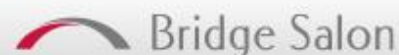


BRIDGE REPORT



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
URL	https://www.sangetsu.co.jp/english/ir/index.html

Stock Information

Share Price	Shares Outstanding		Total market cap	ROE Act.	Trading Unit
¥1,590	61,150,000 shares		¥97,228 million	5.1%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥58.50	3.7%	¥71.29	22.3x	¥1,547.92	1.0x

*The share price is the closing price on June 23. Each number is taken from the financial report for the fiscal year ended March 2021.

Earnings Trend

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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	23.56	57.50
March 2021 Act.	145,316	6,701	7,042	4,780	78.97	58.00
March 2022 Est.	152,500	6,600	6,800	4,300	71.29	58.50

*Unit: million yen, yen. Estimates are those of the company. Net income is profit attributable to owners of the parent. Hereinafter the same shall apply. From the beginning of the fiscal year ending March 2022, the company will apply the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), etc.

This Bridge Report provides an overview of the fiscal year ended March 2021.

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. Fiscal Year ended March 2021 Earnings Results](#)

[3. Fiscal Year ending March 2022 Earnings Forecasts](#)

[4. Management strategy: Progress of Medium-term Business Plan \(2020-2022\) \[D.C. 2022\]](#)

[5. Interview to President Yasuda](#)

[6. Conclusions](#)

[<Reference1: Long-term Vision of Sangetsu Group 【 DESIGN 2030 】 and Medium-term Business Plan \(2020-2022\) 【D.C. 2022】>](#)

[<Reference2: Regarding Corporate Governance>](#)

Key Points

- For the fiscal year ended March 2021, net sales decreased 9.9% year on year to 145.3 billion yen. Sales decreased in all segments except for the space creation segment due to a significant slump in demand for renovation of non-residential buildings such as accommodation facilities and stores, while there was a steady trend of detached houses in the suburbs due to the impact of the COVID-19 pandemic. Sales in the interior segment decreased for all products. Operating income declined 27.7% to 6.7 billion yen due to the decline in sales despite a decrease in SG&A. Net income increased significantly due to the impairment loss posted in the overseas segment in the previous fiscal year. Both net sales and gross profit declined for the first time in 11 years, but both sales and profit exceeded the revised forecast announced in November 2020.
- For the fiscal year ending March 2022, the company forecasts net sales of 152.5 billion yen, up 4.9% from the previous fiscal year (155.5 billion yen, up 7.0% year on year without the application of the revenue recognition standard), and an operating income of 6.6 billion yen, down 1.5% from the previous fiscal year. The company plans to increase sales in all segments. Although gross profit is expected to increase thanks to the increase in sales, operating income is expected to decline slightly due to higher purchasing costs, personnel and logistics costs associated with the recovery of sales activities, and one-time costs associated with the operation of the new Kansai Logistics Center and the publication of sample books. On the other hand, the company announced a price increase for all products (13-18%) from orders received on September 21, which is not included in this forecast and is expected to make a significant contribution to full-year earnings.
- The dividend is estimated to increase 0.50 yen per share to 58.50 yen per share in the next term. The estimated payout ratio is 82.1%.
- We interviewed President Yasuda about the results of the previous fiscal year and the progress of the medium-term business plan. “The Medium-term Business Plan (2020-2022) [D.C. 2022] itself was announced last year, but our company is making steady progress with our existing initiatives, such as making Wavelock Interior a subsidiary and starting operations at the new Kansai Logistics Center (LC). We will continue to make steady progress in each of our measures to become a ‘space creation company’ that emphasizes design capabilities,” he said.
- Although both sales and profit decreased in the fiscal year ended March 2021, sales and profit in the fourth quarter (January-March), which were expected to be lower than the previous quarter (third quarter), exceeded the forecast, resulting in larger sales and profit compared to the previous quarter. Bottoming out in the second quarter (July-September), it seems to be on a recovery trend. It will be interesting to see if this trend continues in the fiscal year ending March 2022 and whether there will be any quarterly changes.
- The company is aiming to create a structure that can steadily increase sales even when the overall market is in decline, and making Wavelock Interior a subsidiary is a big step in that light. The contribution of the space creation segment, which is performing well, and the effects of the reorganization of overseas businesses will also be closely watched.

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.

As of the end of March 2021, the group is composed of eight companies including “Sangetsu Okinawa Corporation,” which sells interior materials in the Okinawa area, “Sangetsu Vosne Corporation”, a distributor specializing in curtains “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, “Goodrich Global Holdings Pte., Ltd.,” the company selling interior materials in Southeast Asia, and “Fairtone Co., Ltd.”, which seeks to grow orders on the back of enhanced installation capabilities, Japan’s largest manufacturer of vinyl wallcovering, Wavelock Interior Co., Ltd.

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” and “corporate mission,”

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 [Reference1: Long-term Vision of Sangetsu Group 【DESIGN 2030】 and Medium-term Business Plan \(2020-2022\) 【D.C. 2022】](#))

<Corporate Creed>

Sincerity

<Corporate Mission>

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

<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 with all stakeholders involved in the company, including the manufacturers and users of interior products.

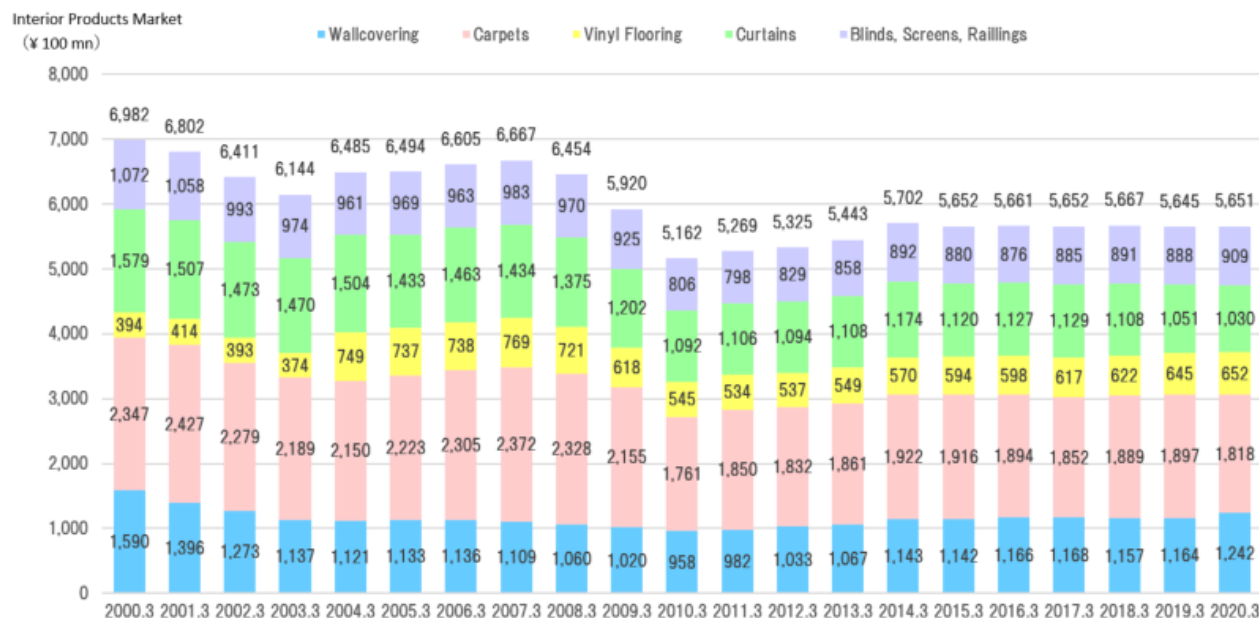
BRIDGE REPORT



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.

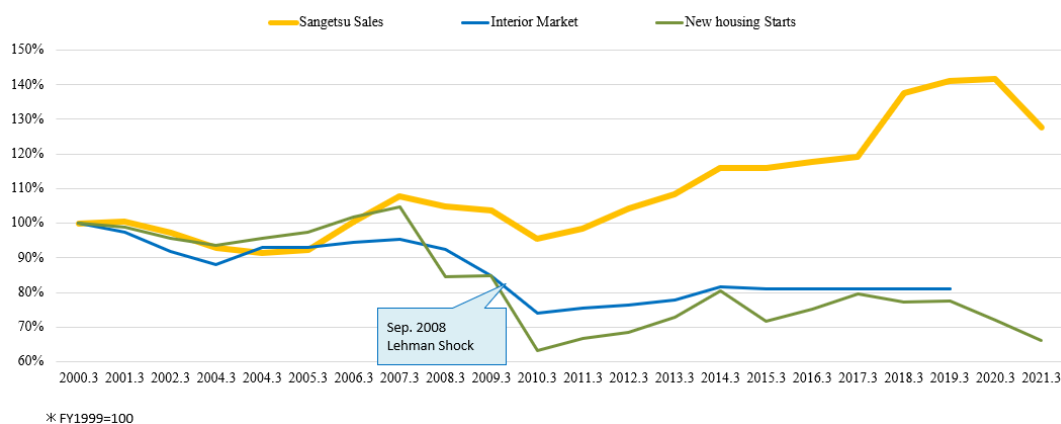


* Nippon Interior Fabrics Association "2019 General State of the Interior Fabrics Business and Market Size Determination"
(Investment Bridge made the graph based on the raw data provided by Sangetsu.)

(Source: the company)

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

The company's net sales and trends in the domestic interior market have been largely linked to the number of new housing starts, but following the collapse of Lehman Brothers, while the overall market and new housing starts have remained at low levels, the company's net sales have been at record highs continuously until March 2020. In the fiscal year ended March 2021, net sales declined for the first time in 11 years, due to the impact of the COVID-19 pandemic, but not as much as the decline in the overall market, and the company is improving its market share for its main products.

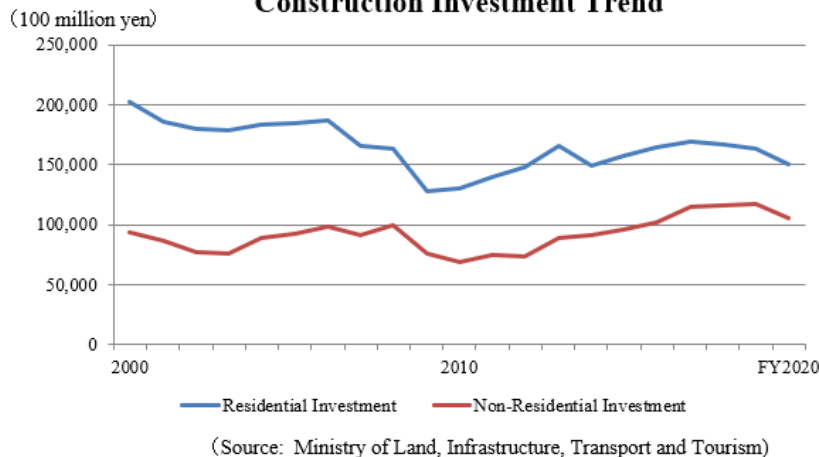


Besides M&A, this strong recovery can be attributed to Sangetsu's efforts to cultivate business in the non-residential realm in addition to private housing.

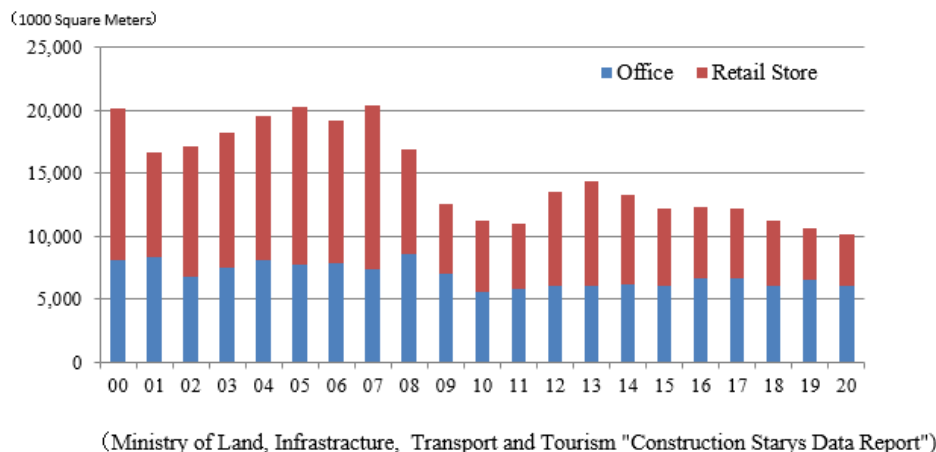
BRIDGE REPORT



Construction Investment Trend



New Constructed Office, Retail Store Floor Space Trend



According to the “Outlook for investment in construction in FY2020” released by the Ministry of Land, Infrastructure, Transport and Tourism, both private-sector residential construction investment and private-sector non-residential construction investment were on the way to recovery after the collapse of Lehman Brothers, but private-sector residential construction investment has been reaching peaks since FY2017, and private-sector non-residential construction investment, which had been above the 2000 level, has recently turned down, partly due to the impact of the COVID-19 pandemic. In addition, the total floor space of offices and shops (newly constructed) is on a downward trend, however there are ups and downs, and the contraction of the market is considered to be structural in nature.

According to “Outlook for Investment in Construction based on a Construction Economy Model” released by Research Institute of Construction and Economy (on April 28, 2021), The growth rate of investment in private, non-residential buildings increased 11.8% in FY2017, 1.5% in FY2018 (estimate), and 0.5% in FY2019 (estimate), but is expected to fall 4.5% in FY2020 (estimate) and 3.2% in FY2021 (estimate).

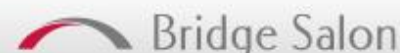
The main reason is the decrease of accommodation facilities and stores due to the COVID-19 pandemic.

The floor area of offices to be constructed increased 10.3% in FY 2016, but dropped 4.6% in FY2017, and decreased 3.9% in FY2018. It recovered in FY2019, growing 2.3%, but is expected to fall sharply by 10.0% in FY2020 (estimate). Said floor area is estimated to recover in FY2021 (estimate), growing 9.4% thanks partly to the easy year-on-year comparison, but the decline trend looks set to continue.

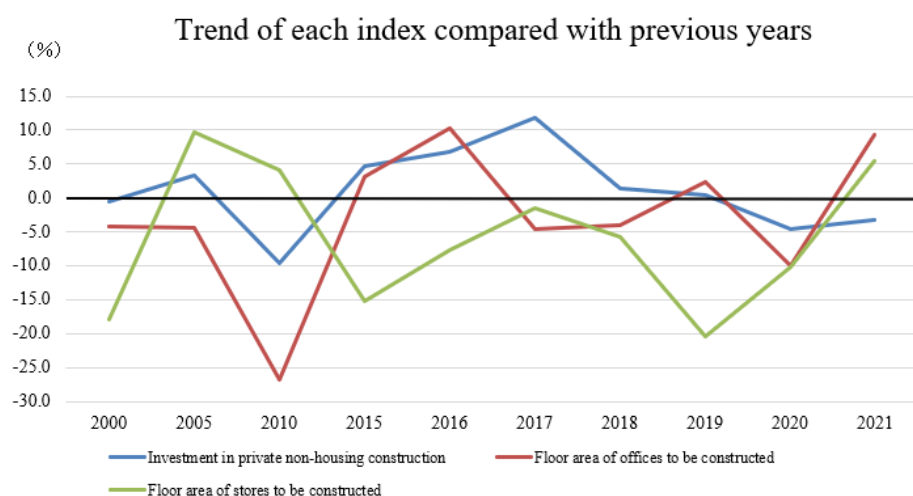
According to the forecast, “With vacancy rates rising nationwide and average rents falling in Tokyo, there is a sense of uncertainty about the future.”

The floor area of shops to be constructed has continued to fall since FY 2014. It decreased 20.5% in FY2019 and is projected to show a double-digit decline in FY2020 (estimate), down 10.2%. In FY2021 (estimate), said floor area is expected to increase 5.4%, turning to plus.

BRIDGE REPORT



The outlook states that “the downward trend has continued, but there are signs of a recovery,” but it is unclear whether this will lead to a sustained recovery.



*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 April 2021).

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

As for floor area, figures from 2020 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 Market Development Department and the contract sales department. They are also making efforts to develop overseas segment, pursuing further growth by reinforcing the advantages they have over other companies.

◎Competitors

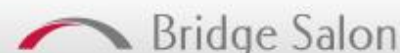
In addition to Sangetsu, there are eight publicly traded competitors that operate in the interior decorating market.

Stock Code	Company	Net Sales	YY Change of Net Sales	Operating Income	YY Change of Operating Income	Operating Income Margin	Total Market Cap	PER	PBR	ROE
3501	Suminoe Textile Co., Ltd.	81,400	-11.1%	868	-44.3%	1.1%	14,258	39.1	0.4	0.5%
4206	Aica Kogyo Co., Ltd.	200,000	+14.5%	21,000	+16.7%	10.5%	266,645	19.8	1.9	8.1%
4215	C.I.TAKIRON Corporation	140,000	+4.1%	8,000	-6.0%	5.7%	56,355	10.2	0.7	6.4%
4224	Lonseal Corporation	18,500	+7.8%	1,250	+9.6%	6.8%	7,062	7.8	0.4	5.2%
5956	TOSO COMPANY, LIMITED	21,700	-	720	-	3.3%	5,340	10.1	0.4	6.2%
7971	TOLI Corp.	88,000	-	1,500	-	1.7%	16,306	14.9	0.4	3.8%
7989	TACHIKAWA CORPORATION	42,040	+5.2%	4,800	+5.8%	11.4%	27,200	8.4	0.6	7.5%
8130	Sangetsu Corporation	152,500	-	6,600	-	4.3%	95,027	21.8	1.0	5.1%
9827	Lilycolor Co., Ltd.	34,100	+4.1%	500	+464.2%	1.5%	2,532	13.7	0.4	0.9%

*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 17, 2021. ROE is based on the previous term.

As TOSO, TOLI, and Sangetsu will apply the “Accounting Standard for Revenue Recognition” from the beginning of this fiscal year, the increases in net sales and operating income are not shown.

BRIDGE REPORT

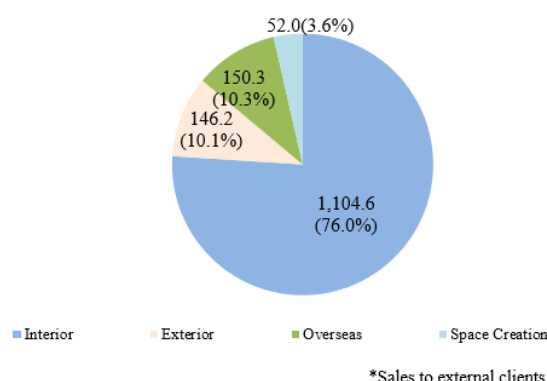


1-4 Business Description

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 segment is operated by three subsidiaries located in the U.S., China, and Singapore.

The company has 4 business segments, which are Interior segment, Exterior segment, Overseas segment, and Space Creation segment.

Sales by Business Segment
(FY3/21, Unit: ¥mn)



①“Interior Segment”

(FY3/21: Net Sales and Operating Income of 110,462 million yen and 7,082 million yen 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 wallcovering. 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 residences.
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.

BRIDGE REPORT

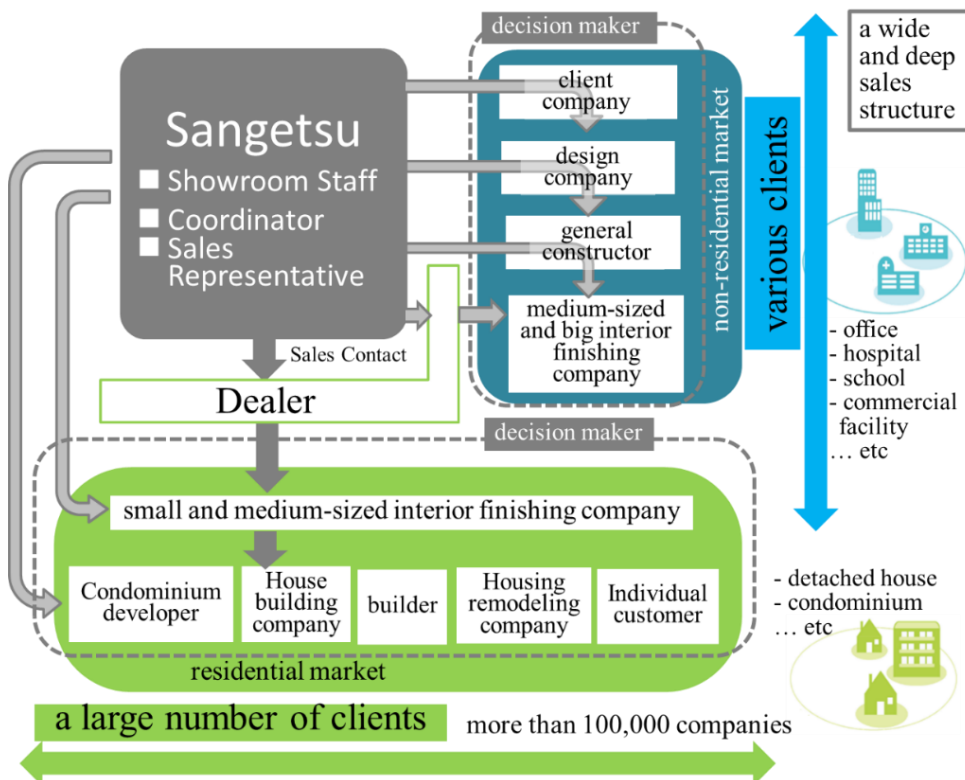


Sangetsu boasts a diverse product lineup with about 12,000 different products in total. There are about 4,300 different wallcovering products alone. Sample books are updated every two years (those for curtains are updated every three years), with an existing product replacement rate for wallcoverings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

◎Sales Structure

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



(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 residence or building is completed, a large number of players such as the client (facility owner), design office, design office, general contractor, subcontractor, residential manufacturer, 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" sales activities, Sangetsu also conducts "proactive" sales of its products through its 700-sales staff which belongs to its Market Development Department and its Contract Sales Department, etc. to provide and gather information, and propose products to clients.

While the main sales efforts are conducted through dealers, Sangetsu also conducts direct sales 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 10 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.

BRIDGE REPORT



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 about 100 supplier companies.

For streamlining logistics, we are constructing logistics centers. On January 5, 2021, the Kansai LC was newly established and began operation, aiming to strengthen the logistics system for the entire western Japan and to automate and save manpower in logistics operations. The company will consider installing the same equipment in other LCs, including those in the Tokyo metropolitan area.

As for delivery, the company is improving its own delivery system, to cope with the increase 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”

(FY3/21 Net Sales and Operating Income of 14,624 million yen and 417 million yen)

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”

(FY3/21 Net Sales and Operating Income of 15,034 million yen and -985 million yen)

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.

In Southeast Asia and China, the company is currently reforming its business structure in order to improve profitability.

④“Space Creation Segment”

(FY3/21 Net Sales and Operating Income of 5,195 million yen and 201 million yen)

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

It consists of Sangetsu's space creation department and its subsidiary, Fairtone Co., Ltd.

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 3/13	FY 3/14	FY 3/15	FY 3/16	FY 3/17	FY 3/18	FY 3/19	FY 3/20	FY 3/21
ROE (%)	4.1	4.6	3.7	5.6	6.0	4.2	3.5	1.5	5.1
Net income margin (%)	3.90	4.14	3.33	4.77	4.84	2.89	2.23	0.89	3.29
Total asset turnover [times]	0.88	0.93	0.91	0.95	0.88	0.91	0.94	0.96	0.90
Leverage [times]	1.19	1.20	1.21	1.24	1.41	1.60	1.67	1.74	1.73

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.

BRIDGE REPORT



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 except for some parts 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.

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 sales 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.



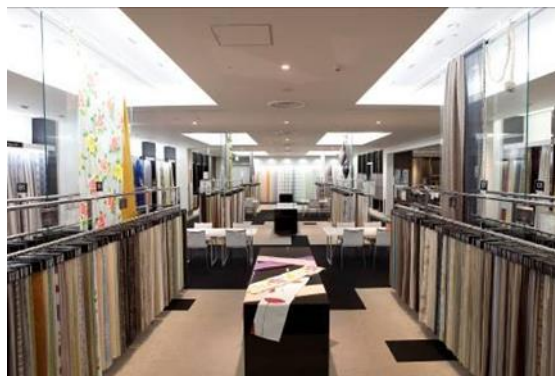
(Source: the company)

“Proposing”

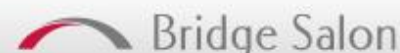
Nearly half of all employees or about 700 staffs work in sales functions at Sangetsu, the largest sales function within the industry. These sales staffs are assigned to 50 offices and 8 branches located throughout Japan and conduct proposal-based sales to clients. Sangetsu also staffs its 8 showrooms with about 110 employees. In addition, about 70 contract design staff create design boards that combine samples of various products for customers to use when choosing interior products. This high level of proposal-based selling capability is unmatched within the industry and sets Sangetsu apart from its competitors.



(Source: the company)



BRIDGE REPORT

**“Providing”**

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 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 2021 Earnings Results

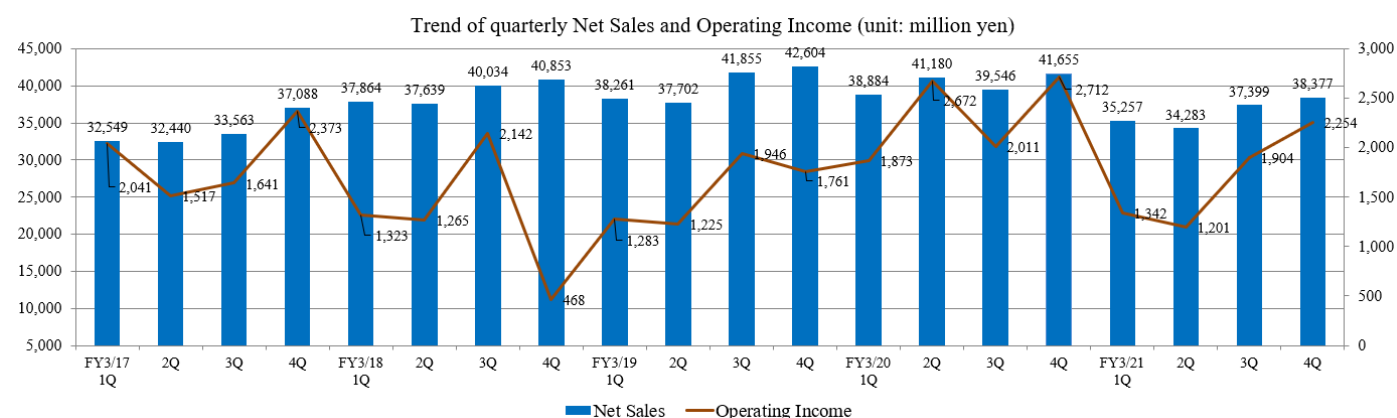
(1) Earnings Results

	FY 3/20	Ratio to Net Sales	FY 3/21	Ratio to Net Sales	YoY	Compared to forecast
Net Sales	161,265	100.0%	145,316	100.0%	-9.9%	+3.8%
Gross profit	52,925	32.8%	47,640	32.8%	-10.0%	+3.6%
SG&A	43,656	27.1%	40,938	28.2%	-6.2%	+0.8%
Operating Income	9,268	5.7%	6,701	4.6%	-27.7%	+24.1%
Ordinary Income	9,844	6.1%	7,042	4.8%	-28.5%	+21.4%
Net Income	1,432	0.9%	4,780	3.3%	+233.8%	+36.6%

*Unit: million yen. The forecast is revised forecast announced in November 2020.

Sales and profit decreased but exceeded revised forecast

For the fiscal year ended March 2021, net sales decreased 9.9% year-on-year to 145.3 billion yen. Sales decreased in all segments except for the space creation segment due to a significant slump in demand for renovation of non-residential buildings such as accommodation facilities and stores, while there was a steady trend of detached houses in the suburbs due to the impact of the COVID-19 pandemic. Sales in the interior segment decreased for all products. Operating income declined 27.7% to 6.7 billion yen due to the decline in sales despite a decrease in SG&A. Net income increased significantly due to the impairment loss posted in the overseas segment in the previous fiscal year. Both net sales and gross profit declined for the first time in 11 years, but both sales and profit exceeded the revised forecast announced in November 2020.



BRIDGE REPORT



On a quarterly basis, both sales and profit decreased in the fourth quarter (January-March) year on year, but sales and profit increased from the third quarter. It bottomed out in the second quarter and is on a recovery trend.

(2) Business Segment Trends

	FY 3/20	Ratio to net sales	FY 3/21	Ratio to net sales	YoY	Compared to forecast
Net Sales						
Interior segment	122,092	75.7%	111,794	76.9%	-8.4%	+4.0%
Wallcovering Materials business	60,226	37.3%	55,814	38.4%	-7.3%	-
Flooring Materials business	44,762	27.8%	41,271	28.4%	-7.8%	-
Fabric Materials business	8,472	5.3%	7,816	5.4%	-7.7%	-
Others	8,631	5.4%	6,892	4.7%	-20.2%	-
Exterior segment	16,082	10.0%	14,626	10.1%	-9.1%	+4.5%
Overseas segment	19,804	12.3%	15,034	10.3%	-24.1%	+3.7%
Space Creation Segment	4,162	2.6%	5,239	3.6%	+25.9%	+4.8%
Adjustments	-876	-	-1,378	-	-	-
Total	161,265	100.0%	145,316	100.0%	-9.9%	+3.8%
Operating Income						
Interior segment	9,324	7.6%	7,082	6.3%	-24.1%	+22.1%
Exterior segment	642	4.0%	417	2.9%	-35.1%	+4.3%
Overseas segment	-932	-	-985	-	-	-
Space Creation Segment	185	4.4%	201	3.8%	+8.8%	+34.6%
Adjustments	48	-	-13	-	-	-
Total	9,268	5.7%	6,701	4.6%	-27.7%	+24.1%

*Unit: million yen. Ratio to net sales of operating income represents the operating income margin. The fabric materials category of sales includes both curtains and upholstery. Due to changes in reportable segments, figures for the term ended March 2020 have been retroactively adjusted to reflect these new segments.

①Interior segment

Sales and profit declined, with sales falling for all products.

The overall market shrank 9.5-10% in value terms, but net sales in the interior segment declined 8.4%, while the share in the market of wallcovering and flooring materials increased. Despite a significant decline in the number of new housing units, sales of low-priced wallcovering materials, which are the focus of the company's efforts, have been firm due to a shift in demand from the mid-to-high price range. The company continued its sales and promotional activities in response to the COVID-19 pandemic, such as conducting product seminars and interior consultation online, expanding information on its website, and embracing telework.

<Wallcovering Materials>

In addition to the COVID-19 pandemic, the decline in the number of new housing starts and the contraction of the market, especially for hotels and commercial facilities, had an impact on sales.

However, in the fourth quarter (January-March), sales of the "RéSERVE 1000" wallcovering sample book for residential use and "Reform Selection" were driving sales, as demand in the rental housing and residential renovation markets increased in some areas. In addition, CLEAS, the glass film sample book, continued to perform well, and anti-virus products were also strong due to the growing needs for safety and peace of mind.

<Flooring Materials>

Demand in the accommodation and commercial sectors did not recover and sales declined.

Sales of "FLOOR TILE," which can be used in a wide range of residential and non-residential fields, were strong. The cushion floor sample book "H Floor," published in September 2020, has spread into the market. In addition, some products, mainly anti-viral products, are performing well in "S Floor," the sample book of floors for various facilities published in November 2020. In the office refurbishment market, the "NT-350 Series" and "NT-700 Series" of carpet tiles featuring high design quality at an affordable price range were increasingly adopted.

< Fabric Materials >

Sales declined due to market deflation and the impact of self-restraint and reduction of sales activities including sales

BRIDGE REPORT



promotion events.

In the residential market, the curtain sample book “AC” drove sales, while the chair fabric sample book “UP” and the curtain sample book for various facilities “Contract Curtains” published in September also performed well. In particular, curtains with antiviral and antibacterial functions have been adopted more widely, being used not only in conventional medical and welfare facilities, but also in public and educational facilities.

<Others>

Sales fell. Fees for installation work and sales of adhesives are included.

②Exterior Segment

Sales and profit declined.

As the overall market remained sluggish, sales of mainstay housing-related products such as fences, doors, and carports were sluggish, on top of a decline in public works and other non-residential properties. On the other hand, sales of post boxes, storage sheds, wooden decks, and other products were strong due to growing demand from people staying at home, and sales through home improvement centers and e-commerce retailers grew significantly. Moreover, as part of the company's efforts to strengthen its construction capabilities, a measure based on its medium-term business plan, the company focused on developing alliances with companies that can handle a wider range of construction work, such as exterior and civil engineering work, in addition to strengthening its construction capabilities in existing fields.

③Overseas Segment

Sales fell and operating losses widened.

In the overseas segment, the results of each company for a period from January to December 2020 are included in the results for the fiscal year ended March 2021. Koroseal, which operates business in the North American market, continued to face a difficult situation due to the spread of the COVID-19 pandemic and the consequent lockdown. In addition to efforts to reduce the loss of sales opportunities by conducting sales and promotional activities outdoors to prevent infection, the company worked to improve productivity by operating new wallcovering production facilities and reduce costs by reforming the personnel structure. Furthermore, sales of Sangetsu's adhesive-attached decorative film “REATEC” increased due to the success of its sales activities to date, capturing needs for shorter construction periods, cost reductions, and environmental friendliness.

At Sangetsu (Shanghai), which is responsible for the Chinese market, efforts were made to resume and aggressively pursue sales activities amid a recovery trend in the Chinese economy and the construction market as a whole. As a result, especially from October onward, deliveries of wallcovering and flooring materials to office buildings, etc., proceeded smoothly, and sales grew. In addition, the company collaborated with Goodrich Global Holdings Pte., Ltd. in China, and made preparations for the restructuring of its business in China and the establishment of a new organizational structure.

While the situation varies from country to country, the stagnation in economic activity at Goodrich, which targets the Southeast Asian market, had a significant impact on the hospitality market, which is the company's main market, causing many construction projects to be canceled or postponed. Under these circumstances, the company proceeded with the development of sales systems at its local subsidiaries in Vietnam and Thailand, which were newly established in 2020, as well as the development of sample books that meet the needs in each country. In addition, the company implemented personnel reductions in Malaysia and Singapore to build bases and management systems tailored to each country's market.

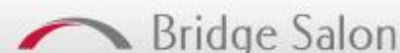
④Space Creation Segment

Sales and profit grew.

At Fairtone Co., Ltd., the impact of the COVID-19 pandemic on the new non-residential interior finishing business was limited, and its strengthened relationships with customers and collaborative sales activities with Sangetsu were also successful, resulting in progress largely in line with plans. On the other hand, in the renovation business, mainly for hotel and office projects, which was greatly affected by the COVID-19 pandemic, it strived to increase new customers and orders for construction in cooperation with Sangetsu, in spite of the severe situation with a decrease in the volume of construction work, especially after the second declaration of a state of emergency.

Meanwhile, in the space creation department of Sangetsu, office renovation projects were canceled or postponed. At the same time, new needs have emerged, such as those for the conversion of properties from hotels to offices and tenant renovation work based on the reform of work styles, and it has worked to strengthen its human resources and alliances to meet these needs.

BRIDGE REPORT

**(3) Financial standing and cash flows****◎Main BS**

	End of Mar.20	End of Mar.21		End of Mar.20	End of Mar.21
Current Assets	100,591	89,469	Current Liabilities	50,701	43,790
Cash, Equivalents	30,756	25,719	Payables	25,818	26,626
Receivables	47,069	44,983	Short-Term Debt	12,840	7,261
Marketable Securities	4,125	300	Noncurrent Liabilities	19,182	21,375
Inventories	17,502	17,109	Long-Term Debt	7,638	8,660
Noncurrent Assets	63,509	69,356	Total Liabilities	69,883	65,165
Tangible Assets	35,673	40,516	Net Assets	94,217	93,660
Intangible Assets	9,233	10,122	retained earnings	62,853	61,387
Investments, Others	18,603	18,717	Treasury Stock	-2,440	-1,579
Total Assets	164,101	158,826	Total Liabilities, Net Assets	164,101	158,826
			Capital Adequacy Ratio	56.8%	58.8%

*Unit: million yen.

Current assets decreased 11.1 billion yen from the end of the previous fiscal year due to a decrease in cash and marketable securities etc. Noncurrent assets increased 5.8 billion yen from the end of the previous fiscal year due to an increase in tangible assets resulting from the relocation of the Kansai Logistics Center and the acquisition of Wavelock Interior as a subsidiary. Total assets decreased 5.2 billion yen from the end of the previous fiscal year to 158.8 billion yen.

Total liabilities decreased 4.7 billion yen from the end of the previous fiscal year to 65.1 billion yen due to an increase in long-term debt while short-term debt decreased.

Net assets remained almost unchanged at 93.6 billion yen. As a result, capital adequacy ratio increased 2.0 points from the end of the previous fiscal year to 58.8%. The balance of long-term and short-term debts decreased 4.5 billion yen from the end of the previous fiscal year to 15.9 billion yen.

◎Cash Flow

	FY 3/20	FY 3/21	Increase/decrease
Operating Cash Flow	13,804	9,694	-4,110
Investing Cash Flow	-5,016	-2,599	+2,417
Free Cash Flow	8,788	7,095	-1,693
Financing Cash Flow	-5,476	-11,836	-6,360
Cash and Equivalents	29,922	25,124	-4,798

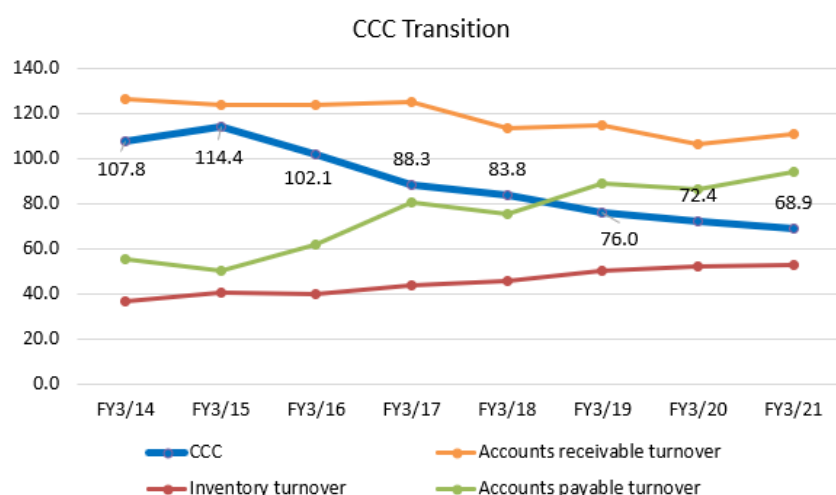
*Unit: million yen.

Operating CF and free CF surpluses decreased due to a decrease in non-cash expenses (impairment loss) that existed in the previous fiscal year. The cash position declined.

◎Cash Conversion Cycle(CCC)

CCC declined 3.5 points from the end of the previous fiscal year due to an increase in the accounts payable turnover period. Improvement has been made steadily every term.

BRIDGE REPORT



3. Fiscal Year ending March 2022 Earnings Forecasts

(1) Earnings Forecasts

	FY 3/21	FY 3/22(Est.)	YoY
Net Sales	145,316	152,500	+4.9%
		155,500	+7.0%
Gross profit	47,640	50,500	+6.0%
		51,000	+7.1%
SG&A	40,938	43,900	+7.2%
		44,400	+8.5%
Operating Income	6,701	6,600	-1.5%
Ordinary Income	7,042	6,800	-3.4%
Net Income	4,780	4,300	-10.0%

*Unit: million yen. For the forecast for the fiscal year ending March 2022, the company applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29), etc. Figures for the fiscal year ended March 2021 are before application. The upper figures for net sales, gross profit, and SG&A are with the application of the said standard, while the lower figures are without. The year on year change rates in the upper row were calculated by Investment Bridge as reference values.

Sales are expected to increase and profit is estimated to decrease. The price revision starting in September is expected to make a significant contribution to full-year earnings.

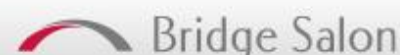
For the fiscal year ending March 2022, the company forecasts net sales of 152.5 billion yen, up 4.9% from the previous fiscal year (155.5 billion yen, up 7.0% year on year without the application of the revenue recognition standard), and an operating income of 6.6 billion yen, down 1.5% from the previous fiscal year. The company plans to increase sales in all segments. Although gross profit is expected to increase thanks to the increase in sales, operating income is expected to decline slightly due to higher purchasing costs, personnel and logistics costs associated with the recovery of sales activities, and one-time costs associated with the operation of the new Kansai Logistics Center and the publication of sample books. On the other hand, the company announced a price increase for all products (13-18%) from orders received on September 21, which is not included in this forecast and is expected to make a significant contribution to full-year earnings.

The dividend is estimated to increase 0.50 yen per share to 58.50 yen per share in the next term. The estimated payout ratio is 82.1%.

(2) Business Segment Trends

	FY 3/21	FY 3/22 (Est.)	YoY
Net Sales			
Interior Segment	111,794	117,000	+4.7%
	111,794	120,000	+7.3%
Exterior Segment	14,626	15,300	+4.6%
Overseas Segment	15,034	15,700	+4.4%
Space creation Segment	5,239	6,000	+14.5%
Adjustment	-1,378	-1,500	-

BRIDGE REPORT



Total	145,316	152,500	+4.9%
	145,316	155,500	+7.0%
Operating Income			
Interior Segment	7,082	6,400	-9.6%
Exterior Segment	417	400	-4.1%
Overseas Segment	-985	-500	-
Space creation Segment	201	300	+48.6%
Adjustment	-13	-	-
Total	6,701	6,600	-1.5%

*Unit: million yen. For the forecast for the fiscal year ending March 2022, the company applied the “Accounting Standard for Revenue Recognition” (ASBJ Statement No. 29), etc. Figures for the fiscal year ended March 2021 are before application. The upper figures for net sales, gross profit, and SG&A are with the application of the said standard, while the lower figures are without. The year on year change rates in the upper row were calculated by Investment Bridge as reference values.

*Interior segment

It is assumed that the interior market in Japan will decrease 9.5-10% in FY2020 compared to FY2019, and then recover to a 4% decrease in FY2021 compared to FY2019.

The company expects purchase prices of wallcoverings and flooring materials to increase due to rising prices of raw materials such as vinyl chloride, plasticizers, and nylon.

In addition to the rise in purchase prices, logistics-related outsourcing costs, as well as investment and various costs associated with maintaining and upgrading logistics facilities to deliver products to interior finishing sites and other locations has risen continuously. Therefore, the company has decided to revise prices to maintain a stable supply of products and maintain the level of its logistics services. This will be implemented from orders received on September 21, 2021. Target products are wallcoverings, flooring materials, fabrics, and auxiliary materials. The price increase rate ranges from 13% to 18%.

SG&A is expected to increase by approximately 2.9 billion yen due to increased costs associated with the full-scale launch of the new Kansai Logistics Center and increased sample book publications.

*Exterior segment/Space creation segment

The overall exterior market is expected to be similar to that of the overall interior market.

The space creation segment is projected to expand its business in the current fiscal year.

*Overseas segment

The U.S. construction market is estimated to improve significantly, but the time lag leading to interior finishing will limit the improvement in this fiscal year. In the Southeast Asian market, the COVID-19 has been spreading again since April, and the lockdown has continued to be re-imposed in various countries. The spread of vaccines has been delayed, making it difficult to predict recovery.

Goodrich China and Hong Kong markets are expected to face difficult conditions due to the lack of recovery in demand for refurbishment in the hospitality market.

4. Management strategy: Progress of Medium-term Business Plan (2020-2022) [D.C. 2022]

The following is a summary of the concepts underlying the Medium-term Business Plan (2020-2022) [D.C. 2022] announced in May 2020 and the progress of the initiatives.

[4-1 Basic concept of the growth strategy]

*The Japanese market, which consists of residential and non-residential buildings, new construction, renewal and renovation, is unlikely to see significant growth. It is also difficult for the company to achieve dramatic growth in the Japanese market through volume and market share expansion, as it already holds more than 50% of the market share for some products.

*However, it is still possible to establish a strong business structure that can gradually increase volume and market share, and it is necessary to create a structure that will not lose volume and market share even if prices are raised.

*Although it is possible to expand the profitability of the interior segment by doing so, there are limits from a long-term perspective, and in order to achieve long-term and sustainable growth, it is essential to change the business model and monetize and expand the overseas business.

BRIDGE REPORT

**Transforming the business model****◎Business model to date**

The manufacturer proposes a design, the product is selected, and then it is purchased, stocked, and processed. Sales activities are mainly targeted at distributors, and shipments and deliveries are made to them.

**◎Business model to be pursued**

A business model of integrated production and sales that covers the entire value chain with product planning, design, sales, delivery, installation, and data obtained from the entire value chain.

*In the manufacturing part, Sangetsu purchases from many suppliers, in addition to manufacturing of its own products, while the company takes the lead in planning and design.

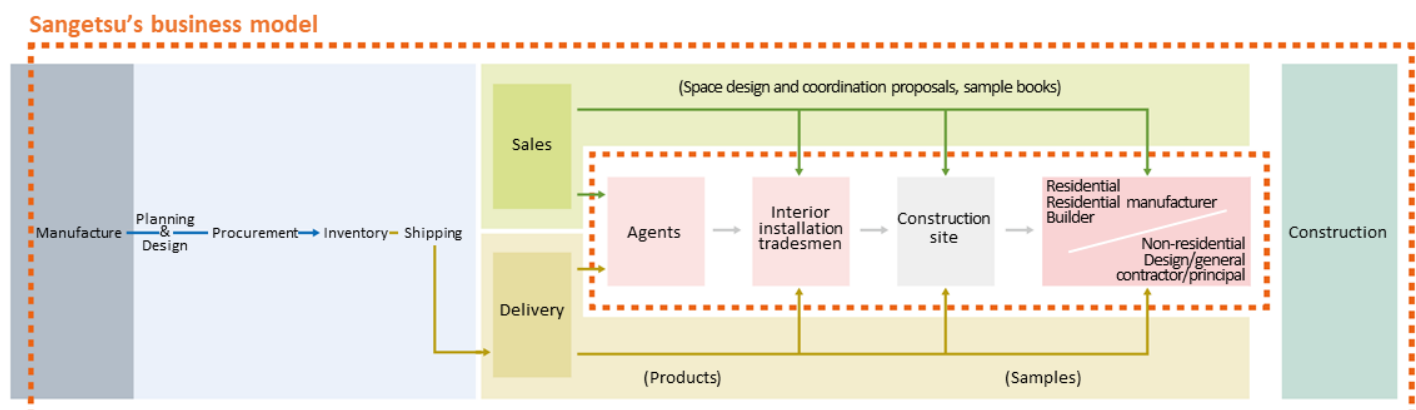
*The sales activities are not limited to distributors, but also include aggressive approaches to interior installation tradesmen, residential manufacturers, general contractors, and other related companies beyond the distributors. It is important to make proposals that include design and coordination, not just sales activities.

*The company will establish a meticulous delivery system to every corner of the country, together with the delivery capabilities of its distributors.

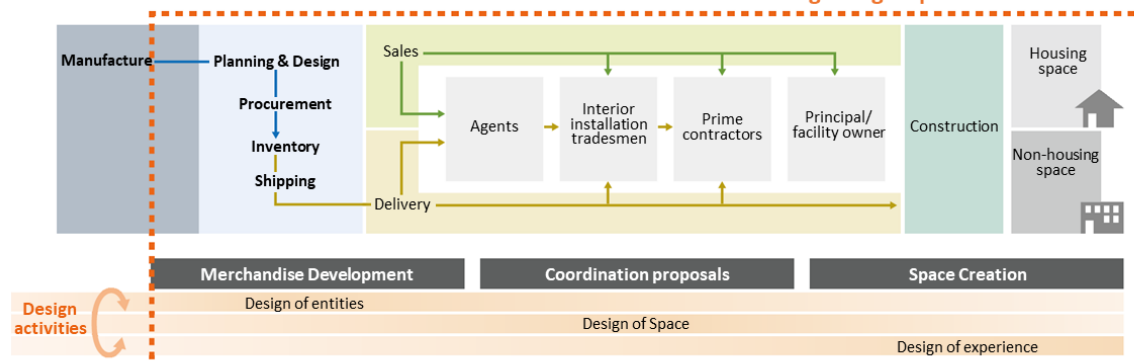
*Strengthening of construction capability is also important.

A variety of measures will be implemented to build such a new business model.

Model to aim for: A business model of integrated production and sales that covers the entire value chain with product planning, design, sales, delivery, installation, and data

**[4-2 Long-term vision: Becoming a space creation company]**

The company's long-term vision is to become a "space creation company."

What is Space Creation Company?**Sangetsu group's business model**

Companies conducting "sales of materials and construction" and "sales of space."
by utilizing the above functions, especially the design, delivery and construction functions that are important for space creation.

It is important to propose what kind of space to design and what kind of space to use the wallcoverings and flooring materials in order to sell such materials, as well as to strengthen the design of the product.

In addition, if the company is also involved in the design and construction of the space, it is important to propose the various activities that will take place in the space.

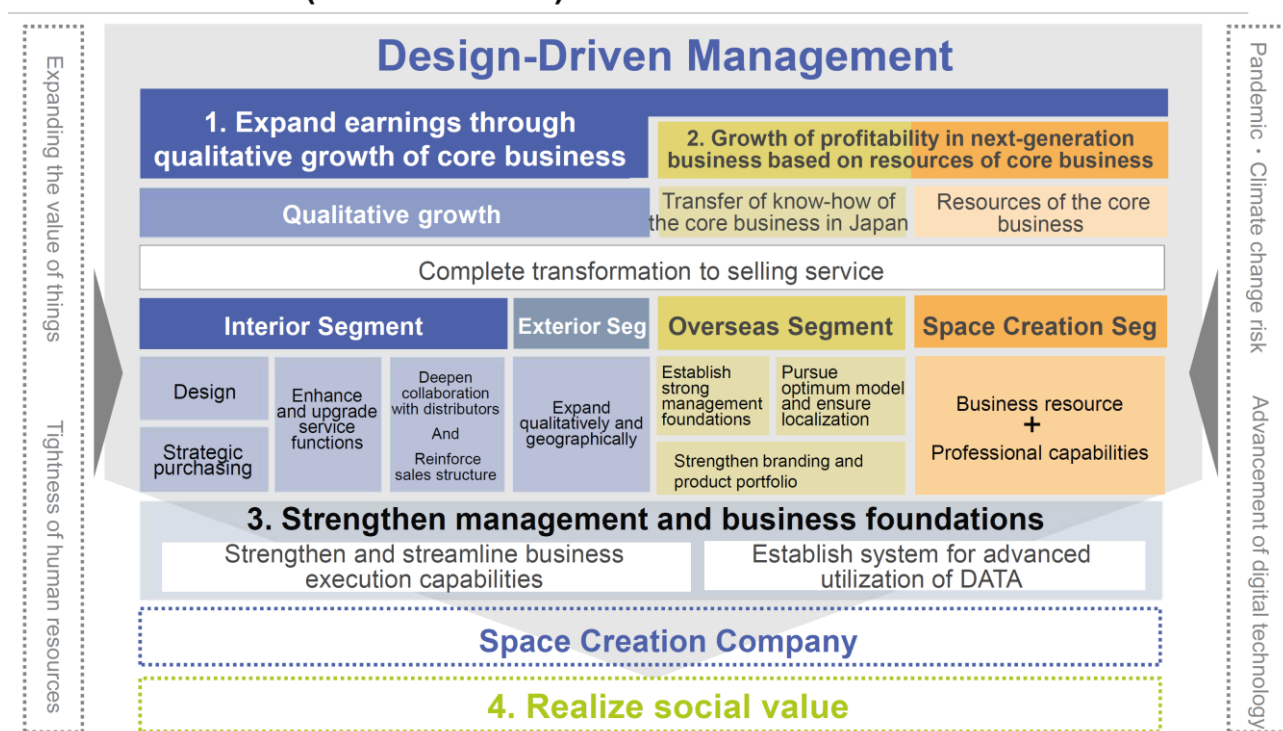
In this way, the company believes that it can strengthen its competitiveness by creating high added value through design activities that combine not only “design of entities,” but also “design of space” and “design of experience” as a trinity.

A “space creation company” is the company that not only “sells things” in a conventional manner, but also utilizes the design, delivery, and construction functions that are important for space creation, and conducts “sales of materials and construction” and “sales of space.”

[4-3 Progress of the Medium-term Business Plan (2020-2022) [D.C. 2022]]

Major progress in the Medium-term Business Plan (2020-2022) [D.C. 2022] is as follows.

Whole Picture (Consolidated)



(Source: the company)

(1) Expanding the revenue from the core business: Progressive enhancement of design capabilities

① Collaboration with Kengo Kuma

In April 2021, the company announced “KAGETOHIKARI,” a collection of wallcoverings and flooring materials created in collaboration with the renowned architect Kengo Kuma.

The merchandise development process was based on various discussions with Mr. Kengo and on *Ineiraisan*, a representative work by author Junichiro Tanizaki.

② Collaboration with famous design company

The company released the second edition of “EDA,” a design sample book for wallcoverings, fabric and chair fabric, developed in collaboration with the famous British design company Sanderson Design Group. It has received high praise from people in the market. A partnership agreement was signed with Sanderson Design Group in May 2021.

③ Won the International Design Award

For the first time, the “SHITSURAI” wallcoverings series won an award at the iF DESIGN AWARD2021 organized by the German iF International Forum Design. The award has a long history, dating back to 1954, and is one of the most recognized design awards in the world.

(2) Expanding the revenue from the core business: Promote strategic purchasing

In March 2021, the company acquired a 51% stake in Wavelock Interior Co., Ltd. The acquisition price was approximately 2.4 billion yen. An agreement has been reached with the shareholder, Wavelock Holdings Co., Ltd., to acquire 100% of the shares in the future.

Wavelock Interior has the most efficient production facilities in Japan for low-cost mass-produced wallcoverings, which is the focus of Sangetsu. About 650 million meters of wallcoverings are manufactured and sold each year, and about two-thirds are mass-produced wallcoverings. In addition, Wavelock Interior produces about two-thirds of the mass-produced wallcoverings.

As deflation is progressing in the market, demand for wallcoverings is shifting from mid-to-high-end products to lower-priced, mass-produced wallcoverings. Against this backdrop, some wallcovering manufacturers have withdrawn or gone bankrupt, and the supply-demand balance for mass-produced wallcoverings is tightening.

Under these circumstances, Sangetsu will establish a stable supply system for mass-produced wallcoverings by the acquisition, and earn profits from production of mass-produced wallcoverings, for which the supply-demand balance is tight. The company is also aiming to improve efficiency in manufacturing by integrating production and sales.

Sangetsu sells more than 3,000 wallcoverings, of which mass-produced wallcoverings account for about 150 which is one-twentieth. These 150 items account for about two-thirds of the wallcovering sales like the overall market sales mentioned above. Since cost competitiveness is important for mass-produced wallcovering, where the number of products is small and transaction lots are large, and the sales function has a large impact on manufacturing, the company intends to continue to take strategic actions in the future.

(3) Expanding the revenue from the core business: Expansion and upgrading of service functions

In January 2021, the new Kansai Logistics Center (LC) began operations. The company will further improve the efficiency of its delivery system as a key logistics base mainly in western Japan.

The new LC was established after the abolition of the former Amagasaki LC and Higashi-Osaka LC, and was built in Kashima, Yodogawa-ku, Osaka City, which is conveniently located near the expressway to enable trunk line transportation not only within Osaka City, the main delivery destination, but also nationwide.

The building is a four-story structure with a warehouse area of more than about 36,360 m², approximately 1.6 times that of the previous facility. The space has been greatly expanded, almost doubling in volume. The company's total nationwide warehouse floor space has expanded from about 218,180 m² to about 236,030 m², equivalent to five Tokyo Domes.

The new Kansai Logistics Center (LC) has achieved a level of "automation, manpower saving, and labor-saving" not seen in previous LCs. The installation of the latest material handling equipment, such as GTPs (goods to person) and AGVs (automatic guided vehicles), has reduced human labor by about 25%.

After the relocation, the company plans to lease the former Amagasaki LC and Chubu LC III, which will contribute to earnings from 2022.

(4) Making next-generation businesses profitable: Overseas segment

①Koroseal Interior Products Holdings, Inc., USA

The company will continue to implement the following policies: "improve and streamline the design portfolio: focus on in-house wallcovering manufacturing," "launch new products and designs," "completely review and improve sales," and "rotate executives."

②Reorganization of business structures in China and Southeast Asian markets

◎Southeast Asia

Goodrich Global Holdings, acquired in FY2017, is 70% owned by Sangetsu and 30% by the founder, with Goodrich Hong Kong under Goodrich Global Holdings and Goodrich China under Goodrich Hong Kong, which will be restructured as follows.

*The company purchased a 30% stake from the founder and made Goodrich Global Holdings a wholly-owned subsidiary.

*The company established a local subsidiary in Vietnam, following Singapore and Malaysia. A separate wholly-owned subsidiary of Goodrich Global Holdings was also established in Thailand.

*The company plans to withdraw from Dubai.

Goodrich Global Holdings of Singapore, which became a wholly-owned subsidiary of Sangetsu, will quickly and accurately expand its business activities in the Indochina Peninsula as its business base through its wholly-owned subsidiaries in Vietnam, Singapore, Malaysia, and Thailand.

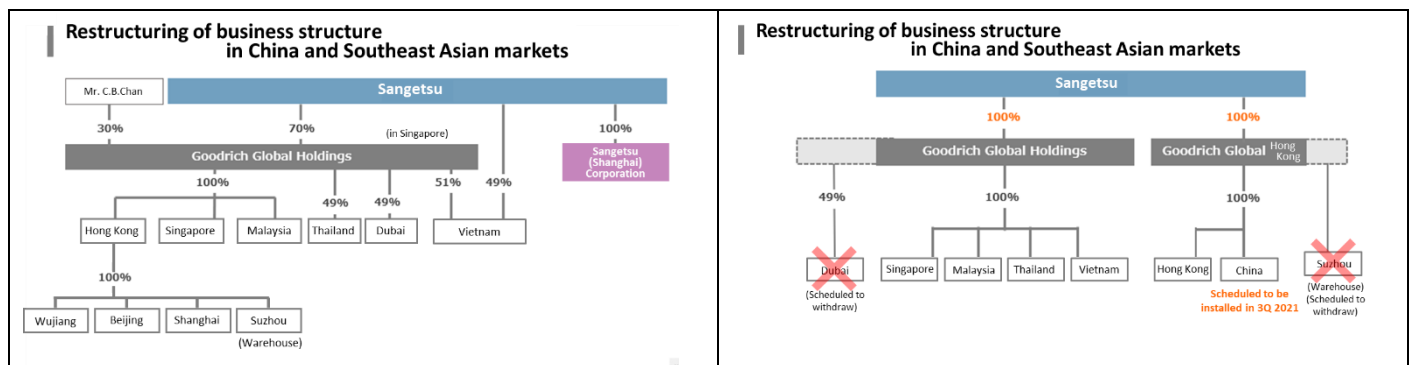
◎China

Goodrich Global Hong Kong is under Goodrich Global Holdings in Singapore, and Goodrich Global Hong Kong owns the Chinese companies, which will be reorganized as follows.

*Goodrich Global Hong Kong became a wholly-owned subsidiary of Sangetsu.

*In addition, Goodrich's business in China and the business of Sangetsu (Shanghai) will be integrated into a new company. It is scheduled for the third quarter of this fiscal year.

*The warehouse holding company in Suzhou will be sold and the company will withdraw from the market.



(Source: the company)

(5) Making next-generation businesses profitable: Development of space creation business by expanding specialized capabilities

Sangetsu's space creation division is strengthening its business structure by hiring designers, site managers, and other specialists, as well as expanding the scope of its construction work through alliances.

Also, Sungreen, an exterior subsidiary, has established a space creation division to strengthen its staff, including designers and construction managers, transform from a specialized trading company and build a stronger position in the value chain.

Sangetsu (interior) and Sungreen (exterior) are working together to propose a unified interior and exterior space design, aiming to receive orders for both interiors and exteriors as a set.

Last year, the company hired a director in charge of space creation for the Sangetsu Group. The company will further strengthen its space creation business through interiors and exteriors.

[4-4 Capital policy and return to shareholders]

(1) Dividends

As mentioned above, the dividend for the term ending March 2022 is to be 58.50 yen/share, up 0.50 yen/share year on year.

(2) Return to shareholders

In the term ended March 2021, the company acquired 279,600 treasury stocks and the total amount of the return to shareholders was 3.93 billion yen. Total return ratio was 82.4%.

(3) Capital allocation plan

Cash equivalents as of the end of March 2020 prior to the start of the medium-term business plan were 36.8 billion yen. The company's objective is to generate an operating cash flow of 28 to 30 billion yen in the three-year period of the medium-term business plan.

The capital allocation plan is as follows.

*Investment for growth: 20 to 26 billion yen

*Return to shareholders: 17 to 19 billion yen

*Cash equivalents at the end of the final term of the medium-term business plan: 25 to 30 billion yen

As a result, the company projects that due to the volume of demand for capital, debt, which was supposed to decrease by approximately 5 billion yen, will increase by approximately 10 billion yen.

BRIDGE REPORT

**[4-5 ESG initiatives]**

The company defines its social value as “achieving an inclusive, sustainable, and enjoyable society.” Based on this, it engages in various initiatives concerning ESG.

(1) Reduce environmental impact**◎Reduction of GHG emissions**

The company announced their goals for the reduction of GHG (greenhouse gas) emissions in 2020. However, seeing that the Japanese government declared “realization of carbon neutrality by 2050,” they are considering a revision.

The company itself is aiming for complete carbon neutrality by 2030 and considering the extent of reduction by 2030 for the whole group, as Wavelock Interior, which owns a factory for manufacturing wallcoverings, newly joined the group in March 2021. The company is planning to make an announcement soon.

Initial goals for 2030		Revised goals for 2030	
	Sangetsu (Non-consolidated)	Sangetsu (Non-consolidated)	Group (Consolidated)
SCOPE 1 & 2	Decrease by 30% (compared to 2018)	Carbon neutral (zero emissions)	※ Under consideration (50-55% reduction)
SCOPE 3	—	Considering setting goals.	

Four Steps to Achieve Carbon Neutrality

- ① Energy conservation: Energy-saving renewal of all environmentally hazardous equipment (lighting, air conditioning, sales vehicles, logistic power)
- ② Energy creation: Installation of solar power generation equipment
- ③ Renewable energy: Purchasing electricity generated from renewable energy sources
- ④ Offset: Purchasing CO2 emission credits

(Source: the company)

◎Establish a sample book recycling center

Sample books are the most important items for the company’s business and 1,500,000 books are printed per year. However, the company recognizes the responsibility that goes with printing sample books which will be disposed of in a few years, and in March 2021 established a recycling center for collecting and recycling sample books.

The center will also contribute to promoting diversity as a place for the employment of disabled people.

The company plans to recycle 50,000 books in this term, which will be the first year of the operation, and 130,000 books in the next term, the term ending March 2023.

(2) Human capital

Aiming for “an organization where various human resources are active,” the company achieved the following.

①Establishing a health management promotion division

In April 2020, the company established a health management promotion division in order to strive for “securing a safe, healthy and comfortable working environment easy to work in” and “enriching the system for promoting both mental and physical health maintenance.”

②Receiving the “Prize for Partners in Promotion of Anti-Cancer Measures,” a project sponsored by the Ministry of Health, Labour and Welfare

In FY2020, the company received the “Prize for Partners in Promotion of Anti-Cancer Measures (Treatment-Work Balance Category)” in regard to “Enterprise Actions for Promoting Anti-Cancer Measures.” The company received acknowledgement for engaging in the creation of a workplace providing a sense of security through organizing a seminar about receiving treatment while working, etc.

③Acquiring a Silver ranking in PRIDE index for three consecutive years

The company acquired a Silver ranking for the third year in a row in “PRIDE index 2020,” an index for the appraisal of LGBTQ-related initiatives established by a voluntary organization “work with Pride.”

5. Interview to President Yasuda

We asked President Yasuda to look back on the financial results of the previous term and comment on the progress of the medium-term business plan, etc.

[5-1 Regarding financial results of the term ended March 2021]

While the overall market is declining in regard to each product in the interior segment, our company's revenues have not decreased to a great extent, and in the end, our market share has increased. However, seeing that we have not reached positive numbers, we cannot say that we are satisfied.

We realized once again that in order to steadily expand our company's sales and profit even as the market is shrinking, we must make sure to implement the various measures stated in the medium-term business plan.

The prices of raw materials have increased, so we decided to revise our prices. After 2014 and 2018, this will be our third price revision.

As our customers can also benefit from a stable supply of the products and the maintained level of the delivery service, we assume that we can gain sufficient understanding.

The space creation business, which has been made into a new segment in the term ended March 2021, has achieved a healthy start with increases in sales and profit. The net sales of Fairtone, which is a subsidiary, have expanded to as much as 5 billion yen in the previous term from 1 billion yen at the time of M&A. This is a manifestation of the synergy between the company's high competency in construction and Sangetsu's sales capability, and we recognize that it was an extremely good M&A for our company, which aims to become a "space creation company."

[5-2 Management strategy: Regarding the progress of the medium-term business plan]

The key to "the creation of a structure that will not lose volume and market share even if prices are raised" is to bring a proposal offering benefits other than just price not only to distributors, but also to the parties who ultimately decide to use our company's products.

While working with distributors has an advantage of efficient expansion of volume, it is indispensable to strengthen control over the overall value chain as the market itself shows a shrinking trend in terms of its structure.

It is necessary for our company to be recognized as irreplaceable through not only "selling things," but also suggesting the design and sale of space and experiences.

We believe that by turning Wavelock Interior into a subsidiary, we were able to obtain an enormous asset in terms of building a stable supply system for mass-produced wallcoverings, whose demand and supply is tight.

The profitability of mass-produced wallcoverings has been increasing until now, and we can expect further growth of profitability by gaining market share while expanding the supply amount through the unification of manufacturing and sales. We suppose that the planned price revision will also make a contribution for that profitability.

We would also like to consider investing in the reinforcement of our capabilities, the improvement of the production technologies concerning regular wallcoverings, etc. while keeping an eye on the situation.

As for the automatized and labor-saving system installed in the new Kansai Logistics Center (LC), work such as changing flow lines and the current position of the machines will be required due to space limitations, but we would like to equip logistics centers in the Tokyo metropolitan area, etc. with the same system as well. As the new Kansai Logistics Center (LC) started operation this time, the flagship centers and local centers are now set, and we are thinking that satellite centers will be necessary in Shikoku, Hokuriku, Hiroshima, Shizuoka, etc. from now on. The satellite centers will be used for transshipment of cargoes and cuts of mass-produced goods rather than inventory storage, and are required for building a more meticulous shipping system.

While the Medium-term Business Plan (2020-2022) [D.C.2022] itself was announced last year, existing initiatives such as turning Wavelock Interior into a subsidiary and the launch of the operation of the new Kansai Logistics Center (LC) are becoming apparent and are steadily progressing. We plan to steadily progress with each measure from now on as well, aiming to become a "space creation company" placing importance on designing capability.

6. Conclusions

Although both sales and profit decreased in the fiscal year ended March 2021, sales and profit in the fourth quarter (January-March), which were expected to be lower than the previous quarter (third quarter), exceeded the forecast, resulting in larger sales and profit compared to the previous quarter. Bottoming out in the second quarter (July-September), it seems to be on a recovery trend. It will be interesting to see if this trend continues in the fiscal year ending March 2022 and whether there will be any quarterly changes.

The company is aiming to create a structure that can steadily increase sales even when the overall market is in decline, and making Wavelock Interior a subsidiary is a big step in that light. The contribution of the space creation segment, which is performing well, and the effects of the reorganization of overseas businesses will also be closely watched.

<Reference1: Long-term Vision of Sangetsu Group 【 DESIGN 2030 】 and Medium-term Business Plan (2020-2022) 【D.C. 2022】>

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, sales, 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.”

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.

BRIDGE REPORT

The long-term vision of Sangetsu Group
【 DESIGN 2030 】

Approach for Achieving the Long-term Vision



(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.”

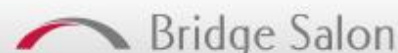
(4) Social value for which the company strives

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.	
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.

BRIDGE REPORT

**(5) Numerical targets**

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

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, net 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 segment. 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, sales, 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 segment 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, 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.

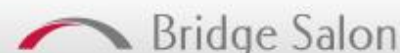
The business base, business capabilities, and functions were established, strengthened, and enriched. However, the increase in operating income during the period of the previous medium-term business plan was primarily owing to price revisions in the Japanese market while the volume expansion was limited.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

BRIDGE REPORT



*The achievement of quantitative goals

	Mid-term goals in fiscal 2019	Results in 2019	Overview
Net 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

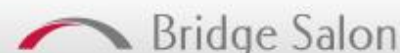
1	Expand earnings through qualitative growth of core business
Interior segment (In Japan)	(1) Enhancement of design capabilities and strategic purchasing (2) Expansion and Upgrading of our Service functions (3) Deepening collaboration with distributors and strengthening sales structure
Exterior segment (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)

②Numerical goals of sales and profit

They aim to achieve “net 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.

BRIDGE REPORT



	FY 3/20	FY 3/23	CAGR
Net Sales	1,612.6	1,720.0	+2.2%
Interior	1,220.9	1,270.0	+1.3%
Exterior	160.8	170.0	+1.9%
Overseas	198.0	210.0	+2.0%
Space creation	41.6	70.0	+19.0%
Operating Income	92.6	120.0	+9.0%
Interior	93.2	105.0	+4.3%
Exterior	6.4	8.0	+7.7%
Overseas	-9.3	4.0	Return to Profitability
Space creation	1.8	3.0	+4.9%

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

③Outline of each basic policy

③-1 Expand earnings through qualitative growth of core business

◎Interior segment

*Market environment

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

*Basic strategies in 4 markets

Market	Basic strategy	Intensive measures
Residential: 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, shipping, and delivery services Strengthening product design capabilities Strengthening strategic purchasing
Residential: renewal	The company aims to improve its market share and profit rate.	Deepening collaboration with distributors Strengthening space design Advancing and expanding ordering, shipping, and delivery services
Non-residential: 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-residential: 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 merchandise development section of each business department, non-housing space designs in the contract 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 sales section, too, has discussions with design firms, designers, and interior coordinators about designs, and glean 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 installation tradesmen 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 performs quick delivery to interior installation tradesmen 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 installation tradesmen, 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.

The new Kansai Logistics Center (LC) started operation in March 2021. The company has installed unprecedented unmanned and 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 67.2% in the term ended March 2021. 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 selling system, which needs to be improved, the company will allocate employees mainly to activities related to specifications in the non-residential market, without changing the current number of sales staff members: 850 to 890, to improve the competitiveness of specifications in the non-residential market.

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

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

◎Exterior segment

They will enhance sales 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.

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.

BRIDGE REPORT



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. Goodrich	Focus on sales of competitive Japanese products and differentiated US products
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 contract 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 sales." 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 sales.

In order to visualize and streamline business operations utilizing data, conduct effective sales, and enable business transfer in each business in the future, it is necessary to obtain new data through various efforts, organize them, transform sales 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.

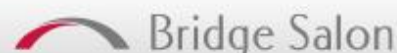
The company will extract ESG issues and execute measures, while linking them with pursuing three values specified in the long-term visions: "Achieving social value," "Inclusive, Sustainable, Enjoyable," and "Enjoyable to everyone forever."

BRIDGE REPORT



<p>Global environment “Reduce environmental impact”</p>	<p>(1) Reduce impact on global environment</p> <ul style="list-style-type: none"> • Reduce GHG emissions • Reduce Energy consumption • Reduce Total waste emissions • Improve Recycling rate <p>(2) Understanding and reducing the environmental impact of the supply chain</p> <ul style="list-style-type: none"> • Understanding GHG basic unit for each supplier, and taking it into consideration during purchasing activities <p>(3) Expansion of long-lasting products</p> <ul style="list-style-type: none"> • Developing the high durability product • expansion of the long-term continuation product <p>(4) Expanded collection and recycling of sample books</p> <ul style="list-style-type: none"> • Building and expanding the collection and recycling system.
<p>Human capital “The organization where various human resources are active”</p>	<p>(1) Promote employee health and skills</p> <ul style="list-style-type: none"> • 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 <p>(2) Promote diversity & inclusion</p> <ul style="list-style-type: none"> • Promoting the success of women • Promoting of Hiring of disabled persons • Increasing the number of non-Japanese employees including personal exchange in Sangetsu group
<p>Social capital “Improving the reliable, safe and attractive supply chain” “Participation in local communities”</p>	<p>(1) Improving product safety</p> <ul style="list-style-type: none"> • Review of raw materials <p>(2) Improving the stability of quality</p> <ul style="list-style-type: none"> • Reduction of the quality claim <p>(3) Promotion of purchasing activities that consider the environment, human rights, and labor safety and hygiene</p> <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 Wallcovering Design Award • Support various art events
<p>Governance “Strengthen Corporate governance”</p>	<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

BRIDGE REPORT



	<ul style="list-style-type: none"> • 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 Net 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%
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%
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.

(3) 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 the 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: The capital allocation, which had been undecided, will be decided in May 2021 as the three-year business outlook becomes clearer.

BRIDGE REPORT



Capital allocation policy during the Medium-term Business Plan (2020-2022) [D.C. 2022]

Fund generation and
procurement

Cash equivalents as of the end of March 2020*	36.8 billion yen
---	------------------

+

Operating cash flow over 3 years	28 to 30 billion yen
----------------------------------	----------------------

+

3-year borrowings	Negative 5 to 10 billion yen
-------------------	------------------------------

*Cash & deposits and marketable securities other than stocks

Fund allocation

Investment for growth*	20 to 26 billion yen
------------------------	----------------------

+

Return to shareholders	17 to 19 billion yen
------------------------	----------------------

+

Cash as of the end of March 2023	25 to 30 billion yen
----------------------------------	----------------------

*M&A, minor investment (alliance strengthening), capital investment (logistics, DX, etc.)

=

<Reference 2: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 25, 2021

<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 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 to continue holding will appear in the “Shareholding status” column of the securities report.</p> <p>2. Attitude toward exercise of voting rights 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

BRIDGE REPORT



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. In order to prevent the spread of the COVID-19, the financial results briefing for the fiscal year ended March, 2021 was held as a webinar, with an interactive Q&A session. The video will be available on our website at a later date.

- 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.

Due to the impact of the COVID-19, we canceled company briefings for shareholders this term.

- 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 of financial results briefings and shareholders' meetings.

- 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.

Copyright(C) Investment Bridge Co., Ltd. All Rights Reserved.