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LIXIL Group Corporation

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### **Notice of Transfer of Consolidated Subsidiary (Share Transfer)**

LIXIL Group Corporation (hereinafter "LGC") hereby announces that it has signed a memorandum (the "Memorandum") with Arcland Sakamoto Co., Ltd. (hereinafter "Arcland Sakamoto") and consolidated subsidiary of LGC, LIXIL VIVA CORPORATION (hereinafter "LIXIL VIVA"), as well as an agreement (hereinafter the "Agreement") with Arcland Sakamoto regarding a series of transactions including: a cash tender offer scheduled to be conducted by Arcland Sakamoto for the common shares of LIXIL VIVA (hereinafter the "Tender Offer"); a share consolidation of the common shares of LIXIL VIVA; a transfer of the shares held by LGC via buy-back by LIXIL VIVA (hereinafter the "Share Transfer"), through which LIXIL VIVA becomes a wholly owned subsidiary of Arcland Sakamoto; and other transactions incidental or related to those transactions (hereinafter collectively, the "Transaction"). Upon the completion of the Share Transfer, LIXIL VIVA will no longer be a consolidated subsidiary of LGC. The details of the Transaction can be found in "Notification Regarding Notice of Intent of a Tender Offer by ARCLAND SAKAMOTO CO. LTD. for LIXIL Viva's Shares" announced by LIXIL VIVA today.

#### **1. Reason for the Transaction**

LGC aims to be an entrepreneurial company that can achieve sustainable competitiveness and growth in order to fulfill its corporate purpose to contribute to society by making better homes a reality for everyone, everywhere. To achieve this aim, the company is taking steps to transform its operations, including strengthening governance, focusing on actively managing its core businesses to enhance productivity and efficiency, driving synergies across its core business areas, as well as optimizing its business portfolio to accelerate growth and strengthen financial conditions. The Transaction is in line with LGC's efforts to focus on its core businesses and simplify its business structure, enabling further synergies and efficiencies through enhanced integration.

LIXIL VIVA operates home improvement centers that provide a wide range of housing related merchandise, materials and renovation services. LIXIL VIVA has established a solid position in the industry thanks to its strengths, particularly its offering of a wide variety of merchandise necessary for renovations via its vast store space, which can provide business customers with one-stop service. LIXIL VIVA, however, has been facing a challenging business environment with intensifying competition in the retail home improvement center industry caused by a decrease in the number of customers due to population decline in Japan, changes in consumer behavior, and shifts in the channel landscape with the expansion of drugstores, e-commerce, and so forth.

The business of LIXIL VIVA differs from LGC's core business. Therefore, the Share Transfer will enable LGC to invest its resources not only in its core businesses to drive synergies across those businesses, but also in new

and profitable growth businesses, which will lead to further business efficiency. In addition, although LIXIL VIVA has been operationally independent from LGC, its independence in terms of the capital ties following the Share Transfer will support LGC in strengthening business relations with other home improvement center operators, which are important customers to LGC, as a more independent supplier.

For these reasons, LGC conducted an auction process in which LGC invited a wide range of potential candidates to acquire the common shares of LIXIL VIVA, in order to select the most appropriate candidate for LGC, LIXIL VIVA and the minority shareholders of LIXIL VIVA. After thorough consideration, Arcland Sakamoto was selected as the transferee based on its superiority in terms of maximizing economic value for LGC and the certainty of completing the sale, including finance ability among others. LIXIL VIVA also concluded that the proposal received from Arcland Sakamoto was superior for LIXIL VIVA and its shareholders after examining comprehensively and carefully the evaluated equity value, the direction of the business strategy after the Transaction, and other factors in the proposal. Subsequently, Arcland Sakamoto, LIXIL VIVA and LGC began negotiations, and today with the execution of the Memorandum and the Agreement, it has been officially determined that all common shares of LIXIL VIVA held by LGC are to be transferred to LIXIL VIVA through the Share Transfer. LIXIL VIVA and Arcland Sakamoto have signed a capital and business alliance contract, subject to the completion of Tender Offer, today. The details of the contract can be referred to in the press release, "Notification Regarding Notice of Intent of a Tender Offer by ARCLAND SAKAMOTO CO. LTD. for LIXIL Viva's Shares" and "Notification Regarding Execution of Capital and Business Alliance Agreement", announced by LIXIL VIVA today.

Regarding the Transaction, LGC received a request from a special committee which was established by LIXIL VIVA to lower the Share Transfer price in order to increase the Tender Offer price, as part of an effort to increase the benefits to minority shareholders of LIXIL VIVA in excess of the proposals in Arcland Sakamoto's final declaration of intent. This was premised on anticipation that provisions of the Corporation Tax Act deduction deemed that dividends from taxable income would apply to LGC with respect to the Share Transfer. LGC accepted the proposal from the special committee as it would enable LGC to take the interests of LIXIL Viva's minority shareholders properly into account, and because it would also be beneficial for LGC and its shareholders in that the number of shares to be tendered by minority shareholders of LIXIL VIVA to the Tender Offer is expected to increase, thus increasing the chance of certainty of the Tender Offer being completed. As a result of negotiation with the special committee afterward, LGC agreed to the Share Transfer price at 2,423 yen per share, and the Tender Offer price at 2,600 yen per share.

## 2. Overview of Subsidiary to be Sold (LIXIL VIVA)

(1)	Name of Company	LIXIL VIVA CORPORATION	
(2)	Headquarters	1-13-1 Kamikizaki Urawa-ku, Saitama-shi, Japan	
(3)	Representative	Representative Director and President and Chief Executive Officer, Osamu Watanabe	
(4)	Major Business	Home Improvement Center Operation, Renovation, VCs , Real-Estate Development	
(5)	Capital	24,596 million yen	
(6)	Date of Foundation	June 24th, 1993	
(7)	Major Shareholder	53.2% of shares held by LGC	
(8)	Relationship between LGC and LIXIL VIVA	Capital	Consolidated subsidiary of LGC
		Personnel	None
		Trade	LGC purchases reform-related items, housing equipment, carpentry tools

(9) Non-consolidated Operating Results and Financial Conditions of LIXIL VIVA for the past 3 years (in millions of yen unless stated otherwise)			
Years ended in	March 2018	March 2019	March 2020
Net assets	47,700	62,864	66,260
Total assets	160,478	178,333	190,656
Net assets per share (yen)	1,066.64	1,433.21	1,509.08
Sales revenue	177,953	180,926	188,506
Operating profit	8,264	10,817	10,010
Ordinary profit	7,673	10,112	9,389
Profit for the year	5,070	18,442	6,597
Earnings per share (yen)	113.72	414.79	150.29
Dividend per share (yen)	41.00	50.00	50.00

### 3. Overview of Arcland Sakamoto

(1)	Name of Company	Arcland Sakamoto Co., Ltd.	
(2)	Headquarters	445 Kamisugoro, Sanjo, Niigata, Japan	
(3)	Representative	Chairman and Chief Executive Officer, Katsuji Sakamoto	
(4)	Major Business	Operation of "Home center Musashi," Wholesale of DIY-related merchandise	
(5)	Capital	6,462 million yen	
(6)	Date of Foundation	April 1st, 1970	
(7)	Net Assets	83,105 million yen (February 2020)	
(8)	Total Assets	105,608 million yen (February 2020)	
(9)	Major Shareholder	9.52% of shares held by Musashi Co., Ltd.	
(10)	Relationship between LGC and Arcland Sakamoto	Capital	None
		Personnel	None
		Trade	A consolidated subsidiary of LGC has a minimal turnover to Arcland Sakamoto
		Relationship with related parties	None

### 4. Number of Shares Transferred, and Status of Holdings before and after the Share Transfer

(1)	Number of Shares Held before the Share Transfer	23,367,300 shares (Voting right ratio: 53.2%)
(2)	Number of Shares to Be Transferred	23,367,300 shares
(3)	Total Net Proceeds from the Share Transfer	56,619 million yen
(4)	Number of Shares Held after the Share Transfer	0 shares (voting right ratio: 0%)

## 5. Schedule

(1)	Date of Board Resolution	June 9th, 2020
(2)	Date of Execution of the Memorandum and the Agreement	June 9th, 2020
(3)	Date of Transfer of Shares	November, 2020 (plan)

## 6. Future Outlook

LGC has adopted International Financial Reporting Standards ("IFRS") from the fiscal year ended March 2016. Although details of accounting treatments and presentation methods will be under discussion with the auditor, LGC believes that, based on IFRS No. 5 ("Non-Current Assets Held for Sale and Discontinued Operations"), assets and liabilities held by LIXIL VIVA will be classified as assets and liabilities held for sale, and profit and loss after tax resulting from LIXIL VIVA's operations will be listed separately as profit and loss for discontinued operations, respectively in the fiscal year ending in March 2021 subject to the completion of the Tender Offer.

Furthermore, while LGC's consolidated forecasts for the fiscal year ending in March 2021 have yet to be disclosed at this moment due to the need of close examination on impact of COVID-19, the gain from the Share Transfer, approximately 20,000 million yen, will be recognized as gain on sales of subsidiaries' stocks (earnings before tax from discontinued operation) on a consolidated basis in the fiscal year ending in March 2021, subject to the Share Transfer scheduled to be executed in November 2020, which is contingent upon the completion of the Tender Offer. The forecasts reflecting the impacts of the Share Transfer will be announced promptly as soon as they can be disclosed.

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