

Bridge Report Sangetsu Corporation (8130)

 Shosuke Yasuda, President	Company	Sangetsu Corporation	
	Code No.	8130	
	Exchange	First Section, Tokyo and Nagoya Stock Exchanges	
	Industry	Wholesale (Commerce)	
	President	Shosuke Yasuda	
	HQ Address	1-4-1 Habashita, Nishi-ku, Nagoya-shi	
	Year-end	March end	
	URL	https://www.sangetsu.co.jp/english/ir/index.html	

— Stock Information —

Share Price	Shares Outstanding	Market Cap.	ROE (actual)	Trading Unit	
¥2,051	65,451,737 shares	¥134.241 billion	6.0%	100 shares	
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥55.00	2.7%	¥67.93	30.2 x	¥1,623.05	1.3 x

* Stock price as of closing on December 11, 2017. Number of shares issued at the end of the most recent quarter excluding treasury shares.

ROE and BPS are based on the previous year.

— Consolidated Earnings Trends —

(Unit: Million Yen)

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
March 2012	118,518	7,095	7,180	4,151	51.73	37.50
March 2013	123,150	8,020	8,393	4,806	60.26	40.50
March 2014	131,978	8,952	9,475	5,459	71.65	37.50
March 2015	132,050	8,031	8,506	4,402	58.35	41.25
March 2016	133,972	9,112	9,463	6,393	89.92	47.50
March 2017	135,640	7,572	8,368	6,570	97.53	52.50
March 2018 Est.	156,000	6,100	6,800	4,500	67.93	55.00

* DPS of March 2013 included commemorative dividend of ¥3.

* Estimates are those of the Company. 2 for 1 stock splits were conducted in April 1, 2015.

* From the current fiscal year, the definition for net income has been changed to net income attributable to parent company shareholders (Abbreviated as parent net income).

This Bridge Report provides a review of the first half of fiscal year March 2018 earnings overview and so on.

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Keypoints

•The sales for the 2nd quarter of fiscal year ending Mar. 2018 were ¥75.5 billion, up 16.2% year on year. The sales of the interior and exterior businesses grew, and the sales of Koroseal, which was acquired in the previous term, and Fairtone, which was reorganized into a subsidiary, contributed. Gross profit rose 20.3% year on year, exceeding the growth rate of sales, and gross profit rate increased 1.1% year on year, but selling, general and administrative expenses augmented 29.7% year on year due to the posting of selling, general and administrative expenses of the above 2 companies, the development of distribution facilities, the preparation for the reconstruction of mission-critical systems, the increases in personnel and distribution costs, the rise in goodwill amortization for new consolidated subsidiaries, etc. Then, operating income dropped 21.5% year on year. Both sales and profit exceeded the respective initial estimates.

•The full-year forecast for profit has been revised downwardly. Sales are estimated to be ¥156 billion, up 15.0% year on year. Domestic and overseas sales are projected to be nearly equal to the respective initial estimates. The number of new housing starts is forecasted to decline slightly, but the company will enhance marketing activities for wallcovering and flooring materials in the non-housing field, and aim to increase sales by implementing new projects for sample books and releasing new products. The estimated sales growth of ¥20 billion will come from the sales increase of over ¥3.5 billion in the interior business, seeing the inclusion of Fairtone Co., Ltd. in the consolidation scope, and the sales increase of ¥17 billion in the overseas business, witnessing the inclusion of Koroseal in the consolidated profit-and-loss statement. Operating income is estimated to be ¥6.1 billion, down 19.4% year on year and down ¥1.5 billion or 19.7% from the initial estimate. The gross profit rates of the interior business and Koroseal have been revised. The selling, general and administrative expenses of the interior business is forecasted to be ¥240 million smaller than the initial estimate, while the selling, general and administrative expenses of the overseas business is projected to be ¥280 million larger than the initial estimate. There is no change to the estimated dividend. The annual dividend is to be ¥55/share. The estimated payout ratio is 81.0%.

•The product competitiveness and selling capability of Sangetsu have been improved steadily, and the results for the first half exceeded those in the past several years and those of competitors. The full-year forecast for profit has been revised downwardly, because of the revision to the earnings forecast of Koroseal, but the company meets the demand in the non-housing market steadily. However, its share price remains low, compared with the market trend and competitors'. We would like to pay attention to how much the company will further earn sales and profit in the third and fourth quarters.

1. Company Overview

Sangetsu Corporation is the largest among all Japanese trading companies specializing in wallcoverings, carpets, curtains and other interior decorating products. Being a trading firm, the Company also operates as a “fables company” that plans and develops interior decorating products. Sangetsu boasts of a business model that is able to produce stable earnings and top market share in its main product realms. The Company maintains a goal of raising ROE to above its cost of capital at an early stage as part of its midterm business plan.

The Sangetsu Group is comprised of six companies including Sangetsu (Shanghai) Corporation, the company responsible for business in China, “Koroseal Interior Products Holdings, Inc.”, the United States company conducting sales of wallcovering materials for non-residential applications, Fairtone Co., Ltd., that seeks to grow orders on the back of increases in installation capabilities, Sungreen Co., Ltd., a dedicated distributor of exterior products, and Yamada Shomei Lighting Co., Ltd., a planner, designer, manufacturer and distributor of lighting equipment, and “Sangetsu Vosne Corporation”, specialized in curtain fabrics

<Corporate History>

Sangetsu was founded in 1849 under the original name of “Sangetsudo” to sell various traditional Japanese interior decorating products including scrolls, wall scrolls, folding screens, sliding doors, partitions, and other products made of cloth and paper. Sangetsu Corporation was incorporated in 1953 by the founding family. From the latter half of the 1970s onwards, the business was expanded into Tokyo, Fukuoka, Osaka and other parts of Japan. In 1980, Sangetsu was listed on the Second Section of the Nagoya Stock Exchange, and later in 1996 its shares were also listed on the First Section of the Tokyo Stock Exchange. Currently, Sangetsu is expanding its operations into overseas markets and has established itself as the largest total interior decorating product provider within Japan, with a widely recognized brand of interior products.

Shosuke Yasuda was appointed as the first President who is not from the founding family of Sangetsu in April 2014. He will direct the Company during its third stage of growth entitled “Our Third Founding Phase,” following on the heels of the original first phase of founding and the second phase when the company became a publicly listed corporation.

<Corporate Philosophy>

Sangetsu established a new corporate philosophy including a new brand philosophy in April 2016 that will enable it to take on the challenge of implementing reforms necessary to take it to its next stage of growth.

A new “brand philosophy” has been added to the “corporate creed,” “corporate mission,” and “Three Principles of Sangetsu” to create an expanded corporate philosophy.

<Corporate Creed>

Integrity

<Corporate Mission>

To contribute to society through interior design and strive to create daily culture of enrichment

<Three Principles of Sangetsu>

Creative Designs, High Reliable Quality, Fair Price

<Brand Philosophy>

- Brand statement “Joy of Design”
- Brand purpose “We provide the joy of design to those who create new spaces.”

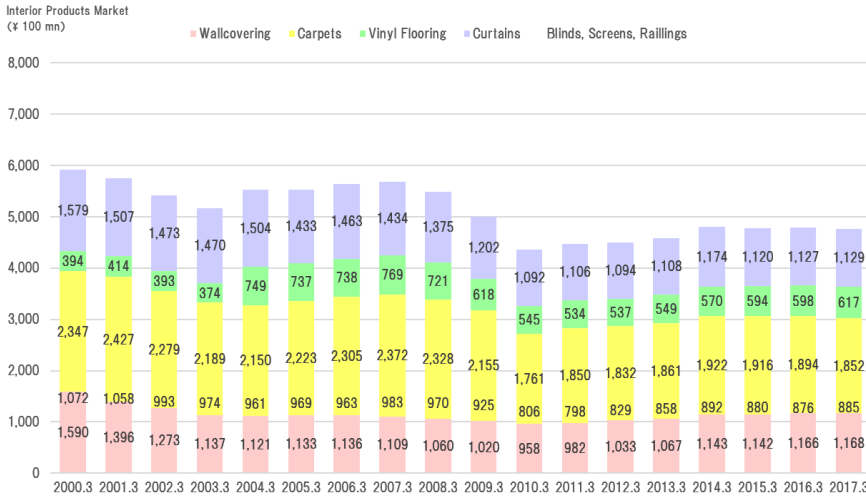
Sangetsu endeavors to share the joy of creating new value through interior business with all of its stakeholders.



<Market Environment>

◎ Overview

The market environment for the main wallcovering and flooring products is strongly influenced by trends in the Japanese construction market. Declines in new housing start arising from declining population and changing family structures within Japan, and deflationary trends have depressed sales of the interior products market as shown in the graph below.

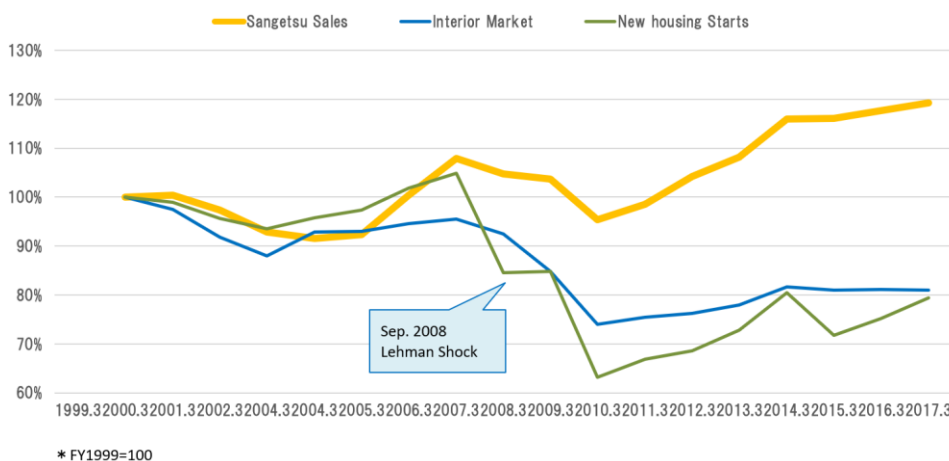


* Nippon Interior Fabrics Association "2017 General State of the Interior Fabrics Business and Market Size Determination"

(Source: Sangetsu)

At the same time, the graph below shows the correlation between sales of Sangetsu relative to sales of the Japanese interior market and new housing starts (Ministry of Land, Infrastructure, Transport, and Tourism data).

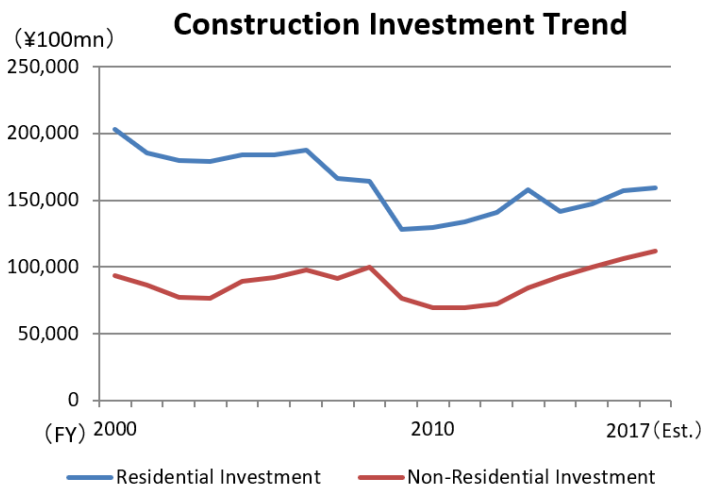
The trends for both Sangetsu’s sales and the Japanese interior market have been closely linked to new housing starts. After the Lehman Brother’s Shock however, this link has been overcome with Sangetsu’s sales reaching consecutive record highs despite the sluggish trends in new housing starts and the weak overall market.



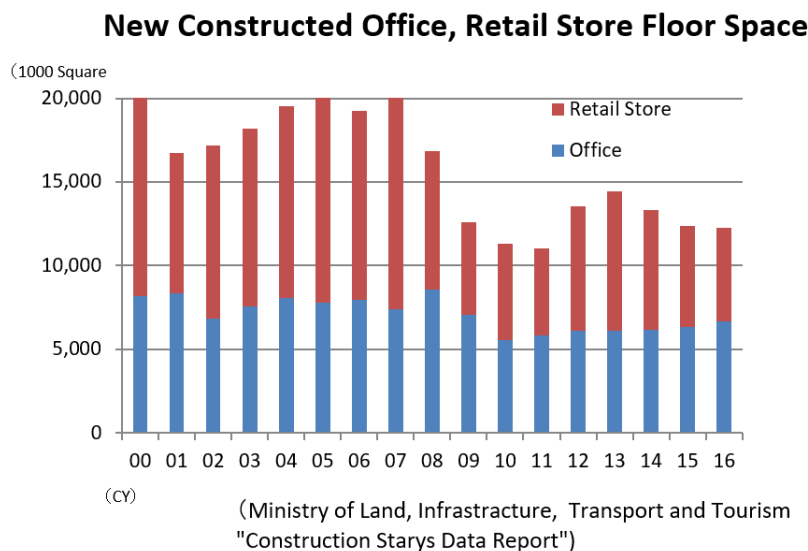
* FY1999=100

(Source: Sangetsu)

This strong recovery is attributed to Sangetsu’s efforts to cultivate business in the non-residential realm.



(Source: Ministry of Land, Infrastructure, Transport and Tourism)



According to “Outlook for Investment in Construction” released by the Ministry of Land, Infrastructure, Transport and Tourism, the investments in private housing and non-housing constructions have been recovering since the bankruptcy of Lehman Brothers, but the estimated investment in private housing construction is still about 80% of the level in the year 2000, while the investment in private non-housing construction exceeds the level in the year 2000.

On the other hand, according to “Outlook for Investment in Construction based on a Construction Economy Model” released by Research Institute of Construction and Economy (on Oct. 30, 2017), the year-on-year growth rate of investment in private non-housing construction has been as healthy as 9.3% for fiscal 2014, 5.7% (estimate) for fiscal 2015, and 4.9% (estimate) for fiscal 2016, but is forecasted to become as sluggish as 1.2% (estimate) for fiscal 2017 and minus 0.5% (estimate) for fiscal 2018.

The growth rate of the floor area of offices to be constructed is as healthy as 10.3% for fiscal 2016 and 13.7% (estimate) for fiscal 2017, but 0.0% (estimate) for fiscal 2018. That of stores is as sluggish as minus 7.6% for fiscal 2016, minus 10.2% (estimate) for fiscal 2017, and minus 2.0% (estimate) for fiscal 2018. As Tokyo Olympics and Paralympics are scheduled to be held in 2020, the demand for new construction and renewal in the private non-housing market is healthy, but there is a bottleneck due to the shortage of manpower, and there remain uncertainties.

According to the Ministry of Land, Infrastructure and Transport, private sector residential investments declined less than

private sector non-residential investments and recovered to above the 2000 year level of ¥10 trillion in recent years.

At the same time, the Research Institute of Construction and Economy report entitled “Construction Economy Forecasting Model for Construction Investments” released on April 26, 2017 estimates that private sector non-residential construction investments steadily rose by 9.4% and 5.6% year-on-year in fiscal years 2014 and 2015 respectively, but then its speed will be down in fiscal years 2016 and 2017 by 0.6% up and 1.2% down respectively.

On a floor space basis, office space is expected to have grown by 12.1% year-on-year while retail store space to have fallen by 8.8% year-on-year in fiscal year 2016, while office space and retail store space both trended sideways at 0.0% in fiscal year 2017.

Ahead of the 2020 Tokyo Olympic and Paralympic Games, private sector non-residential construction investments are expected to continue to trend strongly, despite some uncertainties clouding the near term horizon.

◎ Competitors

In addition to Sangetsu, there are eight publicly traded competitors that operate in the interior decorating market.

(Units: Million Yen, Times)

Stock Code	Company	Sales	YY Change	Operating Income	Operating Margin	YY Change	Market Cap	PER	PBR	ROE
3501	Suminoe Textile Co., Ltd.	97,500	+1.5%	2,800	+115.8%	2.9%	23,120	15.4	0.7	7.3%
4206	Aica Kogyo Company, Limited.	159,000	+4.9%	19,000	+5.0%	11.9%	257,228	22.0	2.2	9.9%
4215	C.I. TAKIRON Corporation	150,000	-	8,400	-	5.6%	78,668	13.1	1.2	5.7%
4224	Lonseal Corporation	20,770	-1.0%	1,950	-21.2%	9.4%	11,184	8.3	0.8	13.2%
5956	TOSO COMPANY, LIMITED	23,000	+2.3%	710	-29.5%	3.1%	5,911	14.0	0.5	6.3%
7971	TOLI Corp.	93,000	+1.7%	3,900	-8.2%	4.2%	25,107	9.5	0.8	9.5%
7989	TACHIKAWA CORPORATION	40,700	+3.4%	3,200	+11.6%	7.9%	27,184	13.9	0.9	5.6%
8130	Sangetsu	156,000	+15.0%	6,100	-19.4%	3.9%	134,110	30.2	1.3	6.0%
9827	Lilycolor Co., Ltd.	34,500	+4.6%	320	+130.2%	0.9%	2,090	34.8	0.3	2.0%

* Estimates are from those of the respective companies.

* C.I. TAKIRON Corporation's YY Change is not opened due to its merger.

* Market capitalization is based upon the closing share price on December 1, 2017.

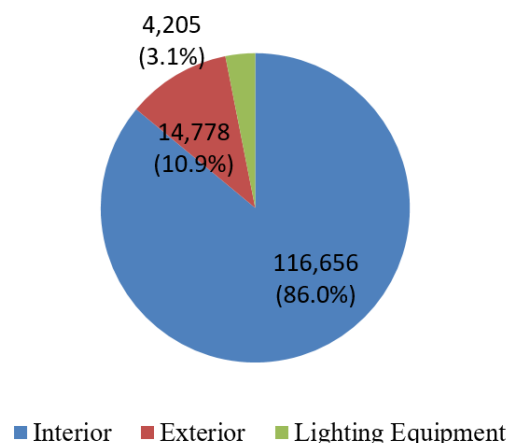
*ROE is based on the previous year.

Sangetsu has the best operating profit on sales among these companies. In addition, only Sangetsu's PBR is over one time.

<Business Description>

The main businesses include planning, development, and sales of wallcovering, floor covering, curtains, upholstery and other interior products. Sangetsu boasts of a “fabless operation” and does not maintain any manufacturing facilities, but its capabilities exceed that of typical trading firms, and all of the products it sells are planned, designed and developed in-house. In addition, Sangetsu provides exterior products and lighting fixtures through its subsidiary.

Sales by Business Segment (FY3/17, Unit: ¥mn)



① “Interior Business”

(FY3/17: Sales and Operating Income of ¥116.656 and ¥7.150 Billion)

◎ Main Products

Wallcovering	Sangetsu’s main product, used in a wide range of residential and non-residential applications. High functionality products have become popular in recent years that are resistant to staining, odor absorbing, and scratch resistant. Also, wallcoverings with colorful designs are being used to decorate all or part of walls in homes to add an accent to interiors, and collaboration with rental property management companies being promoted for the development of products to raise the value addition of rental properties.
Cushion Vinyl Sheet	Sheeted floor materials that are used in both residential and retail store applications, and commonly used in apartments and condominiums. They boast of wood grain, stone, and a wide range of other motif designs and have cushioning function for use in a wide range of applications.
Vinyl Sheets	Sheet formed flooring materials used in commercial applications including medical and welfare institutions, and educational institutions. This product boasts of high levels of safety and sanity functionality, and is designed to reduce maintenance costs by being easy to keep clean. It also has been designed with the environment in mind and helps to reduce the environmental burden.
PVC Floorings	Sheet formed flooring materials used in medical and welfare institutions, and educational institutions. Uniquely manufactured with design patterns printed on entire flooring material so patterns will continue to show even after being worn down. They do not require wax for easy maintenance, and thereby reducing maintenance costs and environmental burden.
Luxury Vinyl Tiles	Tile formed vinyl flooring materials used in a wide range of applications including apartments, condominiums, educational institutions, and commercial facilities. Manufactured with wood and stone motifs, with highly detailed embossed printing processes used to show highly detailed designs.
Carpets, Carpet Tiles	Textile flooring materials used in a wide range of applications including ryokans (i.e. Japanese inns), hotels, residential and office facilities. Multiple colorful designs with high functionality, formed in 50 centimeter square tile sections for easy installation and superior maintenance.
Curtains	All of the curtains sold by Sangetsu are custom made, and boast of the ability to create unique designs and custom sizes of curtains to match room decorations in which they are used. In addition to highly fashionable designs and heavy materials, mirror-like insulating characteristic lace curtains, which make it difficult to see inside from the outside and reduce the amount of heat transferred into the rooms, have also become popular.

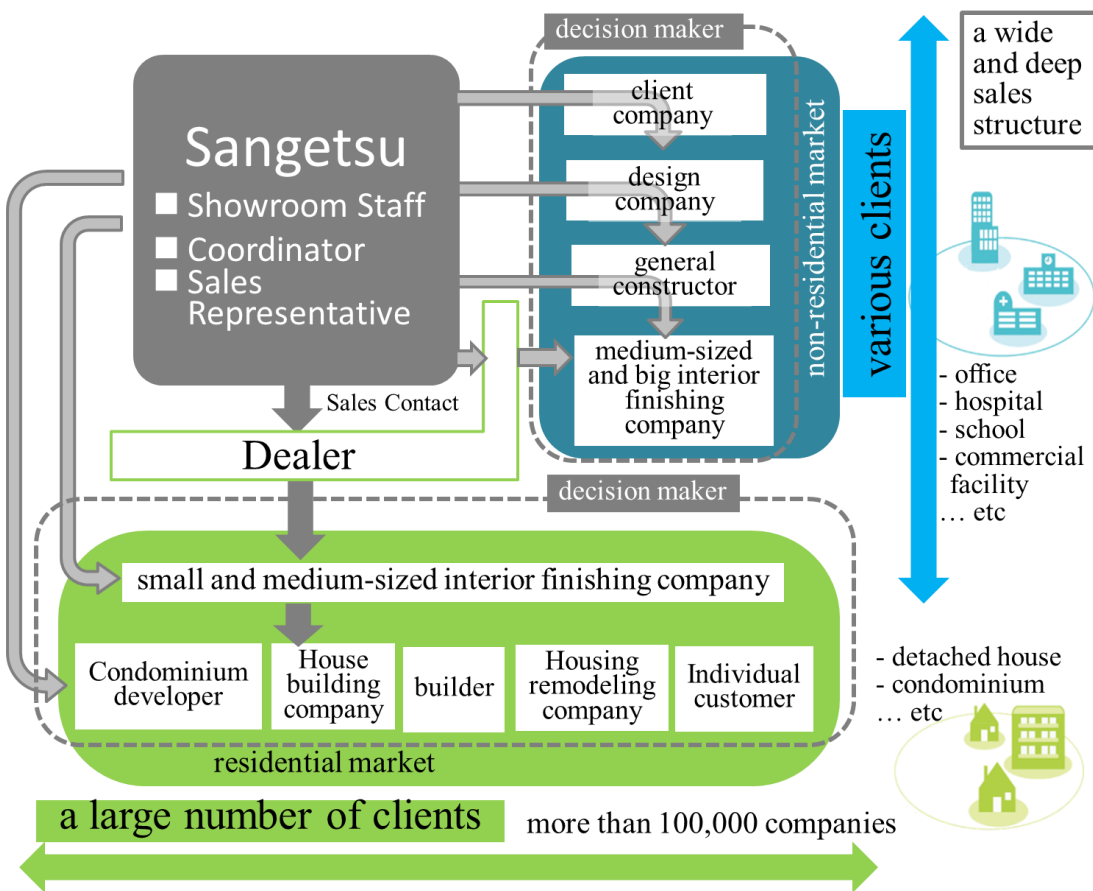
Bridge Report Bridge Salon

Sangetsu boasts a diverse product lineup with about 12,000 different products in total. There are about 4,200 different wallcovering products alone. Product catalogs are updated every two years (Curtain and Carpet product catalogs are updated every three years), with an existing product replacement rate for wallcovering of 30% to 40%, which compares with a 35% to 40% rate for its competitors.

Replacement of existing products is not a simple task. Disposal of products leads to wastes, but the disposal of existing products due to replacement with newly designed products is necessary to maintain the attractiveness of the product catalog and to satisfy customers. Therefore, the ability to maintain a balance between attractiveness and efficiency is highly important and is one of the strengths of Sangetsu.

◎Marketing Structure

In addition to the headquarters located in Nagoya, Sangetsu maintains 8 regional offices and 53 marketing offices throughout Japan, with 9 of these marketing offices also hosting showrooms.



(Source: Sangetsu)

The downstream interior finishing process includes the final delivery of products, booking of sales, and receipt of cash. The main customers are interior construction companies and interior and building material shops that are serviced through dealers. Furthermore, public relations and advertising for products at the start of the process are also very important.

Therefore, Sangetsu conducts public relations and advertising for its products in its product catalog, at its showrooms, and so on. In addition to these “passive” marketing activities, Sangetsu also conducts “proactive” marketing of its products through its corporate marketing division and its 450 marketing staff to provide and gather information and propose products to clients.

While the main marketing efforts are conducted through dealers, Sangetsu also conducts direct marketing to customers in the Nagoya and surrounding Chubu area, and the number of its directly accessed customer totals 6,000 in these regions alone. While the number of customers dealt with through dealers is not known, the total number of customers is estimated to amount to several tens of thousands nationwide.

◎ Distribution Structure

Sangetsu maintains a network of 13 distribution centers nationwide. Most all products are normally stocked at the Company's distribution centers in Tokyo, Nagoya, Osaka and Fukuoka, with the number of products shipped from these centers surpassing 60,000 per day and the out-of-stock ratio amounting to a low 0.14% (About 70 products) per day.

Sangetsu seldom asks their clients for backordering because the out-of-stocks are covered by surrounding distribution centers immediately.

Sangetsu's nationwide distribution network makes "Just-in-Time" provision of products to match the interior construction schedules of its clients possible. Products are sourced from a wide range of over 100 supplier companies.

② "Exterior Business"

(FY3/17 Sales and Operating Income of ¥14.778 Billion and ¥402 Million)

Sungreen Co., Ltd., which was turned into a subsidiary in 2005, sells doors, fences, terraces and other exterior products within Japan.

③ "Lighting Business"

(FY3/17 Sales and Operating Income of ¥4.205 Billion and ¥ 23 Million)

Yamada Shomei Lighting Co., Ltd., which was turned into a subsidiary in 2008, sells down lights, z-lights and other general lighting fixtures within Japan.

④ Overseas business

The business strategy set in the mid-term management plan (2017-2019) "PLG 2019" is to conduct consolidated business administration while focusing on the overseas market. Accordingly, this segment was established in the 1st quarter of fiscal year ending Mar. 2018.

This business is operated by Koroseal Interior Products Holdings, Inc., which was acquired in Nov. 2016, and Sangetsu (Shanghai), which was founded in Apr. 2016.

<ROE Analysis>

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17
ROE(%)	3.5	4.1	4.6	3.7	5.6	6.0
Net Income to Sales Ratio (%)	3.50	3.90	4.14	3.33	4.77	4.84
Asset Turnover Ratio (x)	0.84	0.88	0.93	0.91	0.95	0.90
Leverage (x)	1.18	1.19	1.20	1.21	1.24	1.39

The new Medium Term Business Plan calls for the quantitative target for return on equity of between 8% and 10% to be achieved by fiscal year March 2020. Furthermore, measures to reduce capital and raise profitability will also be implemented.

<Characteristics and Strengths>

① Business Model Capable of Yielding Stable Earnings

Sangetsu is a pioneer in the realm of "fables companies" that do not maintain their own manufacturing functions and therefore have lower fixed expense burdens because they do not have to carry facilities for the manufacturing process. Besides, the Company boasts of over 12,000 products, sourced from over 100 suppliers, supplied to several tens of

thousands of customers, which diversifies risk in many ways. Moreover, while Sangetsu may be considered as an economically sensitive company as its business and earnings performances are closely linked to trends in the construction market, the Company has never seen losses since its founding.

② “Creating,” “Proposing,” “Providing”

“Creating”

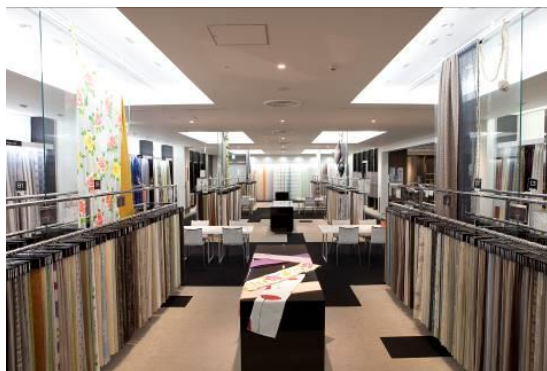
While the actual manufacturing of products is not conducted in-house, Sangetsu performs the planning, design and development functions internally. The previous generation of Sangetsu management made active investments for “unique designs,” one of the three principles of the Company. 25 in-house designers develop new and original versions of products based upon numerous basic designs. The cultivation of designers responsible for various products is done through participation in foreign exhibitions, communication with marketing staff, and discussions with outside design consultants as part of their on-the-job training. Furthermore, Sangetsu maintains a policy of actively taking the perceptions and opinions of younger designers and staff into consideration. Sangetsu also boasts of an overwhelming number of products of about 13,000 that far exceeds the number of products of its competitors. In addition, the Company conducts revisions of its products on a regular basis every 2 to 3 years with more than 30 types of catalogs, which far surpass those of its competitors. The product lineup of Sangetsu is composed of about 12,000 kinds of products, boasting unrivaled variety. As another outstanding characteristic, the company offers about 30 kinds of sample books, which are revised at intervals of 2 or 3 years.



(Source: Sangetsu)

“Proposal based sales marketing”

Nearly one third of all employees or some 450 work in marketing functions at Sangetsu, the largest marketing function within the industry. These marketing staffs are assigned to 61 offices located throughout Japan and conduct proposal-based marketing to clients. Sangetsu also staffs its 9 showrooms with 45 employees. In addition, about 40 interior designers create design boards that combine samples of various products for customers to use when choosing interior products. This high level of proposal-based marketing capability is unmatched within the industry and sets Sangetsu apart from its competitors.



(Source Sangetsu)

“Distribution system”

As mentioned earlier in this report, Sangetsu normally maintains inventories of all of its products so that they can be provided on a “Just-in-Time” basis using their nationwide distribution network. However, the Company is required to conduct speedy processing techniques as product orders are placed so that loss rates can be limited to avoid the maintenance of excess inventories and reduced efficiencies. Generally, wallcoverings are produced in rolls as long as 50 meters, and Sangetsu cuts these rolls into shorter segments when orders are placed for shipment. The remaining segments of wallcovering are then cut to match other orders to eliminate losses. This type of custom-made cutting technology has been cultivated over the long years of experience in the interior decorating business and is an important factor that differentiates Sangetsu from its competitors.



(Source Sangetsu)

2. First Half of Fiscal Year March 2018 Earnings Overview

(1) Earnings Overview

(Units: ¥mn)

	1H FY3/17	Share	1H FY3/17	Share	YY Change	Divergence from Est.
Sales	64,989	100.0%	75,503	100.0%	+16.2%	+0.7%
Gross Income	19,382	29.8%	23,320	30.9%	+20.3%	-0.8%
SG&A	15,824	24.3%	20,526	27.2%	+29.7%	-1.8%
Operating Income	3,558	5.5%	2,794	3.7%	-21.5%	+7.5%
Ordinary Income	3,964	6.1%	3,176	4.2%	-19.9%	+9.5%
Net Income	2,869	4.4%	2,033	2.7%	-29.1%	+1.7%

Sales grew, but profit declined due to the increase of selling, general and administrative expenses. Sales and profit exceeded the respective initial estimates.

Sales were ¥75.5 billion, up 16.2% year on year. The interior and exterior businesses grew, and the sales of Koroseal, which was acquired in the previous term, and Fairtone, which was reorganized into a subsidiary, contributed.

Gross profit rose 20.3% year on year, exceeding the growth rate of sales, and gross profit rate increased 1.1% year on year, but selling, general and administrative expenses augmented 29.7% year on year due to the posting of selling, general and administrative expenses of the above 2 companies, the development of distribution facilities, the preparation for the reconstruction of mission-critical systems, the increases in personnel and distribution costs, the rise in goodwill amortization for new consolidated subsidiaries, etc. Then, operating income dropped 21.5% year on year.

Both sales and profit exceeded the respective initial estimates.

Profit dropped due to the investment in structural reform and functional enhancement, but the company thinks that its performance of business, including the product development, selling skills, and distribution function, has improved steadily.

In addition, through overseas business expansion, the collaboration among Japan, the U.S., and China in product development and procurement is progressing.

(2) Business Segment Trends

(Units: ¥mn)

	1H FY3/17	Share	1H FY3/18	Share	YY Change	Divergence from Est.
Sales						
Interior	55,715	85.7%	57,649	76.4%	+3.5%	+0.8%
Wallcoverings	27,480	42.3%	28,248	37.4%	+2.8%	-
Floorings	19,560	30.1%	20,224	26.8%	+3.4%	-
Fabrics	3,640	5.6%	3,621	4.8%	-0.6%	-
Others	5,010	7.7%	5,554	7.4%	+10.7%	-
Exterior	7,254	11.2%	7,453	9.9%	+2.7%	+0.2%
Lighting	2,051	3.2%	1,791	2.4%	-12.7%	-11.7%
Overseas	-	-	8,771	11.6%	-	+5.4%
Adjustments	-33	-	-163	-	-	-
Total	64,989	100.0%	75,503	100.0%	+16.2%	+0.7%
Operating Income						
Interior	3,365	6.0%	2,499	4.3%	-25.7%	+19.6%
Exterior	203	2.8%	240	3.2%	+18.0%	+9.2%
Lighting	-4	-	-44	-	-	-
Overseas	-	-	168	1.9%	-	-45.7%
Adjustments	-6	-	-69	-	-	-
Total	3,558	5.5%	2,794	3.7%	-21.5%	+7.5%

* Share of operating income is the same as the operating income margin. The fabric category of sales includes both curtains and upholstery.

Since an overseas business segment has been added, increasing the number of segments to 4, the results for 2Q of the term ended Mar. 2017 are indicated based on the new segment classification.

① Interior Business

Sales grew, while profit dropped.

<Wallcovering Materials>

Sales increased. The sales promotion with “FAITH,” a book of certified fireproof wallcovering samples, published in Feb. 2017, targeting the non-housing field paid off, and the products were adopted by hotels, accommodation facilities, etc. The company also held “Sangetsu Wallpaper Design Awards 2017,” attracting many applicants, and announced the winning designs in Aug. Like this, Sangetsu concentrated on brand development to perform “Joy of Design.”

<Flooring Materials>

Sales increased. Sangetsu published a sample book of carpets in Jun. 2017, and a sample book of floor tiles in Sep. and then engaged in active PR activities targeting design offices and coordinators through exhibitions, etc. The company received the Good Design Award 2017, for “Flotex,” a high-tech textile which has ultrahigh-density pile structure, and vinyl flooring properties such as strong, easy cleaning.. Then, the company made efforts to develop and enrich new products.

<Fabric Materials>

Sales declined. In Jul. 2017, Sangetsu published “STRINGS,” a comprehensive sample book selecting good raw materials and high-quality products, and “Simple Order,” a fabric collection of easy order system which composed of the same price fabrics.. The company held a product rollout at 30 places nationwide, to popularize products in the market. The performance of curtains for contract facilities and upholsteries, which were promoted with the dedicated marketing system, was healthy.

<Others>

Sales grew. The performance of Fairtone Co., Ltd, which operates the installation system and the fees for installation work are included.

② Exterior Business

Sales and profit increased.

As the competition with other companies became fierce, Sangetsu redeveloped the marketing management system and continued the improvement of installation capability. As the demand for “comfort” and “convenience” grew, the exterior products for facades for designing the entire appearance of an entrance and items, such as delivery lockers, contributed to sales. Business performance was healthy, as the company received large-scale orders in the Kanto region, expanded transactions with existing clients, and increased sales from installation work.

③ Lighting Business

Sales dropped, and loss augmented.

In the contract market, which is the target of the company’s intensive strategy, Sangetsu conducted a broad range of marketing activities, including the collaborative product development with leading design offices and sales promotion of road lamps. However, it struggled amid the fierce price-cutting competition.

④ Overseas Business

Koroseal, which targets the North American market, carried out marketing activities to meet the new needs in the market, by selling products that have a traditional Japanese taste, such as Japanese paper, and “Reatec,” an adhesive-mounted decorative film. Sales grew 5.1% from the previous year, in which Koroseal had not yet been acquired, and the marketing system in North America was improved and fortified, but sales growth rate was sluggish.

Sangetsu (Shanghai), which targets the Chinese market, is steadily cultivating the market, as the local wallcovering sample book attracted customers and the number of orders has been increased such as medical facilities.

(3) Financial Conditions, Cash Flow, CCC**◎ Summarized Balance Sheet**

(Units: ¥mn)

	End 3/17	End 9/17		End 3/17	End 9/17
Current Assets	96,200	88,255	Current Liabilities	32,578	29,478
Cash, Equivalents	25,945	19,291	Payables	22,910	20,561
Receivables	48,491	45,923	Noncurrent Liabilities	22,247	21,471
Marketable Securities	1,800	2,011	Retirement Benefits	12,719	12,523
Inventories	17,446	18,861	Total Liabilities	54,825	50,950
Noncurrent Assets	67,517	68,813	Net Assets	108,892	106,119
Tangible Assets	35,103	35,034	Shareholders' Equity	108,775	105,845
Intangible Assets	13,484	12,727	Treasury Stock	-2,023	-3,042
Investments, Others	18,928	21,051	Total Liabilities, Net Assets	163,717	157,069
Total Assets	163,717	157,069	Capital Adequacy Ratio	66.5%	67.5%

Due to the decline in cash, equivalents, etc., current assets dropped 7.9 billion yen from the end of the previous term. Noncurrent assets grew 1.2 billion yen from the end of the previous term, because of the increase in investment securities. Accordingly, total assets decreased 6.6 billion yen from the end of the previous term to 157 billion yen. Current liabilities dropped 3.1 billion yen from the end of the previous term. Due to the shrinkage of long-term debts, noncurrent liabilities decreased 700 million yen from the end of the previous term, and total liabilities dropped 3.8 billion yen from the end of the previous term to 50.9 billion yen. As retained earnings decreased and treasury stock increased, net assets declined 2.7 billion yen from the end of the previous term to 106.1 billion yen. Capital adequacy ratio rose 1.0% from the end of the previous term to 67.5%.

◎Cash Flow

(Units: ¥mm)

	1H FY3/17	1H FY3/18	YY Change
Operating Cash Flow	8,186	968	-7,218
Investing Cash Flow	-9,937	-2,451	+7,486
Free Cash Flow	-1,751	-1,483	+268
Financing Cash Flow	-3,932	-4,947	-1,015
Cash, Equivalents	22,288	16,763	-5,525

The surplus of operating CF shrank due to the decline in payables, etc. The deficit of investing CF dropped because there was no purchase of securities and the purchase of property, plant and equipment decreased. As a result, free CF improved. The deficit of financing CF augmented due to the increase in purchase of treasury shares. The cash position degraded. The total amount, including time deposits whose deposit term exceeds 3 months and highly liquid investment securities, declined from 29.7 billion yen at the end of Mar. 2017 to 24.3 billion yen at the end of Sep. 2017. The amount of 25 to 30 billion yen is considered appropriate from the viewpoint of stability, and it has decreased to around the lower limit.

◎CCC

	End of Sep. 2015	End of Sep. 2016	End of Sep. 2017
Receivables turnover	112.5	112.6	108.3
Inventory assets turnover	42.0	42.5	52.5
Payables turnover	49.2	71.3	68.6
CCC	105.3	83.8	92.2

Since many sample books were published, stocks of old and new products increased, inventory assets turnover rose, and payables turnover dropped due to the reduction in procurement for decreasing inventory. Accordingly, CCC increased by 8.4 days from the end of the same period of the previous year.

(4) Major Activities**1. Establishment, integration, and dismantlement of distribution facilities**

In May 2017, Sangetsu started operating Chubu Logistics Center (LC) II in Inazawa City, Aichi Prefecture. The operation of the delivery system based on this center and the adjoining Chubu LC I began.

In August, the stocks of the floor tile and Reatec, which is one of major products, were transferred from the manufacturer's warehouse to Chubu LC III.

In Oct., the stocks of products were temporarily transferred from the manufacturer to a warehouse in Shinagawa, and curtain fabric was directly brought to the sewing factory in Namegata City, Ibaraki Prefecture, to streamline distribution.

As for the distribution system in the Tokyo Metropolitan Area, which is the primary issue to be solved, the company plans to integrate two facilities in Shinagawa and Katsushima into a new distribution center in Heiwajima.

2. Product development

The company published 8 sample books, including "2017-2019 Fine" for wallcovering materials, "2017-2019 Roll Carpets" for flooring materials, and "STRINGS 2017-2019" for curtains. In addition, the company received the Good Design Award 2017 for wallcovering and flooring materials.

3. Strengthening of quality management

Sangetsu established a product testing laboratory in Chubu LC II in Inazawa City. By installing a variety of testing equipment and hiring 4 operators, the company developed a system for evaluating new technologies by conducting acceptance inspection, reproducing phenomena about which customers complained, grasping the effects of countermeasures, and checking the stability and continuity in case manufacturers release new products.

The operation of a necessary and sufficient system for quality control as a fables manufacturer has been started.

4. Restructuring of the selling system

Sangetsu is developing a strategic marketing system for each layer of the value chain.

For improving flexibility in each market, the company established a residential marketing department, to strengthen the marketing system for house manufacturers and builders.

Inside the corporation-targeted marketing department, the company established Eastern Japan Reatec Section and Western Japan Reatec Section, which handle “Reatec,” a self-adhesive PVC decorative film whose profit rate is relatively high. Likewise, the company strengthened the system for selling products with high added value, which requires expertise and marketing capability, by increasing the staff of the upholstery division, which handles upholsteries.

5. Overseas business

(Koroseal)

It locally published 7,000 Reatec sample books for the U.S. to develop a system for selling “Reatec” in the U.S. for the purpose of enhancing the business synergy with the company. The strong effect on profit is expected.

In addition, it released traditional Japanese wallcovering made of woven fabric, foil, paper textile, etc., which are attracting attention also in the U.S.

Sangetsu(Shanghai)

The number of staff members was increased to establish an 8-member selling system.

After a local sample book introducing functional products was published, medical facilities, etc. adopted the products of Sangetsu, and sales in China are steadily growing.

The cooperation in product procurement began in Japan, the U.S., and China.

6. Acquisition of treasury shares

During the 2nd quarter, the company acquired 1.69 million treasury shares worth ¥3.3 billion, and retired 1.07 million shares, in accordance with the policy of retiring acquired shares swiftly.

The number of outstanding shares is 67 million, down about 13 million (16%) from 4 years ago.

3. Fiscal Year March 2018 Earnings Estimates

(1) Earnings Estimates

(Units: ¥mn)

	FY3/17	Share	FY3/18 Est.	Share	YY Change	Margin of Revision	Attainment Rate
Sales	1,356.4	100.0%	1560.0	100.0%	+15.0%	0.0%	48.4%
Gross Income	401.0	29.6%	480.0	30.8%	+19.7%	-2.0%	48.5%
SG&A	325.3	24.0%	419.0	26.9%	+28.8%	+1.2%	48.9%
Operating Income	75.7	5.6%	61.0	3.9%	-19.4%	-19.7%	45.9%
Ordinary Income	83.6	6.2%	68.0	4.4%	-18.7%	-16.0%	47.1%
Net Income	65.7	4.8%	45.0	2.9%	-31.5%	-18.2%	44.4%

*Estimates are those of the Company

Profit has been revised downwardly.

The full-year forecast for profit has been revised downwardly.

Sales are estimated to be ¥156 billion, up 15.0% year on year. Domestic and overseas sales are projected to be nearly equal to the respective initial estimates. The number of houses to be newly built is forecasted to decline slightly, but the company will enhance marketing activities for wallcovering and flooring materials in the non-housing field, and aim to increase sales by implementing new projects for sample books and releasing new products. The estimated sales growth of

¥20 billion will come from the sales increase of over ¥3.5 billion in the interior business, seeing the inclusion of Fairtone Co., Ltd. in the consolidation scope, and the sales increase of ¥17 billion in the overseas business, witnessing the inclusion of Koroseal in the consolidated profit-and-loss statement.

Operating income is estimated to be ¥6.1 billion, down 19.4% year on year and down ¥1.5 billion or 19.7% from the initial estimate.

The gross profit rates of the interior business and Koroseal have been revised. The selling, general and administrative expenses of the interior business is forecasted to be ¥240 million smaller than the initial estimate, while the selling, general and administrative expenses of the overseas business is projected to be ¥280 million larger than the initial estimate.

There is no change to the estimated dividend. The annual dividend is to be ¥55/share. The estimated payout ratio is 81.0%.

(2) Business Segment Trends

(Units: ¥mn)

	FY3/17	Share	FY3/18 Est.	Share	YY Change	Margin of Revision	Attainment Rate
Sales							
Interior	1,166.8	86.0%	1,202.0	77.1%	+3.0%	+0.3%	48.0%
Exterior	147.7	10.9%	150.0	9.6%	+1.5%	0.0%	49.7%
Lighting	42.3	3.1%	41.5	2.7%	-2.1%	-6.7%	43.1%
Overseas	0.1	0.0%	170.0	10.9%	-	+1.5%	51.6%
Adjustment	-0.8	-	-3.5	-	-	-	-
Sales, Total	1,356.4	100.0%	1,560.0	100.0%	+15.0%	0.0%	48.4%
Operating Income							
Interior	71.7	6.1%	57.0	4.7%	-20.6%	-9.5%	43.7%
Exterior	4.0	2.7%	4.5	3.0%	+11.8%	+2.3%	53.3%
Lighting	0.2	0.5%	0.0	0.0%	-	-	-
Overseas	-0.2	-	1.0	0.6%	-	-88.0%	160.0%
Adjustment	-0.0	-	-1.5	-	-	-	-
Operating Income, Total	75.7	5.6%	61.0	3.9%	-19.4%	-19.7%	45.7%

* Overseas: Sangetsu (Shanghai), Koroceal. Share of operating income is the same as operating income margin.

4. Interview with President Yasuda

We interviewed president Yasuda about the recent circumstances, the current situation of Koroseal, CSR activities, etc.

Q: “What is your evaluation on the recent circumstances?”

A: “The enhancement of product development capability and the improvement of the marketing system are paying off steadily.”

Currently, we are brushing up our product competitiveness and marketing capability.

As for product development, we produced new sample books reflecting our new price system, including “reasonable price setting while keeping a classy taste” and “one price,” and enriched our product lineup, including the sample book for non-housing wallcovering, which is a new series of our products, from the second half of the previous term to the first half of the current term.

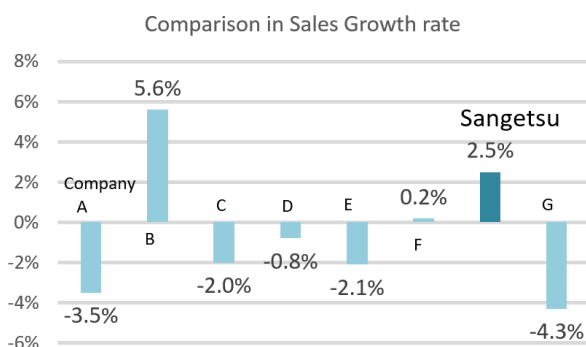
In addition, “Black Board,” a wallcovering on which you can draw with chalk like a blackboard, and “FLOTEX,” a new fiber flooring material that has the characteristics of a carpet and a hard flooring material together, received the Good Design Award 2017. We were able to develop products that could improve our added value and brand competitiveness.

The improvement of the marketing system is also progressing. In order to cultivate the non-housing market further, we established some sections for respective kinds of clients, including general contractors and architectural design offices,

inside the corporation-targeted marketing department, established Reatec Sections, which handle the highly profitable wallcovering material “Reatec,” and increased marketing staff members of the upholstery division.

These measures have been reflected in the results.

Since fiscal 2013, which witnessed the rush demand before the consumption tax hike, the nonconsolidated sales growth rate of our company (the existing interior business) has been as low as 0.2% for fiscal year ended Mar. 2015, 1.6% for fiscal year ended Mar. 2016, and 1.0% for fiscal year ended Mar. 2017, but it is as healthy as 2.5% for the first half of the current term, which is higher than those of competitors as a whole, and our share is expanding. It can be said that the enhancement of product development capability and the improvement of the marketing system are steadily paying off.



*The year-on-year sales growth rates for a period from Apr. to Sep. 2017 were compared. For the enterprises whose accounting period does not end in March, an approximate quarter is used.

(Produced by Sangetsu based on publicly available information)

Q: “How are your activities for inducing the synergetic effect with Koroseal after M&A?”

A: “As our communication has been deepened and the details of their business have become clear, our company is giving various proposals. Synergetic effects are being exerted little by little.”

We attend the bimonthly board meeting of Koroseal, and hold a television conference involving the responsible person of each section when necessary, to deepen our communication.

At first, we only received reports, but as the details of their business became clear, we joined their discussions, giving various proposals.

For products, the staff of Koroseal visit Japan, to actually see our products, and started selling traditional Japanese products, including foil and paper textile. Like this, synergy is being exerted gradually.

At the beginning of next year, our corporate group’s public relations magazine will be published. As the system covering the three regions: Japan, the U.S., and China has been completed, we will publish a PR magazine in Japanese and English twice a year, to send various messages and facilitate the understanding inside our corporate group.

Q: “Please tell us about your CSR activities.”

A: “As the CSR activities for the entire supply chain are important, we produced the CSR guidelines for business partners of Sangetsu. We pay a lot of attention to CSR activities unique to Sangetsu, too.”

With the aim of achieving sustainable growth, we uphold the policies regarding ESG and CSR in our mid-term management plan, but the CSR activities in the entire supply chain are important, and it is indispensable to cement our cooperation and collaboration with business partners.

Then, in Oct. 2017, we produced the “CSR guidelines for the business partners of Sangetsu” to clearly state the requests to business partners.

These guidelines are composed of “A. Observance of laws, regulations, and social norms; and fair, equitable corporate activities,” “B. Promotion of sound business operation,” “C. Provision of excellent products and services,” “D. Care for global environment,” “E. Active promotion of social contribution and eradication of antisocial forces,” “F. Care for human rights, labor safety and health,” “G. Information disclosure and promotion of communication,” and “H. Check and



monitoring of the situations of confidentiality and information security.” There were enacted with reference to the Global Compact of the United Nations, the GRI Guidelines, etc.

As for CSR and ESG, I think that “Sangetsu’s unique features” are important.

We engage in various activities, among which “the support for the refurbishment of welfare facilities for pupils” can be said to be a CSR activity that characterizes our company.

By utilizing our interior materials (wallcovering, flooring materials, curtains, and upholsteries) and installation skills, we support the refurbishment of the interior spaces of welfare facilities for children throughout Japan, so that more people will be able to enjoy comfortable living space.

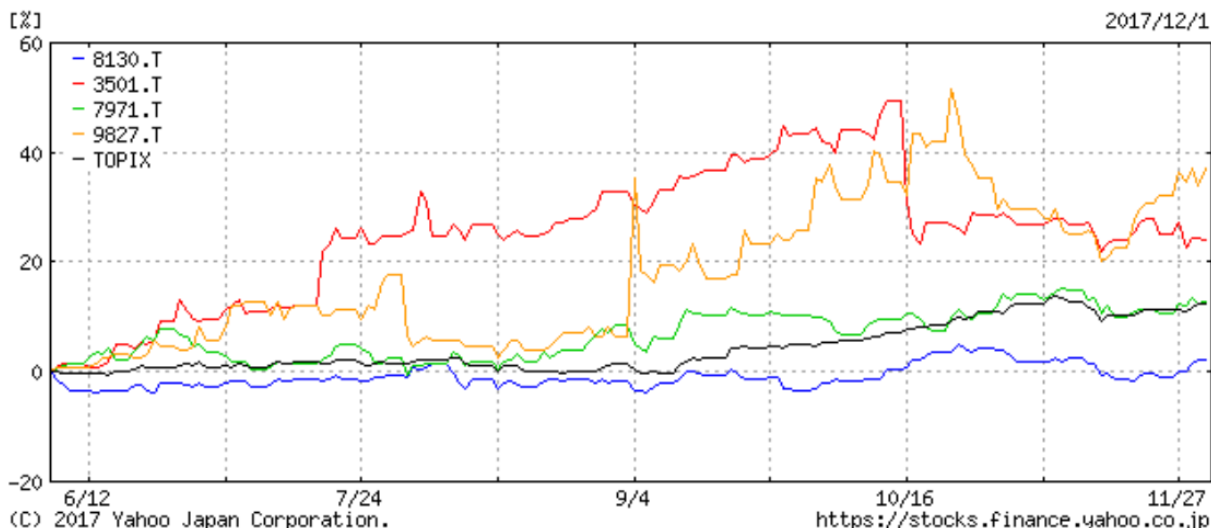
In cooperation with National Council of Orphanages, we have refurbished the interior spaces of 21 facilities around Japan till March 2017.

The participating employees feel pleasure to see children of orphanages rejoicing, and this activity provides non-marketing staff, who do not usually visit the sites where our products are installed, with an opportunity to deepen their understanding of our jobs.

5. Conclusions

The product competitiveness and marketing capability of Sangetsu have been improved steadily, and the results for the first half exceeded those in the past several years and those of competitors. The full-year forecast for profit has been revised downwardly, because of the revision to the earnings forecast of Koroseal, but the company meets the demand in the non-housing market steadily.

However, its share price remains low, compared with the market trend and competitors’. We would like to pay attention to how much the company will further earn sales and profit in the third and fourth quarters.



*Relative share prices over the past 6 months. Blue: Sangetsu, Red: Suminoe Textile, Green: TOLI, Yellow: Lilycolor, Black: TOPIX

<Reference 1:Medium Term Business Plan “PLG 2019” (2017-2019) Overview>

◎Vision

Based upon the “Corporate Creed: Integrity” and “Brand Philosophy: Joy of Design”, Sangetsu has created its Medium Term Business Plan “PLG 2019” with the goal of establishing strong roots within both the Japanese and overseas markets by leveraging the Group’s “diversified product lineup and highly specialized knowledge”.

“P” stands for personal and reflects the highly professional employees that helps it to link to people outside of the Company.

“L” stands for local and refers to the strong positioning in local markets.

“G” stands for global and represents Sangetsu’s global lineup of products and designs.

◎ Targets for the Final Year of “PLG 2019”

Target	ROE: 8~10%
Associated	• Sales: ¥165.0~¥175.0 billion
Targets	• Net Income: ¥8.0~¥10.0 billion
	• Capital: ¥105.0~¥100.0 billion
	• CCC: 75~60 days

In line with the previous Medium Term Business Plan, Sangetsu will focus upon raising its capital efficiency as a common goal shared with all of its stakeholders. The details of its sales targets are outlined below.

Interior Business	¥122.0~¥126.0 billion
Exterior Business	¥15.5~¥16.0 billion
Lighting Business	¥5.0 billion
Overseas Business (NA, China, SE Asia)	¥22.5~¥28.0 billion
Total Sales	¥165.0~¥175.0 billion

◎Themes

As a basic policy, Sangetsu has identified the following measures as part of its strategy of “strengthening the function and expanding geographic sales of the interior materials business (planning, procurement, logistics, sales)”.

(1) Business Strategy for Growth

① Realizing Stable Growth in Earnings through Expansion and Strengthening of the Value Chain Activities Realm in Japan as a Fundamental and Stable Source of Revenues

Sangetsu will promote “development and procurement of materials and raw materials through alliances with superior suppliers within and outside of Japan”, “strengthen interior coordinator proposal and installation capability”, “fortify alliances and cooperation with dealers” and “conduct reviews of internal sales structure”.

② Strengthen Activities in Overseas Markets with High Growth Potential, Fortify Product Lineup and Functionality to Promote Geographic Expansion

Local logistic and sales structures will be strengthened in important markets including North America, Asia and others.

③ Create a Global Product Planning, Procurement Structure to Promote Global Designs, Cultivate Global Product

Sangetsu will strengthen cooperation with local facilities in Japan, United States and China for the implementation of “cooperation between Sangetsu globally and superior overseas product manufacturers” and “efforts to promote joint marketing of products and deployment of European and Japanese designs”.

④ **Strengthen Consolidated Management Structure to Pursue Comprehensive Synergies, Integrated Management of Affiliates Responsible for Special Markets, Functions and Geographic Regions**

A management structure system will be introduced to maximize business synergies and conduct clearly controlled earnings management, and to act as a surveillance support structure for the overall Group.

A consolidated management division will be newly established with authority to oversee the entire Group.

In addition, regularly scheduled monitoring and communications will be introduced to increase the overall effectiveness of the Group.

⑤ **Business Format Conversion Trials to be Conducted with a View to the New Medium Term Business Plan**

In order to pursue synergies and leverage business resources and the characteristics of each Group company, Sangetsu will conduct trials and promote business format conversion.

(2) **Strengthen Human Resources**

In order to cultivate real professionals, all of the Sangetsu Group companies will implement measures to 1) cultivate professional human resources, 2) conduct strict adherence to performance, 3) promote diversity, 4) reform work styles and 5) maintain a healthy management structure.

(3) **Strengthen the Earnings Management Structure**

① **Strict Control, Reduction of Sales, General and Administrative Expenses**

A chief cost controller will be appointed, and sales, general and administrative expense control methodologies will be facilitated. Also, the total number of staff of the parent company Sangetsu will be reduced.

② **CCC Management Will be Introduced for All Group Companies**

Targets for return on equity and CCC management through Dupont analysis on a consolidated basis will be promoted.

③ **Sangetsu to Clearly Define and Promote Management Benchmarks for Each Business, Company**

Targets for sales and gross income by employee will be established for each of the Group companies.

(4) **(ESG/CSR Policies)**

① **E: Environment**

☆The Sangetsu Group will assess the environmental burden of its overall businesses to create a structure that seeks to achieve sustainability and prevent global warming.

- A plan to achieve CO2 zero emissions will be created.

② **S: Society**

☆Provide support to workers including those who are socially vulnerable to foster diversity of each Group company.

- Retain women in 15% of all management positions (Actual 10.6% as of FY3/17).
- Retain workers with disabilities as 3% of the total workforce (Currently 2.3%).

☆Promote Corporate Social Responsibility in Supply Chain Function

☆Expand Societal Contribution Activities of Employees

- Provide support for interiors of childcare welfare facilities (Target: Over 20 facilities per year)

③ **G: Governance**

☆Strict implementation of compliance, maintain and improve transparency of corporate governance activities

- Improve communications with shareholders, investors, employees, business partners and all other stakeholders

(5) Capital Policy**① Financial Policy for Improvement of Capital Efficiency**

Sangetsu will continue to conduct share buybacks and stable increases in dividend payments with a goal of reducing its net worth to between ¥100.0 and ¥105.0 billion (¥108.8 billion as of FY3/17) with a view to conditions within the capital markets.

② Shareholder Return Policy of the Medium Term Business Plan

- Achieve over 100% total consolidated shareholder return ratio over a three year period
- Conduct stable increases in dividends over the long term
- Conduct share buybacks flexibly and in response to stock market conditions

We provide details of our capital procurement and capital allocation below.

Capital Creation, Sourcing		=	Capital Allocation	
Cash, Equivalents as of End FY3/17	¥30.0 billion		LT Investments	¥10.0~¥25.0 billion
Operating CF (Medium Term Plan)	¥31.0~¥38.0 billion		Shareholder Returns	¥25.0~¥33.0 billion
Debt (Medium Term Plan)	¥0~¥22.0 billion		Term End Cash, Equivalents	¥25.0~¥30.0 billion
Total	¥61.0~¥90.0 billion		Total	¥60.0~¥88.0 billion

<Reference 2: Regarding Corporate Governance>**◎ Organization type and the composition of directors**

Organization type	Company with audit and supervisory committee
Directors	10 directors, including 4 external ones

◎ Corporate Governance Report

Last modified: March 28, 2017.

<Basic policy>

Our corporate creed is “Integrity,” and we aim to foster good relationships with all stakeholders to improve our corporate value and grow stably on a long-term basis.

To attain these goals, we consider that it is essential to improve our corporate governance based on the transparency, swiftness, and efficiency of business administration.

In June 2015, our company was reorganized from a company with the board of auditors to a company with an audit committee, with the aim of animating discussions from the viewpoint of shareholders by strengthening the auditing and supervising functions of the board of directors and increasing the ratio of outside directors.

Under this governance system, we will make efforts to further improve our corporate value.

<Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)>

The company implements each principle of the Corporate Governance Code.

<Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)>

Principles	Disclosure contents
【Principle 1-4 So-called strategically held shares】	1. Our company believes that cooperative relationships with a multitude of companies are essential in the processes of manufacturing, development, sale, construction, and distribution of our products in order to constantly expand our Interior Business and Housing-related

	<p>Business. We make decisions on shares to strategically hold for the medium- to long-term by comprehensively judging from various perspectives, considering companies with which we should newly forge relationships and companies with which we should continue to strengthen relationships as our clients for business strategies. In our company, strategically held shares are discussed and reviewed every year at a meeting of the board of directors.</p> <p>2. Attitude toward exercise of voting rights</p> <p>Our company respects the management policy of every company which we invest in and exercises our voting rights as needed after having interaction and communication through a wide range of channels and making comprehensive judgment as to various aspects including medium- to long-term improvement of such companies, their attitude to shareholder return, and their efforts at corporate governance and CSR.</p>
<p>【Principle 5-1 Policy on constructive communication with shareholders】</p>	<p>Aiming to establish good relationships with shareholders by encouraging constructive communication with them and striving for information disclosure and interaction with high transparency, our company proactively performs IR activities as follows:</p> <ul style="list-style-type: none"> • In our company, the Chief Executive Officer manages the implementation of IR activities. • Our company has established the Public Relations and IR Department for rational communication with our shareholders and swift IR activities. • The Chief Executive Officer, the executive in charge, and the Public Relations and IR Department carry out interviews with both Japanese and overseas institutional investors, and analysts, upon their request. • Although the Public Relations and IR Department is primarily in charge of IR activities, other departments including the Finance and Accounting Department, Management Audit Department, and General Affairs Department cooperate with the Public Relations and IR Department to provide information with higher effectiveness. • Our company announces our financial statements, arranges financial results briefings for investors, and participates in IR events for individual investors hosted by stock exchanges and the like to hold explanatory meetings. • Our company publishes on our website explanatory material we used at the above-mentioned events and the like (the English-version of such material is also published as needed). • Our company creates an integrated report for every fiscal year and publishes such reports both in Japanese and in English through our website. • Our company conducts activities which contribute to enhancement of our shareholders' understanding about various items, including our management strategy, business environment, business progress, and financial information, through direct communication and material published on our website. • Our company responsibly utilizes opinions obtained from interaction with our shareholders and investors for administrative improvement

Bridge Report



	<p>through The Public Relations and IR Department.</p> <ul style="list-style-type: none"> • Our company properly deals with the management of insider information in accordance with the regulations for the management of insider trading (regulations for the prevention of insider trading), by assiduously managing unpublished material facts.
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