

22 February 2019

Lixil Group Corporation
36F Kasumigaseki Building
3-2-5 Kasumigaseki
Chiyoda-ku
Tokyo 100-6036
Japan

Attention:

Mr Yoshizumi Kanamori
Mr Yoichiro Ushioda
Mr Hirokazu Yamanashi
Mr Kinya Seto
Mr Yoshinobu Kikuchi
Mr Keiichiro Ina
Mr Haruo Shirai
Mr Ryuichi Kawamoto

Mr Tsutomu Kawaguchi
Ms Main Kohda
Ms Barbara Judge
Mr Hiroto Yoshimura

Dear Sirs/Madams

At the time of writing, Platinum Investment Management Limited manages 15,295,963 LIXIL Group Corporation ("LIXIL") shares on behalf of its investors and clients, or 4.88% of the issued equity (5.27% excluding treasury stock), with voting control of 4.42%. This letter represents our independent views about the business of LIXIL. In reaching the views expressed in this letter, we have not relied on the views of other shareholders. We are aware from publicly available media sources that Marathon Asset Management and BlackRock have also raised questions about the executive changes and asked for relevant minutes of Board of Directors' and nominating committee meetings.

We note the announcement by Mr Ushioda as Chairman and CEO of LIXIL on 31 January 2019 with respect to the review of the decision making process for the change of representative officers.¹ Whilst we welcome this review, we wish to express our specific concerns regarding the financial performance of LIXIL and lack of confidence we have in the company's management arising as a result of the following matters:

1. The abrupt resignation of the former CEO, Mr Seto, announced on 31 October 2018,² part way through the execution of a turnaround strategy, which we supported.

¹ <https://ssl4.eir-parts.net/doc/5938/announcement6/48062/00.pdf>

² <https://ssl4.eir-parts.net/doc/5938/tdnet/1639815/00.pdf>

2. The appointment of Mr Ushioda and Mr Yamanashi as CEO and COO, respectively, effective 1 November 2018.

Mr Ushioda, as the Chairman of the company, does not appear to have a strong track record of value creation for shareholders. His tenure as Chairman included (amongst other examples of poor performance) a ¥66 billion loss on the acquisition and subsequent bankruptcy of Joyou,³ as well as a write-down of ¥37.5 billion⁴ on the acquisition price of Permasteelisa and the incurrence of ongoing operating losses in relation to that business with no end in sight. Additionally, it is difficult to see how Mr Ushioda is expected to effectively manage a business with 75% of its revenue in Japan, when we understand he resides in Singapore. Thus, we question the merits of both his appointment as CEO, and the appointment of Mr Yamanashi as his COO (we assume on Mr Ushioda's recommendation to the Board).

3. The adoption of a reduced price strategy focused on gaining market share by the new management team.⁵ In the context of a highly-levered balance sheet, we are of the view that this strategy could put the jobs of LIXIL employees at risk as well as significantly impact shareholder value.
4. The cancellation of the sale of Permasteelisa.⁶ We feel that alternative options should be explored (i.e. the sale of the non-US business, the sale of those parts of the business that do not raise a CFIUS concern or bringing in a joint venture partner), in order to reduce LIXIL's exposure to this project-based curtain-wall business, and help LIXIL to reduce its indebtedness and strengthen overall profitability.
5. The statements that have been made by the current management team suggesting that further sizeable M&A activity may be pursued.⁷ Given LIXIL's current level of indebtedness, we feel this would be imprudent.

We respectfully request that the Board of Directors (including for the avoidance of doubt, the independent directors) in accordance with principles of transparency and good corporate governance, report to us on the following by no later than 5:00pm AEST Friday, 8 March 2019:

³ Financial Results for the Fiscal Year Ended March 31 2015, p.9. Published June 08, 2015: <https://ssl4.eir-parts.net/doc/5938/tdnet/1256753/00.pdf>

⁴ Recognition of losses from discontinued operations due to transfer of shares of Permasteelisa S.p.A, Published November 6, 2017. <https://ssl4.eir-parts.net/doc/5938/tdnet/1527094/00.pdf>

⁵ Toshiyuki Anegawa, Mitsubishi UFJ Morgan Stanley research report, November 8 2018: "At the firm's 31 October earnings briefing, new CEO Yoichiro Ushioda emphasized his intent to focus on market share (especially in Japan) and on expanding business, in part through M&A activity. This position differs from that of previous CEO Kinya Seto, who had been focused on profitability. This shift suggests the potential for stiffer price competition and weaker profitability in the kitchen/bathroom, door, and window spaces that constitute the firm's primary businesses, which increases the uncertainty surrounding the firm, in our view".

⁶ Announcement on Termination of Share Transfer Agreement of Consolidated Subsidiary. Published November 27, 2018. <https://ssl4.eir-parts.net/doc/5938/tdnet/1652139/00.pdf>

⁷ Above, note 5.

1. Details of the findings that have already been reported to the Board of Directors or its sub-committees, as noted in the company announcement on 31 January 2019 by Mr Ushioda regarding:
 - a. the sequence of events that led to the recent management changes; and
 - b. the validity and transparency of the process.
2. Details of the events and circumstances that led to Mr Seto's resignation, including:
 - a. whether his resignation was requested by the Board of Directors (including for the avoidance of doubt the independent directors) or one of its sub-committees, and if a sub-committee, which one? If so, what was the rationale?
 - b. whether his resignation was requested by Mr Ushioda or his agent(s) without the support or oversight of the Board of Directors (including for the avoidance of doubt the independent directors)?
 - c. details of any discussions held between the independent directors or members of sub-committees and Mr Seto regarding his resignation; and
 - d. Mr Seto's views on the events and circumstances leading to his resignation.
3. Details of any searches that were conducted for replacement candidates for the CEO and COO positions, and the rationale for the appointment by the Board of Directors or the nominating sub-committee of Mr Ushioda as the CEO and Mr Yamanashi as COO.
4. With respect to the findings reported to the Board of Directors following the recent review of the management changes as announced by LIXIL on 31 January 2019, details of these findings and copies of any reports that were or have subsequently been presented to the Board of Directors in respect thereof.
5. Whether the Board of Directors (including for the avoidance of doubt, all of the independent directors) approved the decision to abandon the turnaround plan in place of a price-led market-share focused strategy, and if so, the rationale for that decision.
6. Whether the Board of Directors (including for the avoidance of doubt, all of the independent directors) gave consideration to a partial sale of Permasteelisa, and if so, the rationale for determining not to pursue this course of action.
7. Whether the Board of Directors (including for the avoidance of doubt, all of the independent directors) approved a business plan to pursue further M&A activity, and if so, the rationale for that decision?
8. Whether the opinion of an investment banking firm was obtained as to the types of M&A opportunities LIXIL should pursue? Which investment bank or banks has LIXIL considered to hire as a financial advisor?

As an institutional shareholder, we would also like the opportunity to speak with LIXIL's independent directors via a video conference in relation to the above matters.

If the Board does not act to transparently report to us on the details requested above, we may be forced to take further action in order to protect the interests of our investors and clients, which includes, without limitation, pursuing our rights to inspect the minutes of board and committee meetings under Articles 371 and 413 of the Companies Act of Japan.

Based on what we have seen recently, we strongly believe the current management strategy and actions are imprudent and request the current managers, Mr Ushioda and Mr Yamanashi, consider stepping down and a management team, which is able to deliver shareholder value, be appointed.

Yours sincerely


Andrew Clifford
Managing Director and Chief Investment Officer
Platinum Investment Management Limited