoming out.

In line with our strategic direction, we continue to strengthen our financial position following completion of the sale of Permasteelisa and the expected closing of the LIXIL VIVA divestment in the current quarter. We are accelerating organizational reform and implementing initiatives that are transforming our workforce and culture to become more agile, entrepreneurial and resilient. At the same time, we are implementing operational improvements such as reducing office space and consolidating bases to improve profitability. Our performance in the second quarter demonstrates the newfound resilience and agility that these initiatives are bringing to LIXIL.

As consumers adapt to the new normal and spend more time at home, we continue to build on new opportunities for growth such as touchless products and online showroom services in the evening, meeting changing needs.”

- Kinya Seto, CEO, LIXIL Group

Full-Year Earnings Summary

Revenue

Consolidated revenue for the first half declined 13% year-on-year to ¥660.5 billion.

Revenue in the Japan market decreased by 14% to ¥491.8 billion. Sales fell in all business segments as the COVID-19 pandemic weighed down household spending and slowed new housing starts in the first

half of the calendar year. In addition, the absence of demand generated last fiscal year by the consumption tax hike contributed to lower year-on-year revenue. However, LIXIL Water Technology (LWT) and LIXIL Housing Technology (LHT) saw a surge in demand in Japan for products that cater to the needs of consumers during the new normal. Sales of LWT's touchless faucets and LHT's smart postal delivery boxes each rose by 50% year-over-year. In addition, sales of products that protect homes from the effects of natural disasters common in Japan also experienced an uptick, with renovation-related shutters jumping 70% year-on-year. Upward trends in sales from the previous quarter indicate the Japan market is bottoming out.

Revenue in international markets generated by LIXIL International decreased by 9% year-over-year to ¥178.6 billion and by 8% on a local currency basis. While revenue declined in all regions in the first half, international markets began to recover strongly from the second quarter, with LWT's revenue and profit up year-on-year for the three-month period. Revenue in Americas and EMEA markets, backed by robust retail and e-commerce sales, declined 2% and 3% over the first half but increased 10% and 13% in the second quarter, respectively. The China market, down 7% in the first quarter but 4% in the second quarter, grew on the back of favorable commercial projects sales, while Asia Pacific markets began to pick up, down 31% in the first quarter and 14% in the second quarter.

Core Earnings

Consolidated core earnings decreased by ¥18.6 billion year-over-year to ¥15.4 billion in the first half of the fiscal year. However, core earnings returned to the black from a loss of ¥2.6 billion in the first quarter due to rebounding demand, led by Americas and European markets, and improved SG&A expenses.

Due to weaker sales and reduced factory operation rates, LIXIL Group's gross margin declined by 0.6 pp. In turn, this pushed up LIXIL Group's SG&A ratio. However, SG&A expenses decreased by ¥9.5 billion in the second quarter, amounting to a total reduction of ¥18.6 billion in the first fiscal half. The cost reduction significantly alleviated the impact of decreased sales, supported by transformation measures making the company more agile and resilient.

Net profit for the first half attributable to owners of the parent

LIXIL Group reported net profit of ¥10.9 billion, down by ¥12.3 billion year-on-year, primarily due to decreased core earnings.

FYE 2021 Full-Year Forecast

LIXIL Group is maintaining its revenue forecast of ¥1,350 billion, a decrease of 11% year-on-year, while raising core earnings guidance to ¥40 billion, a decrease of 24% year-on-year, and net profit of ¥19 billion, up 52% year-on-year. The forecast includes profit/loss incurred by previously disclosed share transfers of subsidiaries completed or to be completed in the current fiscal year, as well as actual and estimated costs of structural reform initiatives.

Notable Business Highlights

LIXIL Group's Medium Term Plan is focused on improving profitability and transforming the organization to be more agile, entrepreneurial, and resilient to achieve sustainable growth. Since first quarter earnings were announced in August 2020, LIXIL Group has taken the following steps:

- **Business Transformation:** LIXIL Group is executing focused initiatives to transform its organization and culture in Japan, where approximately 70% of LIXIL Group's total business is generated, to overcome the shrinking market for new homes and improve competitiveness. Changing consumer trends and rapid digitization have disrupted traditional business models, demanding accelerated transformation. LIXIL Group will establish a meritocratic and agile culture that supports innovation and entrepreneurship. To this end, the company launched a comprehensive HR strategy, [Kawaranaito LIXIL](#) (LIXIL, We Must Change), in the fall of 2019.

As part of these initiatives, LIXIL Group today also announced the [New Life](#) voluntary retirement program. Under the New Life program, employees in Japan aged 40 and over who have worked at LIXIL Corporation for more than 10 years and who choose to leave will be offered an attractive retirement package in recognition of their contributions. New Life is designed to provide strong support to employees seeking new opportunities and multigenerational life planning, while also accelerating the speed of LIXIL's transformation. This announcement builds on other [recent initiatives](#) including the introduction of SuperFlex and trialing second job placements.

In Japan, LIXIL Group has also begun to consolidate its sites, relocating a total of 23 LIXIL Group facilities in Tokyo to its WING global headquarters during this fiscal year and next. LIXIL Group will also consolidate four toilet and washbasin development facilities in Tokoname City, Aichi Prefecture, and open a new global R&D center, "Toko Lab", to drive innovation. The company is also accelerating the shift to platform-based manufacturing to improve production efficiency.

Globally, LIXIL Group introduced [title simplification](#) across the organization to enable faster decision making, build a more empowered culture by de-emphasizing hierarchy, and accelerate the shift to meritocracy. The initiative is focused on fostering a sense of ownership and more collaborative teamwork to spur innovation.

- **Realign Business Portfolio:** To focus on its core water and housing businesses and strengthen its balance sheet, LIXIL Group completed the [transfer of shares of Permasteelisa](#). The company also expects to complete the previously announced [transfer of shares in LIXIL VIVA](#) in the third quarter. In addition to reallocating resources to core businesses, the sale of LIXIL VIVA will enable LIXIL Group to enhance relationships with other home improvement retailers as an independent supplier. Combined with the merger of LIXIL Group and LIXIL Corporation in December, the series of transactions will further simplify operations and strengthen corporate governance.
- **Differentiated Products and Services:** LIXIL Group continues to release new products and services that cater to changing demand in the new normal. As remote work becomes more commonplace and ways of living change, *INPLUS for Renovation*, a window sash, caters to the growing need for comfortable living spaces, helping to improve soundproofing and maintain room temperature.

Following the introduction of its digital showroom services, LIXIL Group's Japan business also offers new Night Online Services until 20:00, servicing consumers who cannot visit during the daytime or who live further away from showrooms.

- **Renew Commitment to Environmental Sustainability:** LIXIL Group targets net-zero carbon emissions from its operations and its housing and lifestyle products by 2050. To achieve this goal, LIXIL Group will improve the environmental value of its products and services, reduce its environmental footprint from business process, and responsibly manage its environmental impact. To this end, LIXIL Group will reduce single-use plastic used in packaging and business processes, replacing it with more sustainable alternatives. For example, GROHE has led the Less Plastic Initiative since 2018 to eliminate plastic from product packaging by 2021, saving 21 million plastic packages to date. GROHE has recently been selected as a finalist for the German Sustainability Award 2021, which honors companies that combine economic success with social responsibility and environmental protection. Meanwhile, INAX has introduced paper packaging for one of its products sold globally. Further, LIXIL Group has successfully developed bioplastics* derived from microorganisms and is now accelerating related R&D for practical application. Every year, five trillion plastic bags are used worldwide while only 10% of plastic waste is recycled.
- **Contribute to Improving the Global Sanitation and Hygiene Market:** In the run-up to [Global Handwashing Day](#), LIXIL Group announced a Memorandum of Understanding ("MOU") with the United States Agency for International Development (USAID) to develop the sanitation and hygiene market. The Group will also collaborate with Reckitt Benckiser (RB) to provide 500,000 bars of Dettol soap with its SATO Tap for developing markets, as well as to advocate for building a sustainable sanitation and hygiene market with UNICEF. Currently, three billion people, or 40% of the world's population, do not have access to a facility to wash their hands at home. Through its expanding partnership network, LIXIL Group strives to develop a sustainable sanitation and hygiene market ecosystem, helping to make better homes a reality for everyone, everywhere.

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**Press release only available in Japanese*

About LIXIL

LIXIL makes pioneering water and housing products that solve everyday, real-life challenges, making better homes a reality for everyone, everywhere. Drawing on our Japanese heritage, we create world-leading technology and innovate to make high quality products that transform homes. But the LIXIL difference is how we do this; through meaningful design, an entrepreneurial spirit, a dedication to improving accessibility for all, and responsible business growth. Our approach comes to life through industry leading brands, including INAX, GROHE, American Standard, and TOSTEM. Approximately 70,000 colleagues operating in more than 150 countries are proud to make products that touch the lives of more than a billion people every day.

LIXIL Group Corporation (TSE Code: 5938) is the listed holding company for LIXIL's portfolio of businesses.

