



Shosuke Yasuda, President

Sangetsu Corporation (8130)

sangetsu

## Company Information

Market	TSE Prime Market, NSE Premier Market
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
¥1,565	59,200,000 shares		92,648 million	0.3%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥71.00	4.5%	¥119.36	13.1 x	¥1,497.21	1.0 x

\*The share price is the closing price on June 29. Each number is from the financial results for the fiscal year ended March 2022.

## 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 Act.	149,481	7,959	8,203	276	4.66	70.00
March 2023 Est.	159,000	10,000	10,700	7,000	119.36	71.00

\*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 ended March 2022, the company will apply the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29), etc.

This Bridge Report provides an overview of the fiscal year ended March 2022 of Sangetsu Corporation.

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<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 ended March 2022, the “accounting standard for revenue recognition,” etc. have been applied. In the fiscal year ended March 2022, sales were 149.4 billion yen and operating income was 7.9 billion yen. Without the application of the accounting standard for revenue recognition, sales were 158.8 billion yen, up 9.3% year on year, and operating income was 7.9 billion yen, up 18.6% year on year. For the following contents about the growth of sales and profit in the fiscal year ended March 2022, the accounting standard for revenue recognition was not applied.
- Sales grew, as the company expanded a market share in the Interior Business thanks to the recovery of the housing market and the effects of new sample books and raised prices in September 2021. The sales in the Exterior, Space Creation, and Overseas segments, too, increased. Through the sales growth, gross profit rose, offsetting the augmentation of expenses for upgrading sample books in the Interior Segment, opening Shin-Kansai Logistics Center, and acquiring CREANATE Inc. as a consolidated subsidiary. On the other hand, net income dropped considerably, due to the posting of an impairment loss of 5.5 billion yen for the trademarks related to Koroseal.
- In the fiscal year ending March 2023, sales are projected to grow 6.4% year on year to 159 billion yen and operating income is expected to increase 25.6% year on year to 10 billion yen. Sales are forecast to grow in all segments. Gross profit, too, is expected to grow. Due to the price hikes, gross profit margin is projected to rise. The company plans to pay a dividend of 71.00 yen/share, up 1.00 yen/share from the previous term. The expected payout ratio is 59.5%. The performance of the company is better in the second half due to the seasonality of its business. This term, too, the company was planning to revise the prices of their products as the prices of raw materials, including vinyl chloride, plasticizers, and nylon, were rising, and announced price hikes on June 17, 2022. The prices of wallcoverings, flooring materials, and upholstery will be raised. The company will raise the prices of products ordered from October 1, 2022 by 7-12%. Its impact on the performance in the second half is still unknown.
- In the fourth quarter of the fiscal year ended March 2022, due to the penetration of the price revision in September 2021, profit exceeded the forecast. We would like to check whether such favorable performance has been continued this term, by seeing the financial results for the first quarter. The company announced the second price hike from the orders on October 1, 2022. According to the earnings forecast announced in May, profit in the second half is conservatively projected to decline from the second half of the previous year and from the first half, but it is noteworthy how much they will increase profit through the price hike.
- From the medium-term viewpoint, we would like to expect the speed of recovery of the Overseas Business, mainly in the North American market.

## 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 2022, 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, “Goodrich Global Limited”, the company responsible for business in China and Hong Kong, “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, CREANATE Inc. (formerly Wavelock Interior Co., Ltd., renamed in January 2022).

### 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, Osaka, Fukuoka 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.

In April 2022, through the restructuring of stock markets, the company got listed on the Prime Market of Tokyo Stock Exchange and the Premier Market of Nagoya Stock Exchange.

### 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.”

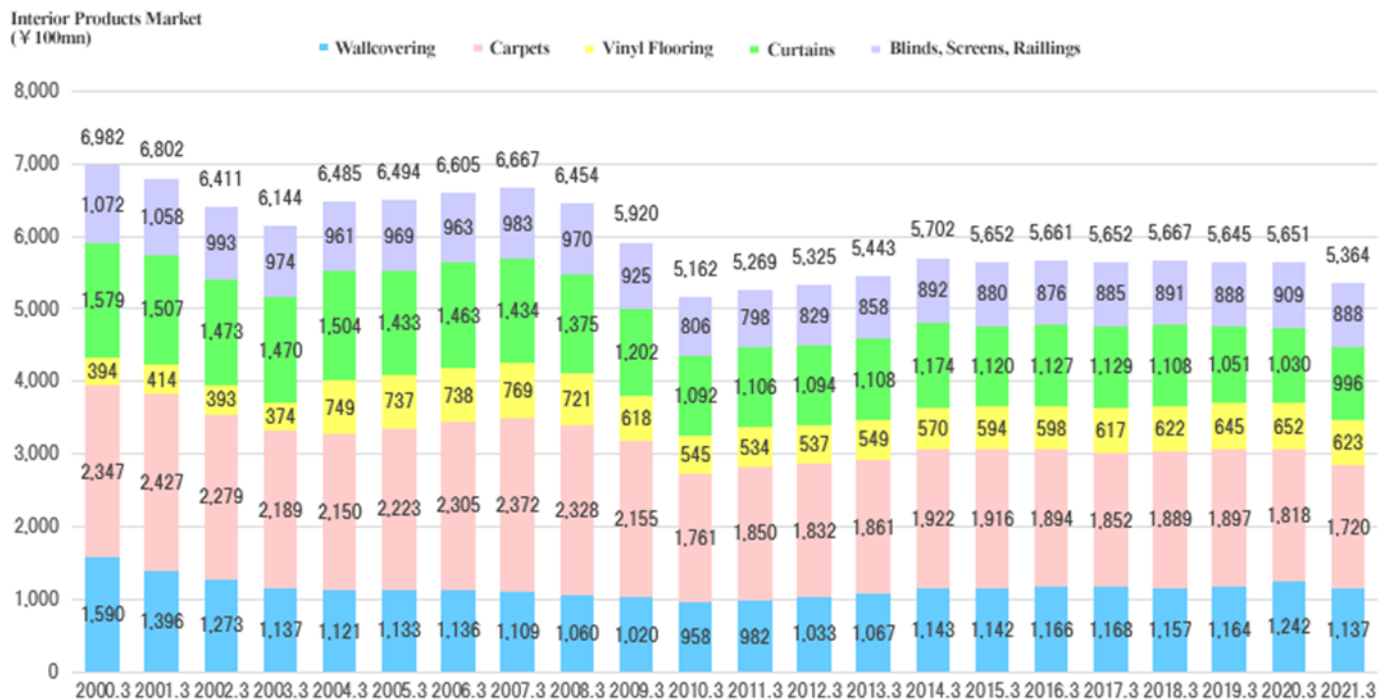
Sangetsu endeavors to share the joy of creating new value with all stakeholders involved in the company, including the manufacturers and users of interior products.

### 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.

## BRIDGE REPORT



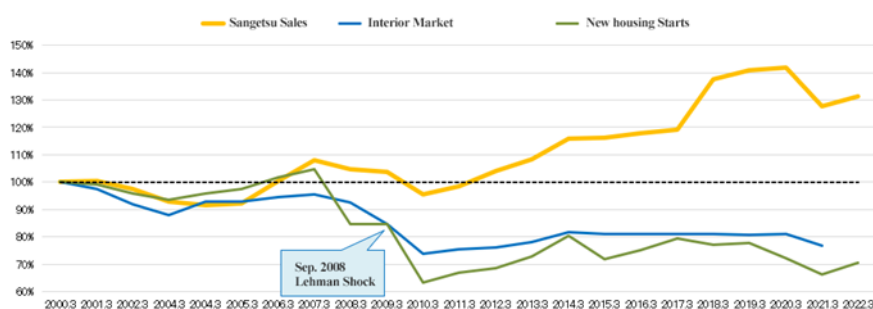
\* Nippon Interior Fabrics Association "2018 General State of the Interior Fabrics Business and Market Size Determination"  
(Investment Bridge made the graph based on the raw data provided by Sangetsu.)

(Source: the company)

At the same time, the graph below shows the correlation between 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).

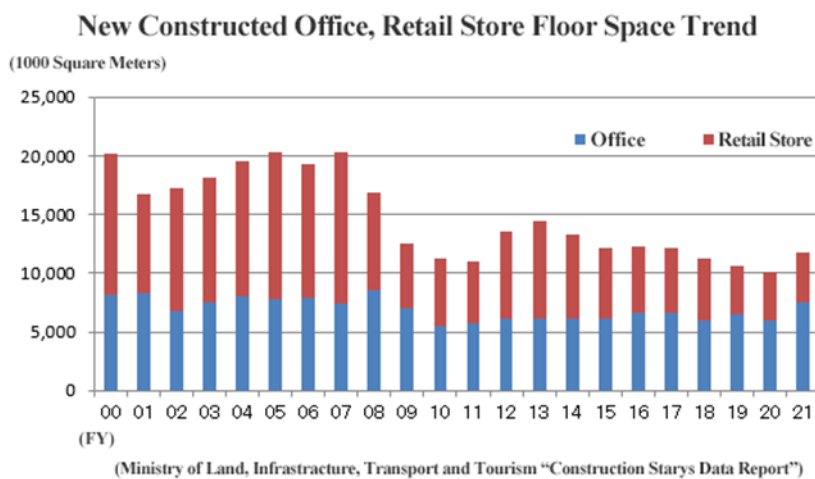
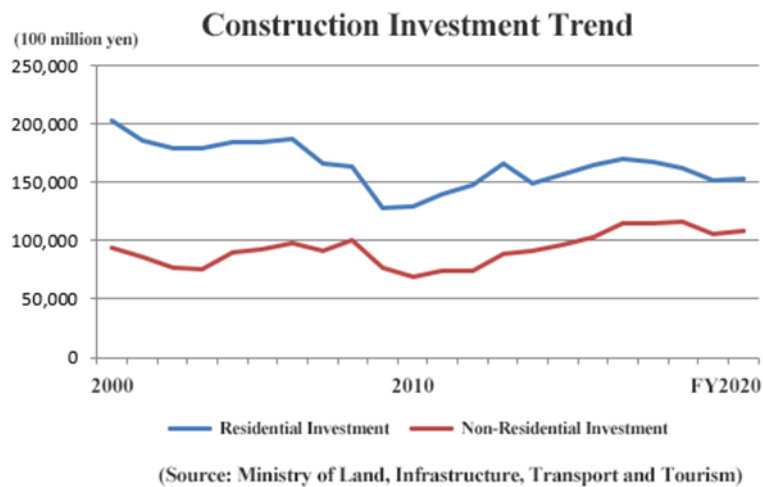
The company's net sales and trends in the domestic interior market have been largely linked to the number of new housing starts, but following the collapse of Lehman Brothers, while the overall market and new housing starts have remained at low levels, the company's net sales have been at record highs continuously until March 2020.

In the fiscal year ended March 2021, sales dropped for the first time in 11 terms, due to the novel coronavirus, etc., but in the fiscal year ended March 2022, sales grew again.



\* FY1999=100 Investment Bridge made the graph

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.



According to the "Outlook for investment in construction in FY2021" 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 been flat.

The total floor areas of offices and (newly built) stores had been declining, but in FY 2021, the total floor areas of both offices and stores increased from the previous fiscal year.

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 to be constructed

#### \*offices

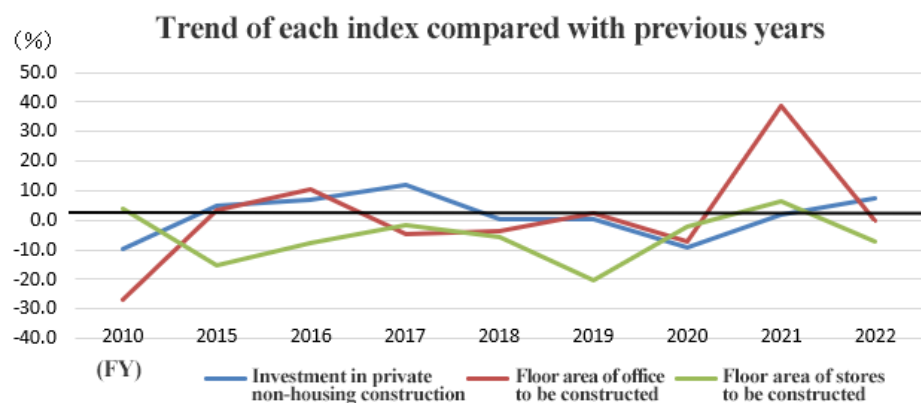
The floor area of offices whose construction started increased 2.3% in FY 2019, showing a recovery, but dropped 7.3% in FY 2020, due to the novel coronavirus. In FY 2021, it rebounded 38.7%, but in FY 2022, it was flat. They said, "The investment, which was put off in FY 2020, was conducted, so the floor area of offices whose construction started during a period from April 2021 to February 2022 was up 41.0% year on year, thanks to the commencement of large-scale buildings. It is expected to be favorable for the foreseeable future."

## BRIDGE REPORT



\*shops

The floor area of stores whose construction started decreased 20.5% in FY 2019 and 2.0% in FY 2020, increased 6.6% in FY 2021, but is projected to decline 7.0% in FY 2022. They said, “The floor area of stores whose construction started during a period from April 2021 to February 2022 was up 9.4% year on year. It is expected to recover to the level in FY 2019.”



\*Made by Investment Bridge according to “Outlook for Investment in Construction based on a Construction Economy Model” released by Research Institute of Construction and Economy (in April 2022). 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, the non-housing market is showing a sign of recovery due to the rebound from the coronavirus pandemic, but it is difficult to expect that the housing and non-housing markets in Japan will grow considerably.

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 June 10, 2022. ROE is based on the previous term.

As Lilycolor applied the “Accounting Standard for Revenue Recognition” from the beginning of this fiscal year, the increases in net sales and operating income are not shown.

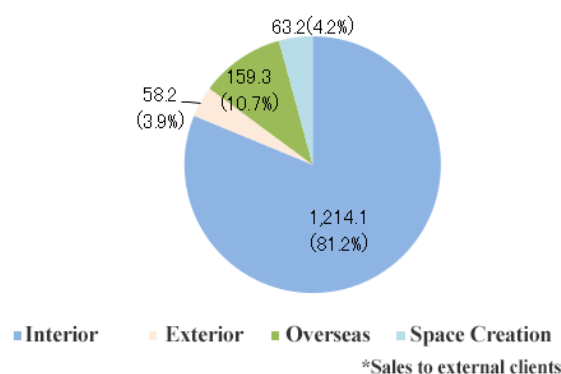


### 1-4 Business Description

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/Hong Kong, and Singapore.

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

Sales by Business Segment  
(FY3/22, Unit: ¥ mn)



### ①“Interior Segment”

#### ◎Main Products

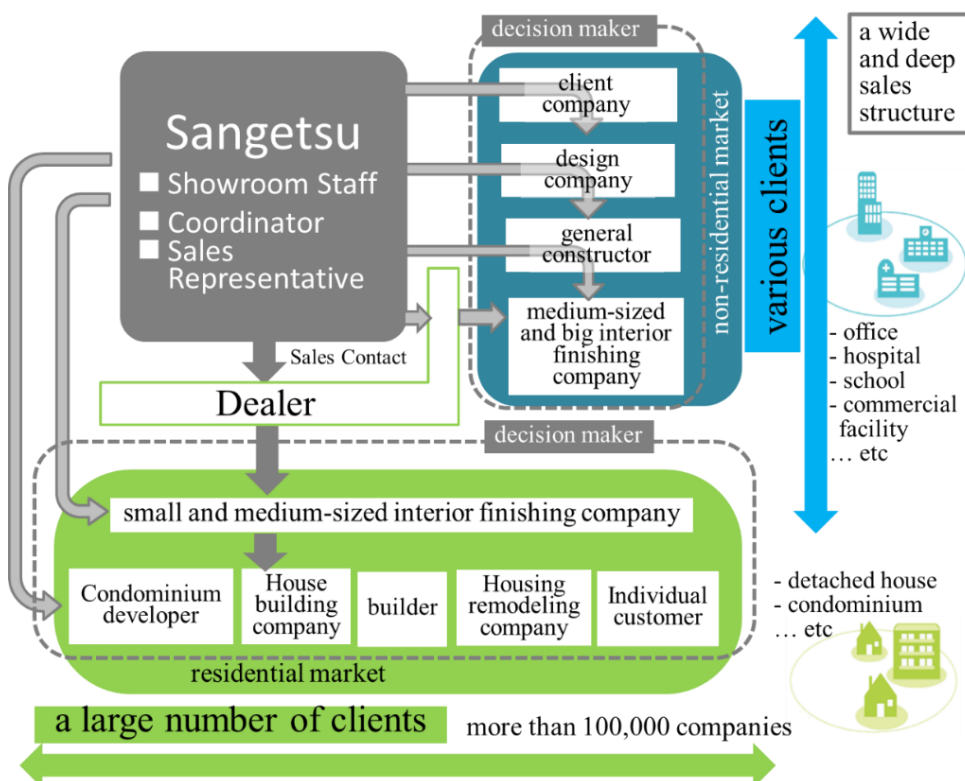
<b>Wallcoverings</b>	Sangetsu’s main product, used in a wide range of residential and non-residential applications. High functionality products have become popular in recent years that are resistant to staining, odor absorbing, and scratch resistant. The product lineup also includes antivirus wallcovering. 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 680 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

With the aim of streamlining logistics, they are developing a logistics system. They have two "flagship logistics centers," which store stocks for each region and to backup broader areas, six "regional logistics centers," which store stocks for each region, and two "satellite centers," which are more community-based.



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 270 supplier companies.

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”

Sungreen Co., Ltd., which was turned into a subsidiary in 2005, sells and constructs 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”

This segment is centered on Koroseal Interior Products Holdings, Inc. in North American, and Goodrich Global Holdings Pte., Ltd. in Southeast Asia, and Goodrich Global Limited in China/Hong Kong

## ④“Space Creation Segment”

It consists of Sangetsu's Space Creation Division 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 3/14	FY 3/15	FY 3/16	FY 3/17	FY 3/18	FY 3/19	FY 3/20	FY 3/21	FY 3/22
ROE (%)	4.6	3.7	5.6	6.0	4.2	3.5	1.5	5.1	0.3
Net income margin (%)	4.14	3.33	4.77	4.84	2.89	2.23	0.89	3.29	0.19
Total asset turnover [times]	0.93	0.91	0.95	0.88	0.91	0.94	0.96	0.90	1.01
Leverage [times]	1.20	1.21	1.24	1.41	1.60	1.67	1.74	1.73	1.69

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

It is indispensable to take measures for improving profitability.

## 1-6 Characteristics and strengths

### ①Business Model Capable of Yielding Stable Earnings

Sangetsu is a pioneer in the realm of “fabless operation” with no in-house manufacturing facilities 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 270 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. 35 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.

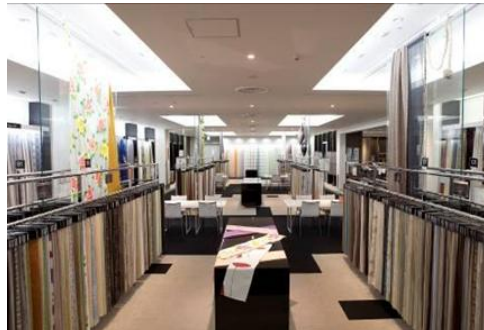
Furthermore, Sangetsu maintains a policy of actively taking the perceptions and opinions of younger designers and staff into consideration. Sangetsu also boasts of an overwhelming number of products of about 12,000 that far exceeds the number of products of its competitors. In addition, the company conducts 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 680 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, they have 30 “residential design staff members,” who propose space designs to clients in the housing market, 40 “contract design staff members,” who propose space designs to clients in the non-housing market, and 11 space creation design staff members, who give comprehensive proposals for design, installation, etc. mainly in the non-housing market.



(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 Fiscal Year ended March 2022 Earnings Results

### (1) Earnings Results

	FY 3/21 (not applied)	FY 3/22 (applied)	FY 3/22 (not applied)	YoY (1)	YoY (2)	Compared to forecast
Net Sales	145,316	149,481	158,827	+2.9%	+9.3%	+1.8%
Gross profit	47,640	39,962	53,130	-16.1%	+11.5%	-0.3%
SG&A	40,938	32,002	45,182	-21.8%	+10.4%	-1.1%
Operating Income	6,701	7,959	7,948	+18.8%	+18.6%	+4.6%
Ordinary Income	7,042	8,203	8,192	+16.5%	+16.3%	+4.4%
Net Income	4,780	276	265	-94.2%	-94.4%	-94.1%

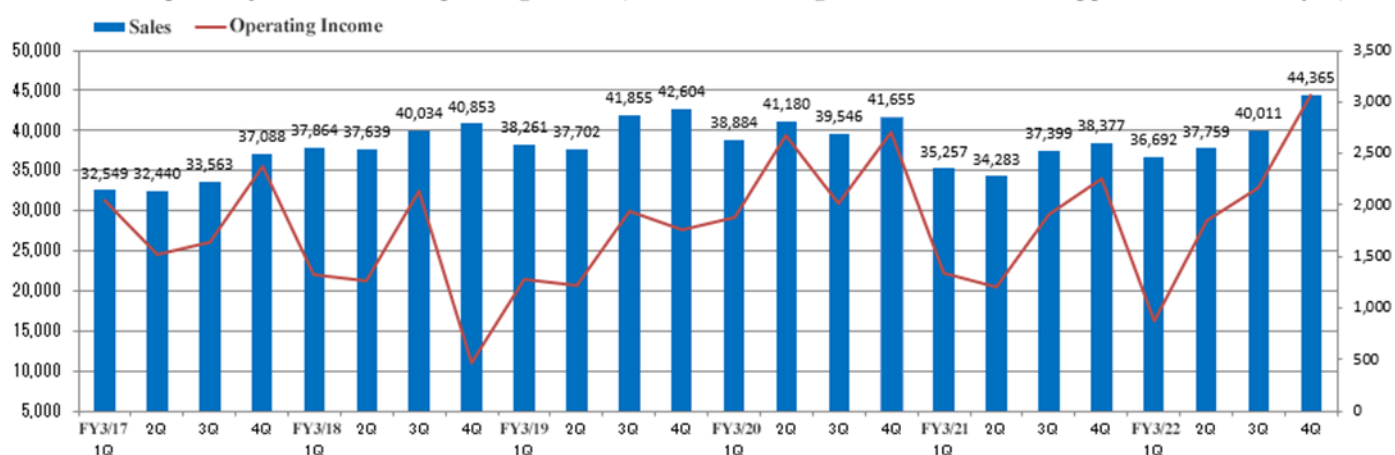
\* Unit: million yen. The company has been applying the “Accounting Standard for Revenue Recognition,” etc. from the beginning of the first quarter of the fiscal year ended March 2022. It was not applied in the fiscal year ended March 2021. “Y/Y (1)” means the year-on-year rate of change from FY 3/21 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).

### Sales and Profit increase

Sales grew, as the company expanded a market share in the Interior Business thanks to the recovery of the housing market and the effects of new sample books and raised prices in September 2021. The sales in the Exterior, Space Creation, and Overseas segments, too, increased. Through the sales growth, gross profit rose, offsetting the augmentation of expenses for upgrading sample books in the Interior Segment, opening Shin-Kansai Logistics Center, and acquiring CREANATE Inc. as a consolidated subsidiary. On the other hand, net income dropped considerably, due to the posting of an impairment loss of 5.5 billion yen for the trademarks related to Koroseal.

On the other hand, net income declined sharply due to a 5.5 billion yen impairment loss on Koroseal’s trademark rights.

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



**(2) Business Segment Trends**

	FY 3/21 (not applied)	FY 3/22 (applied)	FY 3/22 (not applied)	YoY (1)	YoY (2)	Compared to forecast
Net Sales						
Interior Segment	111,794	123,042	122,895	+10.1%	+9.9%	+1.6%
Wallcovering Materials business	55,814	62,337	-	+11.7%	-	-
Flooring Materials business	41,271	44,881	-	+8.7%	-	-
Fabric Materials business	7,816	8,612	-	+10.2%	-	-
Others	6,892	7,210	-	+4.6%	-	-
Exterior Segment	14,626	5,823	15,316	-60.2%	+4.7%	+1.8%
Overseas Segment	15,034	15,930	15,930	+6.0%	+6.0%	+3.1%
Space Creation Segment	5,239	6,579	6,579	+25.6%	+25.6%	+7.9%
Adjustments	-1,378	-1,893	-1,893	-	-	-
Total	145,316	149,481	158,827	+2.9%	+9.3%	+1.8%
Operating Income						
Interior Segment	7,082	9,097	9,086	+28.5%	+28.3%	+8.8%
Exterior Segment	417	541	541	+29.8%	+29.8%	+15.2%
Overseas Segment	-985	-1,821	-1,821	-	-	-
Space Creation Segment	201	139	139	-30.8%	-30.8%	+99.6%
Adjustments	-13	2	2	-	-	-
Total	6,701	7,959	7,948	+18.8%	+18.6%	+4.6%

\*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).

For the following contents about the growth of sales and profit in the fiscal year ended March 2022, the accounting standard for revenue recognition was not applied.

**① Interior Segment**

Sales and profit increased.

In the housing market, the performance of new construction kept growing year on year, and the performance of remodeling recovered significantly. In the non-housing market, the performance of new construction grew year on year for the first time since FY 2016, and renovation performed well in the second half mainly in the fields of restaurants and commerce.

Amid the firm environment, the company raised prices in September, in response to the increases in procurement costs due to the skyrocketing prices of raw materials and the expenses for distribution. They did not make a good start, but overall performance is in line with their assumption. There was last-minute demand before the second price hike in April 2022.

The sales quantities of wallcoverings, flooring materials, and fabrics increased, thanks to the release of new sample books and the strengthening of the marketing system tailored to the characteristics of regions, clients, and markets.

## &lt;Wallcoverings&gt;

The recovery of housing starts in the housing market served as a tailwind, and the sample book for mass-produced wallcoverings "SP" drove sales. In the non-housing market, the sample book for wallcoverings "FAITH" performed well, and "Reatec," a decorative film with an adhesive released in November 2021, contributed to sales, as its advanced design and "Basic Wood," a newly released low-priced series, were highly evaluated. Although the delivery of some products was delayed due to the damage to the equipment of CREANATE Inc., which is a wallpaper maker, the last-minute demand before the price revision on April 1, 2022 contributed.

## &lt;Flooring materials&gt;

As the recovery of the non-housing renovation market served as a tailwind, PVC sheets and carpet tiles for facilities drove



sales and floor tiles that can be used broadly in the housing and non-housing markets kept performing well. In addition, “NT double eco,” an environmentally friendly carpet tile that contributes to the realization of a decarbonized society, was highly evaluated and adopted in the market. In January 2022, the company published “DT,” a sample book for carpet tiles with advanced designs. Like this, the company proceeded with strategic sales promotion and product development.

#### <Fabrics>

The performance of some products in the contract market was sluggish, but in the housing market, “Strings,” a sample book for high-end curtains, and “Simple Order,” a sample book for single-price curtains, drove sales. In addition, “UP,” a sample book for upholstery, performed well mainly in the non-housing market. In January 2022, the company published “RB Collection,” a sample book for mechanical window-related products, and enriched the lineup of mechanical products with an easy-to-understand sample book and prices. Sangetsu Vosne Corporation actively held a session for selling interiors and fixtures for condominiums and increased original products available only in EC sites, to strengthen the BtoC business. The company also upgraded the website for improving convenience and steadily implemented measures for reeling in customers.

#### <Other>

The sales of other services and products, including installation and adhesives, are included.

### ② Exterior Segment

Sales and profit grew.

As the new housing market recovered, the installation works of exteriors of housing increased, and the sales of fences, carports, etc. were favorable. In addition, there was last-minute demand before the price hikes of aluminum merchandise in April 2022, so sales grew. On the other hand, in the non-housing market, the number of properties recovered to some degree, but the number of large-scale properties declined. Under these circumstances, the company established an organizational structure for dealing with concept design and supervision of installation works in a new business domain, strengthened its system for installation, and expanded its business of planting and housing exterior finishing.

### ③ Overseas Segment

Sales grew, and loss augmented.

In the Overseas Segment, the results of group companies from January to December 2021 were taken into account in the results for the fiscal year ended March 2022.

In the North American market, sales kept declining year on year until the first quarter, but have been recovering from the second quarter, thanks to the gentle recovery of the construction market, the release of new design products, etc. However, the revenue earning condition was stringent, due to the turmoil in production caused by the shortage of manpower and the delay in price hikes, although the company revised prices three times in February, October, and December to cope with the skyrocketing of prices of raw materials and personnel expenses. Furthermore, the company decided to withdraw from less profitable products, such as handrails, in the Wall Protection Materials Business, wrote down inventory, and posted reserves for product warranties for some products.

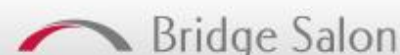
Koroseal did not perform as expected, due to the rapid shrinkage of the market due to the spread of COVID-19 and the skyrocketing of prices of raw materials and personnel expenses, and it is not expected that the market will recover quickly. Accordingly, the company revised its business plan, and posted an impairment loss of 5.5 billion yen as extraordinary loss regarding the trademarks of the company.

In the Southeast Asian market, lockdowns were imposed in some countries in response to the spread of the variants of the novel coronavirus, and the market condition remained severe. While the hospitality market, which is a primary market, was shrinking due to the postponement of construction projects and the changes of plans, they cultivated emerging markets, such as healthcare and residential markets, and renovated showrooms in Singapore and Thailand (Bangkok), enhancing marketing activities. Considering the growth potential of the business, the company sold the shares of Goodrich Global Dubai, which was in charge of the Middle East market, to local partners, and withdrew, to concentrate on the strategic market.

In the Chinese and Hong Kong markets, strict measures, such as the restriction on travel of people for preventing the spread of COVID-19, were continued, but the constraints on the markets were weaker than those in other Asian countries, so the delivery of products to some large-scale properties and high-end housing progressed, and sales grew.

In October, the company merged Sangetsu (Shanghai) Corporation, which was a subsidiary of the company, and Goodrich Global China, which was a subsidiary of Goodrich Global Limited (in Hong Kong) and also a second-tier subsidiary of the company, into Sangetsu Goodrich China, and strived to streamline business operations and enhance earning capacities.

## BRIDGE REPORT



#### ④ Space Creation Segment

Installation Department saw a temporary decrease of installation works due to the pre-emergency measures for preventing the spread of COVID-19, but the situation was favorable, due to the continuation of the gentle recovery of the construction market and the concentration of resumptions of works around the end of the fiscal year, in which demand is high. Accordingly, the business performed well.

In addition, through the collaborative marketing activities with Sangetsu, they made efforts to expand their business domain, including not only offices, which is a primary market, but also the large-scale repair of condominiums, and established a marketing management system focused on profitability.

HEKISO Co., Ltd., which was acquired as a subsidiary, started contributing to business performance in the second half.

Design Department, too, continued marketing while utilizing the customer base of the Interior Business, reeling in customers stably and cultivating new markets. In particular, from January 2022, the construction of properties acquired through their marketing so far was completed, so sales grew.

#### (4) Financial standing and cash flows

##### ◎Main BS

	End of Mar. 21	End of Mar.22	Increase/ Decrease		End of Mar. 21	End of Mar.22	Increase/ Decrease
Current Assets	89,469	87,525	-1,944	Current Liabilities	43,765	40,758	-3,007
Cash, Equivalents	25,719	18,347	-7,372	Payables	26,626	26,551	-75
Receivables	44,983	49,882	+4,899	Short-Term Debt	7,261	1,963	-5,298
Marketable Securities	300	300	0	Noncurrent Liabilities	21,151	18,857	-2,294
Inventories	17,109	17,722	+613	Long-Term Debt	8,660	7,734	-926
Noncurrent Assets	69,196	60,417	-8,779	Total Liabilities	64,916	59,616	-5,300
Tangible Assets	40,516	35,285	-5,231	Net Assets	93,749	88,326	-5,423
Intangible Assets	10,030	4,058	-5,972	Retained earnings	61,387	54,537	-6,850
Investments, Others	18,649	21,073	+2,424	Treasury Stock	-1,579	-907	+672
Total Assets	158,665	147,943	-10,722	Total Liabilities, Net Assets	158,665	147,943	-10,722
				Capital Adequacy Ratio	58.8%	59.4%	+0.6pt

\*Unit: million yen.

\*The provisional accounting treatment for business combinations was finalized in the fiscal year ended March 2022, and the respective figures as of March 2021 reflect the details of the finalization of the provisional accounting treatment.

Total assets dropped 10.7 billion yen from the end of the previous term, due to the decreases in cash & deposits, intangible assets, etc.

Total liabilities declined 5.3 billion yen, as debts decreased.

Net assets decreased 5.4 billion yen, due to the drop in retained earnings. As a result, capital-to-asset rose 0.6 points from the end of the previous term to 59.4%. Long- and short-term debt decreased 6.2 billion yen YoY to 9.6 billion yen.

##### ◎Cash Flow

	FY3/21	FY3/22	Increase/Decrease
Operating CF	9,694	5,718	-3,976
Investing CF	-2,599	-827	+1,772
Free CF	7,095	4,891	-2,204
Financing CF	-11,836	-13,341	-1,505
Cash and Equivalents	25,124	16,886	-8,238

\*Unit: million yen.

Decrease in income before taxes and increase in trade receivables reduced positive operating CF and free CF.

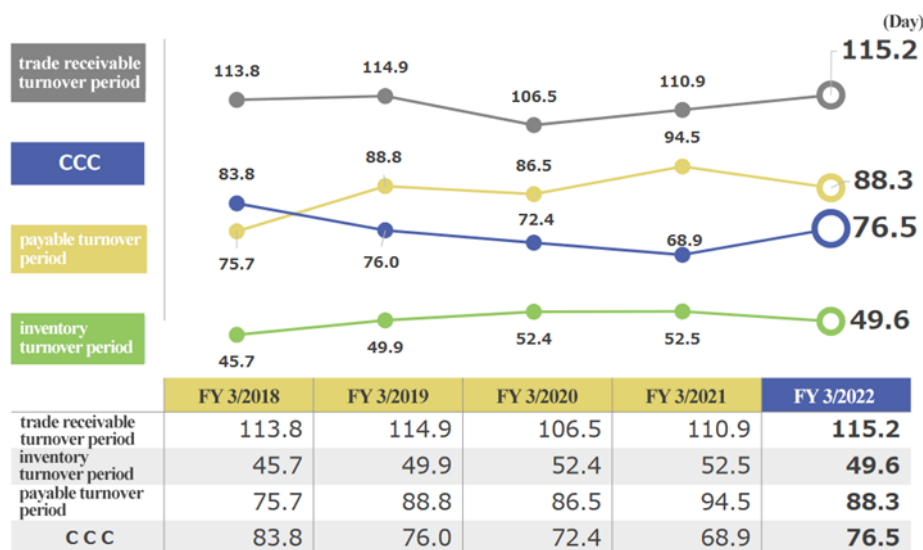
Cash position declined.



## BRIDGE REPORT



## ◎Cash Conversion Cycle(CCC)



From the beginning of the fiscal year ended March 2022, the company will apply the "Accounting Standard for Revenue Recognition" (ASBJ Statement No. 29).

Due to the increase in accounts receivable, CCC rose 7.6 days from the end of the previous term.

## 3. Fiscal Year ending March 2023 Earnings Forecasts

## (1) Earnings Forecasts

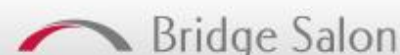
	FY3/22	Composition ratio	FY3/23(Est.)	Composition ratio	YoY
Net Sales	149,481	100.0%	159,000	100.0%	+6.4%
Gross profit	39,962	26.7%	44,500	28.0%	+11.4%
SG&A	32,002	21.4%	34,500	21.7%	+7.8%
Operating Income	7,959	5.3%	10,000	6.3%	+25.6%
Ordinary Income	8,203	5.5%	10,700	6.7%	+30.4%
Net Income	276	0.2%	7,000	4.4%	+2,431.1%

\*Unit: million yen. The company has been applying the "Accounting Standard for Revenue Recognition," etc.

## Forecast Sales and Profit Increase

In the fiscal year ending March 2023, sales are projected to grow 6.4% year on year to 159 billion yen and operating income is expected to increase 25.6% year on year to 10 billion yen. Sales are forecast to grow in all segments. Gross profit, too, is expected to grow. Due to the price hikes, gross profit margin is projected to rise. The company plans to pay a dividend of 71.00 yen/share, up 1.00 yen/share from the previous term. The expected payout ratio is 59.5%. This term, too, the company was planning to revise the prices of their products as the prices of raw materials, including vinyl chloride, plasticizers, and nylon, were rising, and announced price hikes on June 17, 2022. The prices of wallcoverings, flooring materials, and upholstery will be raised. The company will raise the prices of products ordered from October 1, 2022 by 7-12%. Its impact on the performance in the second half is still unknown.

## BRIDGE REPORT



Trends of Net Sales and Operating Income (Unit: million yen)



\*Figures for FY3/22, 3/23 applied Accounting Standard for Revenue Recognition

**(2) Business Segment Trends**

	FY3/22	FY3/23(Est.)	YoY
Net Sales			
Interior Segment	123,042	129,000	+4.8%
Exterior Segment	5,823	6,000	+3.0%
Overseas Segment	15,930	19,000	+19.3%
Space Creation Segment	6,579	7,000	+6.4%
Adjustment	-1,893	-2,000	-
Total	149,481	159,000	+6.4%
Operating Income			
Interior Segment	9,097	11,000	+20.9%
Exterior Segment	541	500	-7.6%
Overseas Segment	-1,821	-1,700	-
Space Creation Segment	139	200	+43.1%
Adjustment	2	-	-
Total	7,959	10,000	+25.6%

\*Unit: million yen.

**\* Interior Segment**

The domestic housing market is expected to be unchanged, and the non-housing new construction market will be still in the transitional period.

The non-housing renovation market is forecast to keep recovering.

The second price hike conducted on April 1, 2022 is progressing as planned.

Since the procurement cost will augment inevitably this term, the company decided to raise the prices of wallcoverings, flooring materials, and upholstery by 7-12% from the orders placed on October 1, 2022.

**\* Exterior Segment and Space Creation Segment**

The performance in the entire exterior market is expected to be unchanged, but the Space Creation Segment is projected to grow.

**\* Overseas Segment**

In the U.S. market, the shipment of products will be slow from January to March. The recovery of the non-housing construction market will be sluggish, and the hospitality market, including hotels and inns, is forecast to be stagnant.

The Southeast Asian market will recover gradually.

The Chinese and Hong Kong markets will be strongly affected by the lockdown imposed in Shanghai in March.

#### 4. Progress of Medium-term Management Plan

Their understanding of the environment and corresponding measures are as follows.

	Understanding of the environment	Measures
1	In addition to tightened supply of raw materials such as vinyl chloride and nylon, the restriction on supply of interior materials for some products has become apparent.	<b>Establishing an integrated system for producing and selling a few kinds of products in large lots</b>
2	Response to the problem with the logistics industry in 2024, and delivery capabilities	<b>Drastically reforming the logistics system and improving the service level</b>
3	Validation of functions and services relating to designs	<b>Strengthening and upgrading design capabilities of products, space, and experience (proposal)</b>
4	Significance of construction capabilities	<b>Construction systems including constructions by prime contractors, subcontractors and second-tier subcontractors</b>
5	The limit of the capacity of the Japanese market	<b>Improving profitability of the overseas segment</b>

##### (1) Establishing an integrated system for producing and selling a few kinds of products in large lots

The company made CREANATE Inc., Japan's largest manufacturer of vinyl wallcoverings (former Wavelock Interior Co., Ltd.), its wholly owned subsidiary in May 2022.

The area of mass-produced wallcoverings has been steadily expanding its market scale because of the increasing price consciousness, however, the number of manufacturers that can respond from the price aspect has been declining, which assisted the market share of CREANATE in rising from 11% to 20% in 10 years, leaving the 2nd place far behind. Sangetsu was able to establish an integrated system for producing and selling a few kinds of products in large lots, by acquiring CREANATE.

The company established a strong dominance in the area of mass-produced wallcoverings, on which the company focuses.

##### (2) Drastically reforming the logistics system and improving the service level

In accordance with the Work-style Reform Related Act, the "upper limit of overtime hours for vehicle driving businesses" will become effective on April 1, 2024, which will demand that the logistics industry be ultra-efficient with reduced time commitment for drivers, extended lead time, earlier work cutoff time, etc.

The company is establishing its own efficient logistics system and carrying out the enhancement and upgrade of its services and functions.

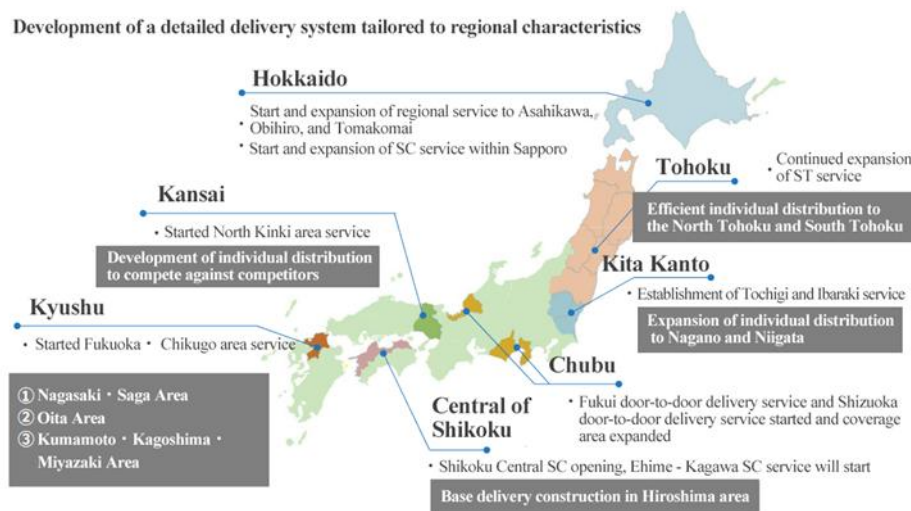
Based on two flagship logistics centers in northern Kanto and Kansai, the company has local logistics centers and satellite centers across Japan. The development of major footholds was completed for the moment with the launch of Shin-Kansai LC, and now the company seeks to improve its service functions based on their 2 flagship logistics centers.

To establish a working environment, the company has been establishing a meticulous delivery system tailored to the characteristics of each region, while avoiding long-distance and long-hour transportation, and achieving the next-day delivery to anywhere in Japan.

## BRIDGE REPORT



## Development of a detailed delivery system tailored to regional characteristics



(Source: The company)

**(3) Strengthening and upgrading design capabilities of products, space, and experiences (proposed)**

The collection of wallcoverings and flooring materials “KAGETOHKARI” developed in collaboration with the architect Kengo Kuma received the “iF DESIGN AWARD 2022,” for the second consecutive year, following “SHITURAH” in 2021. The iF DESIGN AWARD is organized by the iF International Forum Design in Germany. The award has a history dating back to 1954, and is one of the most recognized design awards in the world.

The company has been working on strengthening space design capabilities for each market.

They have been implementing reforms to shift from a system based on division of labor, questionnaire surveys, and support activities with its sales department as a point of contact to a system based on design sales in line with strategic points for each market sector, industry and opportunity.

The enhancement of human resources has been advancing. Compared to 3 years ago, the number of residential design sales staff members increased from 5 to 30, the number of contract design staff members increased from 32 to 40, and the number of space creation designers increased from none to 11.

	Organization	Target market	Activities
	<b>Residential design division</b> (6 branches nationwide)	Housing market	Space design proposals to builders and house builders using showrooms
	<b>Contract design division</b> (6 branches nationwide)	Non housing market	Space design proposals to general contractors, designers, and business owners
	<b>Space creation division</b>	Non housing market	Propose solutions through space design, from concept planning to space design and construction management

(Source: The company)

For the establishment of Kansai branch center office in December 2021, Sangetsu’s Space Creation Division and the space creation business headquarter of Sungreen Co., Ltd. took charge of space design, and Fairtone Co., Ltd. conducted overall interior finishing work.

Handling “space design” and “overall interior finishing work” with the group’s overall strength, the office has been embodying a space creation company.

By introducing this office, they are strongly advertising the group's space design capabilities toward their customers.

#### **(4) Construction systems including constructions by prime contractors, subcontractors and second-tier subcontractors**

The company has a diverse range of customers such as business owners for prime contract construction, general contractors for sub-contract construction, and interior finishing companies for sub-subcontract construction, etc., however, the company provides a variety of work systems for all kinds of construction, by combining the architecture departments of all Sangetsu branches, the Space Creation Division, Fairtone, their invested construction companies, etc.

#### **(5) Improving profitability of the overseas segment**

The gross profit margin of Sangetsu alone in the previous term without applying the Revenue Recognition Standard, etc. was 35.1%, the highest in the company's history, however, it is essential for the company to expand their overseas segment and improve profitability, for their sustainable growth.

The company recognizes the challenges for each market as described below, and they will focus their efforts on improving profitability by executing all of these measures.

They aim to implement the "common strategies for products and suppliers" utilizing the group capabilities.

Common measures "Common Strategy for Products and Suppliers."		
	Challenges	Measures
North American Market	Strengthen core business (in-house manufacturing) and improve overall profitability	<ul style="list-style-type: none"> <li>• Price revision at small and medium units and volume acquisition at large units</li> <li>• Market Diversification</li> </ul>
Southeast Asia Market	Establish business infrastructure tailored to each country's market and expand areas of demand	<ul style="list-style-type: none"> <li>• Market Diversification</li> <li>• Strengthen business for residential customers</li> <li>• Enhancement of product and brand strength</li> </ul>
China and Hong Kong Markets	Development of delivery and construction systems	<ul style="list-style-type: none"> <li>• Strengthen human resources and organizational management system</li> <li>• Expansion of sales structure (Beijing, Guangzhou)</li> <li>• Respond to price competition</li> </ul>

(Source: The company)

## **5. Interview with President Yasuda**

### **Q: Could you provide a self-evaluation of the financial results for the fiscal year ended March 31, 2022?**

In domestic business, we were able to fully demonstrate our strengths.

We were able to increase our market share in each of our product categories, and our operating income grew with each passing fiscal year. The Japanese market is at its peak during the January-March period, but even if we exclude that period, the operating income for the fourth quarter of the previous fiscal year was 3,058 million yen, the highest quarterly level ever.

This was largely due to the fact that the price increase implemented in September 2021 penetrated the market from January, and that the new sample book published in FY 2021 was well received by customers.

The price increase not only reflected the rise in the cost of raw materials in selling prices, but also improved our profitability. We were also concerned about a loss of market share due to the price increase, but there was no significant impact.

We believe this is the result of our customers' appreciation of our non-price competitiveness, which goes beyond price alone, in areas such as design, coordination proposals, and logistics.

On the other hand, our overseas business suffered an increasing loss for the period, and Koroseal recorded a large impairment loss. We are taking this matter very seriously.

The market environment in the U.S. remains challenging, but we believe that we need to focus on strengthening our business foundation.



### Q: Could you comment on the progress of the medium-term management plan?

(1) Establishing an integrated system for producing and selling a few kinds of products in large lots.

With the tightening of the supply of mass-produced wallpaper becoming apparent, it is very important that we were able to acquire CREANATE Inc. Originally, the majority of CREANATE's shipments were to Sangetsu, so it was not simply a matter of dispelling supply concerns. The company has developed a wide range of know-how in the manufacturing of wallpaper, so we are now able to take the initiative in terms of supply. We believe that this will be a major asset from a mid- to long-term perspective.

(2) Drastically reforming the logistics system and improving the service level

Going forward, we will have to streamline logistics to improve our service level, while improving the working styles of drivers. To do so, we need to build an efficient logistics system of our own, rather than outsourcing it to outside companies such as 3PL.

Centered on two flagship logistics centers in the northern Kanto and Kansai regions, we have established regional logistics centers and satellite centers throughout Japan. In addition, we have developed a delivery system tailored to the characteristics of each region, enabling next-day delivery anywhere in Japan.

Moving forward, we will build more fine-tuned logistics systems in places such as Ishikawa and Toyama in the Hokuriku region, Tokushima and Kochi in the Shikoku region, and Hiroshima in the Chugoku region.

We will also strengthen our sales support function by having our drivers not only deliver products, but also understand customer circumstances and deliver sample books, for example.

(3) Strengthening and upgrading design capabilities of products, space, and experience (proposal)

For example, we are finding that when our sales representatives accompany designers from the Residential Design and Contract Design Offices to interior designers and general contractors' design departments to propose space designs, an unprecedented business flow ensues, whereby customers listen with interest, resulting in the adoption of our products.

Over the past two to three years, I have come to believe that our design capabilities are becoming a powerful asset that will secure customers.

(4) Construction systems including constructions by prime contractors, subcontractors and second-tier subcontractors

There are various forms of construction work, and we are able to handle a large number of construction projects with flexibility due to the resources provided by the Sangetsu Construction Department, Fairtone, and construction companies in which we invest.

It is an important point in our business that we are able to maintain and develop relationships with our customers based not only on the purchase of our products, but on the services we provide, such as our installation services.

(5) Improving profitability of the overseas segment

The North American, Southeast Asian, Chinese and Hong Kong markets have different standards, designs, and materials for wallpaper. So, depending on the characteristics of each region, we use different types of wallpaper in Japan, the U.S., and China.

We therefore believe that we can improve profitability by strengthening joint strategies, such as developing products for Southeast Asia in Japan and manufacturing wallpaper for China at Koroseal, rather than handling the same products globally.

## 6. Conclusions

In the fourth quarter of the fiscal year ended March 2022, due to the penetration of the price revision in September 2021, profit exceeded the forecast. We would like to check whether such favorable performance has been continued this term, by seeing the financial results for the first quarter. The company announced the second price hike from the orders on October 1, 2022. According to the earnings forecast announced in May, profit in the second half is conservatively projected to decline from the second half of the previous year and from the first half, but it is noteworthy how much they will increase profit through the price hike.

From the medium-term viewpoint, we would like to expect the speed of recovery of the Overseas Business, mainly in the North American market.



## <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.”

<b>An equal and healthy inclusive society</b>  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.	
<b>The global environmental protection with sustainable society</b>  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.	
<b>A more affluent and enjoyable society</b>  Sangetsu Group will contribute to realize a more enjoyable society by promoting equal, safe, reassuring and efficient ways of working which respect human rights, through creation of spaces appropriate to various cultures and living.	

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

### (5) Numerical targets

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

Without application of the "Accounting Standard for Revenue Recognition" and others

### 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.

The following descriptions of actual results and numerical targets are for the case where the revenue recognition standard is not applied.

#### (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 Division. 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

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

(Source: The company)

## ② Numerical goals of sales and profit \*Without application of the "Accounting Standard for Revenue Recognition" and others

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.

### ③Outline of each basic policy

#### ③-1 Expand earnings through qualitative growth of core business

##### ◎Interior Segment

##### \*Market environment

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

##### \*Basic strategies in 4 markets

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

##### \*Three measures

#### (1) Enhancement of design capabilities and strategic purchasing

##### ◎Advancing and strengthening design capabilities

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

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

As for designs, the company has proposed product designs in the merchandise development section of each business department, non-housing space designs in the contract design division, coordination mainly related to housing in showrooms, and a variety of space designs in the Space Creation Division. 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</li> <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> <li>(3) A thorough commitment to compliance</li> <li>(4) Implementing responsible dialog with stakeholders</li> </ul>
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### ③-5 Quantitative goals \*Without application of the "Accounting Standard for Revenue Recognition" and others

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* *On May 22, 2021, the company announced the revised goal. * Target for fiscal year ending March 2031
	② Energy consumption	4.0% reduction (from fiscal 2018)
	③ Total waste amount	4.0% reduction (from fiscal 2018)
	④ Recycling ratio	At least 83%
2. Human capital	(1) Promote employee health and skills	
	① Improve rates of specific health guidance provision, cancer screening, findings, and metabolic syndrome	
	② Non-smoking rate : At least 80%	
	(2) Promote diversity & inclusion	
	① Ratio of female managers	At least 20%
3. Social capital	Participation in local communities	
	① Space creation in children's home renovations	30 per year
	② Active employee participation	Matching gift: 13,000 S-mile *On May 17, 2021, the company announced the revised goal.

\*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.

### 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
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+

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

3-year borrowings	Negative 5 to 10 billion yen
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\*Cash & deposits and marketable securities other than stocks

#### Fund allocation

Investment for growth*	20 to 26 billion yen
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+

Return to shareholders	17 to 19 billion yen
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+

Cash as of the end of March 2023	25 to 30 billion yen
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\*M&A, minor investment (alliance strengthening), capital investment (logistics, DX, etc.)

## <Reference2: Regarding Corporate Governance>

### ◎Organization type and the composition of directors

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

### ◎Corporate Governance Report

Last update date: : June 23, 2022

#### <Basic Concept>

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.

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

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 and details of the review of the appropriateness of shareholding 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  <ul style="list-style-type: none"> <li>•Promotion of women to managerial positions The percentage of female full-time employees in our company is increasing year by year, which is currently 37.0%, 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 38.3% of our employees in the positions of leadership (those at the section chief level or more senior levels) and 17.9% 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>).</li> </ul> <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 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</li> </ul> </p>

## Supplementary Principle 3-1-3

mid-career hires, which means that the ratio of mid-career hires in the 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 actively promote mid-career hiring as well as in-house training of specialized and professional personnel, and hire several people for management positions every year. In addition, personnel hired for non-managerial positions are promoted to managerial positions in a fair manner like other full-time employees. 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.

- Promotion of foreign nationals to managerial positions

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 59% of the employees in the positions of officers that play the central roles in the business.

(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.

- Our initiatives toward sustainability

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.

- Investment in human capital

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

([https://www.sangetsu.co.jp/company/sustainability/social/divercity\\_policy.html](https://www.sangetsu.co.jp/company/sustainability/social/divercity_policy.html)).

Investments in human capital include employee training, skills development, the increase of work engagement, and the creation of a comfortable working environment, all of which we are proactively implementing. Among these, we plan to increase the investment in training and skills development by linking it to the newly introduced personnel system, while measuring the cost-

	<p>effectiveness of investments in training and reskilling employees for advanced specialties.</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> <p>•Investment in intellectual property</p> <p>Under our long-term vision, "DESIGN 2030," we have adopted "design management" as the foundation of our management, not only to pursue the beauty, function, and coordination of products and spaces themselves, but also to enhance our brand value by conceptualizing and designing the relationship between spaces and people. In order to realize design management, we established a department in charge of design strategies to enhance our brand value, by strengthening our ability to propose product and space designs through greater recruitment and training of design personnel, and by proactively creating and protecting intellectual property rights, especially trademarks and designs. Additionally, the company offers appropriate rewards for employees’ inventions in accordance with in-house regulations on the handling of employees’ inventions, thereby promoting the creation of intellectual property.</p> <p>•Impact of climate change on our business activities</p> <p>Risks of climate change are described in the financial statements issued in June 2022, and on pages 42-45 of the Integrated Report, we provide a summary of the environmental impact of our business activities regarding global environmental preservation. The report describes our efforts to reduce the burden on the environment in our business activities and supply chain as a whole. 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>). Additionally, in FY 2022, the Risk Management Committee, chaired by the president, established a "Climate Change Risk Subcommittee" to review and re-examine the identification and handling of risks and opportunities through a more organized management system to address and monitor such issues. 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	<p>•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.</p> <p>•Our company has established the General Affairs Public Relations and IR Department for rational communication with our shareholders and swift IR activities.</p>

- The Chief Executive Officer, the executive in charge, and the General Affairs Public Relations and IR Department carry out interviews with both Japanese and overseas institutional investors, and analysts, upon their request.
- Although the IR department specializes in handling IR activities, other departments such as the headquarters of each business, the Finance and Accounting Department, and the Office of the President's Corporate Planning Division cooperate with the IR department to provide information with higher effectiveness.
- 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.
- 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. (Not implemented in FY 2020 or FY 2021 to prevent the spread of COVID-19.)
- 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.
- Our company creates an integrated report for every fiscal year and publishes such reports both in Japanese and in English through our website.  
(<https://www.sangetsu.co.jp/company/ir/library/report.html>)
- Our company conducts activities which contribute to enhancement of our shareholders' understanding about various items, including our management strategy, business environment, business progress, and financial information, through direct communication and material published on our website and the disclosure of videos of financial results briefings and shareholders' meetings.
- Our company responsibly utilizes opinions obtained from interaction with our shareholders and investors for administrative improvement through The Public Relations and IR Department.
- Our company properly deals with the management of insider information in accordance with the regulations for the management of insider trading (regulations for the prevention of insider trading), by assiduously managing unpublished material facts.

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