



# **Medium-term Management Vision**

## **(April 2011- March 2016)**

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May 2011  
JS Group Corporation

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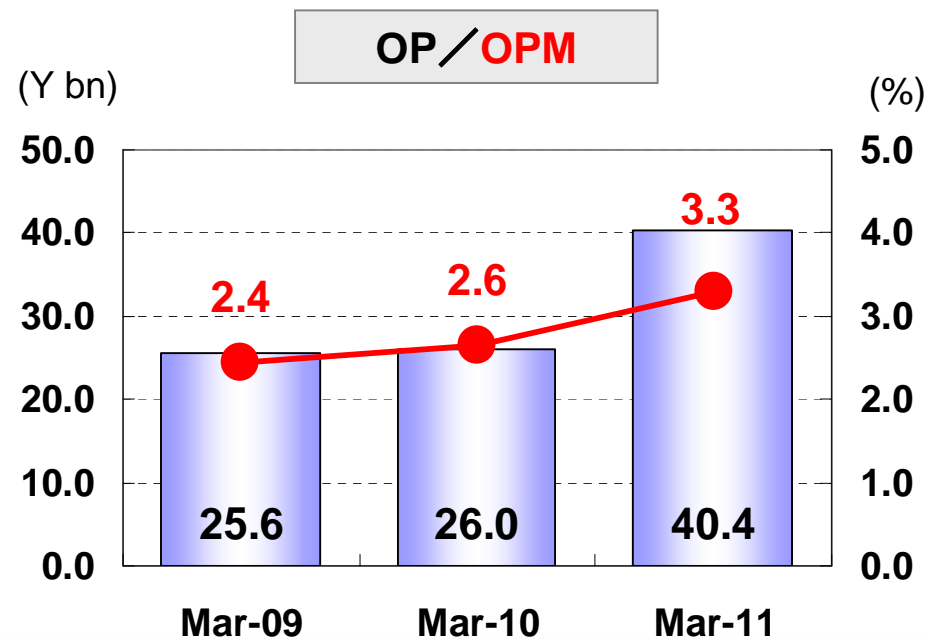
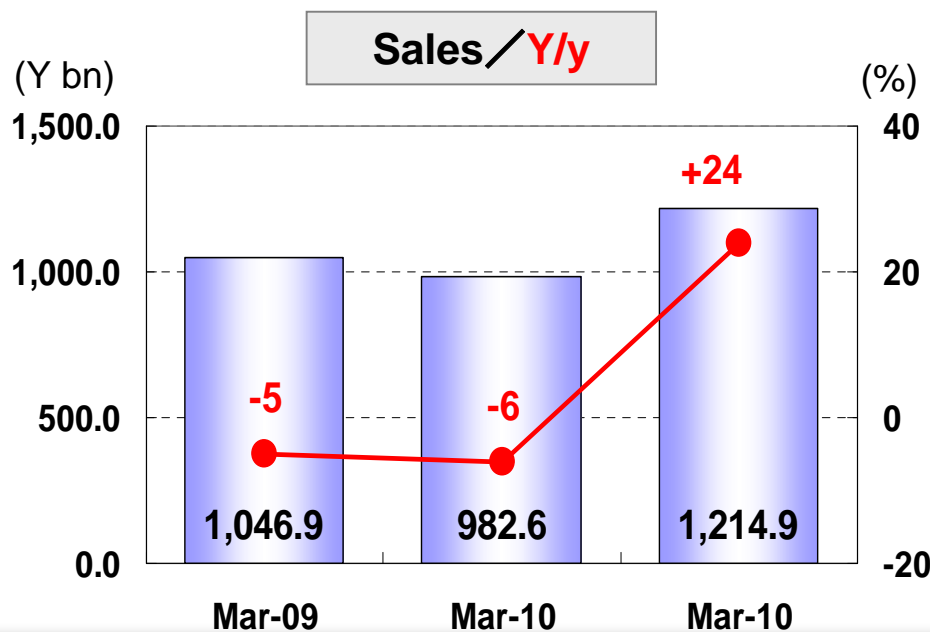
## Cautionary Statements with Respect to Forward-Looking Statements

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

## Results of the Three Years

Unit: Y bn	Mar-09	Mar-10	Mar-11		
			Target	Results	Vs. target
Sales	1,046.9	982.6	1,200.0	1,214.9	+1%
Y/y	-5%	-6%	+22 %	+24%	
OP	25.6	26.0	50.0	40.4	-19%
%	2.4%	2.6%	4.2%	3.3%	-0.8P
RP	22.2	27.9	50.0	39.2	-22%
Net income	0.5	-5.3	26.0	15.8	-39%

- Achieved sales target by M&As of Shin Nikkei, Sun Wave, and American Standard's Asia Pacific Division (herein after "ASAP").
- Missed operating profit target since the profit improvement plan of the existing businesses did not proceed as planned.



# Review of the Previous Mid-term Plan

## Review of the Previous Mid-term Plan

Due to revision of Building Standard's Law and Lehman Shock, business environment was worse than expected.

Unit: million

Housing starts	Mar-09	Mar-10	Mar-11
Assumption	1.25	1.23	1.22
<b>Actual</b>	<b>1.04</b>	<b>0.78</b>	<b>0.82</b>
Vs. assumption	-17%	-37%	-34%

- Decline of housing starts were much more significant than our expectation that our fixed cost reduction fell behind.
- Not enough management resources were shifted from existing businesses to new and overseas businesses

## Projected Future Business Environment

- The number of households in Japan will peak out in 2015 and the number of housing starts is expected to decline further. The number of housing starts in Japan is projected to decrease constantly from then on.
- Future negative factors to our business performance.
  1. Decrease in selling price
  2. Increase in raw material costs
  3. Foreign exchange fluctuations
  4. Increase of labor cost overseas

**We need to revise our business structure thoroughly and make improvement that is not an extension of the former style**

## New Mid-term Management Vision

**We will become a leading global company in the industry of housing and living environment**

■ **Sales: 3 trillion yen** (2 trillion yen domestic, 1 trillion yen overseas)

■ **OP margin: 8%** (10% for the domestic existing businesses)

■ **ROE: Over 8%**

# Basic Policies of the New Mid-term Management Vision

Shift from “Domestic oriented manufacturing business” to “Comprehensive housing solution business” and “Global business”

## ■ Basic policies

### 1. New Business Model (Business innovation)

Domestic growth expected businesses

Establish a new business model to get ahead of the structural change of the Japanese housing industry

### 2. Globalization (Become a global company)

Business overseas

Promote business in the overseas growing market and expand sales

### 3. Transformation (Structural reform)

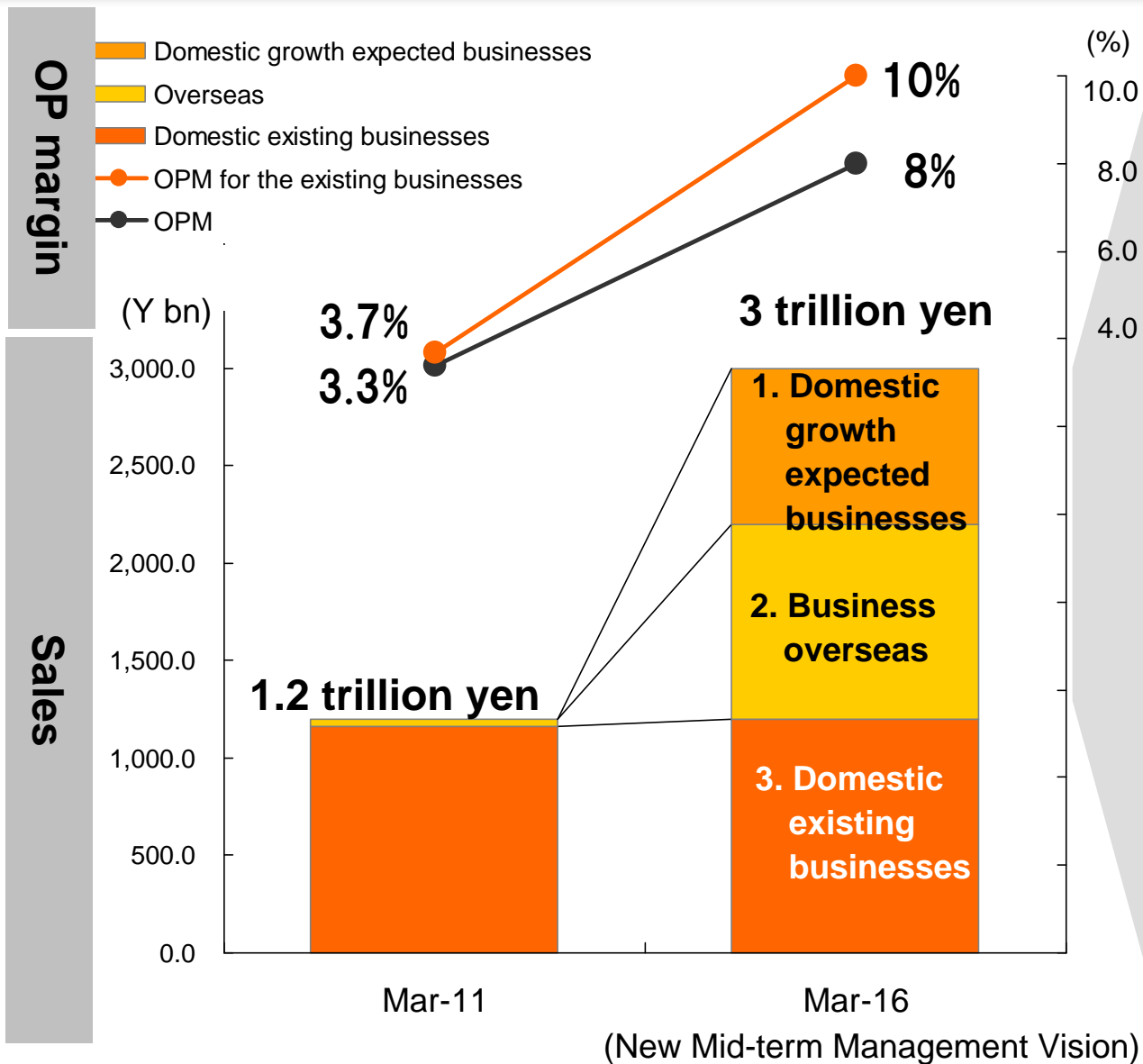
Domestic existing businesses

Reduce fixed cost by 30% by thoroughly revising business structure centered on domestic business integration

For growth

For profit

# Structure of the New Mid-term Management Vision



## 1. Focus on domestic growth expected businesses

- Establish a new business model
- Focus on environment and energy businesses
- Establish an operating base for the further growth

## 2. Expand business overseas

Strengthen production and sales system to prepare for the 1 trillion yen sales overseas.

**Shift management resources from 3. to 1. and 2.**

## 3. Improve efficiency of domestic existing business: the "C-30 Project"

Achieve OP margin of 10% by reducing 30% of the fixed cost of domestic existing businesses by 2013.

**Grow sales and improve profitability significantly over the next 5 years**

# 1. Focus on Domestic Growth Expected Businesses

Establish a new business model to get ahead of the structural change of the Japanese housing industry

## Structural change in the Japanese housing industry



### ■ There are various large housing manufacturers but a company that grew with renovation business is rare

- Large-sized renovation work requires significant amount of SG&A expenses and with tough price competition, it is difficult to increase profit
- Small-sized renovation work is low in its yield ratio of building materials and there are no efficient supply chains

## JS Group measures going forward

### Enjoy economy of scale of material supply and installation works

- Increase the number of “Ken Depot” stores where all materials for renovation can be purchased
- M&A of property management company for collective homes and business alliances with housing management companies such as Nomura real estate and LeoPalace21



### Reduce the number of construction defects in Japan

- Develop “Insurance for renovation defect” business by JIO, a JS Group’s subsidiary

# 1. Focus on Domestic Growth Expected Businesses

## Comprehensively supply products

Use LIXIL's sales and marketing forces



Sales and marketing division staff	Distribution and construction infrastructures	Sales route
Over 20,000 employees (More than 10 times of most building material manufacturers)	Covers distribution of almost all building materials and products	Do business with most of the approximately 35 types of subcontractors of the industry

We are the first company that have ever come close to the comprehensive building material distribution

### Example of benefits to the housing construction if LIXIL comprehensively supplied products

- Decrease the number of delivery trucks
  - It would be possible to reduce the number of delivery trucks by half by consolidated transport.
- Decrease the number of meetings at site
  - It would be possible to reduce a significant number of workers who need to come to the site for the troublesome meetings.

To reduce significant amount of the housing construction costs (including administrative expenses) we will promote establishment of new business model for comprehensive supply, which has a great growth potential.

# 1. Focus on Domestic Growth Expected Businesses

## Environment and Energy Solution Businesses

### Change of trends in Environmental and energy issues

1. Solar power generation: Growth in solar power generation, the clean energy
2. Energy and water savings: Decrease the amount of electricity and water in a building

### Group products

#### 1. Solar power generation system

- “LIXIL Solar” by LIXIL Energy Co., Ltd.

#### 2. Energy and water saving products

- Double windows & heat insulated net curtains by LIXIL (Tostem) and Kawashima Selkon Textiles
  - Increase heat insulation of the window where more than 50% of the heat come and go
- Comprehensive energy saving solution: Sharp + LIXIL
  - Business alliance with Sharp will allow the Group to provide comprehensive energy saving solutions including LED lightings and energy saving air conditioners, etc.
- Super water saving toilets: LIXIL(INAX)
  - Manufacture and sales of industry No.1\* super water saving 4 liter flushing toilets.

\* As of January 2011



Tostem's  
“In-Plus”  
inner window



Kawashima Selkon  
Textiles'  
heat insulated curtain



LIXIL Energy's  
“LIXIL Solar”



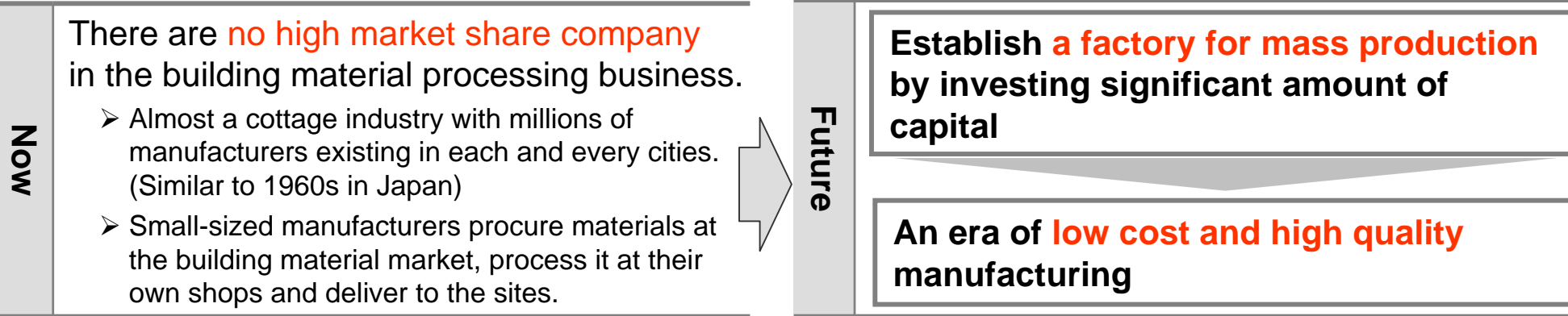
Inax  
Super water saving  
4 liter flushing toilet  
“SATIS”

Expand business with its cutting edge environment-friendly products and services.

## 2. Expand Business Overseas

### Target Emerging Countries

Prospects in Current Housing and Building Material Industry in China and Other Nations



#### JS Group strategy: Develop a hit product for the local market

- Shift approximately 1,000 R&D employees for the development of hit products for the emerging market
- Collect information on local demand by joint business with Haier, the counterpart of business alliance

### Manage Globally

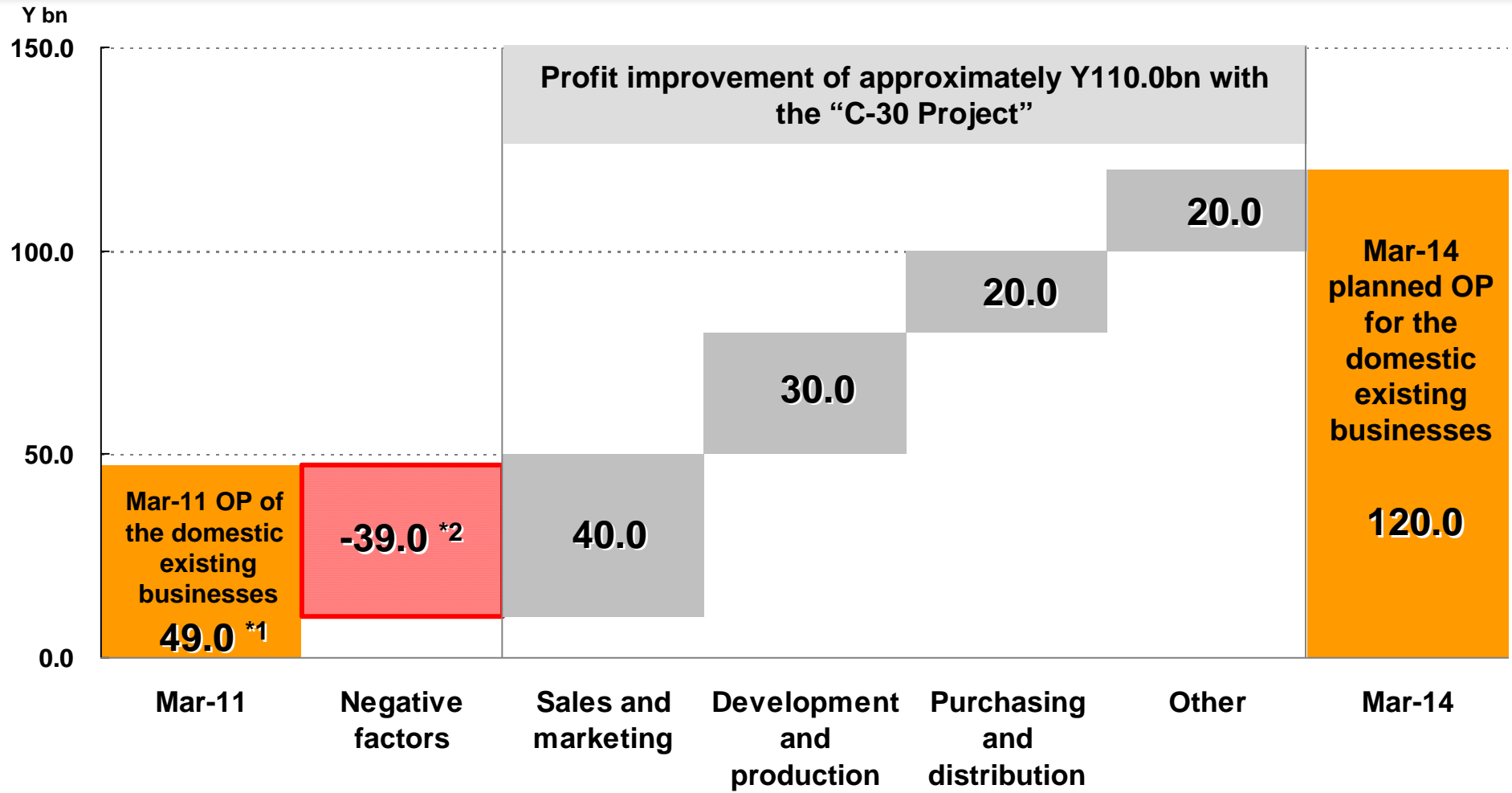
There are countries with booming economy and countries in adjustment phase.

If we can make strategic move in the nations that have momentum, we can reap benefits from the growing global economy.

#### Become an international company

- M&A of multinational blue chip companies
- Hire talented managers in a global point of view

# 3. Improve efficiency of domestic existing businesses: the "C-30 Project"



\*1: Excluding the impact from the earthquake on Mar.11, 2011

\*2: Negative factors are increase of raw material costs, fluctuation of foreign exchange rates, increase of labor costs overseas, and decrease in selling price.

**We will achieve OP margin of 10% by March 2014 in the domestic existing businesses with our "C-30 Project" even with the projected negative factors.**

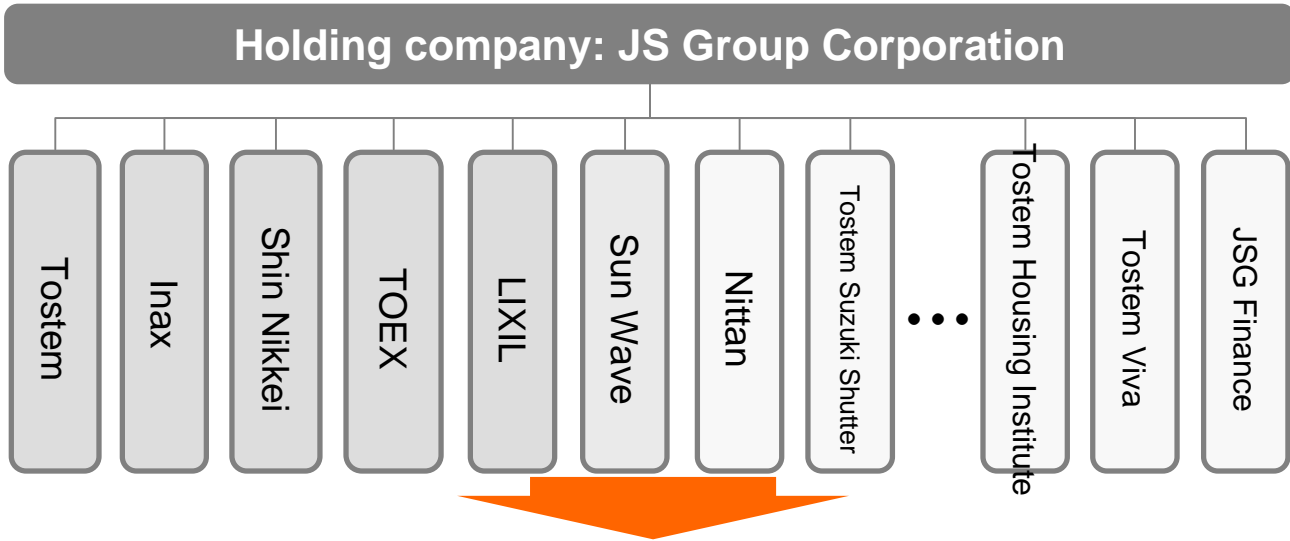
### 3. Improve efficiency of domestic existing businesses: the “C-30 Project”

Objectives	Profit improvement to achieve OP margin 10% for the domestic existing businesses by 2013		
Basic policies	Reduce fixed cost by 30% due to elimination of overlapping functions Promote optimization of the Group by thorough revision of every operation		
Major measures for efficiency in each division and targeted amount of cost reduction	Division	Major measures	Reduction target
	Sales and marketing	<ul style="list-style-type: none"> <li>Integrate sales offices and showrooms</li> <li>Integrate separated sales and marketing divisions as well as front and back operations</li> </ul>	-Y40.0bn
	Development and production	<ul style="list-style-type: none"> <li>Integrate products and decrease the number of products</li> <li>Reorganize and consolidate production sites</li> <li>Automate factories and increase self-manufactured products and decrease outsourcing</li> <li>Expand production overseas</li> <li>Improve product quality</li> </ul>	-Y30.0bn
	Purchasing and distribution	<ul style="list-style-type: none"> <li>Enjoy economy of scale by the integration of purchasing</li> <li>Increase purchasing from overseas</li> <li>Consolidate logistics centers and integrate IT systems</li> </ul>	-Y20.0bn
	Other	<ul style="list-style-type: none"> <li>Integrate headquarters</li> <li>Integrate administrative IT systems</li> </ul>	-Y20.0bn

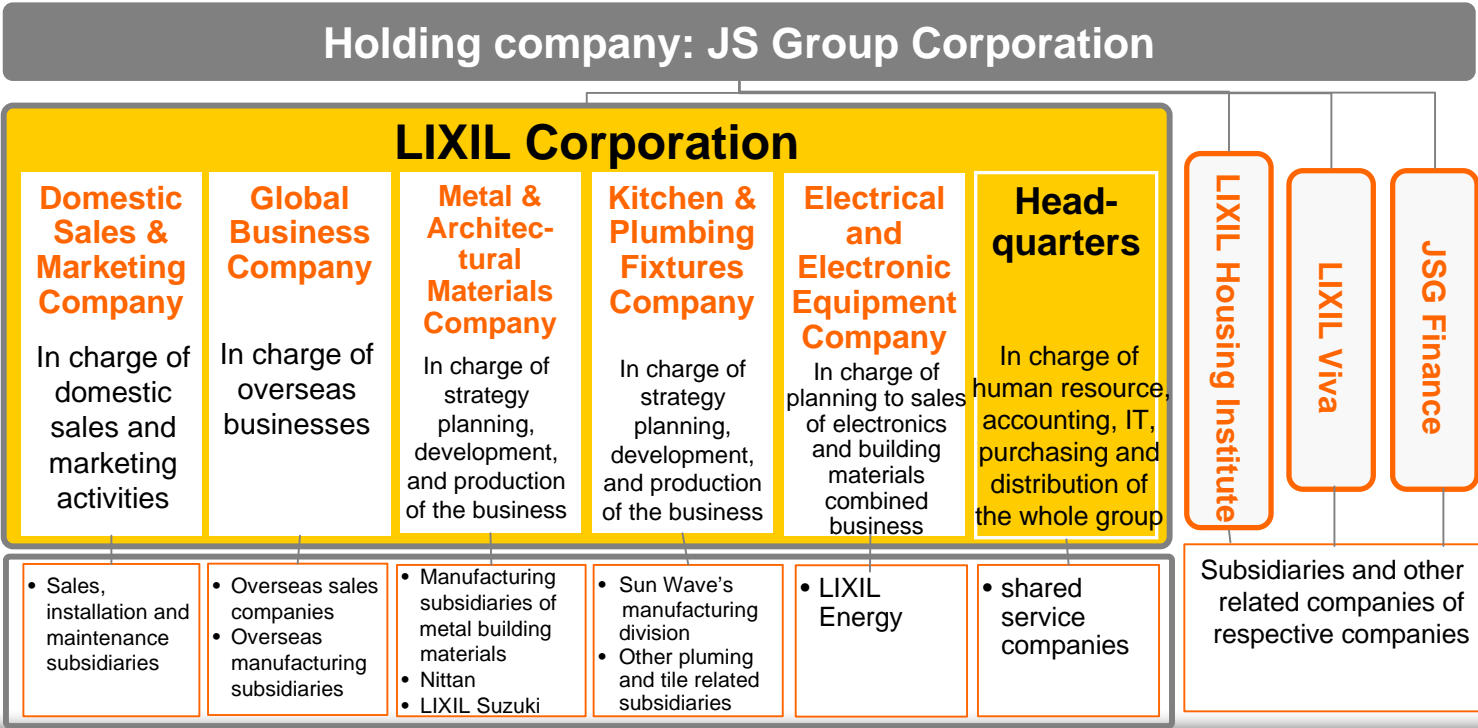
Expecting to reduce approximately Y110.0bn of cost by March 2014 compared to March 2011. Shift Y60.0bn of saved costs to invest into growth expected businesses (domestic growth expected businesses and business overseas).

# 3. Improve efficiency of domestic existing businesses (5 company Integration)

Until March 31, 2011



From April 1, 2011













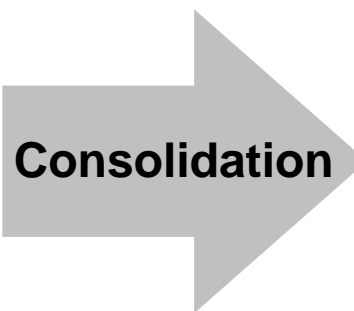
## Objectives of the integration

- Eliminate overlapping functions and **Increase efficiency** by consolidating sales offices, showrooms, factories, and administrative divisions
- **Enjoy economy of scale** by the integrated purchasing and other
- **Speed up decision making**
- **Provide comprehensive housing solution that exceeds the realm of former companies and difference of products**

# Example of integration: Showroom Consolidation

Expecting to save annual running cost of approximately 5.0 billion yen by consolidating showrooms that were formerly ran by five different operating companies. Increased number of customers are expected for the consolidated showrooms with its wider range of products.

	Number of showrooms	
	77	
	66	
	2	
	88	
 暮らしをつつむエクステリア トエックス	14	
<b>Total</b>	<b>247</b>	



	Targeted number of showrooms
 Link to Good Living	 <b>99</b>
<b>Approximately Y5.0bn cost savings per year</b>	

## IV. Return to Shareholders

**We will assure growth of shareholder value over the long term by increasing profit and strengthening business structure.**

### Maximization of shareholders value

- Execute growth strategies
- Improve management efficiency
- Reorganization and redevelopment of businesses
- Expand synergy effects
- Pursue strategic M&As

### Maintain healthy financial position

- Capital adequacy ratio of approximately 50%
- Maintain current level of interest-bearing debts

- Dividend payout ratio:  
Maintain over 30% of net income (Consolidated base)
- Share buyback:  
Make flexible decisions by the amount of fund and stock price