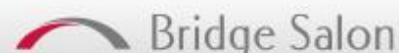


BRIDGE REPORT



Shosuke Yasuda, President

Sangetsu Corporation (8130)

sangetsu

Company Information

Market	First Section, Tokyo and Nagoya Stock Exchanges
Industry	Wholesale (Commerce)
Executive Director and President・Executive officer	Shosuke Yasuda
HQ Address	1-4-1 Habashita, Nishi-ku, Nagoya-shi, Aichi-ken
Year-end	March
Homepage	https://www.sangetsu.co.jp/english/ir/index.html

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
¥1,504	61,750,000 shares		¥92,872 million	1.5%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
Undecided	-	¥37.98	39.6x	¥1,539.56	1.0x

*The share price is the closing price on June 24. The numbers are taken from the financial report for the fiscal year ended March 2020. The dividend amount is still to be estimated, due to the impact of COVID-19.

Earnings Trend

Fiscal Year	Sales	Operating Income	Ordinary Income	Net Income	EPS (¥)	DPS (¥)
March 2017 Act.	135,640	7,572	8,368	6,570	97.53	52.50
March 2018 Act.	156,390	5,033	5,698	4,514	68.97	55.50
March 2019 Act.	160,422	5,895	6,699	3,579	57.28	56.50
March 2020 Act.	161,265	9,268	9,844	1,432	23.52	57.50
March 2021 Est.	135,000	4,200	4,500	2,300	37.98	Undecided

*Unit: million yen, yen. Estimates are those of the Company. The dividend amount is still to be estimated, due to the impact of COVID-19. Net income is profit attributable to owners of the parent. Hereinafter the same shall apply.

This Bridge Report provides an overview of the fiscal year ended March 2020, the Long-term Vision 【 DESIGN 2030 】, the Medium-term Business Plan (2020-2022) 【D.C. 2022】 and an interview with President Yasuda.

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Key Points

- For the term ended March 2020, sales grew 0.5% year on year to 161.2 billion yen, hitting a record high. Both the Interior and Exterior Segment performed well. The Interior Segment saw sales growth in all product categories. The sales of the Overseas Segment declined. Operating income rose 57.2% year on year to 9.2 billion yen. The revision of wholesale prices has progressed since Oct. 2018, increasing gross profit by 4.3% year on year. SG&A dropped through the sale of Yamada Shomei Lighting, so profit increased considerably. Net income decreased 60.0% year on year to 1.4 billion yen. The impairment loss of goodwill and intangible assets related to the U.S. subsidiary Koroseal amounted to 5.9 billion yen. Sales were almost as initially estimated, while profit exceeded the estimate.
- For the term ending March 2021, it is forecasted that sales will drop 16.3% year on year to 135 billion yen and operating income will drop 54.7% year on year to 4.2 billion yen. The business environment is projected to become harsher; due to the stagnation of economic and production activities, the downturn in consumption, and other unpredictable risks caused by the worldwide COVID-19 pandemic. The company plans to release sample books for interior materials as planned. The dividend is still to be determined.
- Considering that it is necessary to reform the current business model itself, the company set the Long-term Vision of Sangetsu Group 【 DESIGN 2030 】 The company aims to become a “space creation company.” In addition to the current capabilities of designing, marketing, and distributing things and products, the company will acquire the abilities to envisage, design, and propose new spaces, and aim to become an enterprise that can create new spaces. To attain its long-term vision, the company will pursue “design-driven management” as the basics of management and aim to improve its brand value and transform its business with designs. The company aims to achieve “sales of 225 billion yen and operating income of 18.5 billion yen” in the term ending March 2030, a decade from now.
- The Medium-term Business Plan 【D.C. 2022】 was started as the first step for attaining its long-term vision. The company aims to grow under the four basic policies: “expand earnings through qualitative growth of core business,” “growth of profitability in next-generation businesses based on resources of the core businesses,” “strengthen management and business foundations,” and “achieving social value.” The numerical goals for the term ending March 2023 are “sales of 172 billion yen and operating income of 12 billion yen.”
- We interviewed president Yasuda about the review of the financial results for the previous term, the impact of COVID-19, the points of the long-term vision 【 DESIGN 2030 】 and the Medium-term Business Plan (2020-2022) 【D.C. 2022】 of Sangetsu Group, etc. He said, “We aim to become ‘a space creation company’ by implementing short, medium, and long-term measures steadily, achieving target values, and reforming the business model. In addition, we will be aware of corporate social raison d’être more strongly, and foster trusting relationships with all stakeholders. In the short term, the business environment is estimated to be severe, but we hope you will support our company from a medium-to long-term perspective.”

- The voyage for becoming “a space creation company” has begun. For the president Yasuda, who took office as president for the first time among people outside the founding family in 2014, the primary mission is to “reform the business model” while the domestic market obviously has limits, as mentioned during the interview. In the previous term, a significant impairment loss was posted in the overseas business, which struggled. However, rooting out bad things through early judgement is considered appropriate, as the company will pursue the long-term vision and start the new medium-term business plan. The existence of COVID-19 is unfavorable for domestic and overseas businesses, but we would like to pay attention to quarterly business overviews and results in the short term, and how the company will proceed the “establishment of a system for the advanced utilization of data” in the medium/long term. If possible, we would like to see the reports on the situations regarding COVID-19, in addition to quarterly reports.

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 “fabless 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 seven companies including “Sangetsu Okinawa Corporation,” which sells interior materials in the Okinawa area, Sungreen Co., Ltd., a dedicated distributor of exterior products, 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.

1-1 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 a large total interior decorating product provider. 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.

1-2 Corporate Philosophy

Sangetsu established a new corporate philosophy including a new brand philosophy in February 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.

In addition, “The Long-term Vision of Sangetsu Group 【 DESIGN 2030 】,” which was produced in 2020, specified that the company aims to become “a space creation company.” (For details, please see Section 4: The Long-term Vision of Sangetsu Group 【 DESIGN 2030 】)

<Corporate Creed>

Sincerity

<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

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<Brand Philosophy>

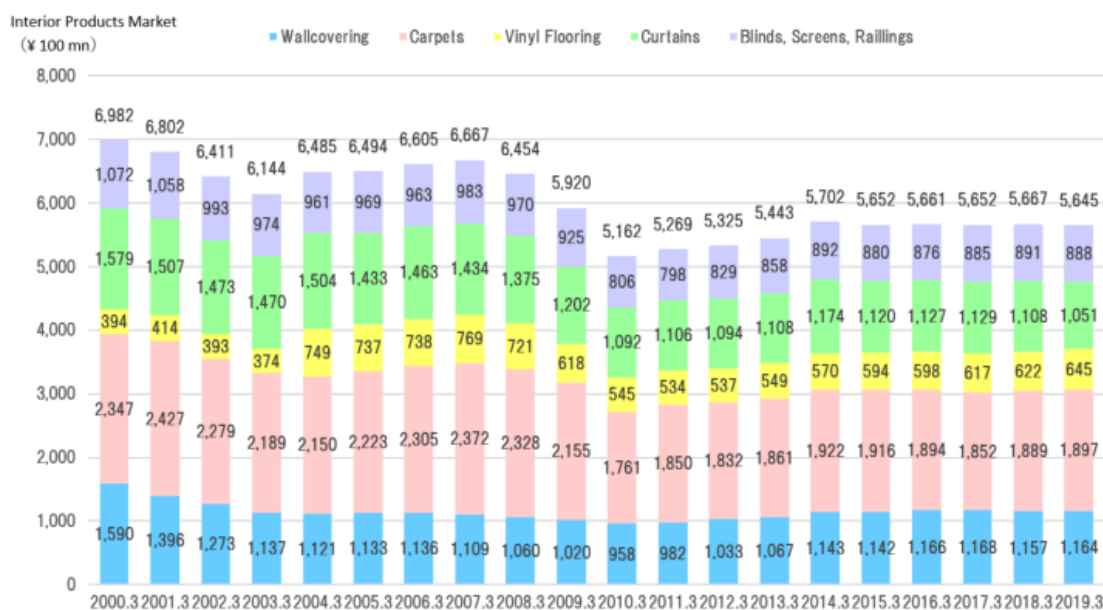
- Brand statement: “Joy of Design”
- Brand purpose: “We share joy of design with those who create new spaces.”

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

1-3 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.

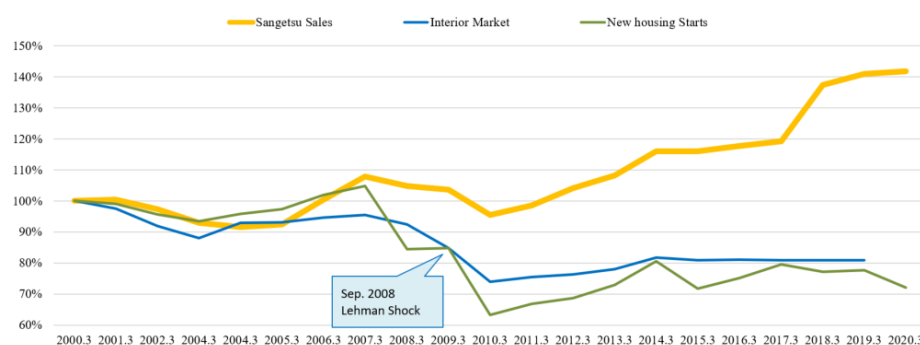


* Nippon Interior Fabrics Association "2018 General State of the Interior Fabrics Business and Market Size Determination"
(Investment Bridge made the graph based on the raw data provided by Sangetsu.)

(Source: the company)

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.

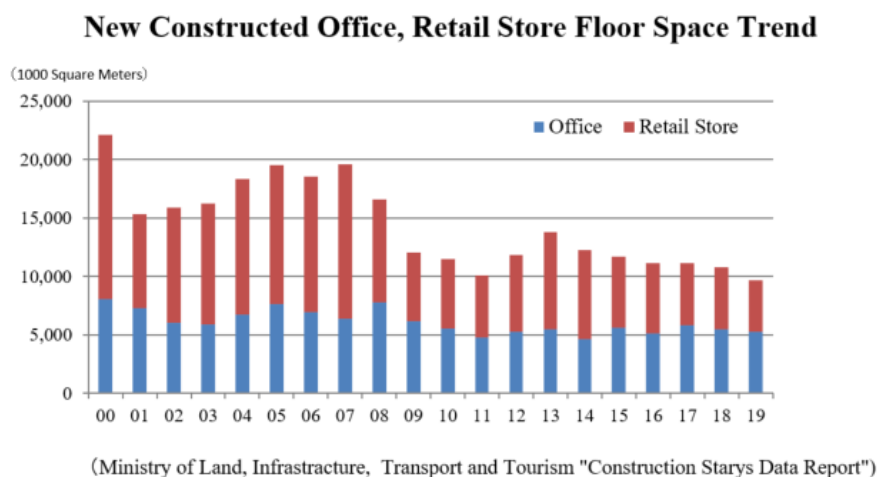
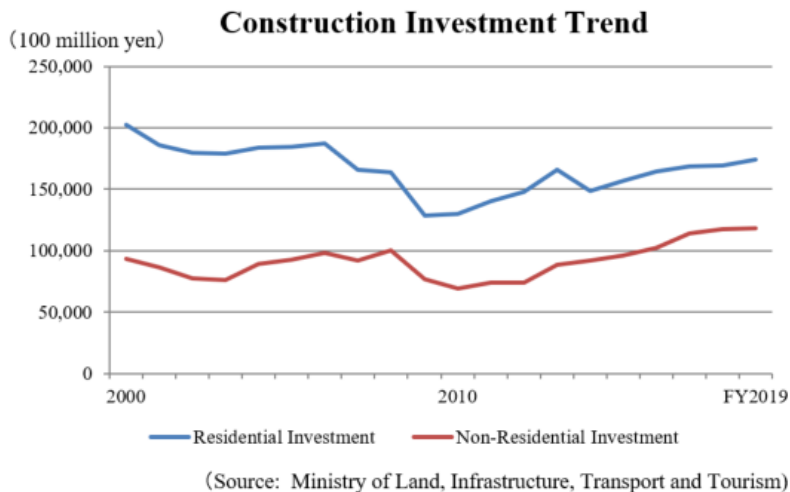


* FY1999=100

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Aside from private housing, this strong recovery can be attributed to M&A and Sangetsu's efforts to cultivate business in the non-residential realm.



According to "Outlook for investment in construction in 2019" published by the Ministry of Land, Infrastructure, Transport and Tourism, both the investment in housing construction and the investment in non-housing construction in the private sector have been recovering since the bankruptcy of Lehman Brothers, but the investment in housing construction is still around 80% of the level in 2000, while the investment in non-housing construction is over 30% higher than the level in 2000.

The total floor area of newly built offices and shops had been healthy for several years, but started declining in fiscal 2018, so it cannot be said that it is healthy.

According to "Outlook for Investment in Construction based on a Construction Economy Model" released by Research Institute of Construction and Economy (on May 27, 2020), The growth rate of investment in private, non-residential buildings increased 11.6% in FY 2017, and 3.0% in FY 2018 (estimate), but is expected to fall 2.8% in FY 2019 (estimate) and to fall 8.3% in FY2020 (estimate). Therefore, the growth is estimated to become sluggish. There will be adverse effects of the worsening of corporate performance due to the spread of COVID-19.

The floor area of offices to be constructed increased 10.3% in fiscal 2016 but declined 4.6% in fiscal 2017 and dropped 3.9% in fiscal 2018. It grew 2.3% in fiscal 2019 but is estimated to decrease 0.8% in fiscal 2020.

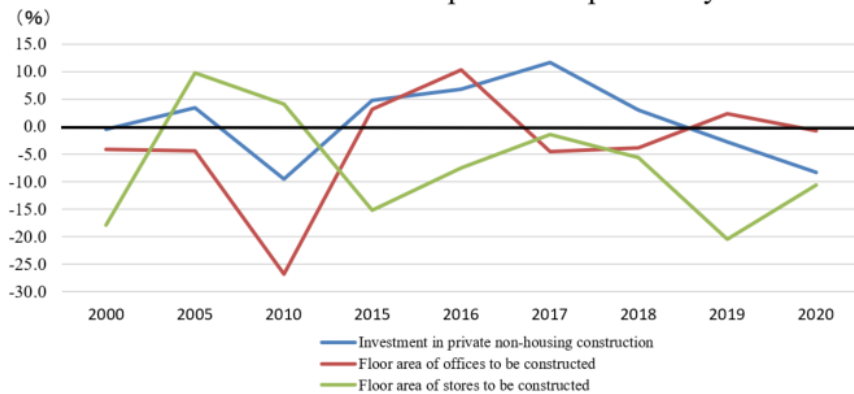
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The floor area of shops to be constructed has kept dropping since fiscal 2014. It decreased 20.5% in fiscal 2019 and is projected to decline 10.6% in fiscal 2020, showing a double-digit decline.

The business environment is worsening due to the spread of COVID-19.

Trend of each index compared with previous years



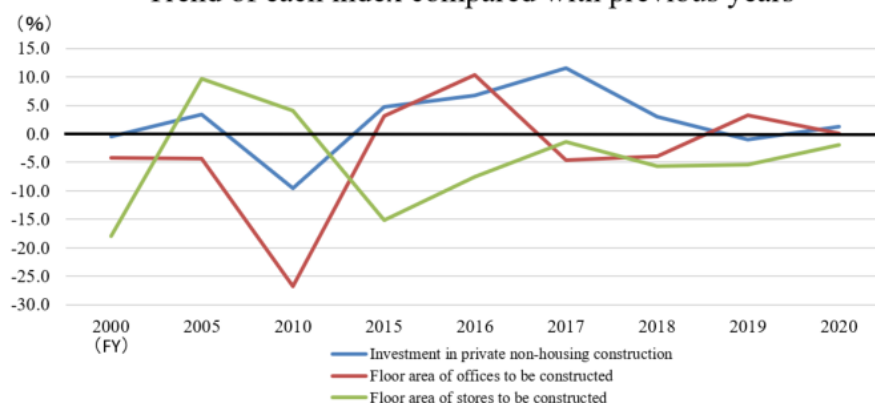
* Made by Investment Bridge according to "Outlook for Investment in Construction based on a Construction Economy Model" released by Research Institute of Construction and Economy (in May 2020).

*As for investment in private non-housing construction, figures from 2017 are estimates.

As for floor area, figures from 2020 are estimates.

(In the previous report)

Trend of each index compared with previous years



* Made by Investment Bridge according to "Outlook for Investment in Construction based on a Construction Economy Model" released by Research Institute of Construction and Economy (in Sep. 2019).

*As for investment in private non-housing construction, figures from 2017 are estimates.

As for floor area, figures from 2019 are estimates.

For the above reasons, the residential and non-residential market environments are currently harsh, but there is steady demand for renovations in the non-residential market, so the company is intending to meet the demand mainly through the contract sales department. They are also making efforts to develop overseas businesses, pursuing further growth by reinforcing the advantages they have over other companies.

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◎Competitors

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

Stock Code	Company	Sales	YY Change of Sales	Operating Income	YY Change of Operating Income	Operating Income Margin	Total Market Cap	PER	PBR	ROE
3501	Suminoe Textile Co., Ltd.	91,500	-7.2%	1,500	-51.9%	1.6%	15,748	134.0	0.5	1.4%
4206	Aica Kogyo Co., Ltd.	-	-	-	-	-	232,849	-	1.7	9.9%
4215	C.I.TAKIRON Corporation	-	-	-	-	-	66,592	-	0.8	17.0%
4224	Lonseal Corporation	-	-	-	-	-	8,436	-	0.5	7.4%
5956	TOSO COMPANY, LIMITED	22,000	-3.0%	700	-22.3%	3.2%	4,790	9.5	0.4	5.0%
7971	TOLI Corp.	89,000	-6.0%	1,900	-20.3%	2.1%	18,110	12.3	0.5	5.7%
7989	TACHIKAWA CORPORATION	42,300	0.6%	4,580	+4.6%	10.8%	27,117	8.8	0.7	7.6%
8130	Sangetsu Corporation	135,000	-16.3%	4,200	-54.7%	3.1%	92,872	39.6	1.0	1.5%
9827	Lilycolor Co., Ltd.	-	-	-	-	-	2,215	-	0.3	6.2%

*Unit: million yen, times. Estimates are from those of the respective companies this term. Total market capitalization, PER and PBR are based upon the closing share price of each stock on June 24, 2020. ROE is based on the previous year. The estimates of Aica Kogyo Co., Ltd., C.I. TAKIRON Corporation, Lonseal Corporation and Lilycolor Co., Ltd. are still to be determined.

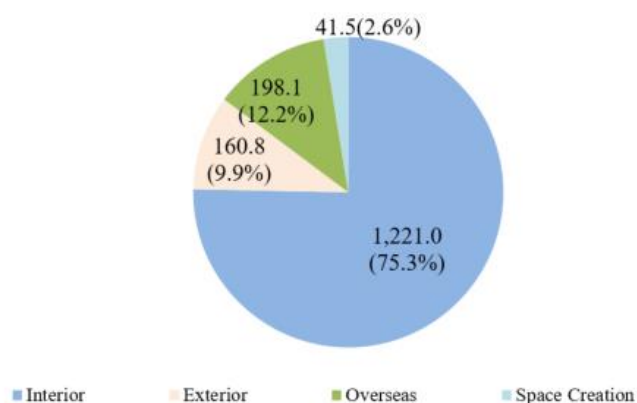
1-4 Business Description

The main businesses include planning, development, and sales of wallcoverings, flooring materials, curtains, upholstery and other interior products. Sangetsu takes a “fabless operation,” which does not maintain any manufacturing facilities, and it is not a typical trading firm as all the products it sells are planned, designed and developed in-house. Sangetsu also provides exterior products through its subsidiary. The overseas business is operated by three subsidiaries located in the U.S., China, and Singapore.

Yamada Shomei Lighting Co., Ltd., which became a subsidiary in 2008, had been operating the “Lighting Business” to sell general lighting fixtures inside and outside Japan, but the company concluded that the synergetic effects are limited, and transferred this business to Odelic Co., Ltd. on April 5, 2019.

In the term ending March 2021, the Interior segment will be divided into the Interior segment and the Space Creation segment, increasing the total number of segments to 4. (In the graph, the new segments are used for the term ended March 2020. The sales and operating income shown in the following passages are those of the old segments.)

Sales by Business Segment
(FY3/20, Unit: ¥mn)



*Sales to external clients

①“Interior Segment”

(FY3/20: Sales and Operating Income of ¥125,381 million and ¥9,518 million respectively)

◎Main Products

Wallcoverings	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. The product lineup also includes antivirus wall papers. Also, “Accent Wall” a wallcovering with colorful designs being used to decorate one full wall or a part of a wall in homes, adds an appeal to the living space, and is increasingly adopted in general residences and rental housing.
Cushion Vinyl Sheet	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.
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 hygiene, and is designed to reduce maintenance costs, thanks to the excellent maintenance properties, such as the unnecessary of waxing. It also has been designed with the environment in mind and helps to reduce the environmental burden.
PVC Tiles	Tile formed PVC flooring which has a wide range of applications, is used in commercial facilities, educational institutions, detached houses and apartments. One feature is its high design, in which the materials used as motifs such as wood and stone are expressed through high-tech printing technology and precise embossing.
Carpets	Textile flooring materials used in a wide range of applications including ryokans (i.e. Japanese inns), hotels, residential and commercial facilities. Manufactured with variety of designs and high functionality. It also proposes original designs to each property.
Carpet Tiles	A square-shaped-tile-like carpet with a length of 50 cm, which is used mainly for offices, hotels, commercial facilities, and educational institutions. It excels in its feature of 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.

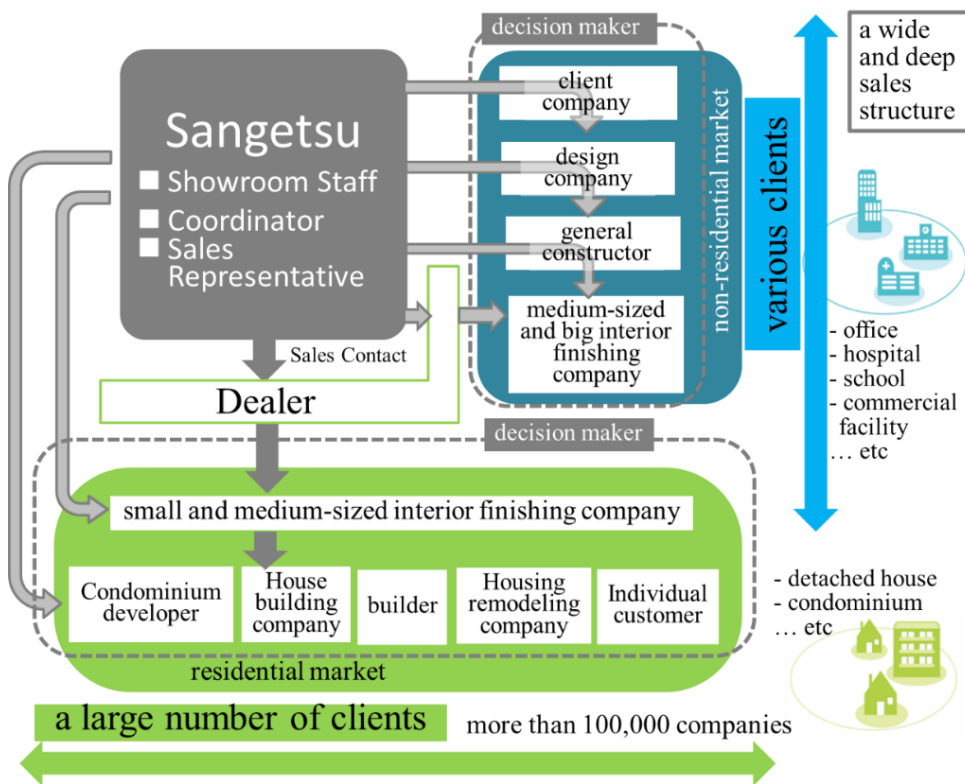
Sangetsu boasts a diverse product lineup with about 12,000 different products in total. There are about 4,300 different wallcovering products alone. Sample books are updated every two years (those for curtains are updated every three years), with an existing product replacement rate for wallcoverings 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.

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◎Marketing Structure

In addition to the headquarters located in Nagoya, Sangetsu maintains 8 regional offices and 50 marketing offices throughout Japan, with 8 of these marketing offices also hosting showrooms.



(Source: the company)

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.

By the time the house or building is completed, a large number of players such as the client (owner), design office, design office, general contractor, subcontractor, house maker, etc. are involved, and the interior is finally selected from design and function. In many cases, decision making starts upstream.

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 700-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.

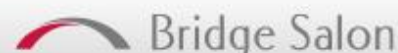
◎Distribution Structure/Delivery System

Sangetsu maintains a network of 11 distribution centers nationwide. Most 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 is 0.9% in average.

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.

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For streamlining logistics, we are constructing logistics centers, and plan to build and integrate Kansai LC equipped with labor-saving equipment to secure the sustainability of services and shorten lead time further by the end of 2020. The company will install the same equipment in other LCs mainly in the Tokyo Metropolitan Area.

As for delivery, the company is improving its own delivery system, to cope with the augmentation of logistics costs. In the Tohoku region, the company developed a regional delivery system, and in other regions, too, the company will establish regional delivery systems and develop a system for delivering heavy cargoes mainly in metropolitan areas.

②“Exterior Segment”

(FY3/20 Sales and Operating Income of ¥16,079 million and ¥642 million)

Sungreen Co., Ltd., which was turned into a subsidiary in 2005, sells doors, fences, terraces and other exterior products within Japan. In the new Medium-term Business Plan, the company will concentrate on the landscape business mainly in the Tokyo Metropolitan Area.

③“Overseas Segment”

(FY3/20 Sales and Operating Income of ¥19,804 million and ¥ -932 million)

This segment comprises 3 companies, i.e., Koroseal Interior Products Holdings, Inc. acquired in November 2016, Sangetsu (Shanghai) Corporation established in April 2016, and Goodrich Global Holdings Pte., Ltd. acquired in December 2017.

④“Space Creation Segment”

This is the segment added in the term ending March 2021.

Based on the designing capability of Sangetsu and the interior finishing capability of Fairtone, the company incorporates the new abilities, which is part of the company's soft power, to design spaces, come up with, envisage, and propose spaces, give consultation services, etc. as well as comprehensive skills for woodworking, lighting, electricity, etc., and strengthens the capability of managing installation works, to create and offer the most appropriate spaces for customers.

1-5 ROE Analysis

	FY 3/12	FY 3/13	FY 3/14	FY 3/15	FY 3/16	FY 3/17	FY 3/18	FY 3/19	FY 3/20
ROE (%)	3.5	4.1	4.6	3.7	5.6	6.0	4.2	3.5	1.5
Net income margin (%)	3.50	3.90	4.14	3.33	4.77	4.84	2.89	2.23	0.89
Total asset turnover [times]	0.84	0.88	0.93	0.91	0.95	0.88	0.91	0.94	0.96
Leverage [times]	1.18	1.19	1.20	1.21	1.24	1.41	1.60	1.67	1.74

In the Medium-term Business Plan (2020-2022) 【D.C. 2022】 which was started this term, the goal is to achieve ROE of 9% in the term ending March 2023.

It is indispensable to take measures for improving profitability.

1-6 Characteristics and strengths

①Business Model Capable of Yielding Stable Earnings

Sangetsu is a pioneer in the realm of “fabless 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 posted losses in consolidated financial statements since its founding.

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**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: the company)

“Proposing”

Nearly half of all employees or about 690 staffs work in marketing functions at Sangetsu, the largest marketing function within the industry. These marketing staffs are assigned to 50 offices and 8 branches located throughout Japan and conduct proposal-based marketing to clients. Sangetsu also staffs its 8 showrooms with 110 employees. In addition, about 60 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: the company)

“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

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efficiencies. Generally, wallcoverings are produced in rolls as long as 50 meters, and for example, Sangetsu cuts the rolls into a 30 meters and ships it when a 30 meters order is 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: the company)

2. Fiscal Year ended March 2020 Earnings Results

(1) Earnings Results

	FY 3/19	Ratio to sales	FY 3/20	Ratio to sales	YoY	Difference from the initial forecast
Sales	160,422	100.0%	161,265	100.0%	+0.5%	-1.1%
Gross profit	50,720	31.6%	52,925	32.8%	+4.3%	+0.8%
SG&A	44,824	27.9%	43,656	27.1%	-2.6%	-1.9%
Operating Income	5,895	3.7%	9,268	5.7%	+57.2%	+15.9%
Ordinary Income	6,699	4.2%	9,844	6.1%	+46.9%	+18.6%
Net Income	3,579	2.2%	1,432	0.9%	-60.0%	-74.9%

*Unit: million yen

Sales increased only slightly but profit increased considerably. Sales hit a record high.

For the term ended March 2020, sales grew 0.5% year on year to 161.2 billion yen, hitting a record high. Both the Interior and Exterior Segment performed well. The Interior Segment saw sales growth in all product categories. The sales of the overseas business declined. Excluding the sales of Yamada Shomei Lighting this term, sales increased 3% hitting a record high.

Operating income rose 57.2% year on year to 9.2 billion yen. The revision of wholesale prices to respond to soaring raw material and logistics costs has progressed since Oct. 2018, improving gross profit margin 1.2 points and increasing gross profit by 4.3% year on year. SG&A dropped through the sale of Yamada Shomei Lighting, so profit increased considerably.

Net income decreased 60.0% year on year to 1.4 billion yen. The impairment loss of goodwill and intangible assets related to the U.S. subsidiary Koroseal amounted to 5.9 billion yen. Sales were almost as initially estimated, while profit exceeded the estimate.

(2) Business Segment Trends

	FY 3/19	Ratio to sales	FY 3/20	Ratio to sales	YoY	Difference from the initial forecast
Sales						
Interior segment	119,508	74.5%	125,688	77.9%	+5.2%	-0.6%
Wallcoverings business	57,155	35.6%	60,194	37.3%	+5.3%	-
Flooring Materials business	43,116	26.9%	44,694	27.7%	+3.7%	-
Fabric Materials business	8,311	5.2%	8,463	5.2%	+1.8%	-
Others	10,924	6.8%	12,336	7.6%	+12.9%	-

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Exterior segment	16,121	10.0%	16,082	10.0%	-0.2%	+3.8%
Lighting segment	4,227	2.6%	-	-	-	-
Overseas segment	20,920	13.0%	19,804	12.3%	-5.3%	-7.9%
Adjustments	-354	-	-310	-	-	-
Total	160,422	100.0%	161,265	100.0%	+0.5%	-1.1%
Operating Income						
Interior segment	6,174	5.2%	9,518	7.6%	+54.2%	+12.0%
Exterior segment	594	3.7%	642	4.0%	+8.1%	+60.5%
Lighting segment	65	1.5%	-	-	-	-
Overseas segment	-960	-	-932	-	-	-
Adjustments	22	-	40	-	-	-
Total	5,895	3.7%	9,268	5.7%	+57.2%	+15.9%

*Unit: million yen. Ratio to sales of operating income represents the operating income margin. The fabric materials category of sales includes both curtains and upholstery.

①Interior segment

Sales and profit grew.

Sales grew for all items. In addition, prices were raised throughout the market for coping with the augmentation of costs for procurement, transportation, upgrading distribution equipment, etc., increasing profit rate.

<Wallcovering Materials>

Sales grew. Although the market environment was severe, due to the deflation, the shrinkage of the housing and renovation markets, etc. in the second half, the enrichment of the lineup of mainly functional products in the sample book for mass-produced wallpapers “SP” published in June 2019 bore fruit, and sales grew. The sample book for certified fire-proof wall papers “FAITH” and the sample book for glass films “CLEAS,” which were published in Jan. 2020, met the demand for office renewal due to the promotion of the reform of ways of working, etc. As a result, the market share increased.

<Flooring Materials>

As prices were raised throughout the market, sales grew for the 10th consecutive term. The sample book for vinyl floor tiles “Floor Tile,” which was published in Oct. 2019, contributed to sales. Especially, the product series that depict a variety of wooden and stone materials received positive reviews. In the markets of office renewal and commercial/accommodation facilities, the sales of the high-quality carpet tiles “DT series” and the affordable, fashionable carpet tiles “NT-700 series” grew.

<Fabrics>

Sales increased. The product lineup including North European and modern products in the sample book for curtains “AC” published in May 2019 received favorable reviews. As for the sample book for chair cloth “UP” published in Jan. 2020, “Aqua Clean,” which can be cleaned with only water, was recognized in the market, and customers highly evaluated fashionable fabrics, plain cloth produced from handpicked materials, and highly functional vinyl leather.

<Others>

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

②Exterior Segment

Sales declined and profits increased.

In the first half, the Exterior Business performed well, due to the increase of restoration works after natural disasters and anti-disaster works and the growth of demand before the consumption tax hike. In the second half, profit increased, because the company made efforts to improve earnings ratio by promoting high value added products and concentrating on receiving orders for lucrative works, although the market environment was severe, as demand passed and the sales of high value added products, such as garden rooms and wood decks, declined in the wake of the consumption tax hike.

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③Overseas Segment

The drop in sales and loss were unchanged from the previous term.

The business environment is getting harsher, due to the downturn of the hotel market, which is the main target in North America, the intensification of price-cutting competition due to the deflation in the Chinese and Southeast Asian markets, etc.

Koroseal, which targets the North American market, started operating the new wallpaper manufacturing equipment, revised the color variation of products, and recruited new designers for strengthening its own brand products, based on the management system renewed in July 2019.

Business performance fell below the estimates, because of the decline in the hotel market due to COVID-19 pandemic, the sales drop due to the delay in release of new products and new designs, the shortage of the designing capability, the lack of the capability to produce advanced designs, a large proportion of equipment being scrapped due to deterioration, etc. Therefore, for the goodwill and intangible assets that arose at the time of the acquisition of shares, an impairment loss of 5.9 billion yen was posted as extraordinary loss.

From now on, the company will aim to recover its performance by implementing the following measures.

*To fortify its management foundation by replacing the CEO and other management staff

*To improve productivity and product quality by installing new equipment (upgrading from the existing 5-color printing to 7-color printing. Among competitors, 6-color printing is the most advanced)

*To improve designs by recruiting new designers

*To shift from the concentration on the hospitality market

*To enhance brand development and improve the product portfolio

Sangetsu (Shanghai) Corporation which targets the Chinese market, made efforts to increase new customers and cultivate sales channels through more meticulous marketing activities with the aim of fortifying and stabilizing the sales bases in local markets centered around Shanghai, amid the harsh situation, including a reactionary decline from the transactions for large-scale properties delivered in the previous term. Goodrich, which targets the Southeast Asian market, strived to increase inventory in each area and enrich the product lineup, in order to cope with the changes in the market, including the diversity of competitors and the lowering of product prices.

(3) Financial standing and cash flows

◎Main BS

	End of Mar.19	End of Mar.20		End of Mar.19	End of Mar.20
Current Assets	97,674	100,591	Current Liabilities	39,389	50,701
Cash, Equivalents	27,220	30,756	Payables	26,522	25,818
Receivables	50,504	47,069	Short-Term Debt	1,798	12,840
Marketable Securities	300	4,125	Noncurrent Liabilities	31,342	19,182
Inventories	17,331	17,502	Long-Term Debt	18,925	7,638
Noncurrent Assets	73,200	63,509	Total Liabilities	70,732	69,883
Tangible Assets	35,688	35,673	Net Assets	100,143	94,217
Intangible Assets	16,686	9,233	Shareholders' Equity	97,897	94,028
Investments, Others	20,825	18,603	Treasury Stock	-2,889	-2,440
Total Assets	170,875	164,101	Total Liabilities, Net Assets	170,875	164,101
			Capital Adequacy Ratio	58.0%	56.8%

*Unit: million yen.

Current assets increased 2.9 billion yen from the end of the previous term, as receivables declined, but cash and equivalents and securities grew. Noncurrent assets declined 9.6 billion yen from the end of the previous term, due to the impairment of goodwill and intangible assets of Koroseal, so total assets declined 6.7 billion yen from the end of the previous term to 164.1 billion yen.

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The company shifted from long-term to short-term debt. Total liabilities dropped 800 million yen from the end of the previous term to 69.8 billion yen. Net assets decreased 5.9 billion yen from the end of the previous term to 94.2 billion yen, due to the shrinkage of retained earnings, etc. Consequently, capital-to-asset ratio dropped 1.2 points from 58.0% at the end of the previous term to 56.8%.

◎Cash Flow

	FY 3/19	FY 3/20	Increase/decrease
Operating Cash Flow	10,370	13,804	+3,434
Investing Cash Flow	3,649	-5,016	-8,665
Free Cash Flow	14,019	8,788	-5,231
Financing Cash Flow	-7,196	-5,476	+1,720
Cash and Equivalents	26,613	29,922	+3,309

*Unit: million yen.

The surplus of operating CF expanded, due to the augmentation of impairment loss, the decline in receivables, etc. Due to the augmentation of purchase of securities, etc., investing CF turned negative, and free CF shrank, but remained large.

The cash position improved.

3. Fiscal Year March 2021 Earnings Forecasts

(1) Earnings Forecasts

	FY 3/20	Ratio to sales	FY 3/21 Est.	Ratio to sales	YoY
Sales	1,612.6	100.0%	1,350.0	100.0%	-16.3%
Operating Income	92.7	5.7%	42.0	3.1%	-54.7%
Ordinary Income	98.4	6.1%	45.0	3.3%	-54.3%
Net Income	14.3	0.9%	23.0	1.7%	+60.6%

*Unit: 100 million yen. Estimates are those of the Company

Decrease in sales and profit

For the term ending March 2021, it is forecasted that sales will drop 16.3% year on year to 135 billion yen and operating income will drop 54.7% year on year to 4.2 billion yen.

The business environment is projected to become harsher, due to the stagnation of economic and production activities, the downturn in consumption, and other unpredictable risks caused by the worldwide COVID-19 pandemic. In the construction market, we anticipate sluggish domestic and overseas construction demand and the risk of product supply delays due to supply chain stagnation.

The company plans to release sample books for interior materials as planned. The dividend is still to be determined.

(2) Business Segment Trends

	FY 3/20	Ratio to sales	FY 3/21 Est.	Ratio to sales	YoY
Sales					
Interior Segment	1,221.0	75.7%	1,030.0	76.3%	-15.6%
Exterior Segment	160.8	10.0%	140.0	10.4%	-13.0%
Overseas Segment	198.1	12.3%	155.0	11.5%	-21.7%
Space creation Segment	41.5	2.6%	35.0	2.6%	-15.7%
Adjustment	-8.8	-	-10.0	-	-
Total	1,612.6	100.0%	1,350.0	100.0%	-16.3%

*Unit: 100million yen. In the term ending March 2021, the Interior segment business was divided into the Interior segment and the Space Creation segment.

The figures for the term ended March 2020 are those of the new segments.

(3) Effects of COVID-19

According to the survey titled “Survey on the effects of COVID-19 on business performance,” which targeted 373 major companies out of about 5,400 member companies of the Japan Interior Decoration Association (JIDA), an industry group composed of mainly construction businesses dealing in interior materials such as wallcovering and flooring materials, 30% of the companies in Japan have either postponed or canceled their activities scheduled to be conducted in April to June 2020. The percentage was about 40% for areas where the state of emergency was initially announced (Tokyo, Saitama, Chiba, Kanagawa, Osaka, Hyogo, and Fukuoka).

The survey was conducted in April, so the current situation is unclear. However, it predicts the effects of the worsening of individual income on building new houses and remodeling old ones, the effects on the hospitality industry due to movement limitations and people avoiding travel, the effects on restaurants and cafes due to the new lifestyle and self-isolation, the effects on the demand for offices after the adoption of telework, the effects of the downturn of the entire economy, etc.

4. Long-term Vision of Sangetsu Group 【 DESIGN 2030 】

From 2014 when Mr. Yasuda, who is not from the founding family for the first time, was appointed as president, President Yasuda has made various reforms to the management structure, governance structure, the way of working, communication with the outside, etc. and as a result, the company has transformed and profoundly changed.

However, as for businesses per se, the business model of selling interior materials has not changed, and the company recognizes the need to reform this business model itself.

In order to do this, the company made its vision clear and recognizes the need to continue to steadily implement different strategies while keeping in mind its future goals, thus set Long-term Vision of Sangetsu Group 【 DESIGN 2030 】 .

【 DESIGN 2030 】 stands for designing the ideal state of the company in 2030.

The respective letters of “DESIGN” represent the initials of various policies the company aims to follow.

The Long-term Vision of Sangetsu Group

【 DESIGN 2030 】

Designing “how we should be” in Year of 2030

D : DESIGN	I : INFORMATION
DATA	INTERNATIONAL
E : ENVIRONMENT	G : GLOBAL
EMPLOYEE	GOVERNANCE
S : SPACE CREATION	N : NETWORK
SOCIAL	
SERVICE	
STAFF	

(Source: The company)

(1) Goal: “a space creation company”

Based on the company’s expertise in design, marketing, and distribution of its current things and products, it will conceptualize and design new spaces, develop its ability to make proposals, and aim to be a company that creates new spaces.

(2) Steps for the long-term vision

To achieve the long-term vision, the company will set the basic management policy as “design-driven management” and aim to improve its brand value and transform its business with designs. Further, it will recognize “diverse professionals” and “cooperation and utilization for business-related data” as the business and management base in order to be “an organization where diverse professionals with on-site capabilities fulfill” and also “use DATA to increase the efficiency of business and transform business.”

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As for the main functions, the company aims to make a complete about-face from the function of selling items to the function of selling services.

Moreover, the business area will be the Pacific Rim region primarily in North America, Japan, China, and Southeast Asia.

Thanks to this approach, the business will shift directions to “a space creation company” while working towards creating social value.



(Source: The company)

(3) Design-driven management

The concept of Design-driven management is as below.

“Sangetsu Group will aim to increase the value we can provide through designing to transform our business.

Not only pursuing the beauty, function and coordination of products and spaces themselves, we will conceptualize, design and propose the interaction of people and space by considering the way people spend time, live, experience and act.

In addition to designing entities and space, we will increase our brand value by designing and proposing experiences, and will aim to transform, from the company that sells things, into the company that creates spaces, and proposes and realizes matters.”

(4) Social value for which the company strives

The company sets its goals for social values as “contributing to achieving an inclusive, sustainable, and enjoyable society.” Moreover, it sets SDGs for each of the “Inclusive,” “Sustainable,” and “Enjoyable.”

An equal and healthy inclusive society Sangetsu Group will contribute to realize an equal, healthy and inclusive society, where diversity of gender will be respected, through creation of healthy and comfortable spaces.	
The global environmental protection with sustainable society Sangetsu Group will minimize our environmental footprint of the supply chain as a whole and will contribute to realize a sustainable society that will protect the global environment, through creation of spaces usable for the long term and utilization of stock buildings.	

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**A more affluent and enjoyable society**

Sangetsu Group will contribute to realize a more enjoyable society by promoting equal, safe, reassuring and efficient ways of working which respect human rights, through creation of spaces appropriate to various cultures and living.



Regarding the third aspect: “enjoyable,” based on the basic concept of SDGs: “to not leave anyone behind,” the company considered its businesses and took one step further setting realizing more prosperous and more enjoyable society as one of the social values it will provide.

(5) Numerical targets

For the term ending March 2030, 10 years from now, the company aims to achieve “sales of 225 billion yen and operating income of 18.5 billion yen.”

5. Medium-term Business Plan (2020-2022) 【D.C. 2022】

The 3-year medium-term business plan, 【 Design & Creation D.C.2022 】 is the first step towards achieving this long-term vision.

1) Review of the previous medium-term Business plan “PLG2019”:

In the final term ended March 2020, sales marked a record high at 161,200 million yen, and operating income increased 57.2% year-on-year to 9,260 million yen, indicating a significant increase in profit. On the other hand, consolidated net income decreased 60% year-on-year to 1,430 million yen due to the posting of impairment losses for the overseas business. ROIC improved thanks to CCC improvement and the increase in operating income, however, ROE declined.

The policies set in the previous medium-term business plan, including “strengthening the product procurement, marketing, logistics, etc.,” “operating overseas businesses,” “personnel-related policies,” and “ESG policies,” have been steadily implemented.

Below is an overview of each segment.

*** Interior segment**

Wallcoverings, residential and commercial floorings, and low-price version curtains have increased their market shares thanks to the improvement of sample books, the cementing of cooperation with agents, and the strengthening of order receipt, shipping, and delivery services. The market share of flooring for non-residential purposes, Rear tech, and glass films was unchanged or shrank due to insufficient implementation of specification-based sales activities for the region, the market, and the product management organization. As such, improvement is required.

The enormous data about the market, customers, products, shipping, and delivery are not being fully utilized.

*** Exterior segment**

In FY 3/2017, sales increased 1.3 billion yen. However, the company is facing issues with the quantitative and qualitative deficiency of installation and delivery capabilities, limitations on the business domain, and lack of presence in the Tokyo Metropolitan area.

*** Overseas segment**

The management system, business model, and brand in each market in each country are vulnerable, especially with the stagnation of Koroseal Interior Products Holdings, Inc.

Expanding the overseas business and improving its profitability are important issues for the company.

*** Space creation segment**

A new segment added in the term ending March 2021. Fairtone Co., Ltd., which was acquired in January 2017, has been working on expanding the business in the Kansai and Kanto regions, cooperating with Sangetsu’s construction department in the Chubu region,

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employing designers, and strengthening its general construction capabilities. In April 2019, the company established the Sangetsu space creation department. It has just gotten off the ground and it is necessary to strengthen their expertise and expand its profoundness.

The business base, business capabilities, and functions were established, strengthened, and enriched. However, the increase in operating income during the period of the previous medium-term business plan was primarily owing to price revisions in the Japanese market while the volume expansion was limited. The policies' effects are halfway through.

The company needs to thoroughly implement the existing policies, utilize data and expand the business to cover wider business categories.

ESG-related KPIs are steadily improving, as the company achieved the target rate of reduction of greenhouse gas emissions (35%), decreased employees' turnover rate (within their first 3 years), increased the percentage of female managers and the number of working mothers, implemented health-oriented management policies, improved the ESG evaluation rating, and promoted the employment of disabled workers.

The target term-end equity capital was unachieved due to the posting of impairment losses. On the other hand, the 3-year total return amount was 24.8 billion yen and total return ratio was 260.5%. The company acquired over 6 million treasury shares during the fiscal period and retired all of the treasury shares.

*The achievement of quantitative goals

	Mid-term goals in fiscal 2019	Results in 2019	Overview
Sales	165 billion yen	161.26 billion yen	Slightly smaller than the goal, but marked a record high
Net income	8-10 billion yen	1.43 billion yen	Posted the impairment loss related to Koroseal in the U.S.
ROE	8-10%	1.5%	Financial leverage and asset turnover improved, but net income declined
CCC	75-60 days	72.4 days	The company shortened accounts receivable turnover period and lengthened accounts payable turnover period and inventory turnover period
ROIC	-	7.9%	Exceeded the value in fiscal 2016: 7.2%.
EBITDA	-	13.49 billion yen	Exceeded the value in fiscal 2016: 11.2 billion yen.
Capital policy			
Equity capital	100-105 billion yen	93.24 billion yen	Decreased from 110.37 billion yen at the end of the term ended March 2017
Investment for growth	10-25 billion yen	6.2 billion yen	The goal was not achieved. M&A projects not completed.
Return to shareholders	25-33 billion yen	24.8 billion yen	Almost as planned
Term-End Cash, Equivalents	25-30 billion yen	36.8 billion yen	The investment for growth was not conducted, so the cash exceeded the estimate.

(2) Outline of the Medium-term Business Plan (2020-2022) 【D.C. 2022】

①Positioning and basic policies

【D.C. 2022】 is the medium-term business plan for 3 years and serves as the first step of the long-term vision “DESIGN 2030.”

In the 3 years, the company aims to become a space creation company. Its four basic policies are “expand earnings through qualitative growth of core business,” “growth of profitability in next-generation businesses based on resources of the core businesses,”

“strengthen management and business foundations,” and “achieving social value.” The company aims to grow by “expanding the revenue from the core business” and “making next-generation businesses profitable.”

Basic policy

1	Expand earnings through qualitative growth of core business
Interior segment (In Japan)	(1) Enhancement of design capabilities and strategic purchasing (2) Expansion and Upgrading of our Service functions (3) Deepening collaboration with distributors and strengthening sales structure
Exterior segment (In Japan)	(4) Qualitative and regional expansion in exterior business
2	Growth of profitability in next-generation business based on resources of core business
Overseas segment	In each market globally (1) Build a solid management foundation in the market in each country (2) Pursuit of the optimal business model and full commitment to localization (3) Strengthening branding and product portfolio
Space Creation segment (In Japan)	(4) Spread of Space creation business by expanding professional ability
3	Strengthen management and business foundations
	(1) Strengthening business execution capabilities and efficiency (2) The establishment of a system for the advanced utilization of data
4	Realize social value
	(1) Global environment (2) Human capital (3) Social capital (4) Governance

(Source: The company)

② Numerical goals of sales and profit

They aim to achieve “sales of 172 billion yen and operating income of 12 billion yen in the term ending March 2023.”

As for segments, the Interior Segment will be dominant in terms of value, but the key points are the bottoming-out and recovery of overseas segment and the launch of the new segment: the space creation segment.

	FY 3/20	FY 3/23	CAGR
Sales	1,612.6	1,720.0	+2.2%
Interior	1,221.0	1,270.0	+1.3%
Exterior	160.8	170.0	+1.9%
Overseas	198.1	210.0	+2.0%
Space creation	41.5	70.0	+19.0%
Operating Income	92.6	120.0	+9.0%
Interior	92.5	105.0	+4.3%
Exterior	6.4	8.0	+7.7%
Overseas	-9.3	4.0	Return to Profitability
Space creation	2.6	3.0	+4.9%

*Unit: 100 million yen. CAGR was calculated by Investment Bridge.

③ Outline of each basic policy

③-1 Expand earnings through qualitative growth of core business

◎ Interior segment

*Market environment

The housing market (new construction and renovation) and the non-housing market (new construction) are on a plateau as a whole, and their quantitative growth cannot be expected, but the market of renewal of non-housing facilities is expected to expand due to the increase of real estate in stock.

***Basic strategies in 4 markets**

Market	Basic strategy	Intensive measures
Housing: new construction	While sales quantity is dropping, the company aims to expand gross profit by raising profit rate.	Deepening collaboration with distributors Developing a sample book for strong-selling products Advancing and expanding of ordering, shipment, and delivery services Strengthening product design capabilities Strengthening strategic purchasing
Housing: renewal	The company aims to improve its market share and profit rate.	Deepening collaboration with distributors Strengthening space design Advancing and expanding ordering, shipment, and delivery services
Non-housing: new construction	The company aims to improve its market share and profit.	Strategic allocation of management resources Developmental enhancement of design capabilities Strengthening strategic purchasing
Non-housing: renewal	The company will improve profit rate by releasing high priced products, while aiming to increase sales quantity.	Strategic allocation of management resources Strengthening design capabilities for experiences

Three measures*(1) Enhancement of design capabilities and strategic purchasing****◎Advancing and strengthening design capabilities**

In addition to strengthening the capability of designing products, the company will improve the capabilities of designing spaces and services.

Through the mutual interaction among the three designing capabilities, the company will enhance the comprehensive designing capability step by step.

As for designs, the company has proposed product designs in the product development section of each business department, non-housing space designs in the interior design division, coordination mainly related to housing in showrooms, and a variety of space designs in the space creation business department. Fairtone, too, recruited designers, to increase construction works with good designs. The marketing section, too, has discussions with design firms, designers, and interior coordinators about designs, and gleans information.

Like this, respective sections of the company recognize design as an important issue, and will strive to improve the designing capability in multiple manners. As the base of their efforts, the company will clarify company-wide design strategies and set them while taking into account designs, functions, and costs demanded by the market, to improve the entire designing capability step by step.

◎Strategic purchasing

The product lineup is composed of a wide array of products whose quantities, designs, and transaction lots vary.

Of these, for products that have plentiful designs and products that are traded in small lots, it is important to emphasize the diversity of designs, diversify suppliers, and receive proposals for designs from various suppliers.

For products whose designs and diversity are limited and that are traded in large lots, it is considered essential to enhance cost competitiveness and cement the alliances with specific manufacturers and suppliers. So, the company will clarify procurement policies and promote strategic procurement according to the characteristics and situations of products.

(2) Expansion and Upgrading of our Service functions

The company's processes for receiving orders, shipping and delivering products are as follows:

Order taking (from interior finishing firms via distributors) → Shipping (to distributors) → Delivery (to construction sites from distributors or directly from the company)

The lead time from receipt of orders to shipping is usually 2 to 4 hours, during which products are prepared and shipped in units of 10 cm or a few sheets.

Based on this shipping, the company actualizes quick delivery to interior finishing firms and clients within the day of ordering or the following day.

Meanwhile, it takes several weeks or months for a manufacturer (supplier) to produce products after receiving an order from the company.

Under these circumstances, it is important to offer services of receiving orders and shipping and delivering products promptly, but the amount of work of interior finishing firms, which are clients, varies considerably from season to season about installation, and the work of interior finishing firms sometimes becomes excessive or insufficient.

When their schedules are tight, they call for support for construction, and in response to such demand, distributors or the company often support construction directly. This is considered as an important function.

While considering that the company's services and businesses can be strengthened by enriching and improving comprehensive services of receiving orders, storing, shipping, and delivering products, and installing them amid the shortage of manpower, it is necessary to implement measures during the period of this medium-term business plan as well.

(Order taking)

The rate of employees' involvement in receiving orders dropped considerably from 78.7% through the adoption of business process outsourcing (BPO) during the period of the previous medium-term business plan, and further declined to 13.3%, and BPO ratio decreased to 46.4%, due to the expansion of the ratio of order receipt with EDI and online order receipt.

During the period of the ongoing medium-term business plan, the company will raise the ratio of online order receipt from 40.3% to 62% and decrease BPO ratio and employees' involvement ratio to 32% and 6%, respectively. The company is also thinking of utilizing AI.

(Shipping)

During the period of the previous medium-term business plan, the company renewed, newly established, and integrated shipping equipment nationwide.

By the end of 2020, the company will establish and integrate Kansai Logistics Center (LC) equipped with labor saving equipment. In order to secure the sustainability for inventory and shipping, the company plans to install labor-saving equipment in the Tokyo Metropolitan Area and the Chubu Area.

(Delivery)

During the period of the previous medium-term business plan, the company established delivery systems mainly in the Tohoku region. The company will upgrade local delivery systems in northern Kanto, Shizuoka, Hokuriku, Kansai and Kyushu regions, and develop systems for delivering heavy items mainly in metropolitan areas.

(Construction)

In Fairtone, about 650 engineers are engaged in installation work. In addition, combined with the engineers entrusted by Sangetsu, partner firms, etc., the company has about 1,000 interior finishing engineers at the moment.

During the period of the ongoing medium-term business plan, the company will strengthen and upgrade the interior finishing capability, improve comprehensive skills, and enrich the network for interior finishing.

(3) Deepening collaboration with distributors and strengthening sales structure

The ratio of sale via distributors rose from 57.7% in the term ended March 2016 to 65.4% in the term ended March 2020.

Since it is important to cement the cooperation with distributors, in order to streamline business operations and expand sales quantity, the company plans to strengthen the cooperation with distributors quantitatively and qualitatively, and increase the ratio of volume of sales via distributors to 70% in the term ending March 2023, which is the final year of the plan.

Furthermore, the company will aim to streamline operations and divide labor by sharing and utilizing information and data.

As for the marketing system, which needs to be improved, the company will allocate employees mainly to activities related to specifications in the non-housing market, without changing the current number of sales staff members: 850 to 890, to improve the competitiveness of specifications in the non-housing market.

The company will also strive to enhance marketing while utilizing the designing capability.

The interior design division, which is in charge of marketing designs targeted at non-housing clients, proposes space designs and custom-made designs mainly for non-housing facilities, while the show room, which is a foothold for marketing designs targeted at builders, house makers, and remodeling contractors, concentrates on the proposals for design coordination mainly for housing.

◎Exterior segment

They will enhance marketing in the downstream market, expand their business in the Tokyo Metropolitan Area, and enter the landscaping field.

In addition, they will improve the system for delivering mainly heavy objects and installation work, as the functions of the existing businesses.

③-2 Growth of profitability in next-generation businesses based on resources of the core businesses

*Overseas segment

In each country, they will develop a robust management base, pursue optimal models, localize their services thoroughly, and enhance brand development and the product portfolio.

◎Build a solid management foundation

The company will invite new management staff, improve personnel, and establish new business bases mainly for Koroseal, which posted the impairment in the previous term, and Goodrich, which is a foothold for cultivating the huge Southeast Asian market.

North America	United States	Koroseal	New CEO and executive
	Canada	Metro	
China	China	Sangetsu (Shanghai) Corp.	Integrate Sangetsu(Shanghai) Corp. and Goodrich China
		Goodrich	Adjust appropriate staff organization
Southeast Asia	Hong Kong	Goodrich	New GM in Goodrich Hong Kong
	Vietnam	Goodrich	Establish Sangetsu Goodrich Vietnam and firm foundation of Sales team
	Thailand	Goodrich	Establish Sangetsu Goodrich Thailand 100% subsidiary
	Malaysia	Goodrich	Enhance employee capability and strengthen sales team in Goodrich Malaysia
	Singapore	Goodrich (HQ)	Enhance employee capability and strengthen sales team in Goodrich Singapore

(Source: The company)

◎Pursuit of the optimal business model and full commitment to localization, and strengthening branding and product portfolio

While pursuing optimal models, the company will localize services thoroughly, because local power is essential for the interior material business.

For improving the product portfolio, the company will enhance brand development while upgrading products demanded in the market of each country.

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As for brand development, the company will reinforce the Koroseal brand in the U.S., the Metro brand in Canada, the Sangetsu and Goodrich brands in China, the Goodrich brand in Hong Kong, the Goodrich and Sangetsu brands in Vietnam and Thailand, and the Goodrich brand in Malaysia and Singapore.

North America	United States	Koroseal	Strengthening design of own-brand products as a manufacturer Expanded sales of own-brand products
	Canada	Metro	Aim for 60% share of the wallcovering market, expanding product line up
China	China	Sangetsu (Shanghai) Corp.	Focus on sales of competitive Japanese products and differentiated US products
		Goodrich	
Southeast Asia	Hong Kong	Goodrich	Expanding product lineup for hotel market and strengthening ability to address the non-hotel market
	Vietnam	Goodrich	Expand sales of Japanese wallpaper for the residential market and of flooring materials for the non-residential market
	Thailand	Goodrich	Adding products made in Thailand to those made in the United States and Japan
	Malaysia	Goodrich	Inventory strategy to maximize the benefits of free trade agreements and expansion of inventory of Japanese products
	Singapore	Goodrich (HQ)	Strengthen inventory strategy with a view toward growth markets

(Source: The company)

*Space creation segment

The company aims to become a space creation company, first with the initiatives of the space creation segment, and the company also aims to operate businesses in other sections with company-wide efforts.

Sangetsu possesses plenty of knowledge and strengths in the existing core businesses, including the customer base (such as hotels, accommodation, offices, commerce, and welfare), the capability of designing in cooperation with about 60 staff members of the interior design division and external interior designers, who propose non-housing space designs, and Fairtone's capability of interior finishing. The role of the space creation section is to acquire and improve the capabilities of designing spaces, coming up with, envisioning, and proposing space designs, and giving consultation services, comprehensive skills for wood-crafting, lighting, and electricity, and specialized skills for strengthening construction management, to create and offer optimal spaces for customers and expand the space creation business.

③-3 Strengthen management and business foundations

◎Strengthening business execution capabilities and efficiency

The company will improve the capability of executing business by enriching education and training programs, expanding the recruitment of advanced specialized personnel, strengthening on-site operation skills and specialized abilities, and promoting employment of a variety of staff, and also streamline business operations by reforming them, adopting constant telework, and promoting regular, close communication inside the company.

The company will also shift to the personnel and salary systems emphasizing the duties, for strengthening on-site operation skills and specialized abilities.

In addition, the company will keep conducting health-oriented management, increasing engagement, and promoting the employment so that all employees' abilities will be utilized.

◎The establishment of a system for the advanced utilization of data

As the company receives orders for a lot of various products from a lot of various customers and ships enormous amounts of products, a huge volume of various data is emerging on a daily basis.

These data can be classified into "data related to order receipt," "data related to shipping and delivery," and "data related to marketing." Among them, "data related to order receipt" and "data related to shipping and delivery" are obtained in cooperation with distributors, etc., at the moment but the company has not obtained the data related to shipping and delivery of distributors.

There is no structure for obtaining data related to marketing.

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In order to visualize and streamline business operations utilizing data, conduct effective marketing, and enable business transfer in each business in the future, it is necessary to obtain new data through various efforts, organize them, transform marketing data, which are not organized, into qualitative data, and coordinate and analyze data.

The goal is to establish a system for utilizing data steadily in an advanced manner step by step during the period of the ongoing medium-term business plan.

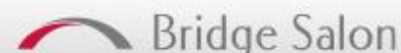
③-4 Achieving social value

The company will extract ESG issues in 4 groups: the earth environment, human capital, social capital, and governance, design and execute measures after clarifying materiality.

The company will extract ESG issues and execute measures, while linking them with pursuing three values specified in the long-term visions: “Achieving social value,” “Inclusive, Sustainable, Enjoyable,” and “Enjoyable to everyone forever.”

Global environment “Reduce environmental impact”	(1) Reduce impact on global environment •Reduce GHG emissions •Reduce Energy consumption •Reduce Total waste emissions •Improve Recycling rate (2) Understanding and reducing the environmental impact of the supply chain •Understanding GHG basic unit for each supplier, and taking it into consideration during purchasing activities (3) Expansion of long-lasting products •Developing the high durability product •expansion of the long-term continuation product (4) Expanded collection and recycling of sample books •Building and expanding the collection and recycling system.
Human capital “The organization where various human resources are active”	(1) Promote employee health and skills •Developing employees’ health reassurance and safety •Promoting of improving work style by Business process reform •Developing skills based on carefully tailored human resources management •Improving employee engagement (2) Promote diversity & inclusion •Promoting the success of women •Promoting of Hiring of disabled persons •Increasing the number of non-Japanese employees including personal exchange in Sangetsu group
Social capital “Improving the reliable, safe and attractive supply chain” “Participation in local communities”	(1) Improving product safety •Review of raw materials (2) Improving the stability of quality •Reduction of the quality claim (3) Promotion of purchasing activities that consider the environment, human rights, and labor safety and hygiene

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	<ul style="list-style-type: none"> •Building the long-term and stable business relationship with supplier <p>(4) Work style reform in tandem with business partners</p> <ul style="list-style-type: none"> •Reform and improve work system though value chain <p>(5) Proactive participation in local communities</p> <ul style="list-style-type: none"> •Space creation in children's home renovations •Work on the support for the children of developing countries •Active employee participation <p>(6) Enhancing interior culture and supporting the arts</p> <ul style="list-style-type: none"> •Continued holding of Sangetsu Wallpaper Design Award •Support various art events
Governance “Strengthen Corporate governance”	<p>(1) Enhancing the effectiveness of the Board of Directors</p> <ul style="list-style-type: none"> •Promoting diversity of the Board of Directors •Securing the independence of the Board of Directors <p>(2) Enhancing the effectiveness of the Nomination and Compensation Committee</p> <ul style="list-style-type: none"> •Consideration of nomination method for candidates of directors based on timeline and clarified qualification requirements •Ensuring objectivity in the process of determining director compensation and disclosing its content <p>(3) A thorough commitment to compliance</p> <p>(4) Implementing responsible dialog with stakeholders</p>

③-5 Quantitative goals

The company sets quantitative goals (KPIs) regarding the three points: its economic value; social value; and capital policy.

(1)Economic value: Goals for FY3/23

Consolidated Sales	¥172 billion
Consolidated Operating Income	¥12 billion
Consolidated Net income	¥8.5 billion
ROE	9.0%
ROIC	9.0%
CCC	65 days

(2) Social value: goals in the term ending March 2023

1. Global environment	Reduce environmental impact in business activities (Scope 1 and 2)	
	① GHG emissions	SBT: WB 2°C achieved* 30.0% reduction (from fiscal 2018) * Target for fiscal year ending March 2031
	② Energy consumption	4.0% reduction (from fiscal 2018)
	③ Total waste amount	4.0% reduction (from fiscal 2018)
	④ Recycling ratio	At least 83%

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2. Human capital	(1) Promote employee health and skills	
	① Improve rates of specific health guidance provision, cancer screening, findings, and metabolic syndrome	
	② Non-smoking rate : At least 80%	
	(2) Promote diversity & inclusion	
	① Ratio of female managers	At least 20%
	② Ratio of employees with disabilities	At least 4.0%
3. Social capital	Participation in local communities	
	① Space creation in children's home renovations	30 per year
	② Active employee participation	Matching gift: 7,000 S-mile

*The goals of reducing greenhouse gas emissions in 5-15 years set by enterprises to keep global air temperature from rising 2°C from pre-industrial levels (Well Below (WB) 2°C) or limit the temperature increase to 1.5°C above pre-industrial levels.

(1) Capital policy

◎Capital policy

1. Maintain the equity to the range of JPY90.0 billion to JPY95.0 billion.
2. Maintain a total return ratio of approximately 100% on a three-year average.
3. After assessing the impact of COVID-19 on the business results, we will make decisions about dividends and acquisition of own shares under the basic policy of stable dividend increase.

◎Capital allocation policy

To be determined once three-year business results outlook is clear.

6. Interview with President Yasuda

We interviewed President Yasuda about his review of the results for the fiscal year ended March 2020, the impact of COVID-19, key points of the Long-term Vision of Sangetsu Group 【 DESIGN 2030 】 and the Medium-term Business Plan (2020-2022) 【D.C. 2022】 etc.

Review of the fiscal year ended March 2020, which was the last year of the previous medium-term management plan

Sales, which increased only slightly, marked a record high. In the Interior Segment, all the product categories saw the growth of sales, and the expansion of mass-produced wallcoverings recovered the market share of the Wallcoverings Business that dropped last year. In addition, the market share of the Flooring Materials Business expanded and their sales increased for the 10th consecutive term. Operating income rose significantly as the price increases in October 2018 contributed to annual results, and the company was able to make steady progress in its domestic business by utilizing its strengths, despite the still challenging external environment.

On the other hand, it had been a tough three years for the overseas business, with the posting of impairment losses for Koroseal in the U.S. and Goodrich in Singapore failing to make as much progress as expected, leaving the company with several challenges. Although we posted impairment losses for Koroseal, we hope you understand that we have made preparations to start again from scratch for the start of the new medium-term business plan. We enhanced our product power by changing the management and introducing a new seven-color printing machine which was not available in other companies. Also, as the company relies heavily on the hospitality (hotel) industry, we will work to diversify our customer portfolio including medical facilities, taking into account the impact of COVID-19.

With regard to Goodrich, the company is making efforts in enhancing its business in Southeast Asia and Indochina, and reviewing its product mix in line with regional characteristics in order to build a strong management foundation.

Regarding the forecast for the fiscal year ending March 2021

Despite the uncertainty caused by COVID-19, we have announced our earnings forecast from the perspective of our responsibility to investors. The residential field will be affected significantly as many would be reluctant to buy houses, especially newly built ones.

The overall environment is difficult and uncertain for the non-residential field, although it may not be as difficult as the residential field. The dividend is still undetermined, but we hope to increase it as stably as possible while taking into account our performance.

Regarding the Long-term Vision of Sangetsu Group 【 DESIGN 2030 】

My primary idea in the long-term vision 【 DESIGN 2030 】 is that “it is essential to reform the business model.”

It is clear that the domestic market has its limit, and it is also obvious that business will come to a standstill if the company only sells interior materials. From now on, the company needs to generate sales from comprehensive construction and space design in addition to the sale of materials. There is no way for us to choose to fight a war of attrition when it is clear that the pie is not growing.

We strive to become a “space creation company” that creates new spaces by acquiring the ability to conceptualize, design and propose new spaces, in addition to our current product design, sales and distribution capabilities.

As we aim to become a “space creation company” in the long-term vision, the type of human resources we need has become clearer. Firstly, we need highly specialized human resources, such as designers and personnel with data management skills. It is essential to actively recruit them from outside the company in addition to training them internally. We consider this to be more important than it was in the previous medium-term business plan.

Secondly, we need human resources with on-site work capabilities. The company’s reform does not imply abandoning the current business to start a completely new one, but rather assembling construction and space design on top of the existing businesses, which is why on-site work capabilities become even more crucial. Although labor-saving measures are being promoted for shipping, delivery, and warehouse operations, “people” are still important. We had been giving priorities to transforming costs into variable costs and outsourcing the warehouse work until now, but considering that our employees can grasp the whole picture and clarify problems that have been hidden by outsourcing, if they perform the work themselves which is a big merit, it is extremely important to train human resources with field capabilities.

It is essential to acquire and train diverse human resources having expertise and on-site work capabilities. We are also considering revisions of the personnel evaluation and pay systems.

Regarding the Medium-term Business Plan (2020-2022) 【D.C. 2022】

In the long-term vision 【 DESIGN 2030 】 we have set our main function, which should be our goal, as the “full conversion into a service seller: a business with services as a source of added value,” and the business foundation required to realize this goal is the “the establishment of a system for the advanced utilization of data” to collect, coordinate, analyze, and utilize the data in addition to human resources.

The company receives orders for numerous and diverse products from numerous and diverse customers, and ships an average of 60,000 items per day. However, although we are able to obtain data related to orders from distributors and shipments and deliveries to distributors, we lack data on whom distributors received orders from or which construction sites the items were delivered to. We also conduct marketing activities to house makers, builder business owners, clients, design offices, etc., but orders from house makers are not placed with Sangetsu but with the interior decoration contractors in charge of the interiors, and Sangetsu receives the orders through distributors. For this reason, it is extremely difficult for Sangetsu to know the real decision maker for the order at present.

As I mentioned earlier, we have data on shipments of 60,000 items per day, but we are currently in a big sea of data, having no idea where we are.

Therefore, if we can obtain data on orders and deliveries that we cannot obtain at the moment from distributors, and link it to our unstructured sales data and analyze and utilize it, we believe that it will enable us to develop new products and create new services that we cannot even think of at the moment, in addition to improving delivery efficiency and marketing accuracy.

It is not easy and it is not something that can be solved in the coming three years, since the cooperation of the distributors is essential and it is also concerned with the nature of the agency system, but we are going to take a step or two for its realization.

Message to shareholders and investors

The future outlook remains unclear due to the impact of COVID-19, but we have announced the Long-term Vision of Sangetsu Group

【 DESIGN 2030 】 for 2030 and its first step, the Medium-term Business Plan (2020-2022) 【D.C. 2022】.

We will steadily implement short, medium, and long-term measures, and aim to become a “space creation company” by achieving target figures and reforming the business model.

In addition, we will be even more conscious of the social significance of our company’s existence and focus on building relationships of trust with all our stakeholders.

The business environment is expected to be difficult now, but we hope for your support from a medium-to long-term perspective.

7. Conclusions

The voyage for becoming “a space creation company” has begun. For the president Yasuda, who took office as president for the first time among people outside the founding family in 2014, the primary mission is to “reform the business model” while the domestic market obviously has limits, as mentioned during the interview. In the previous term, a significant impairment loss was posted in the overseas business, which struggled. However, rooting out bad things through early judgement is considered appropriate, as the company will pursue the long-term vision and start the new medium-term business plan. The existence of COVID-19 is unfavorable for domestic and overseas businesses, but we would like to pay attention to quarterly business overviews and results in the short term, and how the company will “the establishment of a system for the advanced utilization of data” in the medium/long term. If possible, we would like to see the reports on the situations regarding COVID-19, in addition to quarterly reports.

<Reference :Regarding Corporate Governance>

◎Organization type and the composition of directors

Organization type	Company with audit and supervisory committee
Directors	7 directors, including 4 outside ones

◎Corporate Governance Report

Last update date: : June 26, 2020

<Basic Concept>

Our corporate creed is “Sincerity,” 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>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. With regard to holding shares, each year we will check the associated cost and returns, and if it is determined that holding the shares has no strategic value in the medium- and long-term, we will sell the shares, and conduct operations based on that decision. The Board of Directors’ decision and a disclosure of the shares we decide</p>

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	<p>to continue holding will appear in the “Shareholding status” column of the securities report.</p> <p>2. Attitude toward exercise of voting rights</p> <p>We will keep an open dialogue and communicate through various channels, while respecting the management policies of companies that we invest in. We will make a comprehensive judgment based on company’s stance on shareholder returns and improving corporate value in the medium-to long-term, their corporate governance policies, and CSR activities. We will also separately examine whether holding the shares of the company is constructive to our goals and whether it will lead to improving the corporate value of the company we invest in.</p>
Principle 5-1 Policy on constructive communication with shareholders	<ul style="list-style-type: none"> • In our company, the Chief Executive Officer manages the implementation of IR activities. • Our company has established the General Affairs 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 General Affairs Public Relations and IR Department carry out interviews with both Japanese and overseas institutional investors, and analysts, upon their request. • Although the IR department specializes in handling IR activities, other departments such as the headquarters of each business, the Finance and Accounting Department, and the Office of the President’s Corporate Planning Division cooperate with the 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. • Since 2017, we have held company briefings for shareholders at our Shinagawa showroom in mid-July, after the general meeting of shareholders. This has created opportunities to introduce our company to mainly individual shareholders in the Kanto region. All directors attend this briefing session, and the president and executive officers describe the company. <p>In October 2019, we held a guide tour for institutional investors in Tokyo Logistics Center, and our chief director of logistics described our strategies for logistics. Also, we exchanged information and opinions. Due to the impact of COVID-19, we canceled company briefings for shareholders this term.</p> <ul style="list-style-type: none"> • Our company publishes on our website explanatory material we used at the above-mentioned events (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 and the disclosure of videos for financial results briefings. • 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.

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