

## 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	<a href="https://www.sangetsu.co.jp/english/ir/index.html">https://www.sangetsu.co.jp/english/ir/index.html</a>	

## — Stock Information —

Share Price	Shares Outstanding (excluding treasury shares)		Market Cap.	ROE (actual)	Trading Unit
¥2,142	62,607,008 shares		¥134,104 million	4.2%	100 shares
DPS (Est.)	Dividend Yield (Est.)	EPS (Est.)	PER (Est.)	BPS (actual)	PBR (actual)
¥56.00	2.6%	¥72.06	29.7x	¥1,648.48	1.3x

\* Stock price as of closing on December 13, 2018. Number of shares issued are from the end of the most recent quarter.

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 2013	123,150	8,020	8,393	4,806	60.26	39.00
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	156,390	5,033	5,698	4,514	68.97	55.50
March 2019 Est.	164,000	6,000	6,600	4,600	72.06	56.00

\* DPS of March 2013 included a commemorative dividend of ¥3. \* Estimates are those of the Company. \*A 2-for-1 stock split was conducted on April 1, 2015. EPS and DPS are calculated retroactively considering the split. \*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 2019 earnings overview and more.

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## Key Points

•The sales for the first half of the term ending March 2019 remained flat at ¥75.9 billion from the same period of the previous fiscal year. The demand for interior materials was sluggish in both residential and non-residential fields. Goodrich, which was acquired in December 2017, contributed to the increase in sales of the overseas business. Selling, general and administrative expenses augmented 3.2% year on year due to the selling, general and administrative expenses of Goodrich and the increase in personnel and distribution costs, but they were offset by increased sales. Operating income rose 3.3% year on year to ¥2.5 billion. Sales fell short of the initial estimate as the company had to collect its core sample books and redistribute them afterwards since there was a problem in stable supply of some parts of wallcovering materials, which led to confusion. On the other hand, profit exceeded the initial estimate as the posting of some sample book costs has been delayed until the second half of the fiscal year.

•The earnings estimates for the fiscal year ending March 2019 remains unchanged. Sales are estimated to be ¥164 billion, up 4.9% year on year. Gross profit is expected to increase 9.3% year on year, exceeding the growth rate of sales. Operating income, which will absorb the increase in the selling, general and administrative expenses including the selling, general and administrative expenses of Goodrich and logistics costs, are forecasted to be ¥6 billion, up 19.2% year on year. The dividend is estimated to be ¥56/share, up ¥0.5/share year on year. The estimated payout ratio is 77.7%.

•Unfortunately, the sales of wallcovering materials were sluggish and fell below the estimate, due to a problem regarding sample books. However, the market shares of products, such as flooring materials, curtains and upholstery, have certainly expanded, and the company is still leading the industry.

The system, which has been in operation since October, caused confusions in the beginning, but they have almost been resolved. Also, it is the superior business scale and financial power of the company that allowed it to establish such a comprehensive system.

We believe that completion of the new system and start of its operation will contribute to the expansion of the business in the medium-to-long-term, making the company sustainable. Moreover, it is the company's business scale that made distributors agree to establish a joint delivery network, which started its operation in the Tohoku area. Although the financial results were not favorable as the company admits, it should be noted that its competitive edge over others remains, and many measures have been implemented based on that advantage.

## 1. Company Overview

Sangetsu Corporation is the largest among all Japanese trading companies specializing in wallcoverings, flooring materials, 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 group is composed of eight companies including “Sangetsu Okinawa Corporation,” which sells interior materials in the Okinawa area, Sungreen Co., Ltd., a dedicated distributor of exterior products, Yamada Shomei Lighting Co., Ltd., a planner, designer, manufacturer and distributor of lighting equipment, 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., which seeks to grow orders on the back of increases in installation capabilities, “Sangetsu Vosne Corporation,” specialized in curtain fabrics, and “Goodrich Global Holdings Pte. Ltd.,” the company selling interior materials in Southeast Asia.

## <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, partitioning screens, 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>

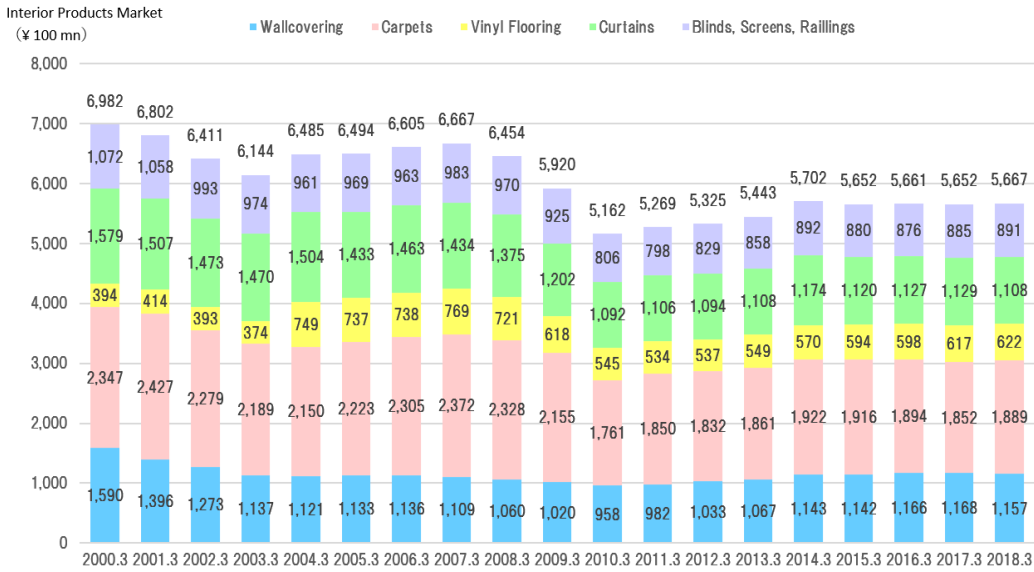
- Brand statement “Joy of Design”
- Brand purpose “We provide the joy of design to those who create new spaces.”

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 wallcoverings and flooring materials 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.

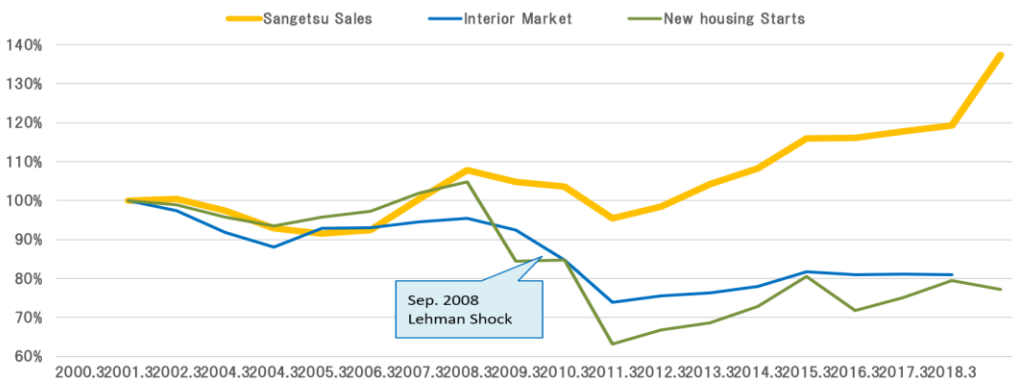


\* Nippon Interior Fabrics Association "2017 General State of the Interior Fabrics Business and Market Size Determination"

(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.

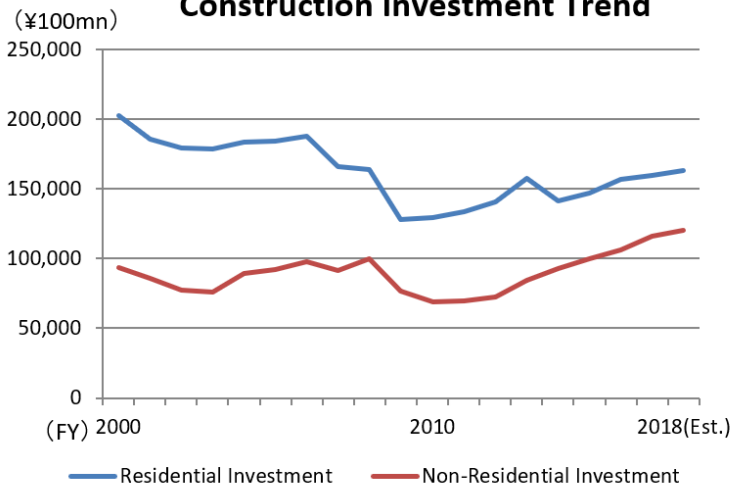


\* FY1999=100

This strong recovery is attributed to Sangetsu’s efforts to cultivate business in the non-residential realm in addition to M&A and private housing.

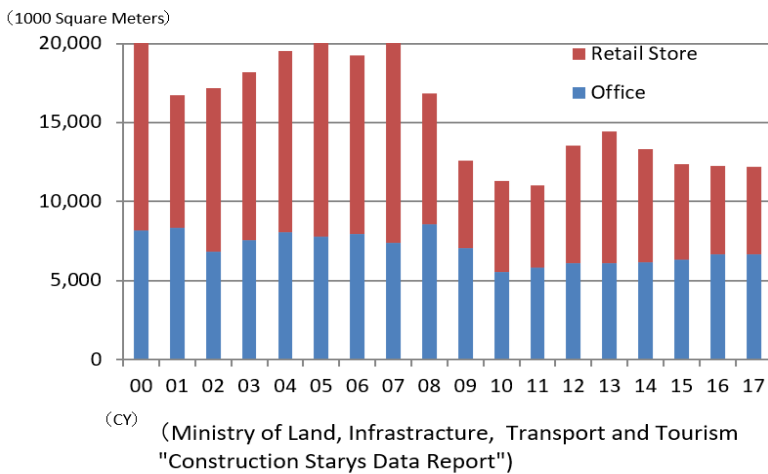


### Construction Investment Trend



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

### New Constructed Office, Retail Store Floor Space



(CY) (Ministry of Land, Infrastructure, Transport and Tourism "Construction Startys Data Report")

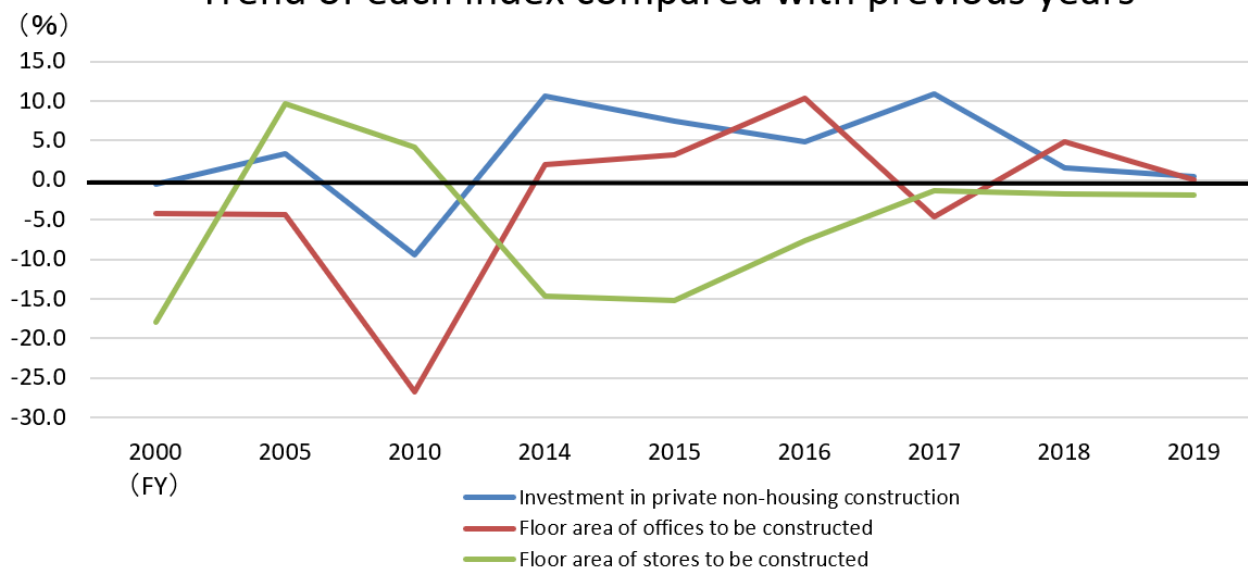
According to “Outlook for Investment in Construction” released by the Ministry of Land, Infrastructure, Transport and Tourism, the investments in private housing and non-housing constructions have been recovering since the bankruptcy of Lehman Brothers, but the estimated investment in private housing 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. 25, 2018), the year-on-year growth rate of investment in private non-housing construction has been as healthy as 10.6% for fiscal year 2014, 7.4% for fiscal year 2015, 4.8% (estimate) for fiscal year 2016, and 10.9% (estimate) for fiscal year 2017 but is forecasted to become as sluggish as 1.5% (estimate) for fiscal year 2018 and 0.4% (estimate) for fiscal year 2019.

The growth rate of the floor area of offices to be constructed is as healthy as 10.3% for fiscal year 2016 but minus 4.6% for fiscal year 2017, but recovers to 4.8% (estimate) for fiscal year 2018, but decreases again to 0.0% (estimate) for fiscal year 2019. That of stores will continue to be lower than that in the previous year like it has been since fiscal 2014.

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.

## Trend of each index compared with previous years



\* Made by the company according to “Outlook for Investment in Construction based on a Construction Economy Model” released by Research Institute of Construction and Economy (in Oct. 2018).

\*As for investment in private non-housing construction, figures from 2016 are estimates.  
As for floor area, figures from 2018 are estimates.

### ◎ 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	-0.4%	3,100	+37.9%	3.2%	2,105	10.9	0.6	3.2%
4206	Aica Kogyo Co., Ltd.	185,000	+13.0%	20,800	+8.9%	11.2%	254,650	19.0	2.1	10.1%
4215	C.I. TAKIRON Corporation	150,000	+1.5%	8,600	+2.8%	5.7%	62,804	10.5	0.9	9.6%
4224	Lonseal Corporation	20,540	-0.7%	1,700	-20.2%	8.3%	8,274	6.8	0.5	11.1%
5956	TOSO COMPANY,LIMITED	22,800	+1.5%	720	-9.5%	3.2%	5,269	12.0	0.5	4.4%
7971	TOLI Corp.	91,500	+0.2%	2,350	-33.3%	2.6%	18,444	12.3	0.5	7.2%
7989	TACHIKAWA CORPORATION	41,400	+3.2%	3,750	+2.9%	9.1%	23,817	10.2	0.7	7.0%
<b>8130</b>	<b>Sangetsu Corporation</b>	<b>164,000</b>	<b>+4.9%</b>	<b>6,000</b>	<b>+19.2%</b>	<b>3.7%</b>	<b>137,234</b>	<b>30.4</b>	<b>1.3</b>	<b>4.2%</b>
9827	Lilycolor Co., Ltd.	33,900	+2.5%	180	+72.3%	0.5%	2,225	111.0	0.4	-5.2%

\* Estimates are from those of the respective companies.

\* Market capitalization, PER and PBR are based upon the closing share price of each stock on December 3, 2018.

\*ROE is based on the previous year.

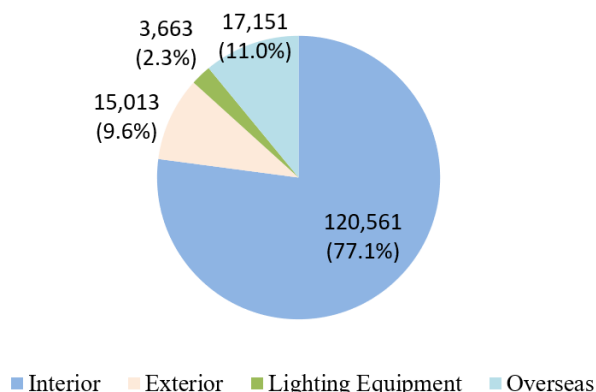
### <Business Description>

The main businesses include planning, development, and sales of wallcoverings, flooring materials, 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. Sangetsu also provides exterior products and lighting fixtures through its subsidiary. In addition, the company has been expanding its business overseas through 3 consolidated subsidiaries including Goodrich, which has become its consolidated subsidiary in the current fiscal year ending March 2019.





**Sales by Business Segment**  
(FY3/18, Unit: ¥mn)



\*Sales to external clients

① “Interior Business”

(FY3/18: Sales and Operating Income of ¥120.561 and ¥5.752 Billion)

◎ Main Products

<b>Wallcoverings</b>	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.
<b>Cushion Vinyl Sheet</b>	Sheet formed flooring 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.
<b>Vinyl Sheets</b>	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 hygiene, 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.
<b>PVC Floorings</b>	Sheet formed flooring materials used in medical and welfare institutions, and educational institutions. Uniquely manufactured with design patterns printed on entire flooring materials 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.
<b>Luxury Vinyl Tiles</b>	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.
<b>Carpets, Carpet Tiles</b>	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.
<b>Curtains</b>	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.

Sangetsu boasts a diverse product lineup with about 12,000 different products in total. There are about 4,200 different wallcovering products alone. Sample books are updated every two years (those for curtains are updated every three years),

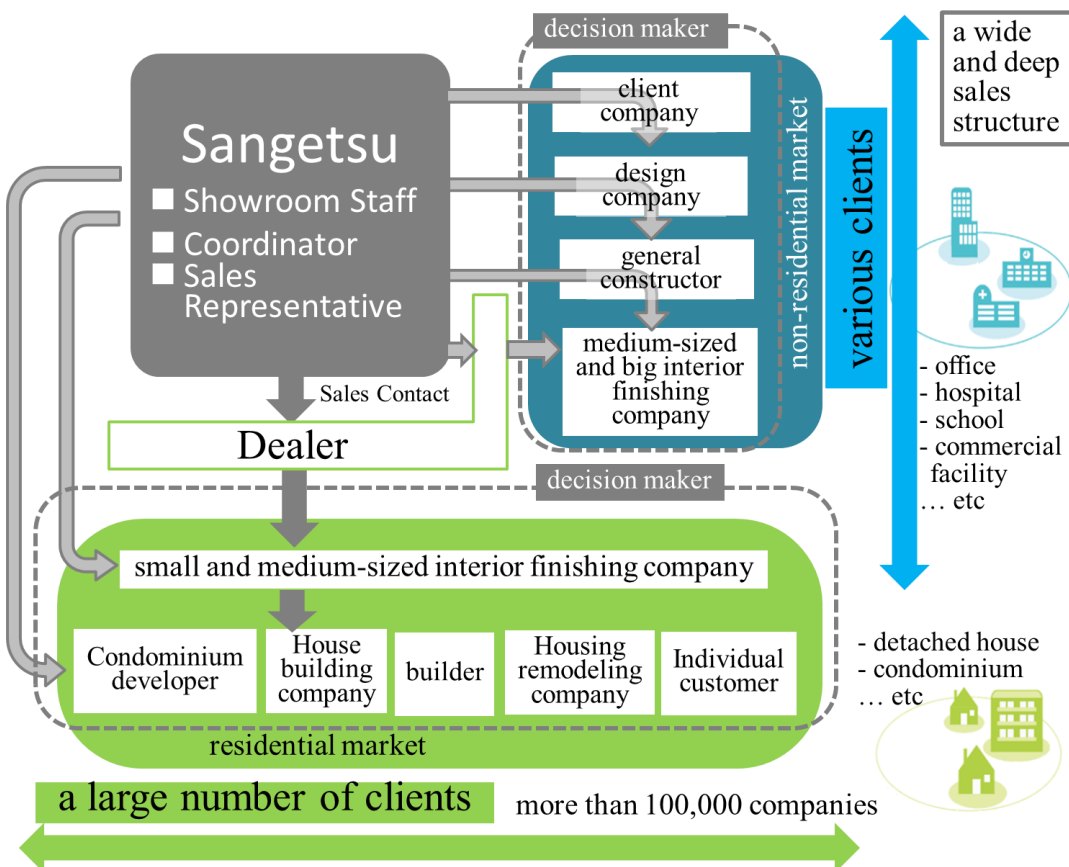
# Bridge Report Bridge Salon

with an existing product replacement rate for wallcoverings of 30% to 40%.

Disposal of outdated products leads to producing wastes, but because keeping a sample book up-to-date is necessary to enhance customer satisfaction, the company has maintained a balance between efficiency and freshness through the company’s energetic engagement and long-cultivated know-how,

### ◎Marketing Structure

In addition to the headquarters located in Nagoya, Sangetsu maintains 8 regional offices and 51 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 through its sample books, showrooms, and others. In addition to these “passive” marketing activities, Sangetsu also conducts “proactive” marketing of its products through its Contract Sales Department 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 12 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"****(FY3/18 Sales and Operating Income of ¥15.013 Billion and ¥439 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"****(FY3/18 Sales and Operating Income of ¥3.663 Billion and ¥ -137 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****(FY3/18 Sales and Operating Income of ¥17.151 Billion and ¥ -870 Million)**

The business strategy set in the Medium Term Business Plan (2017-2019) "PLG 2019" is to conduct consolidated business administration while focusing on the overseas market. Accordingly, this segment was established in the 1<sup>st</sup> quarter of fiscal year ending Mar. 2018. It comprises 3 companies, i.e., Koroseal Interior Products Holdings, Inc. acquired in November 2016, Sangetsu (Shanghai) Textile Co., Ltd. established in April 2016, and Goodrich Global Holdings Pte. Ltd. acquired in December 2017.

**<ROE Analysis>**

	FY3/12	FY3/13	FY3/14	FY3/15	FY3/16	FY3/17	FY3/18
<b>ROE (%)</b>	3.5	4.1	4.6	3.7	5.6	6.0	4.2
Net Income to Sales Ratio (%)	3.50	3.90	4.14	3.33	4.77	4.84	2.89
Asset Turnover Ratio (x)	0.84	0.88	0.93	0.91	0.95	0.88	0.92
Leverage (x)	1.18	1.19	1.20	1.21	1.24	1.41	1.58

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 ending March 2020.

In addition to reducing owned capital based on the capital policy, efforts to improve profitability are to be made.

**<Characteristics and Strengths>****① Business Model Capable of Yielding Stable Earnings**

Sangetsu is a pioneer in the realm of "fables operation" with no in-house manufacturing facilities and therefore has 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 process internally. The Company launched its original wallcoverings for the first time in 1965. Since the establishment of its fundamental values in 1973, Sangetsu has continuously made active investments for “creative 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 12,000 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 sample books, which surpass by far those of its competitors.



(Source: Sangetsu)

## “Proposal based sales marketing”

Nearly one third of all employees or about 450 staffs work in marketing functions at Sangetsu, the largest marketing function within the industry. These marketing staffs are assigned to 51 offices and 8 branches 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 wallcoverings 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 2019 Earnings Overview

### (1) Earnings Overview

(Units: ¥mn)

	1H FY3/18	Share	1H FY3/19	Share	YY Change	Divergence from Est.
Sales	75,503	100.0%	75,963	100.0%	+0.6%	-3.8%
Gross Income	23,120	30.6%	23,862	31.4%	+3.2%	-4.2%
SG&A	20,697	27.4%	21,359	28.1%	+3.2%	-6.7%
Operating Income	2,423	3.2%	2,503	3.3%	+3.3%	+25.2%
Ordinary Income	2,805	3.7%	2,973	3.9%	+6.0%	+29.3%
Net Income	1,810	2.4%	2,005	2.6%	+10.8%	+25.4%

### Sales remained flat with a slight increase in profit. Profit exceeded the estimate.

Sales remained flat at ¥75.9 billion from the same period of the previous fiscal year. The demand for interior materials was sluggish in both residential and non-residential fields. Goodrich, which was acquired in December 2017, contributed to the increase in sales of the overseas business.

Selling, general and administrative expenses augmented 3.2% year on year due to the selling, general and administrative expenses of Goodrich and the increase in personnel and distribution costs, but they were offset by increased sales. Operating income rose 3.3% year on year to ¥2.5 billion.

Sales fell short of the initial estimate as the company had to collect its core sample books and redistribute them afterwards since there was a problem in stable supply of some parts of wallcovering materials, which led to confusion. On the other hand, profit exceeded the initial estimate as the posting of some sample book costs has been delayed until the second half of the fiscal year.

### (2) Business Segment Trends

(Units: ¥mn)

	1H FY3/19	Share	YY Change	Divergence from Initial Est.
<b>Sales</b>				
Interior	56,621	74.5%	-1.8%	-3.6%
Wallcoverings	27,278	35.9%	-3.4%	-

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Flooring Materials	20,131	26.5%	-0.5%	-
Fabric Materials	3,929	5.2%	+8.5%	-
Others	5,281	7.0%	-4.9%	-
<b>Exterior</b>	7,307	9.6%	-2.0%	-3.5%
<b>Lighting</b>	1,902	2.5%	+6.2%	+9.9%
<b>Overseas</b>	10,342	13.6%	+17.9%	-7.2%
<b>Adjustments</b>	-211	-	-	-
<b>Total</b>	75,963	100.0%	+0.6%	-3.8%
<b>Operating Income</b>				
<b>Interior</b>	2,372	4.2%	-5.1%	+10.8%
<b>Exterior</b>	180	2.5%	-25.0%	-21.7%
<b>Lighting</b>	2	0.1%	-	-
<b>Overseas</b>	-63	-	-	-78.3%
<b>Adjustments</b>	11	-	-	-
<b>Total</b>	2,503	3.3%	+3.3%	+25.2%

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

## ① Interior Business

Sales and profit dropped.

<Wallcovering Materials>

Sales decreased. “FAITH,” a sample book of certified fireproof wallcoverings for non-residential buildings, were healthy due to the increasing demand for urban redevelopment mainly in the metropolitan area and the Olympic and Paralympic Games Tokyo 2020. Also, the sales of “Reatec,” a self-adhesive PVC decorative film, and “Glass film” were favorable as a result of successful specialized marketing activities carried out by the film marketing department. On the other hand, the total shipment quantity is decreasing and there is an increasing trend towards low prices in the residential market.

The company was also affected by a problem in stable supply of some parts, which caused it to collect all the sample books, recreate and redistribute them.

Following this quality problem of some products from a specific supplier, the company has established a customer support desk and is conducting repair work at construction sites and facilities in cooperation with suppliers. The suppliers bear all the costs related to repair work, therefore, these costs are not included in the company’s loss.

<Flooring Materials>

Sales decreased. The sales of cushion vinyl sheets continued to be steady for commercial facilities, rental housing, etc. In addition, the company focused on the market penetration of its flooring materials by publishing “Carpet Tile NT-700,” a sample book of fiber-based floor materials for office and other non-residential use, in August, and holding new product exhibitions throughout Japan, and also workshops about construction work. On the other hand, the completion of delivery of products to large-scale properties for non-residential use and the decrease in new construction areas that has continued from the last year in the medical and welfare fields also affected the performance of flooring materials.

<Fabric Materials>

Sales increased. The sales of fabric materials for residential use were steady, and the performances of “STRINGS,” a sample book of curtains for residence, and “Simple Order,” a sample book of curtains enabling easy selection by offering products at a single price, also were favorable. Also, “Sangetsu Vosne,” a sales company specializing in curtains, strengthened its business structure in four major cities: Tokyo, Osaka, Nagoya and Fukuoka.

<Others>

Sales decreased. 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 dropped.

Beside mainstay gardening products, the company focused on the sales promotion of products tailored for the changes in the market, such as “Façade Exterior,” which designs the surrounding of a gate, delivery boxes and products utilizing digital technologies, including IoT, but increasing competition with other companies and the occurrence of natural disasters, such as the extremely hot summer and typhoons, negatively impacted the performance.

**③ Lighting Business**

Sales increased and the business became profitable.

The contract market solidly growing due to the rising number of foreign tourists and approaching Tokyo Olympics resulted in the increased sales in hotel and lodging facility businesses. Also, the lighting business department cooperated with the contract marketing department of Sangetsu in strengthening marketing activities in order to create operational synergies. The company enhanced the road lighting, which is its core business area, and also worked on the reduction of sales, general and administrative expenses.

**④ Overseas Business**

Sales increased and loss shrank.

Koroseal, which targets the North American market, expanded its sales channel of digital prints and “REATEC,” a self-adhesive PVC decorative film, mainly in the hotel business.

As for Sangetsu (Shanghai), which targets the Chinese market, changes in specifications from the conventional mortar-covered walls to wallcoverings served as a spur, and the adoption of wallcoverings and vinyl flooring materials for residential houses, medical and welfare related facilities progressed.

The company also created a framework to realize greater synergies with Goodrich, which is included in the scope of consolidation from the current term.

Gross profit dropped in the previous term due to the inventory valuation adjustment made at the time of acquisition, but it was eliminated in the current term.

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

(Units: ¥mn)

	End 3/18	End 9/18		End 3/18	End 9/18
Current Assets	94,621	89,773	Current Liabilities	34,275	31,206
Cash, Equivalents	22,482	25,933	Payables	24,081	21,204
Receivables	49,805	44,468	Noncurrent Liabilities	30,573	30,674
Marketable Securities	2,003	300	Long-Term Debt	17,404	18,899
Inventories	16,961	17,754	Total Liabilities	64,848	61,881
Noncurrent Assets	76,373	75,317	Net Assets	106,146	103,209
Tangible Assets	36,627	35,798	Shareholders' Equity	103,012	100,498
Intangible Assets	20,177	19,043	Treasury Stock	-4,577	-2,641
Investments, Others	19,568	20,474	Total Liabilities, Net Assets	170,995	165,091
<b>Total Assets</b>	<b>170,995</b>	<b>165,091</b>	Capital Adequacy Ratio	61.5%	62.0%

Current assets decreased ¥4.8 billion from the end of the previous term due to the decline in trade receivables. Total assets dropped ¥5.9 billion to ¥165 billion, as noncurrent assets decreased ¥1 billion from the end of the previous term due to the fall in intangible assets, etc. Current liabilities declined ¥3 billion from the end of the previous term due to the decrease in trade payables. Total liabilities dropped ¥2.9 billion to ¥61.8 billion, as noncurrent liabilities remained almost unchanged. Since retained earnings decreased, net assets decreased ¥2.9 billion from the end of the previous term to ¥103.2 billion. Capital adequacy ratio improved 0.5% from 61.5% at the end of the previous term to 62.0%.

## ◎Cash Flow

(Units: ¥mn)

	FY3/18 2Q	FY3/19 2Q	YY Change
Operating Cash Flow	974	4,371	+3,397
Investing Cash Flow	-2,451	5,269	+7,720
Free Cash Flow	-1,477	9,640	+11,117
Financing Cash Flow	-4,947	-3,944	+1,003
Cash, Equivalents	16,763	25,406	+8,643

Operating CF improved further as trade receivables declined and purchase of investment securities declined. Investing CF and Free CF turned surplus. The deficit of financing CF shrank as purchase of treasury shares dropped. The cash position improved.

## ◎CCC

	End of Sep. 2015	End of Sep. 2016	End of Sep. 2017	End of Sep. 2018
Receivables turnover	112.5	112.6	108.3	102.5
Inventory assets turnover	42.0	42.5	52.5	49.4
Payables turnover	49.2	71.3	68.6	71.2
CCC	105.3	83.8	92.2	80.7

CCC is getting closer to its target of 60-75 days as a result of various initiatives.

## 3. Fiscal Year March 2019 Earnings Estimates

### (1) Earnings Estimates

(Units: ¥100mn)

	FY3/18	Share	FY3/19 Est.	Share	YYChange	Progress
Sales	1,563.9	100.0%	1,640.0	100.0%	+4.9%	46.3%
Gross Income	475.7	30.4%	520.0	31.7%	+9.3%	45.9%
SG&A	425.3	27.2%	460.0	28.0%	+8.1%	46.4%
Operating Income	50.3	3.2%	60.0	3.7%	+19.2%	41.7%
Ordinary Income	56.9	3.6%	66.0	4.0%	+15.9%	45.0%
Net Income	45.1	2.9%	46.0	2.8%	+1.9%	43.5%

\*Estimates are those of the Company

### Earnings estimates remain unchanged. Sales and profit to increase, profitability to rise too.

Earnings estimates remain unchanged. Sales are estimated to be ¥164 billion, up 4.9% year on year. Gross profit is projected to increase 9.3% year on year, exceeding the growth rate of sales, and gross profit rate is expected to rise 1.3%. Operating income, which will absorb the augmentation of selling, general and administrative expenses including the selling, general and administrative expenses of Goodrich and logistics costs, is forecasted to be ¥6 billion, up 19.2% year on year. The dividend is estimated to be ¥56/share, up ¥0.5 year on year. The estimated payout ratio is 77.7%.

### (2) Business Segment Trends

(Units: ¥mn)

	FY3/18	Share	FY3/19 Est.	Share	YY Change	Progress
Sales						
Interior	1,208.5	77.3%	1,230.0	75.0%	+1.8%	46.0%
Exterior	150.1	9.6%	152.0	9.3%	+1.2%	48.1%
Lighting	36.6	2.3%	36.5	2.2%	-0.4%	52.1%
Overseas	171.5	11.0%	225.5	13.8%	+31.5%	45.9%
Adjustment	-2.9	-	-4.0	-	-	-
Total	1,563.9	100.0%	1,640.0	100.0%	+4.9%	46.3%



Operating Income	FY3/18	Share	FY3/19 Est.	Share	YY Change	Progress
Interior	57.5	4.8%	62.5	5.1%	+8.7%	38.0%
Exterior	4.3	2.9%	4.0	2.6%	-6.9%	45.1%
Lighting	-1.3	-	-1.2	-	-	-52.1
Overseas	-8.7	-	-5.3	-	-	-46.5
Adjustment	-1.5	-	-	-	-	-
<b>Total</b>	50.3	3.2%	60.0	3.7%	+19.2%	41.7%

## 4. Activities for the Medium Term Business Plan (2017-2019) “PLG 2019”

### (1) Functional enhancement

The company started operating a new mission-critical system that supports management and business functions in October 2018, replacing the old system (focused on operation processing such as receiving/placing orders) that was installed in 1979, in order to enhance each function of the whole company.

The company will operate “Operation Core,” which receives and places orders, “EDI,” which receives orders online, “Salesforce,” which assists in marketing, “eBASE,” which is an integrated DB of products, and “WMS,” which takes care of distribution and shipping, in addition to the mission-critical system, SAP, and it will enhance the utilization of data related to sales, procurement and distribution in future.

### (2) Selling system

(Value Chain)

Due to the problem found in stable supply of some wallcovering materials, the company had to collect, recreate and redistribute one sample book. Moreover, the new system, which started its operation on 1<sup>st</sup> October, had problems and led to confusion in the sales front, but they have almost been resolved.

The company is strengthening its system once again in order to prevent recurrence of such problems in future.

<Product axis>

The company established a film marketing department in April 2018. It contributed greatly to the sales expansion of films in the first half of the term.

<Regional axis>

The company established and registered a new company Sangetsu Okinawa, in June 2018.

It will strengthen the marketing activities by getting into closer contact with customers and local regions, and enhance proposal-giving capabilities by establishing a showroom.

### (3) Logistics

<Transportation between the bases>

Suppliers delivered products only to newly established Chubu Logistics Center and Kita-Kanto Logistics Center, and not to all of the eight logistic centers in the country individually like they did before. The company planned to optimize the supply chain through transportation between the bases, but increased transportation expenses incurred when transporting between the bases and to each branch office offset the benefits of reduced purchasing costs on the backdrop of rising transportation costs in recent years.

Therefore, the company will revise the plan and respond to the increasing products from overseas through functional enhancement of both Chubu and Kita-Kanto Logistic Centers as the bases for receiving imported products while continuing to transport between the bases.

No additional investment is required for the above.



**(4) Challenges in overseas business and countermeasures**

◎ **Koroseal**

The company recognizes “the stagnation of the contract market mainly for hotels and lodging facilities,” “inefficient manufacturing systems (high loss rate and excessive staff)” and “delay in introducing new products” as the main challenges for the business.

Therefore, the company will install a new facility and an integrated line between April and June 2019.

In order to expand the product line-up, the company introduced new designs of its original products in January and July 2018, and it also started handling the products of VESCOM, a leading European manufacturer of wallcoverings for non-residential use. The company will also focus on improving the sales of specialty products (ultra-thin veneer, paint, REATEC, curtains and upholstery).

◎ **Goodrich**



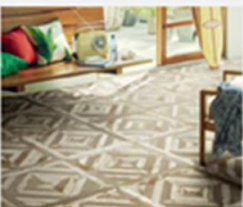

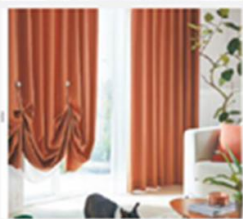
The company realizes “the coexistence of the company’s brand product ‘Principal business’ and another brand product ‘Agency business’,” “weakening of the selling system due to mid-career employee turnover before the acquisition and delay in generational shift” and “inadequate maintenance of responsibility and reporting systems among the Group companies” as its main challenges.

The company has a large number of bases, covering the whole area of Southeast Asia, however, only the ones in Malaysia, Hong Kong and China are wholly owned subsidiaries. The company considers the facts that it has done only partial equity investments in the bases in Thailand and UAE, and the situations of coordination with the partners in India and Indonesia are diverse, as its challenges.

As countermeasures, the company will “strengthen Principal business,” “promote a generational shift and reorganization by the use of human resources joined in January 2019” and “establish a group-wide responsibility/reporting system through functional enhancement of the Headquarters.”

**(5) Enhancing product capability**

The company released the following sample books.

For residential	For non-residential
 <p>[ Wallcoverings ]                      · 2018-2020 reserve                      · Reform Selection                      · Room Styling                      (Resale in June)</p>	 <p>[ Floorings ]                      Products for offices and hotels                      Carpet tiles                      · “DT” Premium Collection                      · “NT” Basic Collection                      (Sale in Oct.)                      · NT-700                      (Sale in Aug.)</p>
 <p>[ Floorings ]                      · 2018-2020 H floor                      (Sale in Sep.)</p>	 <p>[ Floorings ]                      Products for medical and welfare institutions                      · 2018-2020 S floor                      (Sale in Oct.)</p>
 <p>[ Fabrics ]                      · CASA DI VOSNE                      for house makers                      (Sale in Oct.)</p>	<p>Products for apartments                      · NONSKID                      (Sale in Sep.)</p>

**(6) Strengthening Human Resources**

The company was recognized as a healthy and productive corporation in the 2018 version of “White 500,” and given a title of “Silver company” by PRIDE Index 2018, which indicates that the company “realizes a favorable working environment for LGBT, exceeding the boundaries of a company or organization.”

Also, the company plans to run its own health insurance association from April 2019, as it has financial benefits as well as advantages regarding the contents of services for employees. As for the “food service department,” the company also obtained “Smart Meal Certification” for providing “smart meals,” which refer to the balanced nutrition food, and was selected as a certification office.

**(7) Strengthening the Earnings Management System**

As for route delivery, the company started collecting fares in May 2018.

It is also enhancing its own delivery system in line with competitive regional characteristics.

To be specific, the company has been operating a joint delivery network in Tohoku area from July 2018, and working on functional enhancement of depot to facilitate unloading of the goods temporarily for transshipment in Chugoku and Shikoku area. It has already started to take place in Yamaguchi and Hiroshima Prefectures in August and October respectively. Also, the company strengthened its delivery capabilities to southern Kyushu in April 2018 as the load capacity increased in Kyushu region.

The company raised the product prices by 15-20% in October 2018 due to the increase in raw material prices and functional enhancement of logistics.

The company is in line with the plan with regard to the first step, and it expects to deepen the understanding and eventually realize market penetration of its products.

**(8) ESG/CSR**

The company took the following initiatives for each subject.

**<E: Environment>**

- The company published a report on the environment.
- It won the Environment Minister’s Award in the “Eco-drive Contest” where a company accelerates its activities to reduce GHG (Greenhouse Gas) emissions while reducing insurance fees and the cost of fuel by preventing accidents.

**<S: Society>**

- The company contributes to society by providing refurbishment support to child welfare facilities and it refurbished a total of nine facilities in the first half of the term. Its target is to provide support to 20 facilities in a year.
- It continued to promote diversity.

**<G: Governance>**

- The company conducted a company briefing session for individual investors in Tokyo in July 2018.
- It also held a social gathering between audit and supervisory committee members and institutional investors for the first time in September 2018.

**(9) Trend in the acquisition of treasury stock**

In the first half of the current term, the company acquired a total of 1,310,000 shares amounting to 2.9 billion yen in three rounds.

Also, the company retired a total of 2,200,000 shares in two rounds.

Owned capital at the end of September 2018 amounted to 102.3 billion yen, which implies that it has already exceeded the target of 100-105 billion yen for the fiscal year 2019 (final year), as stated in the Medium Term Business Plan.

## 5. Conclusions

Although we wrote “we would like to pay attention to the speedy recovery of the interior business from the second quarter on,” but the performance of wallcovering materials was unfavorable due to the outbreak of an unfortunate problem regarding sample books. However, the market shares of products such as flooring materials, curtains and upholstery have certainly expanded, and the company is still leading the industry.

The system, which has been in operation since October, caused confusions in the beginning, but they have almost been resolved. Also, it is the superior business scale and financial power of the company that allow it to establish such a comprehensive system.

We believe that completion of the new system and start of its operation will contribute to the expansion of the business in the medium-to-long-term, making the company sustainable. Moreover, it is the company’s business scale that made distributors agree to establish a joint delivery network, which started its operation in the Tohoku area. Although the financial results were not favorable as the company admits, it should be noted that its competitive edge over others remains, and many measures have been implemented based on that advantage.

### <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 Targets	<ul style="list-style-type: none"> <li>• Sales: ¥165.0~¥175.0 billion</li> <li>• Net Income: ¥8.0~¥10.0 billion</li> <li>• Capital: ¥105.0~¥100.0 billion</li> <li>• CCC: 75~60 days</li> </ul>

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
<b>Total Sales</b>	<b>¥165.0~¥175.0 billion</b>

#### ◎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



# Bridge Report



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 (¥110.3billion 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
<b>Total</b>	<b>¥61.0~¥90.0 billion</b>	<b>Total</b>	<b>¥60.0~¥88.0 billion</b>

## <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: June 26, 2018.

<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.

Our company has been reorganizing to a company with an audit committee, with the aim of strengthening the auditing and supervising functions of the board of directors, by having outside directors join the management .

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】	<p>1. Policy on strategically held shares</p> <p>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 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>
【Principle 5-1 Policy on constructive communication with shareholders】	<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"> <li>▪ In our company, the Chief Executive Officer manages the implementation of IR activities.</li> <li>▪ Our company has established the Public Relations and IR Department for rational communication with our shareholders and swift IR activities.</li> <li>▪ 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.</li> <li>▪ 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</li> </ul>

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 through The Public Relations and IR Department.

- 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.

This report is intended solely for information purposes, and is not intended as a solicitation for investment. The information and opinions contained within this report are made by our company based on data made publicly available, and the information within this report comes from sources that we judge to be reliable. However, we cannot wholly guarantee the accuracy or completeness of the data. This report is not a guarantee of the accuracy, completeness or validity of said information and opinions, nor do we bear any responsibility for the same. All rights pertaining to this report belong to Investment Bridge Co., Ltd., which may change the contents thereof at any time without prior notice. All investment decisions are the responsibility of the individual and should be made only after proper consideration.

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