



Shosuke Yasuda, President

Sangetsu Corporation (8130)



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

## Stock Information

Share Price	Shares Outstanding	Total market cap	ROE Act.	Trading Unit	
¥1,607	60,400,000 shares	97,062 million	5.1%	100 shares	
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥70.00	4.4%	¥75.75	21.2 x	¥1,547.92	1.0 x

\*The share price is the closing price on December 13. Shares outstanding, DPS and EPS are taken from the financial report for the second quarter of the fiscal year ending March 2022. ROE and BPS are results for the previous fiscal year.

## 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.	146,500	7,600	7,850	4,500	75.75	70.00

\*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 second quarter of the fiscal year ending March 2022 of Sangetsu Corporation.

## Table of Contents

### [Key Points](#)

#### [1. Company Overview](#)

#### [2. The Second quarter of Fiscal Year ending March 2022 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. 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

- Since the fiscal year ending March 2022, the company has been applying “Accounting Standard for Revenue Recognition.” Sales were 69.9 billion yen, and operating income was 2.7 billion yen. If the Accounting Standard for Revenue Recognition was not applied, sales would be 74.4 billion yen, up 7.1% year on year, and operating income would be 2.7 billion yen, up 7.0% year on year. The contents about the growth of sales and profit below indicate the cases where the revenue recognition standard was not applied.
- Regarding sales, Wavelock Interior, which was acquired as a subsidiary, contributed, and the Interior Segment increased its market share. The Exterior and Space Creation Segments saw sales growth. On the other hand, the recovery in the Overseas Segment is delayed in the U.S. and Southeast Asia.
- Sales growth resulted in an increase in gross profit, offsetting the augmentation of SGA, for upgrading sample books in the Interior Segment, starting the operation of the new Kansai Logistics Center, and acquiring Wavelock Interior as a consolidated subsidiary. Net income dropped, due to the reversal of deferred tax assets for Koroseal in the U.S. and the exclusion of non-controlling shareholders’ equity for Goodrich in the previous term and Wavelock Interior in this term. Sales were almost in line with the initial forecast, SGA exceeded the forecast slightly, and profit fell below the initial forecast.
- The earnings forecast has been revised upwardly. For the fiscal year ending March 2022, sales are forecast to be 146.5 billion yen (if the revenue recognition standard was not applied, sales would be forecast to rise 7.4% year on year to 156 billion yen) and operating income is expected to grow 13.4% year on year to 7.6 billion yen. Sales are expected to grow in all segments. Through the sales growth, gross profit is projected to rise. Due to the price hike, gross profit margin will rise. Procurement costs will augment, expenses for personnel and distribution will increase due to the recovery of marketing activities, and the expenditure for opening the new Kansai Logistics Center and publishing sample books will increase, but they will be offset, and operating income is expected to grow by double digits. The dividend forecast has been revised. The company plans to pay a dividend of 70.00 yen/share, up 12.00 yen/share from the previous term. The expected payout ratio is 91.6%.
- The progress rate of results in the first half was 47.8% (when the revenue recognition standard is applied) or 47.7% (when the revenue recognition standard is not applied) for sales, and 36.0% (when the revenue recognition standard is applied) or 35.8% (when the revenue recognition standard is not applied) for operating income. Sales were almost as usual, but operating income was slightly lower than usual. They said that the augmentation of procurement costs due to the rise in material prices from October and the additional price hike is not taken into account in the revised forecast, but we would like to pay attention to how much they will increase sales and profit from the third quarter.
- Regarding the progress of the mid-term management plan, the expansion of the market share of mass-produced wallpaper is progressing as planned, and it is noteworthy. The acquisition of Wavelock Interior as a subsidiary is apparently producing good effects, and we would like to expect that it will contribute to revenues.

## 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.

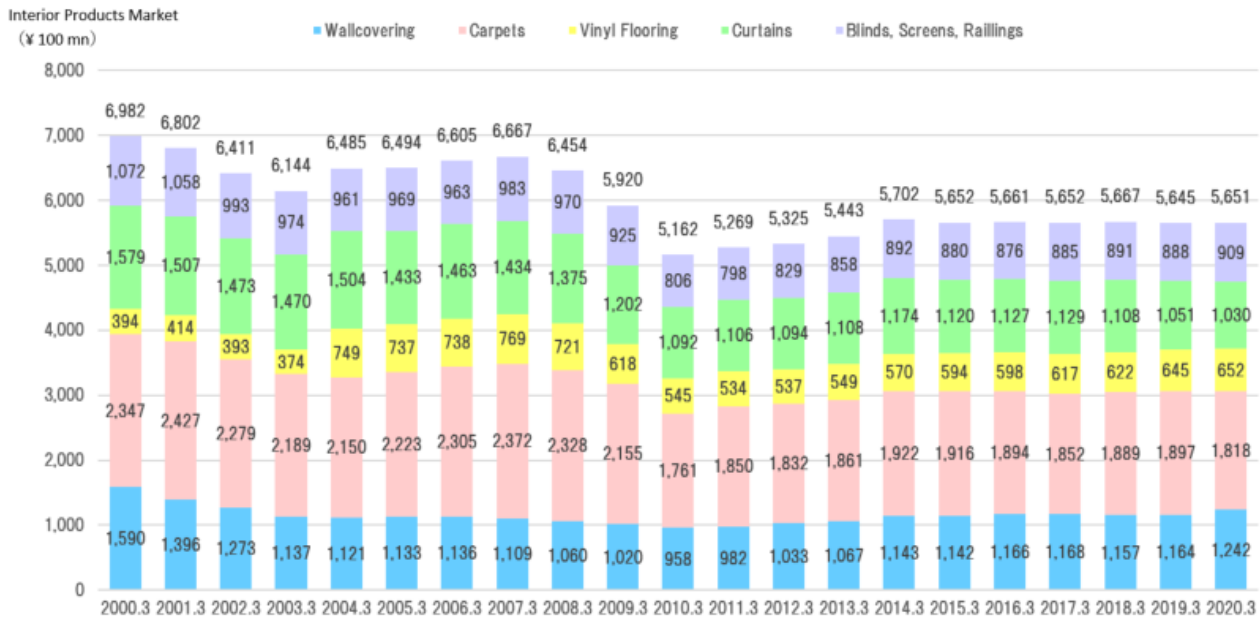
# BRIDGE REPORT



## 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.

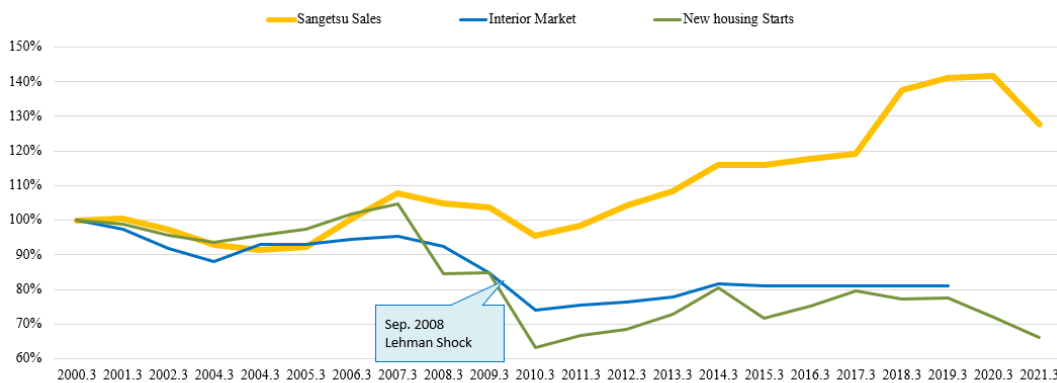


\* Nippon Interior Fabrics Association "2019 General State of the Interior Fabrics Business and Market Size Determination"  
 (Investment Bridge made the graph based on the raw data provided by Sangetsu.)

(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).

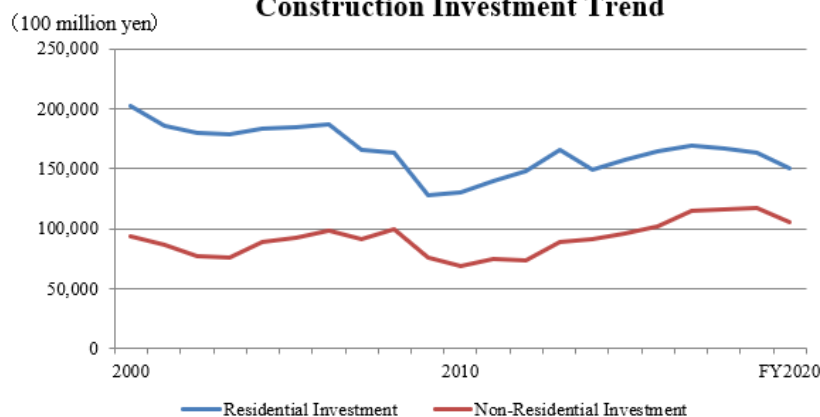
The company's net sales and trends in the domestic interior market have been largely linked to the number of new housing starts, but following the collapse of Lehman Brothers, while the overall market and new housing starts have remained at low levels, the company's net sales have been at record highs 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.



\* FY1999=100

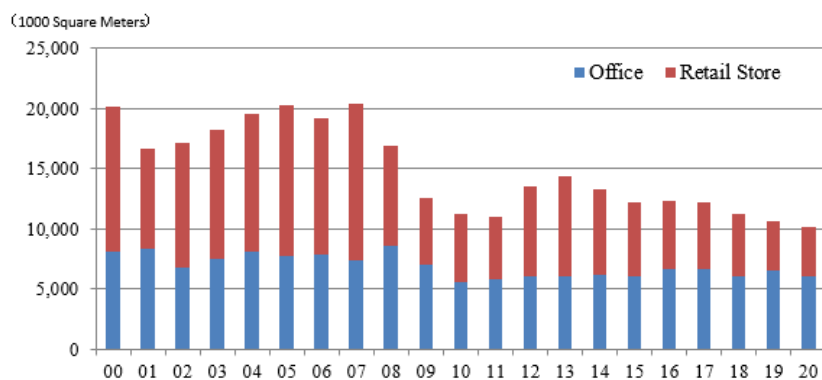
Besides M&A, this strong recovery can be attributed to Sangetsu's efforts to cultivate business in the non-residential realm in addition to private housing.

### Construction Investment Trend



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

### New Constructed Office, Retail Store Floor Space Trend



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

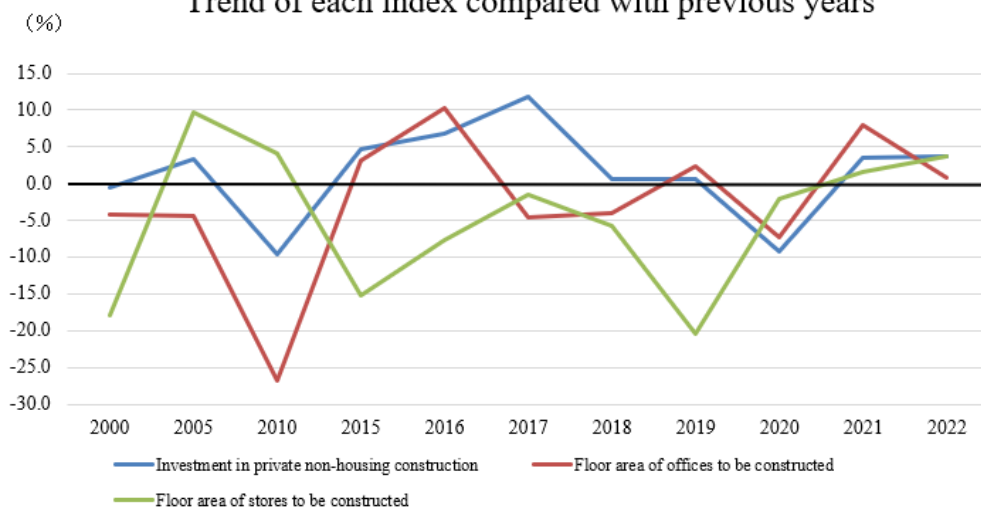
According to the “Outlook for investment in construction in FY2020” released by the Ministry of Land, Infrastructure, Transport and Tourism, both private-sector residential construction investment and private-sector non-residential construction investment were on the way to recovery after the collapse 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.

In addition, according to “Outlook for investment in construction based on a construction economy model” released by Research Institute of Construction and Economy on November 16, 2021, nominal private investment in non-housing construction rose 11.8% in fiscal 2017, 0.6% in fiscal 2018, and 0.6% (estimated) in fiscal 2019, and dropped considerably by 9.2% (estimated) in fiscal 2020 due to the coronavirus pandemic, but is expected to grow 3.6% (forecast) in fiscal 2021 and 3.8% (forecast) in fiscal 2022, showing a recovery.

The floor area of offices to be constructed increased 10.3% in FY 2016, but dropped 4.6% in FY 2017, and decreased 3.9% in FY 2018. It recovered in FY 2019, growing 2.3%, but is expected to fall again by 7.3% in FY 2020 (estimate). It is expected to increase in fiscal 2021 and fiscal 2022, but they said, “It seems that investment, which was put off in fiscal 2020, is being resumed, and floor area of offices to be constructed in the first half was up 28.7% from the previous fiscal year. On the other hand, vacancy rates are increasing nationwide and the average rent in Tokyo is dropping, so the increase in said floor area is projected to become stagnant in the second half of the current fiscal year.”

The floor area of shops to be constructed dropped 20.5% in fiscal 2019 and 2.0% in fiscal 2020, but is expected to grow in fiscal 2021 and fiscal 2022. They said, “The floor area of shops to be constructed had been declining from the previous fiscal year since fiscal 2014, but since March 2021, it has been increasing year on year for 7 consecutive months, and is expected to recover to the level in fiscal 2019.”

## Trend of each index compared with previous years



\*Made by Investment Bridge according to “Outlook for Investment in Construction based on a Construction Economy Model” released by Research Institute of Construction and Economy (in November 2021).

\*As for investment in private non-housing construction figures, figures before 2018 are results, from 2019 and 2020 are expectation, from 2021 are forecast.

As for floor area, figures before 2020 are results, from 2021 are forecast.

Like this, there is a sign of recovery in the non-residential market from the impact of the novel coronavirus, but the residential and non-residential markets remain harsh.

However, there is steady demand for renovations in the non-residential market, so Sangetsu 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.	83,900	+5.3%	402	-61.7%	0.5%	11,338	17.8	0.3	1.5%
4206	Aica Kogyo Co., Ltd.	200,000	+14.5%	21,000	+16.7%	10.5%	238,595	17.7	1.7	8.1%
4215	C.I.TAKIRON Corporation	140,000	+4.1%	8,000	-6.0%	5.7%	53,625	9.7	0.6	6.4%
4224	Lonseal Corporation	18,500	+7.8%	1,250	+9.6%	6.8%	6,910	7.7	0.4	5.2%
5956	TOSO COMPANY, LIMITED	21,700	-	720	-	3.3%	5,410	10.3	0.4	6.2%
7971	TOLI Corp.	89,000	+3.6%	1,250	-21.6%	1.4%	15,036	13.8	0.4	3.8%
7989	TACHIKAWA CORPORATION	42,040	+5.2%	4,800	+5.8%	11.4%	24,770	7.6	0.6	7.5%
<b>8130</b>	<b>Sangetsu Corporation</b>	<b>146,500</b>	<b>-</b>	<b>7,600</b>	<b>+13.4%</b>	<b>5.2%</b>	<b>97,062</b>	<b>21.2</b>	<b>1.0</b>	<b>5.1%</b>
9827	Lilycolor Co., Ltd.	34,100	+4.1%	500	+464.2%	1.5%	2,279	12.3	0.3	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 in December 13, 2021. ROE is based on the previous term.

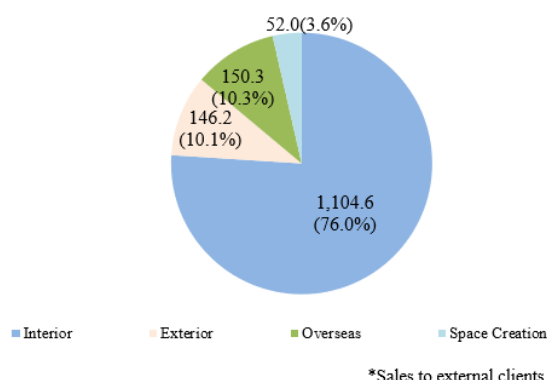
As Sangetsu and TOSO will apply the “Accounting Standard for Revenue Recognition” from the beginning of this fiscal year, the increases in net sales and operating income are not shown. TOSO also does not state its profit growth rate.

**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**

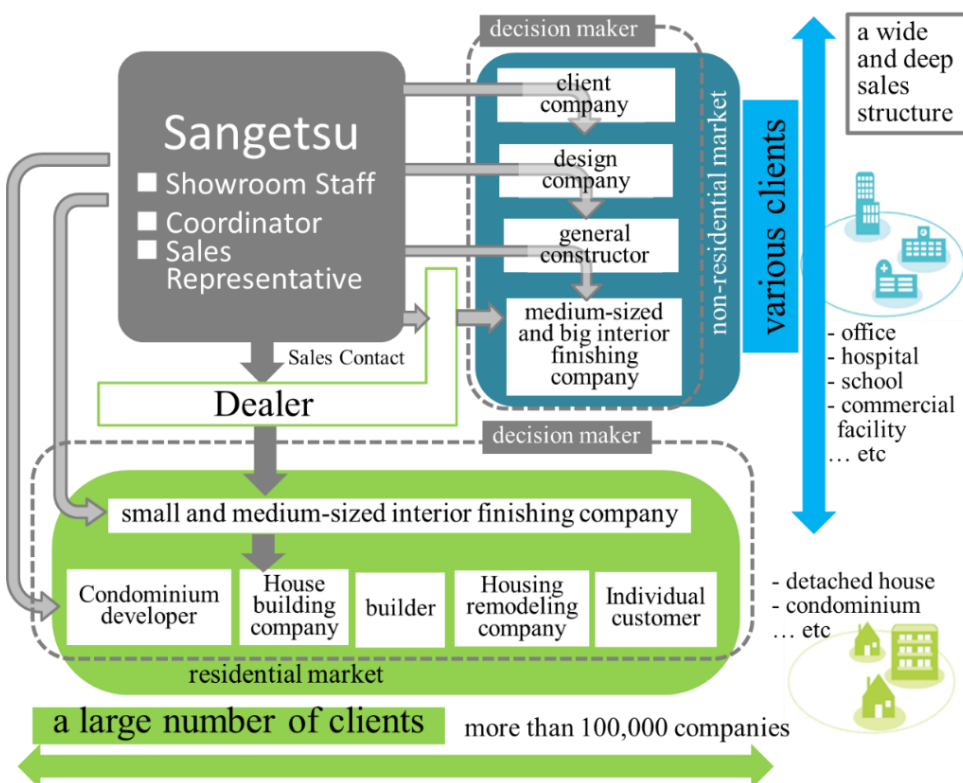
<b>Wallcoverings</b>	Sangetsu’s main product, used in a wide range of residential and non-residential applications. High functionality products have become popular in recent years that are resistant to staining, odor absorbing, and scratch resistant. The product lineup also includes antivirus wallcovering. 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.
<b>Cushion Vinyl Sheet</b>	Sheet formed flooring materials that are used in both residential and retail store applications, and commonly used in apartments and condominiums. They boast of wood grain, stone, and a wide range of other motif designs and have cushioning function for use in a wide range of applications.
<b>Vinyl Sheets</b>	Sheet formed flooring materials used in commercial applications including medical and welfare institutions, and educational institutions. This product boasts of high levels of safety and hygiene, and is designed to reduce maintenance costs, 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.
<b>PVC Tiles</b>	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.
<b>Carpets</b>	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.
<b>Carpet Tiles</b>	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.
<b>Curtains</b>	All of the curtains sold by Sangetsu are custom made and boast of the ability to create unique designs and custom sizes of curtains to match room decorations in which they are used. In addition to highly fashionable designs and heavy materials, mirror-like insulating characteristic lace curtains, which make it difficult to see inside from the outside and reduce the amount of heat transferred into the rooms, have also become popular.

Sangetsu boasts a diverse product lineup with about 12,000 different products in total. There are about 4,300 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 850-890 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.

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 and other regions.

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.

## 1-6 Characteristics and strengths

### ① Business 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 little 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.



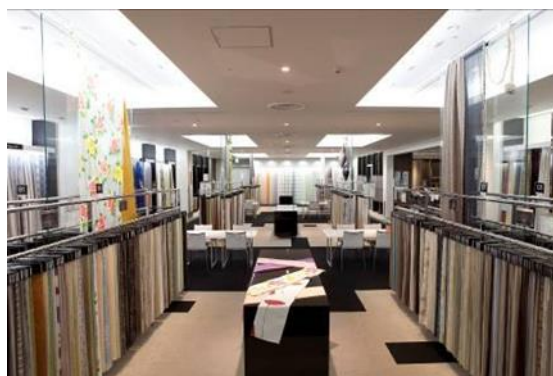
(Source: the company)

### “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)



**“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. The Second Quarter of Fiscal Year ending March 2022 Earnings Results

### (1) Earnings Results

	2Q of FY 3/21 (not applied)	2Q of FY 3/22 (applied)	2Q of FY 3/22 (not applied)	YoY (1)	YoY (2)	Compared to forecast (not applied)
Net Sales	69,540	69,955	74,451	+0.6%	+7.1%	-1.4%
Gross profit	22,704	18,446	24,911	-18.8%	+9.7%	-0.4%
SG&A	20,161	15,710	22,191	-22.1%	+10.1%	+0.6%
Operating Income	2,543	2,736	2,720	+7.6%	+7.0%	-7.8%
Ordinary Income	2,789	2,826	2,810	+1.3%	+0.8%	-7.8%
Quarterly Net Income	1,975	1,628	1,612	-17.6%	-18.4%	-15.1%

\*Unit: million yen. The company has been applying the “Accounting Standard for Revenue Recognition,” etc. from the beginning of the first quarter of the fiscal year ending March 2022. It was not applied in the second quarter of the fiscal year ended March 2021. “Y/Y (1)” means the year-on-year rate of change from 2Q of FY 3/21 to 2Q of FY 3/22 (the revenue recognition standard is applied), which is calculated by Investment Bridge Co., Ltd. “Y/Y (2)” means the year-on-year rate of change from 2Q of FY 3/21 to 2Q of FY 3/22 (the revenue recognition standard is not applied).

#### When the Accounting Standard for Revenue Recognition is not applied, sales grew.

Sales were 69.9 billion yen, and operating income was 2.7 billion yen. If the Accounting Standard for Revenue Recognition was not applied, sales would be 74.4 billion yen, up 7.1% year on year, and operating income would be 2.7 billion yen, up 7.0% year on year.

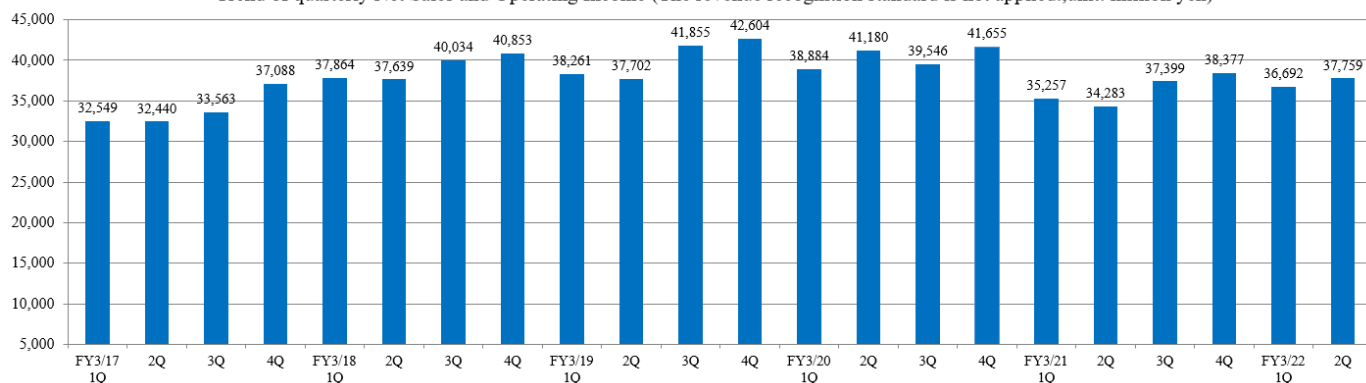
Regarding sales, Wavelock Interior, which was acquired as a subsidiary, contributed, and the Interior Segment increased its market share. The Exterior and Space Creation Segments saw sales growth. On the other hand, the recovery in the Overseas Segment is delayed in the U.S. and Southeast Asia.

Sales growth resulted in an increase in gross profit, offsetting the augmentation of SGA, for upgrading sample books in the Interior Segment, starting the operation of the new Kansai Logistics Center, and acquiring Wavelock Interior as a consolidated subsidiary. Net income dropped, due to the reversal of deferred tax assets for Koroseal in the U.S. and the exclusion of non-controlling shareholders’ equity for Goodrich in the previous term and Wavelock Interior in this term. Sales were almost in line with the initial forecast, SGA exceeded the forecast slightly, and profit fell below the initial forecast

## BRIDGE REPORT



Trend of quarterly Net Sales and Operating Income (The revenue recognition standard is not applied.,unit: million yen)



## (2) Business Segment Trends

	2Q of FY 3/21 (not applied)	2Q of FY 3/22 (applied)	2Q of FY 3/22 (not applied)	YoY (1)	YoY (2)	Compared to forecast (not applied)
Net Sales						
Interior Segment	52,873	57,857	57,650	+9.4%	+9.0%	-1.7%
Wallcovering Materials business	26,757	29,764	-	+11.2%	-	-
Flooring Materials business	19,252	21,428	-	+11.3%	-	-
Fabric Materials business	3,607	3,828	-	+6.1%	-	-
Others	3,254	2,835	-	-12.9%	-	-
Exterior Segment	7,235	2,823	7,502	-61.0%	+3.7%	-1.3%
Overseas Segment	7,799	7,391	7,391	-5.2%	-5.2%	+2.0%
Space Creation Segment	2,208	2,703	2,703	+22.4%	+22.4%	+0.1%
Adjustments	-576	-820	-795	-	-	-
Total	69,540	69,955	74,451	+0.6%	+7.1%	-1.4%
Operating Income						
Interior Segment	2,740	3,148	3,132	+14.9%	+14.3%	+2.4%
Exterior Segment	235	253	253	+7.7%	+7.5%	+15.2%
Overseas Segment	-509	-624	-624	-	-	-
Space Creation Segment	83	-34	-34	-	-	-
Adjustments	-6	-7	-7	-	-	-
Total	2,543	2,736	2,720	+7.6%	+7.0%	-7.8%

\*Unit: million yen. The fabric materials category of sales includes both curtains and upholstery.

The company has been applying the "Accounting Standard for Revenue Recognition," etc. from the beginning of the first quarter of the fiscal year ending March 2022. It was not applied in the second quarter of the fiscal year ended March 2021. "Y/Y (1)" means the year-on-year rate of change from 2Q of FY 3/21 to 2Q of FY 3/22 (the revenue recognition standard is applied), which is calculated by Investment Bridge Co., Ltd. "Y/Y (2)" means the year-on-year rate of change from 2Q of FY 3/21 to 2Q of FY 3/22 (the revenue recognition standard is not applied).

## ① Interior Segment

The residential market (new construction and renovation) is healthy, but the recovery of the non-residential market is slow. In this situation, the company strengthened its marketing system mainly by publishing new sample books, and sales grew. The market share of wallcoverings and PVC flooring materials expanded.

Regarding wallcoverings, the performance of middle-grade products is recovering, but while the deflation is worsening, the sales of low-priced mass-produced wallcoverings grew considerably.

To strengthen its marketing system, the company shifted from a structure in which the contract sales department in Tokyo handles large-sized properties to a structure in which each of Tokyo, Chubu, and Kansai Branches has a contract sales division to follow sales staff in each region. Then, it became to take more meticulous hands-on measures.

The enhancement of approaches to the so-called "upstream" clients, such as general contractors and builders, started producing effects.

## &lt;Wallcovering Materials&gt;

While there were some impacts of COVID-19, including the declaration of state of emergency and the steep increase of infected people, the demand in the market of newly built housing recovered, but the demand for renovation was sluggish. Regarding the sample book of mass-produced wallcoverings “SP” published in June, the sales and product development departments developed products for satisfying customer needs, and it was highly evaluated in the market, increasing sales. For the sample book of residential wallcoverings “Fine 1000,” the company expanded the lineup of anti-virus wallcoverings certified by SIAA to meet social needs. As the market of renewal of non-residential facilities recovered, the sales of the sample book of non-residential wallcoverings “FAITH” were healthy, and the sales of the adhesive-attached decorative film “REATEC” increased, thanks to the activities of the dedicated sales division, etc.

## &lt;Flooring Materials&gt;

The sales of residential products grew, thanks to the recovery of the market of newly built housing. In particular, the designs of “Floor Tiles,” which can be used broadly in both residential and non-residential facilities, were highly evaluated, and the products sold well.

In the non-residential market, the number of works for renewal recovered in each field, and the company witnessed the good performance of “S Floor,” the sample book of floors for various facilities, in the field of medical and welfare facilities, “NT-700H Series,” carpet tiles, in the office field, and “Non-skid,” non-skid PVC flooring sheets, in the field of large-scale repair of condominiums, etc.

## &lt; Fabric Materials &gt;

The impact of COVID-19 is lingering, but “STRINGS,” a sample book of curtains published in May, contributed to sales. In addition, the sales of “Contract Curtains,” a sample book of curtains for various facilities, increased thanks to the recovery of the non-residential market, and “UP,” a chair fabric sample book, performed well, thanks to the market recovery and the distribution of sample books. Furthermore, the company published “Simple Order,” a sample book of curtains with a single price so that customer can choose a curtain more easily, in September, to enrich the product lineup. The sales of the EC business of Sangetsu Vosne Corporation increased, as the company increased the number of products and implemented continuous measures for reeling in customers.

## &lt;Others&gt;

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

**② Exterior Segment**

Despite the impact of COVID-19, demand for nest-dweller demand continues to grow, in addition to an increase in exterior construction due to the recovery in new housing starts. Sales of post boxes, storage sheds, wooden decks, and other products were strong through home centers and e-commerce retailers, and sales of carports and terraces also grew. Furthermore, as part of the expansion of business areas based on the medium-term management plan, the Space Creation Segment and other divisions strengthened sales activities to propose integrated interior and exterior spaces, and developed new business areas. Sangetsu also focused on strengthening construction capabilities and strived to improve profitability.

**③ Overseas Segment**

In the Overseas Segment, the results of each company from January to June 2021 were included in the results for the second quarter of the fiscal year ending March 2022.

In North America, there was a sign of recovery in the construction market, and the number of orders received was on a recovery trend, but the problems related “restricted supply,” the skyrocketing of prices of materials, the delay of arrival of goods, the shortage of human resources, and the resultant rises in wages, augmented, and the business environment was harsh. While the hospitality market, which is the primary market of the company, remained stagnant, the company concentrated on marketing activities targeted at educational facilities, which are on a recovery trend, and medical and welfare markets, and the sales of new strategic products, including whiteboard wallcoverings and sound-absorbing/insulating wallcoverings, increased. As a measure for strengthening the designing skill, the company engaged in the development of products in collaboration with the famous designer Stacy Garcia, and released new products on October 1. The company considers that its product competitiveness and designing skill have been improved through the installation of new equipment, the employment of more designers, etc., and will improve and energize marketing and customer services.

In the Chinese and Hong Kong markets, their marketing activities are recovering to the pre-pandemic level, as the Chinese economy and the entire construction market are recovering. Their community-based activities for increasing new customers and meticulous marketing activities the company has conducted since before having paid off, and sales grew. In addition, the company strived to improve its management system and establish a system for expanding sales channels for Sangetsu products, with the aim of increasing revenues and streamlining business operations in the Chinese market.

The Southeast Asian market remained harsh, due to the restriction on transportation of people, although the situation varies among countries. In particular, it affected the sightseeing industry considerably, and the hospitality market, which is the primary market of the company, slowed down, and many construction works were postponed or cancelled, so the company enhanced marketing targeted at new strategic markets, including the healthcare and residential markets. In addition, the company started stocking Sangetsu products in Malaysia, Thailand, and Vietnam, and proceeded with the establishment of a system for selling mainly functional wallcoverings while utilizing Japanese high-quality products.

#### ④ Space Creation Segment

Regarding Fairtone Co., Ltd., there were concerns over the impact of COVID-19 and the decrease of works in the Tokyo Metropolitan Area due to the Olympics, but sales were healthy, as the entire market was on a recovery trend.

On the other hand, profit was sluggish, due to the intensification of competition for undertaking works and the augmentation of SGA. In the Chubu area, their marketing efforts utilizing the product competitiveness of Sangetsu and the capability of Fairtone paid off, contributing to sales. In addition, the company expanded its trading areas in the Hokkaido and Tohoku areas, and made efforts to fortify the company-wide marketing base and improve its workflow.

The Space Creation Division of Sangetsu conducted marketing by utilizing the customer base that has been nurtured through the Interior Business. Then, it undertook not only office renovation, but also hotel renovation. By sharing customer information and cooperating in marketing with the sales division of Sangetsu, it exerted synergy in the entire corporate group.

The company is improving its business structure by employing more designers and so on, but aims to expand its business scale at an accelerated pace for increasing revenues.

#### (3) Changes due to the application of the “Accounting Standard for Revenue Recognition”, etc.

Changes due to the application of the “Accounting Standard for Revenue Recognition”, etc. are as follows.

Revenue recognition	Changes
Revenue recognition regarding delivery services	<p><b>【Interior Segment】</b></p> <ul style="list-style-type: none"> <li>• The distribution-related expenses (including transportation costs), including costs for logistics centers, had been posted as SGA, but they are now posted as cost of sales.</li> <li>• The expenses for delivery services the company receives from customers had been posted as deductions from SGA, but they are now posted as sales.</li> </ul>
Revenue recognition regarding agency transactions	<p><b>【Interior Segment】</b> Regarding goods on commission for which the company does not have inventory, sales amount is calculated by subtracting the amount paid to the suppliers, etc. from revenues and posted.</p> <p><b>【Exterior Segment】</b> Regarding the wholesale without inventory risk, which accounts for a large portion of trading volume, Sungreen calculates and posts sales by subtracting the amount paid to suppliers from revenues.</p>
Compensation paid to clients, such as commission fees	<p><b>【Interior Segment】</b> Sales incentives paid to distributors had been included in SGA, but it is now a deduction from transaction prices (sales).</p>

The largest effect is a decrease of 4.68 billion in sales from agency transactions in the Exterior Segment.

## BRIDGE REPORT



## (4) Financial standing and cash flows

## ◎Main BS

	End of Mar. 21	End of Sep. 21	Increase/Decrease		End of Mar. 21	End of Sep. 21	Increase/Decrease
Current Assets	89,469	86,587	-2,882	Current Liabilities	43,790	41,956	-1,834
Cash, Equivalents	25,719	23,778	-1,941	Payables	26,626	24,890	-1,736
Receivables	44,983	42,949	-2,034	Short-Term Debt	7,261	7,536	+275
Marketable Securities	300	300	0	Noncurrent Liabilities	21,375	20,843	-532
Inventories	17,109	18,586	+1,477	Long-Term Debt	8,660	8,007	-653
Noncurrent Assets	69,356	69,568	+212	Total Liabilities	65,165	62,799	-2,366
Tangible Assets	40,516	40,286	-230	Net Assets	93,660	93,356	-304
Intangible Assets	10,122	10,107	-15	retained earnings	61,387	59,953	-1,434
Investments, Others	18,717	19,174	+457	Treasury Stock	-1,579	-1,689	-110
<b>Total Assets</b>	<b>158,826</b>	<b>156,156</b>	<b>-2,670</b>	Total Liabilities, Net Assets	158,826	156,156	-2,670
				Capital Adequacy Ratio	58.8%	59.5%	+0.7pt

\*Unit: million yen.

Total assets dropped 2.6 billion yen from the end of the previous term, due to the decreases in cash & deposits, accounts receivable, etc.

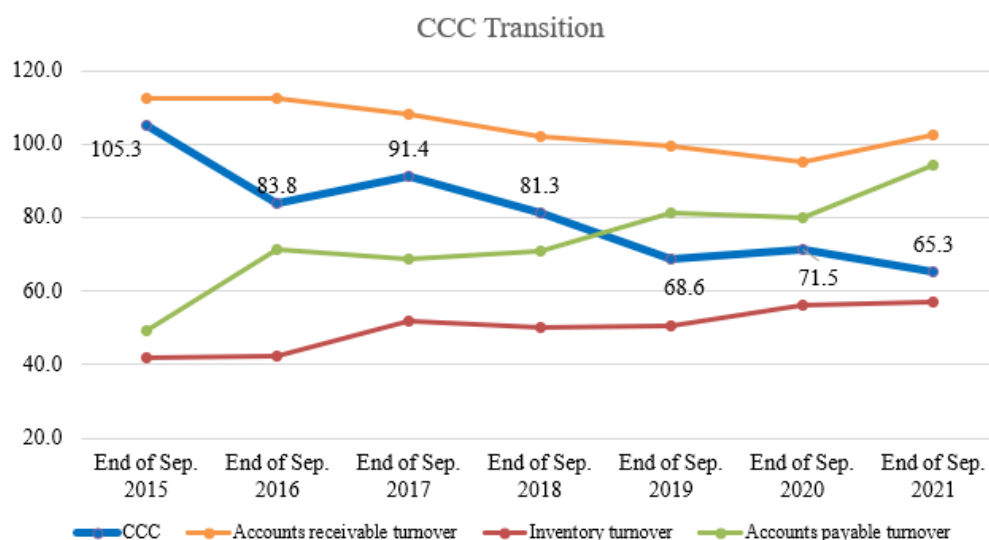
Total liabilities declined 2.3 billion yen, as accounts payable and debts decreased.

Net assets decreased 300 million yen, due to the drop in retained earnings. As a result, capital-to-asset rose 0.7 points from the end of the previous term to 59.5%. The balance of short and long-term debts decreased 300 million yen to 15.5 billion yen.

## ◎Cash Conversion Cycle(CCC)

CCC declined due to an increase in the accounts payable turnover period.

It is improving steadily.



### 3. Fiscal Year ending March 2022 Earnings Forecasts

#### (1) Earnings Forecasts

	FY 3/21 (not applied)	FY 3/22 (Initial Est.) (applied)	FY 3/22 (Initial Est.) (not applied)	FY 3/22 (Revised Est.) (applied)	FY 3/22 (Revised Est.) (not applied)	YoY (1)	YoY (2)	Revised Ratio (not applied)
Net Sales	145,316	146,000	155,500	146,500	156,000	+0.8%	+7.4%	+0.3%
Gross profit	47,640	38,600	51,800	40,100	53,300	-15.8%	+11.9%	+2.9%
SG&A	40,938	32,000	45,200	32,500	45,700	-20.6%	+11.6%	+1.1%
Operating Income	6,701	6,600	6,600	7,600	7,600	+13.4%	+13.4%	+15.2%
Ordinary Income	7,042	6,800	6,800	7,850	7,850	+11.5%	+11.5%	+15.4%
Net Income	4,780	4,300	4,300	4,500	4,500	-5.9%	-5.9%	+4.7%

\*Unit: million yen. The company has been applying the "Accounting Standard for Revenue Recognition," etc. from the beginning of the first quarter of the fiscal year ending March 2022. It was not applied in the fiscal year ended March 2021. "Y/Y (1)" means the year-on-year rate of change from FY 3/21 to FY 3/22 (the revenue recognition standard is applied), which is calculated by Investment Bridge Co., Ltd. "Y/Y (2)" means the year-on-year rate of change from FY 3/21 to FY 3/22 (the revenue recognition standard is not applied). The initial forecast has been partially revised, due to the change in the scope of application of the revenue recognition standard and the change in items used by the audit corporation in July 2021.

#### The earnings forecast and the dividend forecast revised upwardly

The earnings forecast has been revised upwardly. For the fiscal year ending March 2022, sales are forecast to be 146.5 billion yen (if the revenue recognition standard was not applied, sales would be forecast to rise 7.4% year on year to 156 billion yen) and operating income is expected to grow 13.4% year on year to 7.6 billion yen. Sales are expected to grow in all segments. Through the sales growth, gross profit is projected to rise. Due to the price hike, gross profit margin will rise. Procurement costs will augment, expenses for personnel and distribution will increase due to the recovery of marketing activities, and the expenditure for opening the new Kansai Logistics Center and publishing sample books will increase, but they will be offset, and operating income is expected to grow by double digits. The dividend forecast has been revised. The company plans to pay a dividend of 70.00 yen/share, up 12.00 yen/share from the previous term. The expected payout ratio is 91.6%.

#### (2) Business Segment Trends

	FY 3/21 (not applied)	FY 3/22 (Revised Est.) (applied)	FY 3/22 (Revised Est.) (not applied)	YoY (1)	YoY (2)
Net Sales					
Interior Segment	111,794	120,900	120,950	+8.1%	+8.2%
Exterior Segment	14,626	5,600	15,050	-61.7%	+2.9%
Overseas Segment	15,034	15,450	15,450	+2.8%	+2.8%
Space Creation Segment	5,239	6,100	6,100	+16.4%	+16.4%
Adjustment	-1,378	-1,550	-1,550	-	-
Total	145,316	146,500	156,000	+0.8%	+7.4%
Operating Income					
Interior Segment	7,082	8,350	8,350	+17.9%	+17.9%
Exterior Segment	417	470	470	+12.7%	+12.7%
Overseas Segment	-985	-1,280	-1,280	-	-
Space Creation Segment	201	70	70	-65.3%	-65.3%
Adjustment	-13	-10	-10	-	-
Total	6,701	7,600	7,600	+13.4%	+13.4%

\*Unit: million yen. The company has been applying the "Accounting Standard for Revenue Recognition," etc. from the beginning of the first quarter of the fiscal year ending March 2022. It was not applied in the fiscal year ended March 2021. "Y/Y (1)" means the year-on-year rate of change from FY 3/21 to FY 3/22 (the revenue recognition standard is applied), which is calculated by Investment Bridge Co., Ltd. "Y/Y (2)" means the year-on-year rate of change from FY 3/21 to FY 3/22 (the revenue recognition standard is not applied). The initial forecast has been partially revised, due to the change in the scope of application of the revenue recognition standard and the change in items used by the audit corporation in July 2021.



### \*Interior Segment

The Japanese market was expected to recover to the level down 4% from fiscal 2019 at the beginning of the term, but it is now projected to reach the level down 5.5-6.0% from fiscal 2019.

Through the rise in material prices until September, the costs for procuring wallcoverings and flooring materials are forecast to augment.

The price hike, which was started from the order received on September 21, is delayed for some products, and it is considered that it will take time to raise prices of all products.

In the revised forecast, the company does not take into account the augmentation of procurement costs due to the rise in material prices or the additional price hike from October, but the company started discussing further price hikes, considering the external environment.

### \*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

Regarding the U.S. construction market, the number of orders received is recovering, the backlog of orders is at a record-high level, the revenue in the period from July to September was sluggish due to the restriction on supply, and it is considered that it will take time to increase sales and improve revenues.

The Southeast Asian market was affected significantly by lockdowns in July and August. It is expected to recover in the period from October to December.

In the Chinese and Hong Kong Market, it is expected to move into the black in the period from October to December. An extraordinary loss is forecast to be posted, due to the withdrawal from Dubai.

## 4. Management strategy: Progress of Medium-term Business Plan (2020-2022) 【 D.C. 2022 】

In the Medium-term Management Plan 【 DC 2022 】 , which stretches over three years and is considered the first step in the Long-term Vision 【 DESIGN 2030 】 , the company aims to become a "Space Creation Company." The four basic policies of the plan are "expanding revenues through qualitative growth of the core business," "growth of profitability in next-generation businesses based on resources of the core businesses," "strengthening 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."

The following sections show the progress highlights in "expanding revenues through qualitative growth of the core business," "growth of profitability in next-generation businesses based on resources of the core businesses," and "achieving social value."

### 4-1 Progress of basic policies

#### (1) Expanding revenues through qualitative growth of the core businesses

##### ① Progressive enhancement of design capabilities and promotion of strategic procurement

##### ◎ Responding to the market deflation trend

Regarding products, the company takes measures against deflation in the market and thoroughly differentiating its products with high-quality designs.

After releasing "SP," the mass-produced wallpaper sample book, in June, the company released "Simple Order," the one-price curtain sample book, in September. In November, in addition to the products with a retail price of 6,000 yen or higher, the company added products with a new retail price of 4,900 yen to the lineup of "REATEC," adhesive decorative films. These products are popular as they meet the needs for reducing construction costs.

##### ◎ Advancing design capabilities and products

In November, the company released "NT double eco," a decarbonizing carpet tile that uses recycled nylon for the tile's front side and recycled material for the backing. The GHG (greenhouse gas) generated in the production process is reduced by about 60%, and Sangetsu also issues a certificate at the time of sale. The response from builders and business owners with environmental needs is unprecedentedly significant, and the number of customers using these tiles is increasing. These tiles are expected to become a great driver for promoting sales of carpet tiles.

As for roller blinds, the company has released "CS Roll Screen," which is child safe.

In terms of design, the company signed a design contract with the leading British design company, Sanderson Design Group. They jointly developed a product using the design of William Morris, which is historically highly regarded. The design is scheduled to be launched in East Asia, including Japan, and Southeast Asia.

Currently, the company is developing products in the fields of wallpaper, flooring materials, and fabrics, and some products will be released next year.

The decorative film with PVC adhesive "REATEC" and "CLEAS Glass Film" received the Good Design Award. The roller blinds with the child safety function "CS Roll Screen" won the Kids Design Award.

### ◎ Efforts after the acquisition of Wavelock Interior Co.,Ltd.

Currently, demand for digital prints that can express various designs is increasing, especially for hotels.

Wavelock Interior, which became a subsidiary in March 2021, plans to adopt two inkjet printers in January 2022. Furthermore, the company is improving the designers' capabilities toward launching inkjets.

In addition, the company has prototyped fleece wallpaper and non-woven wallpaper for overseas markets and is preparing to launch them in overseas markets.

### ② Improving and advancing service functions

#### ◎ Fairtone acquires HEKISO Co., Ltd. as a subsidiary

Fairtone has acquired HEKISO Co., Ltd. (Miyagi Prefecture), a leading construction company in the Tohoku region, as a subsidiary. Initially, Sangetsu held 25% of its shares, and then it acquired the remaining 75% of the shares, making it a wholly-owned subsidiary of Fairtone.

The company will increase its various initiatives, such as improving relationships with general contractors through construction and expanding the construction network in the Tohoku region.

The company will also consider acquiring similar resources outside the Tohoku region.

### (2) Making next-generation businesses profitable based on core business resources

#### ① Improving business in the Pacific Rim

##### ◎ Development of strong organization and management bases in all countries

The company worked for over a year in 2021 on reorganizing, simplifying, and streamlining the management system, which had been rather complicated.

Goodrich Global Holdings, a wholly-owned subsidiary headquartered in Singapore that is directly under Sangetsu, supervises the business in Southeast Asia.

The business in Hong Kong and China is supervised by Goodrich Global Hong Kong, a wholly-owned subsidiary of Sangetsu.

Regarding China, the company integrated Sangetsudo Shanghai and Goodrich China. Regarding Dubai, the company's withdrawal is scheduled to be completed by the end of the year.

##### ◎ Enhancing product design for overseas business

Koroseal has been developing products for about two years in collaboration with Stacy Garcia, a famous designer in the United States for architecture and fabrics.

In October 2021, the company started selling a new wallpaper collection called "STACY GARCIA NEW YORK By Koroseal," consisting of 82 items with six patterns.

##### ◎ Goodrich

In November 2021, the renewed showroom in Singapore was reopened.

More than 100,000 items including wall coverings, flooring materials, and fabrics are exhibited in the 350-m<sup>2</sup> gallery space.

### ② Development of the space creation business by strengthening specialized skills

When relocating Sangetsu's Kansai Branch Office, Sangetsu's Space Creation Division, together with Sungreen Co., Ltd., which handles exterior design, designed the new Kansai branch office.

The design combines the concepts of the indoors and the outdoors by using several plants in the office. A communication area has been set up in the office to welcome external staff.

The company will utilize the Kansai Branch Center Office to promote its design capabilities as a Space Creation Company.

### (3) Realization of social value

#### ① Global environment

GHG (greenhouse gas) emissions from Sangetsu itself and emissions on a consolidated basis are 6,233 t-CO<sub>2</sub> (FY2020) and 84,595 t-CO<sub>2</sub> (FY2016), respectively.

In addition to GHG emissions, the company is also working to recycle various products that impact the environment to make

them eco-friendly, especially sample books.

The total GHG emissions in Sangetsu's business, including the supply chain, was 389,295 tons in FY2020.

The company and its suppliers are formulating a plan to reduce these emissions. On a non-consolidated basis, the company aims to lower its 6,000-ton GHG emissions and achieve zero GHG emissions in 2030, and it is currently formulating a plan to realize this goal.

**② ESG external evaluation**

Regarding the ratings of external evaluation bodies, the rating of MSCI is 5.3, and the rating of FTSE is 3.1. Ratings are steadily improving year by year.

**4-2 Capital policy**

The capital policies in the medium-term business plan are "to maintain equity capital in the range of 90 to 95 billion yen," "to achieve a total return ratio of almost 100% over the next three-years," "to make decisions about dividends and acquisition of own shares under the basic policy of stable dividend increase after assessing the impact of the COVID-19 on the business results."

Based on this, the company plans to allocate "20-26 billion yen for growth investment," "17-19 billion yen for shareholder return," and "25-30 billion yen as cash at the end of the FY March 2023."

As mentioned before, the dividend for this term is scheduled to be 70.00 yen/share, an increase of 12.00 yen/share from the previous term (11.5 yen/share increase from the initial forecast). The expected payout ratio is 91.6%.

There are three reasons for the dividend increase.

1. The company has continuously acquired treasury shares since FY 2014, but the total number of issued shares excluding treasury shares is currently below 60 million. When President Yasuda was appointed, the number of the company's treasury shares was over 80 million, but the number has decreased to less than 60 million.
2. There is a strong demand for dividends rather than share buybacks, mainly by individual shareholders.
3. There is also a demand for continuing stable dividend increases.

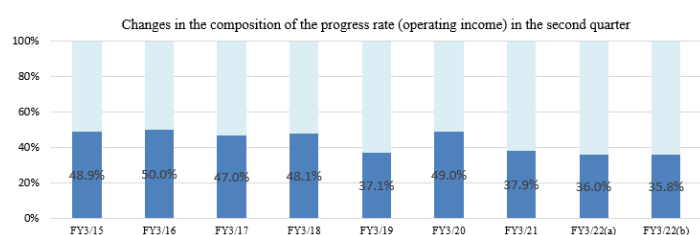
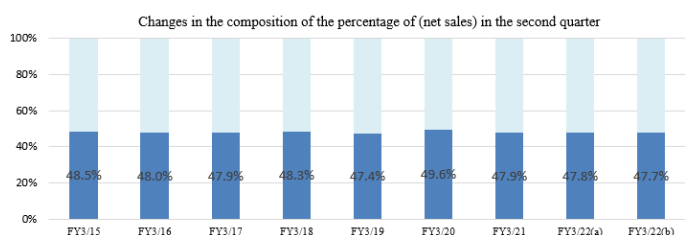
Based on these three points, the company did not change its target of a total return ratio of almost 100% in these three years. However, it changed the breakdown of the 100% total return ratio to increase the weight of dividends stably while flexibly continuing to acquire treasury shares.

The total shareholder return in the first half was 3.56 billion yen, including the increase in the interim dividend to 35 yen/share. The company will continue to buy back shares until the beginning of January 2022.

**5. Conclusions**

The progress rate of results in the first half was 47.8% (when the revenue recognition standard is applied) or 47.7% (when the revenue recognition standard is not applied) for sales, and 36.0% (when the revenue recognition standard is applied) or 35.8% (when the revenue recognition standard is not applied) for operating income. Sales were almost as usual, but operating income was slightly lower than usual. They said that the augmentation of procurement costs due to the rise in material prices from October and the additional price hike is not taken into account in the revised forecast, but we would like to pay attention to how much they will increase sales and profit from the third quarter.

Regarding the progress of the mid-term management plan, the expansion of the market share of mass-produced wallpaper is progressing as planned, and it is noteworthy. The acquisition of Wavelock Interior as a subsidiary is apparently producing good effects, and we would like to expect that it will contribute to revenues.



\* For the period from FY 3/15 to FY 3/21, the ratio of the second quarter (cumulative) results to the full-year results FY3/22(a) means the figure which "Accounting Standard for Revenue Recognition" is applied. FY3/22(b) means the figure which "Accounting Standard for Revenue Recognition" is not applied.

## <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

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

(Source: The company)

### (1) Goal: “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.

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.”

<p><b>An equal and healthy inclusive society</b></p> <p>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.</p>	
<p><b>The global environmental protection with sustainable society</b></p> <p>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.</p>	
<p><b>A more affluent and enjoyable society</b></p> <p>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.</p>	

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

### (5) Numerical targets

For the term ending March 2030, 10 years from now, the company aims to achieve “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.

**\*The achievement of quantitative goals**

	Mid-term goals in fiscal 2019	Results in 2019	Overview
<b>Net Sales</b>	165 billion yen	161.26 billion yen	Slightly smaller than the goal, but marked a record high
<b>Net income</b>	8-10 billion yen	1.43 billion yen	Posted the impairment loss related to Koroseal in the U.S.
<b>ROE</b>	8-10%	1.5%	Financial leverage and asset turnover improved, but net income declined
<b>CCC</b>	75-60 days	72.4 days	The company shortened accounts receivable turnover period and lengthened accounts payable turnover period and inventory turnover period
<b>ROIC</b>	-	7.9%	Exceeded the value in fiscal 2016: 7.2%.
<b>EBITDA</b>	-	13.49 billion yen	Exceeded the value in fiscal 2016: 11.2 billion yen.
<b>Capital policy</b>			
<b>Equity capital</b>	100-105 billion yen	93.24 billion yen	Decreased from 110.37 billion yen at the end of the term ended March 2017
<b>Investment for growth</b>	10-25 billion yen	6.2 billion yen	The goal was not achieved. M&A projects not completed.
<b>Return to shareholders</b>	25-33 billion yen	24.8 billion yen	Almost as planned
<b>Term-End Cash, Equivalents</b>	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 】****① Positioning 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	<b>Expand earnings through qualitative growth of core business</b> <b>Interior segment</b> (In Japan) <ul style="list-style-type: none"> <li>(1) Enhancement of design capabilities and strategic purchasing</li> <li>(2) Expansion and Upgrading of our Service functions</li> <li>(3) Deepening collaboration with distributors and strengthening sales structure</li> </ul> <b>Exterior segment</b> (In Japan) <ul style="list-style-type: none"> <li>(4) Qualitative and regional expansion in exterior business</li> </ul>
2	<b>Growth of profitability in next-generation business based on resources of core business</b> <b>Overseas segment</b> In each market globally <ul style="list-style-type: none"> <li>(1) Build a solid management foundation in the market in each country</li> <li>(2) Pursuit of the optimal business model and full commitment to localization</li> <li>(3) Strengthening branding and product portfolio</li> </ul> <b>Space Creation segment</b> (In Japan) <ul style="list-style-type: none"> <li>(4) Spread of Space creation business by expanding professional ability</li> </ul>
3	<b>Strengthen management and business foundations</b> <ul style="list-style-type: none"> <li>(1) Strengthening business execution capabilities and efficiency</li> <li>(2) The establishment of a system for the advanced utilization of data</li> </ul>
4	<b>Realize social value</b> <ul style="list-style-type: none"> <li>(1) Global environment</li> <li>(2) Human capital</li> <li>(3) Social capital</li> <li>(4) Governance</li> </ul>

(Source: The company)

**② Numerical 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
<b>Net Sales</b>	<b>1,612.6</b>	<b>1,720.0</b>	<b>+2.2%</b>
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%
<b>Operating Income</b>	<b>92.6</b>	<b>120.0</b>	<b>+9.0%</b>
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.

### ③ Outline 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 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 January 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	<b>Koroseal</b>	New CEO and executive
	Canada	<b>Metro</b>	
China	China	<b>Sangetsu (Shanghai) Corp.</b>	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.

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

(Source: The company)

### \*Space Creation Segment

The company aims to become a Space Creation Company, first with the initiatives of the Space Creation Segment, and the company also aims to operate businesses in other sections with company-wide efforts.

Sangetsu possesses plenty of knowledge and strengths in the existing core businesses, including the customer base (such as hotels, accommodation, offices, commerce, and welfare), the capability of designing in cooperation with about 60 staff members of the 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 Segment 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.”

<p>Global environment “Reduce environmental impact”</p>	<p>(1) Reduce impact on global environment</p> <ul style="list-style-type: none"> <li>• Reduce GHG emissions</li> <li>• Reduce Energy consumption</li> <li>• Reduce Total waste emissions</li> <li>• Improve Recycling rate</li> </ul> <p>(2) Understanding and reducing the environmental impact of the supply chain</p> <ul style="list-style-type: none"> <li>• Understanding GHG basic unit for each supplier, and taking it into consideration during purchasing activities</li> </ul> <p>(3) Expansion of long-lasting products</p> <ul style="list-style-type: none"> <li>• Developing the high durability product</li> <li>• expansion of the long-term continuation product</li> </ul> <p>(4) Expanded collection and recycling of sample books</p> <ul style="list-style-type: none"> <li>• Building and expanding the collection and recycling system.</li> </ul>
<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"> <li>• Developing employees’ health reassurance and safety</li> <li>• Promoting of improving work style by Business process reform</li> <li>• Developing skills based on carefully tailored human resources management</li> <li>• Improving employee engagement</li> </ul> <p>(2) Promote diversity &amp; inclusion</p> <ul style="list-style-type: none"> <li>• Promoting the success of women</li> <li>• Promoting of Hiring of disabled persons</li> <li>• Increasing the number of non-Japanese employees including personal exchange in Sangetsu group</li> </ul>
<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"> <li>• Review of raw materials</li> </ul> <p>(2) Improving the stability of quality</p> <ul style="list-style-type: none"> <li>• Reduction of the quality claim</li> </ul> <p>(3) Promotion of purchasing activities that consider the environment, human rights, and labor safety and hygiene</p> <ul style="list-style-type: none"> <li>• Building the long-term and stable business relationship with supplier</li> </ul> <p>(4) Work style reform in tandem with business partners</p> <ul style="list-style-type: none"> <li>• Reform and improve work system though value chain</li> </ul> <p>(5) Proactive participation in local communities</p> <ul style="list-style-type: none"> <li>• Space creation in children’s home renovations</li> <li>• Work on the support for the children of developing countries</li> <li>• Active employee participation</li> </ul> <p>(6) Enhancing interior culture and supporting the arts</p> <ul style="list-style-type: none"> <li>• Continued holding of Sangetsu Wallcovering Design Award</li> <li>• Support various art events</li> </ul>
<p>Governance “Strengthen Corporate governance”</p>	<p>(1) Enhancing the effectiveness of the Board of Directors</p> <ul style="list-style-type: none"> <li>• Promoting diversity of the Board of Directors</li> </ul>

	<ul style="list-style-type: none"> <li>• Securing the independence of the Board of Directors</li> <li>(2) Enhancing the effectiveness of the Nomination and Compensation Committee <ul style="list-style-type: none"> <li>• Consideration of nomination method for candidates of directors based on timeline and clarified qualification requirements</li> <li>• Ensuring objectivity in the process of determining director compensation and disclosing its content</li> </ul> </li> <li>(3) A thorough commitment to compliance</li> <li>(4) Implementing responsible dialog with stakeholders</li> </ul>
--	---

### 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%
	② Ratio of employees with disabilities	At least 4.0%
3. Social capital	Participation in local communities	
	① Space creation in children's home renovations	30 per year
	② Active employee participation	Matching gift: 7,000 S-mile

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

#### (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.)

## &lt;Reference2: Regarding Corporate Governance&gt;

## ◎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: : December 6, 2021

## &lt;Basic Concept&gt;

Our corporate creed is “Sincerity,” and we aim to foster good relationships with all stakeholders to improve our corporate value and grow sustainably.

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.

## &lt;Reasons for Non-compliance with the Principles of the Corporate Governance Code (Excerpts)&gt;

The information given below is based on the Corporate Governance Code revised in June 2021 (including items related to companies listed on the Prime Market).

Our company follows all principles of the Corporate Governance Code.

## &lt;Disclosure Based on the Principles of the Corporate Governance Code (Excerpts)&gt;

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>
<p>【Principle 2-4 Ensuring Diversity, including Active Participation of Women】 Supplementary Principle 2-4-1 Ensuring diversity in promotion to core human resources</p>	<p>(1) Our attitude toward ensuring diversity Pursuing the Sangetsu Group Human Rights Policy and the Sangetsu Group Basic Policy on Diversity, our company fosters a corporate culture that continues taking on challenges and innovating and enriches programs and systems by considering the individuality of each one of our employees as diversity regardless of gender, age, nationality, race, religion, disability, gender identity, sexual orientation, etc.</p> <p>(2) Our voluntary and measurable goals for ensuring diversity, and our current progress of ensuring diversity</p> <ul style="list-style-type: none"> <li>• Promotion of women to managerial positions</li> </ul> <p>The percentage of female full-time employees in our company is increasing year by year, which is currently 37.2%, thanks to our efforts to create a workplace environment in which our employees can work comfortably regardless of gender, such as enrichment of the work-life balance support system. In addition, female employees account for 35% of our employees in the positions of leadership (those at the section chief level or more senior levels) and 17.2% of our employees in managerial positions. Our company has set an objective of increasing the ratio of female employees in managerial positions to 20% by 2022 and has been disclosing changes in the ratio of female employees in managerial positions since the fiscal year 2017 on our website (<a href="https://www.sangetsu.co.jp/company/sustainability/social/divercity_policy.html">https://www.sangetsu.co.jp/company/sustainability/social/divercity_policy.html</a>).</p> <p>We offer various education and training programs for encouraging active participation of our female employees, including programs of career development support and support skills improvement for the female employees and their bosses and health seminars for promoting women's active participation.</p> <ul style="list-style-type: none"> <li>• Promotion of mid-career hires to managerial positions</li> </ul> <p>We have employed mid-career workers proactively since 2016 in order to secure human resources with expertise in such fields as management, information systems, and design. Three of our seven executive officers are mid-career hires, which means that the ratio of mid-career hires in the</p>

Supplementary Principle 3-1-3	<p>position is over 40%. The percentage of mid-career hires in other managerial positions than the executive officer position is 4.7% as of April 1, 2021. We offer our mid-career hires education and training programs after they have joined our company in order to help them get used to working in our company and actively participate in our business operations.</p> <ul style="list-style-type: none"> <li>• Promotion of foreign nationals to managerial positions</li> </ul> <p>Although the major target market of Sangetsu Corporation alone is the Japanese market, the Sangetsu Group began to employ foreign nationals in 2015 when the Sangetsu Group started the overseas business. We will promote these human resources to managerial positions equally, regardless of nationality, based on their capabilities and business performance. In our group companies engaging in the overseas business, foreign nationals account for 45% of the employees in the positions of officers that play the central roles in the business.</p> <p>(3) Our policies on human resources development for ensuring diversity, policies on internal environment development, and their progress Considering diversity management, which leads new perspectives and ideas brought by different backgrounds, sensibilities, and senses of values to enriched creativity, as the core of our business management, we are making efforts in this regard as an important policy toward achieving business growth while handling diversifying market demand. We have set diversity and inclusion goals, which are proactive employment of foreign nationals, employment of a greater number of people with disabilities, and support for promoting female employees to managerial positions. Other efforts of our company include improvement of the rate of paid holidays taken by our employees, reduction in long working hours, and approaches related to LGBTQ.</p> <ul style="list-style-type: none"> <li>• Our initiatives toward sustainability</li> </ul> <p>Our long-term vision, 【 DESIGN 2030 】, includes 10 of the 17 goals of the SDGs as our corporate group’s objectives. In addition, one of the basic policies of our medium-term management plan, 【 D.C. 2022 】, is realization of social value. Specifically, we (1) set concrete target values regarding reduction in environmental impact, (2) facilitate our understanding of environmental impact in the supply chain (and will use it as one of the criteria for making judgment about our procurement activities in the future), (3) develop highly durable, long-life products and environmentally friendly products, and (4) recycle our books of samples. With regard to the item (4), we opened the Sangetsu Sample Books Recycling Center in March 2021 and have operated it since then.</p> <ul style="list-style-type: none"> <li>• Investment in human capital</li> </ul> <p>Our company aims to run a personnel system that respects the diversity, personality, and individuality of our employees and allows each of them to demonstrate their abilities to the fullest extent as the leading role in business management, and we disclose information on the relevant systems on our website (<a href="https://www.sangetsu.co.jp/company/sustainability/social/divercity_policy.html">https://www.sangetsu.co.jp/company/sustainability/social/divercity_policy.html</a>).</p> <p>Furthermore, we have followed our health and productivity management policy “For employees to work enthusiastically so that they can work and live healthily,” and have been committed to maintaining and building up our employees’ health by ensuring a safe, healthy, comfortable, and friendly workplace environment in which our employees can work with vigor and enriching programs and systems aimed at promoting their physical and mental health. We disclose information related to these activities on our website (<a href="https://www.sangetsu.co.jp/company/sustainability/social/health_management.html">https://www.sangetsu.co.jp/company/sustainability/social/health_management.html</a>).</p> <ul style="list-style-type: none"> <li>• Investment in intellectual property</li> </ul>
-------------------------------	--



	<p>As one of the approaches to design management, which is the basis of business management in our long-term vision 【 DESIGN 2030 】 , we proactively invest in intellectual property through such means as proactive application for trademarks, design rights, and patents. We give our employees rewards for employee inventions pursuant to our internal regulations concerning handling of employee inventions.</p> <ul style="list-style-type: none"> <li>• Impact of climate change on our business activities</li> </ul> <p>We began to include climate change risks in the securities report published in June 2021 and discussed the situation of environmental impact created through our business activities with regard to preservation of the global environment on pages 42 and 43 of the integrated report (<a href="https://www.sangetsu.co.jp/company/sustainability/environment/climatechange.html">https://www.sangetsu.co.jp/company/sustainability/environment/climatechange.html</a>). Furthermore, we have given explanations regarding risks and opportunities of climate change using tables (<a href="https://www.sangetsu.co.jp/company/sustainability/environment/risk.html">https://www.sangetsu.co.jp/company/sustainability/environment/risk.html</a>). Our company agrees on the aims of the Task Force on Climate-related Financial Disclosures (TCFD) and has disclosed the four elements of the TCFD recommendations on climate-related financial disclosures (strategy, governance, risk management, and metrics and targets), and we will further enrich the quality and quantity of our approaches.</p>
Principle 5-1 Policy on constructive communication with shareholders	<ul style="list-style-type: none"> <li>• Our Chief Executive Officer himself supervises our investor relations activities and takes part in IR interviews and financial results briefings. Our company proactively communicates with investors through such means as direct explanations to overseas investors. In addition, we regularly hold meetings between our Audit and Supervisory Committee members, including all of the outside directors, and institutional investors.</li> <li>• Our company has established the General Affairs Public Relations and IR Department for rational communication with our shareholders and swift IR activities.</li> <li>• The Chief Executive Officer, the executive in charge, and the General Affairs Public Relations and IR Department carry out interviews with both Japanese and overseas institutional investors, and analysts, upon their request.</li> <li>• Although the IR department specializes in handling IR activities, other departments such as the headquarters of each business, the Finance and Accounting Department, and the Office of the President's Corporate Planning Division cooperate with the IR department to provide information with higher effectiveness.</li> <li>• Besides announcement of financial statements, we proactively disclose information by holding multifarious events for institutional investors, such as financial results briefings, explanatory meetings on management strategies, and guided tours of our logistics centers, while, for individual investors, participating in IR events held by stock exchanges targeting individual investors, contributing articles to stock information magazines, and enriching our website.</li> <li>• 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.</li> <li>• Our company discloses the explanatory material that we used in various events and meetings and pictures of our dialogue with the stakeholders, and posts English versions of these materials as needed.</li> <li>• Our company creates an integrated report for every fiscal year and publishes such reports both in Japanese and in English through our website. (<a href="https://www.sangetsu.co.jp/company/ir/library/report.html">https://www.sangetsu.co.jp/company/ir/library/report.html</a>)</li> <li>• Our company conducts activities which contribute to enhancement of our</li> </ul>

## BRIDGE REPORT



	<p>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.</p> <ul style="list-style-type: none"><li>• Our company responsibly utilizes opinions obtained from interaction with our shareholders and investors for administrative improvement through The Public Relations and IR Department.</li><li>• 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.</li></ul>
--	--

<p>This report is not intended for soliciting or promoting investment activities or offering any advice on investment or the like, but for providing information only. The information included in this report was taken from sources considered reliable by our company. Our company will not guarantee the accuracy, integrity, or appropriateness of information or opinions in this report. Our company will not assume any responsibility for expenses, damages or the like arising out of the use of this report or information obtained from this report. All kinds of rights related to this report belong to Investment Bridge Co., Ltd. The contents, etc. of this report may be revised without notice. Please make an investment decision on your own judgment.</p> <p style="text-align: right;">Copyright(C) Investment Bridge Co.,Ltd. All Rights Reserved.</p>
--