



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	End of 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
¥2,110	59,200,000 shares		124,912 million	0.3%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥80.00	3.8%	¥204.56	10.3 x	¥1,497.21	1.4 x

\*The share price is the closing price on November 25. Shares Outstanding, DPS, EPS is from the financial results for the second quarter of fiscal year ending March 2023. ROE and BPS is previous results.

## Earnings Trend

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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.	170,000	17,500	18,000	12,000	204.56	80.00

\*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 second quarter of fiscal year ending March 2023 of Sangetsu Corporation.

## Table of Contents

### [Key Points](#)

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

#### [2. Second Quarter of Fiscal Year ending March 2023 Earnings Results](#)

#### [3. Fiscal Year ending March 2023 Earnings Forecasts](#)

#### [4. Progress of Medium-term Management Plan \(2020-2022\) 【D.C. 2022】](#)

#### [5. Conclusions](#)

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

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

## Key Points

- In the second quarter of the fiscal year ending March 2023, net sales grew 16.8% year on year to 81.7 billion yen and operating income rose 232.6% year on year to 8.9 billion yen. Following the revision of prices of its products (the first price hike) in September 2021 in response to the skyrocketing of raw material prices, the rise in distribution costs, etc., the company conducted a price revision (the second price hike) again for products ordered on or after April 1, 2022, to improve the profitability in the interior segment, and profit grew considerably. The company considers that this performance is an outcome of improvement in basic earning capacity through the enhancement of product competitiveness and procurement capability, and the enrichment of the function to offer solutions for distribution and installation, which have been promoted since 2014. If the accounting standards for revenue recognition are not applied, all of net sales, gross profit, operating income, ordinary income, and net income hit a record high for the second quarter. Both sales and profit exceeded the initial forecasts.
- The earnings forecast has been revised upwardly, because the performance in the first half of the term was healthy and the third price hike was implemented in the interior segment for products ordered on or after October 1, 2022 although the skyrocketing of raw material prices and the rise in energy costs are expected in the second half. Net sales are projected to rise 13.7% year on year to 170 billion yen, and operating income is forecast to increase 119.9% year on year to 17.5 billion yen. The company is expected to achieve the quantitative goals in the mid-term management plan “D.C. 2022,” that is, “net sales of 162 billion yen, an operating income of 12 billion yen, and a net income of 8.5 billion yen in the fiscal year ending March 2023.” The expected dividend, too, has been revised. The interim and term-end dividends have been raised by 5.00 yen/share and 4.00 yen/share, respectively. The annual dividend is now forecast to be 80.00 yen/share, up 9.00 yen/share from the initial forecast and up 10.00 yen/share from the previous term. The expected payout ratio is 39.1%.
- This term, which is the final fiscal year of the mid-term management plan “D.C. 2022,” the company is expected to attain the quantitative goals. They are currently discussing the next mid-term management plan inside the company. According to President Yasuda, one of the primary themes is “the further enhancement of space creation capability.” In the long-term vision “DESIGN 2030,” they aim to realize a space creation enterprise that “will acquire the ability to envision, design, propose, and create new spaces based on their current skills to design, market, and distribute things and products.”
- By honing their skills to not merely sell products, but also design, develop, and establish spaces, they plan to pursue the business scale beyond the mere sale of products inside and outside Japan. In the past several years, they have strived to improve their architects, installation engineers, and installation supervisors, but they consider that it is necessary to further improve them. We would like to pay attention to how much they can accumulate sales and profit this term and how their road map will be provided in the next mid-term management plan, which is scheduled to be disclosed next year.

## 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.”

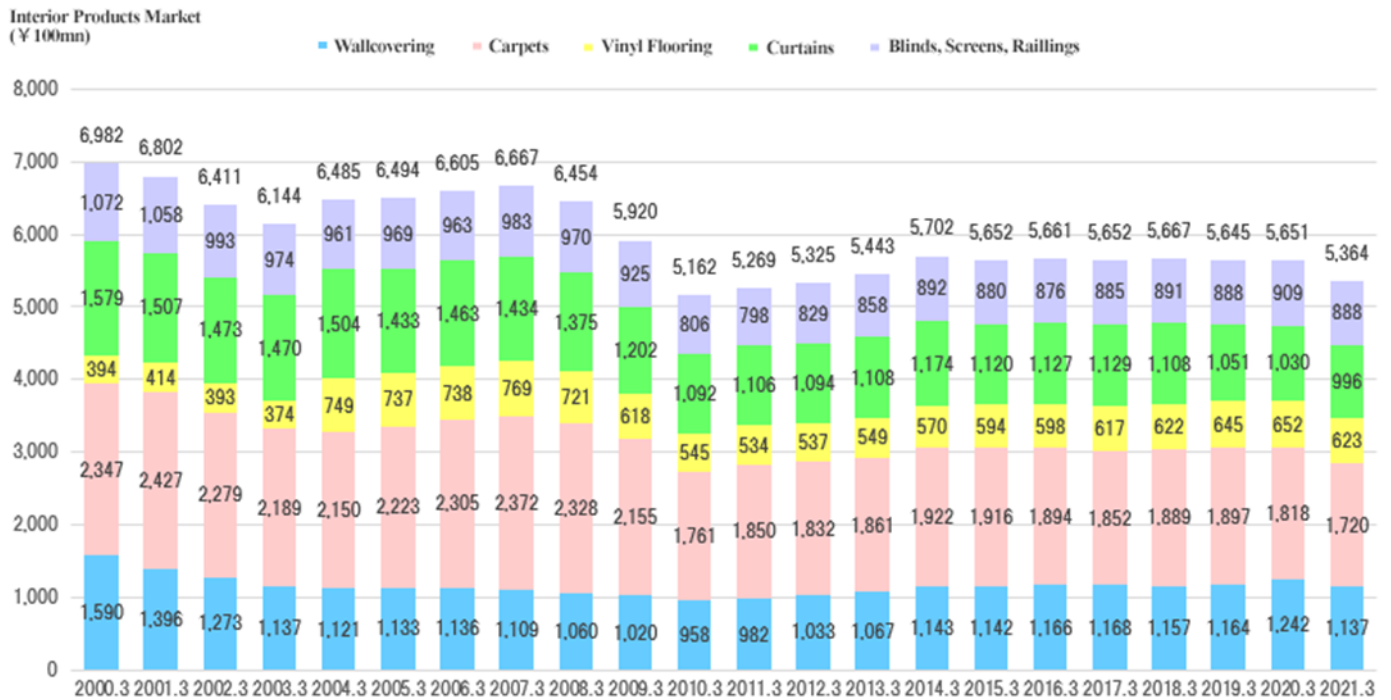
Sangetsu endeavors to share the joy of creating new value with all stakeholders involved in the company, including the manufacturers and users of interior products.

### 【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



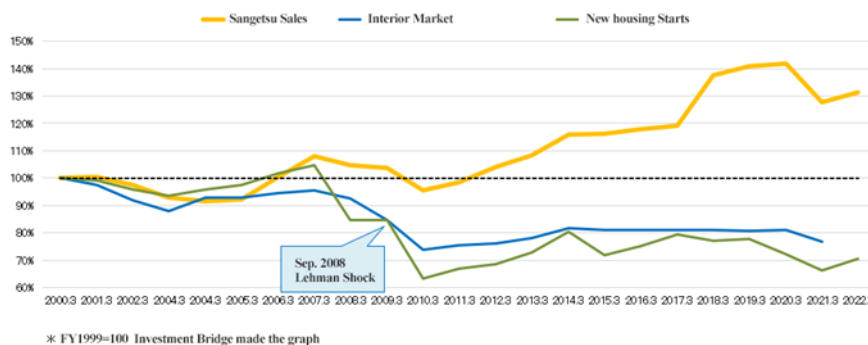
\* Nippon Interior Fabrics Association “2018 General State of the Interior Fabrics Business and Market Size Determination” (Investment Bridge made the graph based on the raw data provided by Sangetsu.)

(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).

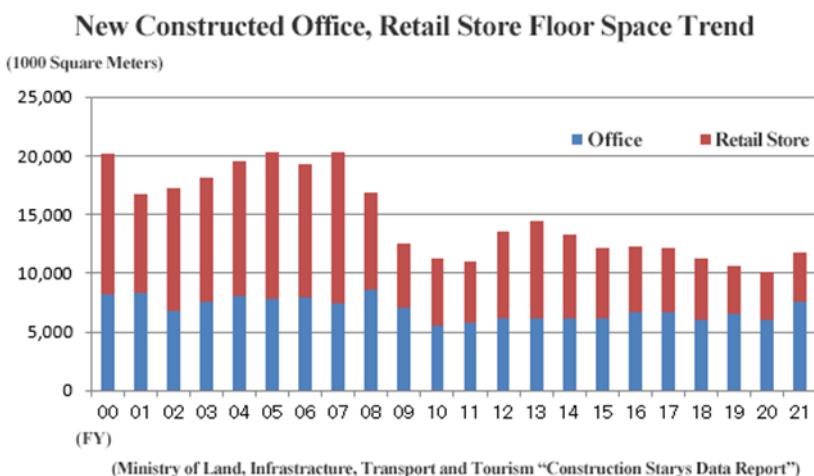
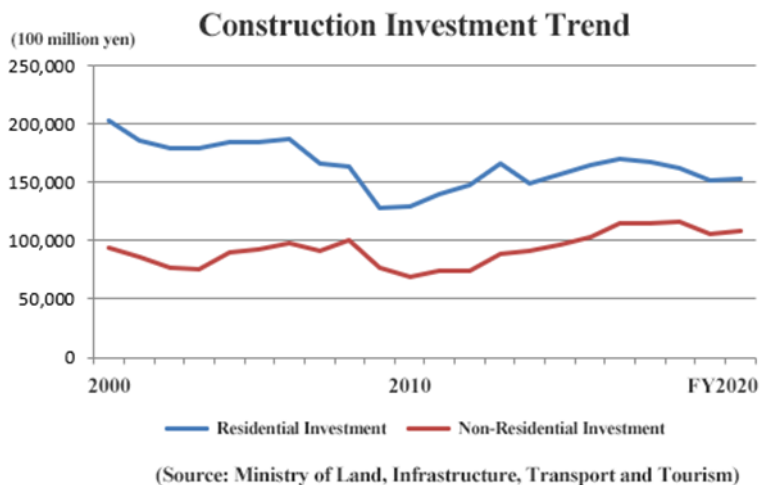
The company’s net sales and trends in the domestic interior market have been largely linked to the number of new housing starts, but following the collapse of Lehman Brothers, while the overall market and new housing starts have remained at low levels, the company’s net sales have been at record highs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



\* FY 1999=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 October 7, 2022, 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 2.9% (forecast) in fiscal 2021. 10.2% (forecast) in fiscal 2022, and 2.0% (forecast) in fiscal 2023 showing a recovery.

#### Floor areas of facilities to be constructed

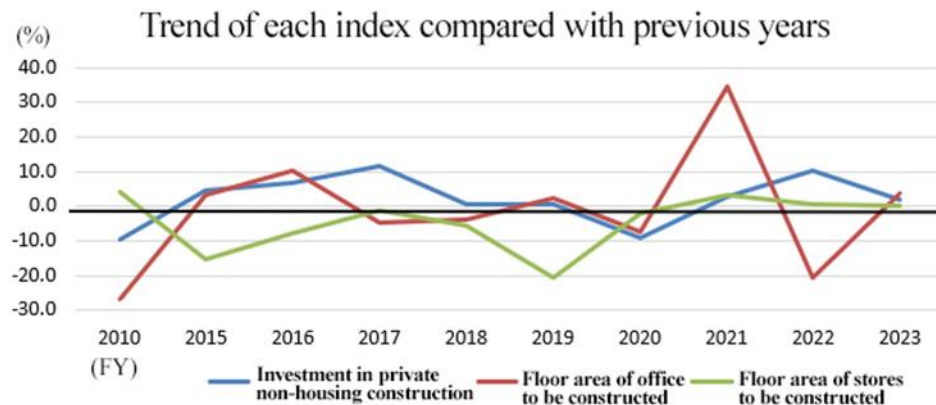
\*Offices

The floor area of offices to be constructed expanded 34.6% year on year in FY 2021, showing a significant recovery from the previous year, in which there was the impact of the coronavirus pandemic, but in FY 2022, it is projected to decline significantly by 20.5%, showing a reactionary drop. In FY 2023, it is forecast to rise 3.7% in a healthy manner. They said, “There remains concern over the skyrocketing of prices of construction materials, but large-scale redevelopment projects are scheduled mainly in the Tokyo Metropolitan Area and local urban areas, so business performance is expected to remain healthy for the foreseeable future.”



## \*Stores

The floor area of offices to be constructed dropped 20.5% in FY 2019 and 2.0% in FY 2020, and recovered 3.4% in FY 2021, but it is forecast to rise 0.6% in FY 2022 and 0.0% in FY 2023, being flat. They said, “Costs, including procurement prices, remain high, and there is uncertainty over investment, but the trend of construction investment in the industries of wholesale, retail, etc. has recovered, and the continuous investment in the retail industry, which is performing well, supports the business of Sangetsu, so performance will be healthy.”



\*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 October 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 2021 are results, from 2022 are forecast.

**Private building repair (remodeling and renovation)**

In “Outlook for construction investment with a construction economy model” (released on October 7, 2022), they said, “According to ‘Survey on the remodeling and renovation of buildings’ by the Ministry of Land, Infrastructure, Transport and Tourism, the amount of received orders for remodeling and renovation of private buildings increased 12.4% year on year in FY 2021. We expect recovery in not only the private non-residential market, in which enterprises were reluctant to invest amid the coronavirus pandemic, but also the residential market, in which needs for spaces suited for new lifestyles are expected to grow, and forecast that the amount of orders received will increase in FY 2022 and FY 2023.”

Like this, the non-housing market is showing a sign of recovery due to the rebound from the coronavirus pandemic. Moreover, 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.	89,000	8.9%	1,700	-	1.9%	14,096	23.2	0.4	1.0%
4206	Aica Kogyo Co., Ltd.	237,000	10.5%	21,500	5.7%	9.1%	224,738	16.0	1.5	9.4%
4215	C.I.TAKIRON Corporation	150,000	5.7%	8,200	-5.2%	5.5%	51,118	9.4	0.6	7.6%
4224	Lonseal Corporation	19,800	9.2%	750	-41.4%	3.8%	5,652	10.2	0.3	5.5%
5956	TOSO COMPANY, LIMITED	21,500	3.1%	600	-23.6%	2.8%	4,890	10.4	0.3	4.1%
7971	TOLI Corp.	94,500	6.8%	1,850	110.7%	2.0%	14,167	10.6	0.3	1.9%
7989	TACHIKAWA CORPORATION	42,310	2.6%	4,620	1.4%	10.9%	23,255	7.5	0.5	7.0%
<b>8130</b>	<b>Sangetsu Corporation</b>	<b>170,000</b>	<b>13.7%</b>	<b>17,500</b>	<b>119.9%</b>	<b>10.3%</b>	<b>124,912</b>	<b>10.3</b>	<b>1.4</b>	<b>0.3%</b>
9827	Lilycolor Co., Ltd.	33,790	-	1,670	215.2%	4.9%	8,331	8.0	1.2	5.0%

\*Unit: million yen, times. Estimates are from those of the respective companies this term. Total market capitalization, PER and PBR are based

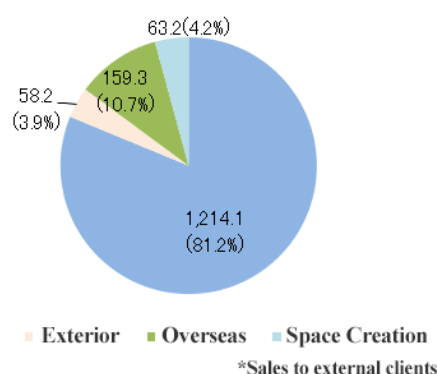
upon the closing share price of each stock in November 25, 2022. ROE is based on the previous term.

**【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

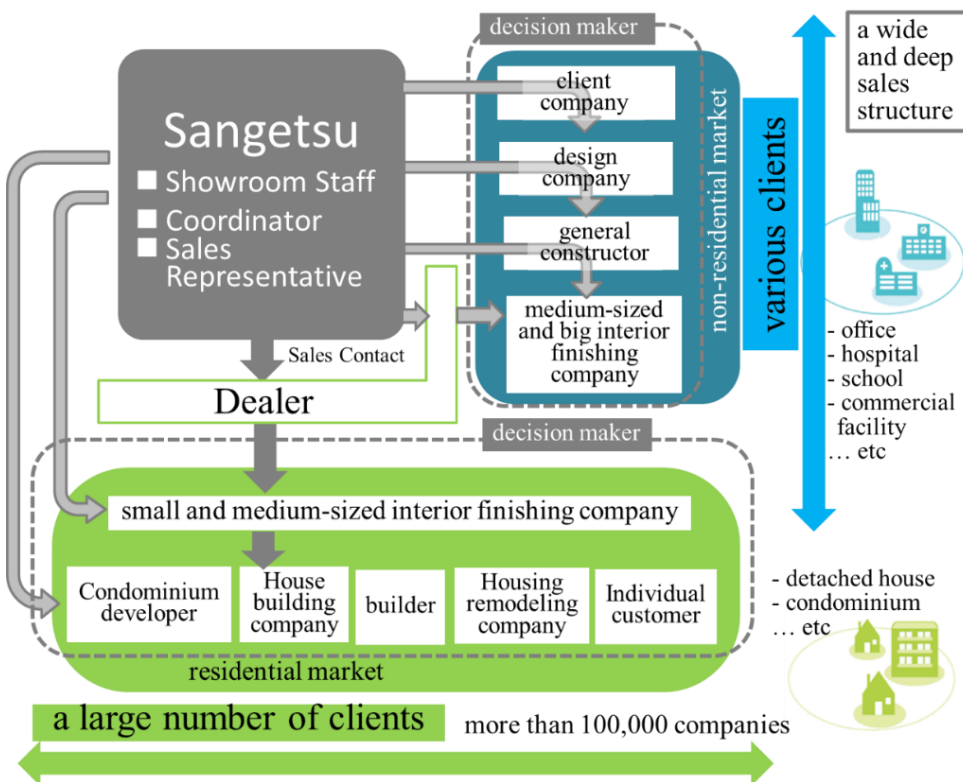
<b>Wallcoverings</b>	Sangetsu’s main product, used in a wide range of residential and non-residential applications. High functionality products have become popular in recent years that are resistant to staining, odor absorbing, and scratch resistant. The product lineup also includes antivirus wallcovering.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



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 710 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. On September 30, 2022, the company acquired “Cloth Kikaku Ltd.,” which delivers products throughout Kyushu, to improve the delivery of small lots of products in the Kyushu region.

## 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

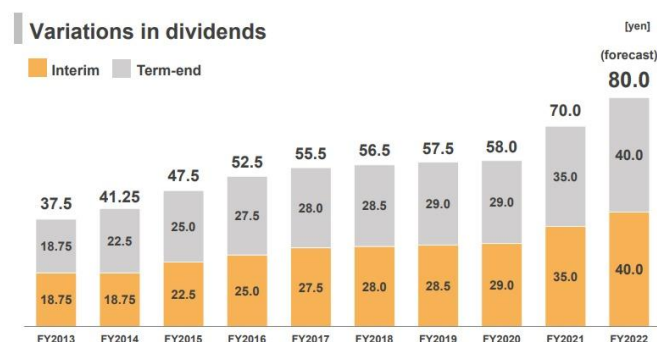
## ④“Space Creation Segment”

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 Capital policy and return to shareholders】

As the major capital policies, the company has strived to “keep equity capital within the range from 90-95 billion yen” and “achieve a total payout ratio of around 100% in three years” and actively acquired treasury shares, but according to the policy for return to shareholders disclosed in December 2021, they would prioritize dividends over the acquisition of treasury shares, increase the dividend amount stably, and acquire treasury shares flexibly while considering the situation.

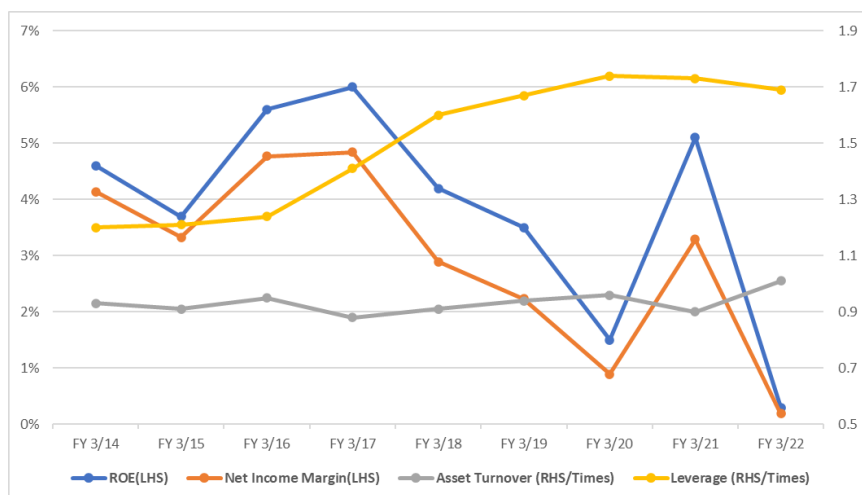


(Source: the company)

## 【1-6 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
<b>ROE (%)</b>	<b>4.6</b>	<b>3.7</b>	<b>5.6</b>	<b>6.0</b>	<b>4.2</b>	<b>3.5</b>	<b>1.5</b>	<b>5.1</b>	<b>0.3</b>
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

# BRIDGE REPORT



\*Produced by Investment Bridge Co., Ltd. with reference to the material of the company.

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.

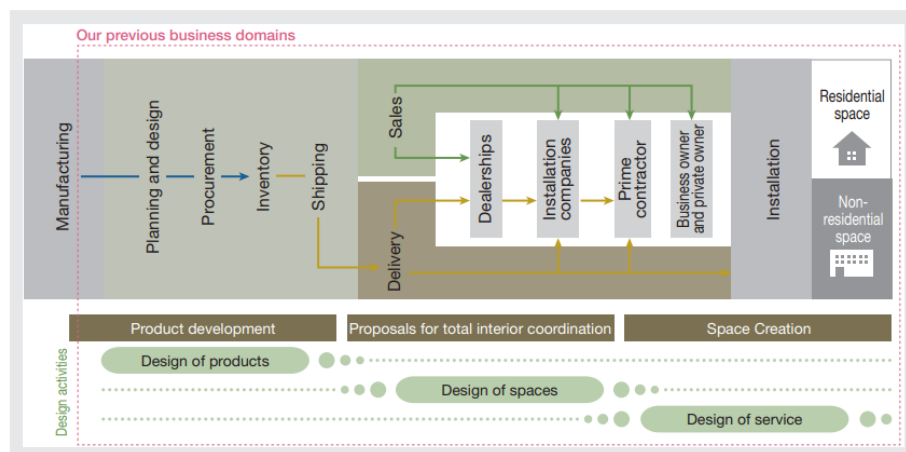
It is indispensable to take measures for improving profitability.

## 【1-7 Characteristics and strengths】

The business model involving both the production and marketing divisions for covering the value chain, which is composed of “planning and manufacturing of products, and procurement,” “proposing of spatial designs and products,” “interior finishing and comprehensive finishing,” and “management of inventory, shipment, and delivery,” with multiple functions is the unrivaled characteristic and forte of the Sangetsu Group, and is the source of their competitive advantage.

The outline and features of each function are as follows.

### Business Model for Integrated Processes from Manufacturing to Sales Covering the Entire Value Chain via Continuously Integrated Functions



(Taken from the integrated report “SANGETSU REPORT 2022”)

## (1) Planning and manufacturing of products, and procurement

For the interior and exterior finishing, which is the final process of construction, it needs to have a system for stably and swiftly supplying products with good designs, which would add color to spaces.

The Sangetsu Group is making efforts to improve its product design capability while increasing product design staff and collaborating with external and overseas designers, in order to not only develop products according to customer needs originating from the market, but also offer new out-of-the-box products to the market.

Every year, the company develops products for revising about one third of 30 major sample books, and handles about 12,000 original products.

In order to stably supply a wide array of products, the company is doing business with about 270 firms in the interior segment and about 150 firms in the exterior segment. In March 2021, the company reorganized CREANATE Inc., which boasts the

largest production output of wallcoverings in Japan, into a group company, to strengthen and streamline business operations based on the system in which the manufacturing and sales divisions work in an integrated manner. In parallel with the in-house mass production of wallcoverings, which are core products, the company is cementing alliances and collaborations with suppliers, to develop a sustainable supply system.

<Major resources, etc.>

Production design staff: about 70 members
Suppliers: about 270 firms in the interior segment and about 150 firms in the exterior segment
The largest equipment for producing wallcoverings in Japan (CREANATE Inc.)
The cutting-edge equipment for producing wallcoverings (Koroseal Interior Products Holdings, Inc.)
Sample book recycling center

**(2) Proposing spatial designs and products**

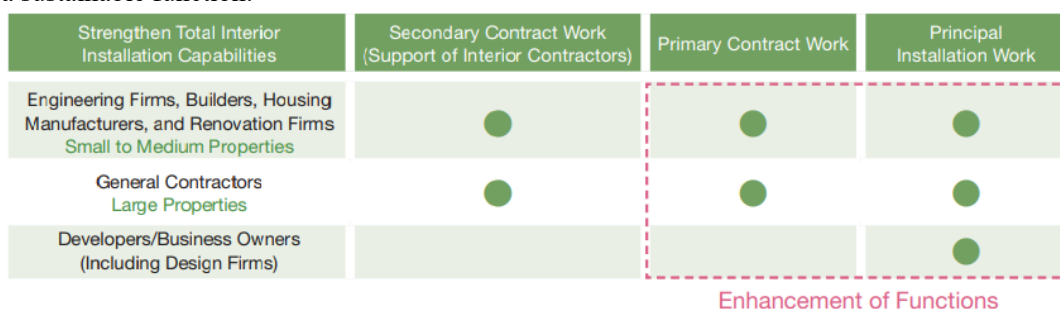
As the economic value of experiences, including the diversity of lifestyles and the flexibility of ways of working, is expanding, the necessity to design spaces is growing year by year. The Sangetsu Group utilizes its capability of comprehensively proposing spaces, including the fusion with exterior designs and various products that add color to scenes, such as furniture and lamps, based on the capability of proposing coordinates, which has been nurtured in the interior segment. In order to offer accurate high-quality solutions to meet the needs from respective customers, the company is increasing personnel for spatial design and brushing up skills actively. Proposing spatial designs leads to added value, and its importance is expected to increase, as people increasingly demand comfort in living. Accordingly, they will brush up their design skills in the entire group based on design-oriented management.

<Major resources, etc.>

Residential design staff (proposing designs mainly in the residential market)	30 members
Contract design staff (proposing designs mainly in the non-residential market)	40 members
Space creation design staff (giving comprehensive proposals for design and installation mainly in the non-residential market)	11 members
Domestic interior marketing: 4 companies, 40 offices, 710 employees	
Domestic exterior marketing: 15 offices, 90 employees	
Overseas marketing: 7 countries, 210 employees	

**(3) Interior finishing and comprehensive finishing**

Interior finishing is an essential means for embodying a design, but the shortage of manpower in the construction industry is a serious challenge. It is conducted by a contractor, a subcontractor, or a second-tier subcontractor. The company had been conducting it as a second-tier subcontractor (assisting interior decorators), but as a priority measure in the mid-term management plan “Next Stage Plan G,” which was announced in 2014, the company indicated the enhancement of its capability of interior finishing, and at present, group companies, mainly the space creation business section and Fairtone Co., Ltd., engage in not only tasks as a second-tier subcontractor, but also the enhancement of comprehensive interior finishing functions as a contractor or a subcontractor, too, and the expansion of its domain. They will strive to fortify their systems, to make their interior finishing capability, which is indispensable for space creation, a sustainable function.



(Taken from the integrated report “SANGETSU REPORT 2022”)

<Major resources, etc.>

30 first-class or second-class architects
1,250 interior finishing engineers
290 exterior finishing engineers
90 interior finishing supervisors

**(4) Management of inventory, shipment, and delivery**

In the interior segment, the company ships 60,000 products per day and 40,000 samples per day. The reliable shipment system and the system for delivering products to all corners of Japan enable the flexible response to changes in interior finishing schedules and smooth discussions on interior designs and specs.

The company has 6 local logistics centers (LCs) as inventory bases for respective areas, and 2 flagship LCs that have huge spaces to back up the inventory in each local LC and store products in their areas. Furthermore, they are establishing satellite centers in each region, to develop a more meticulous delivery network.

In addition, the company is recruiting and training personnel specializing in logistics tasks after defining specialized jobs, so that its employees can deal with shipment and delivery by themselves, for the purpose of improving sustainability by accumulating know-how. In Kansai LC, which was established and integrated in January 2021, the company actualized thoroughgoing automation and labor saving, while considering the shortage of manpower and the aging population, which are ongoing issues.

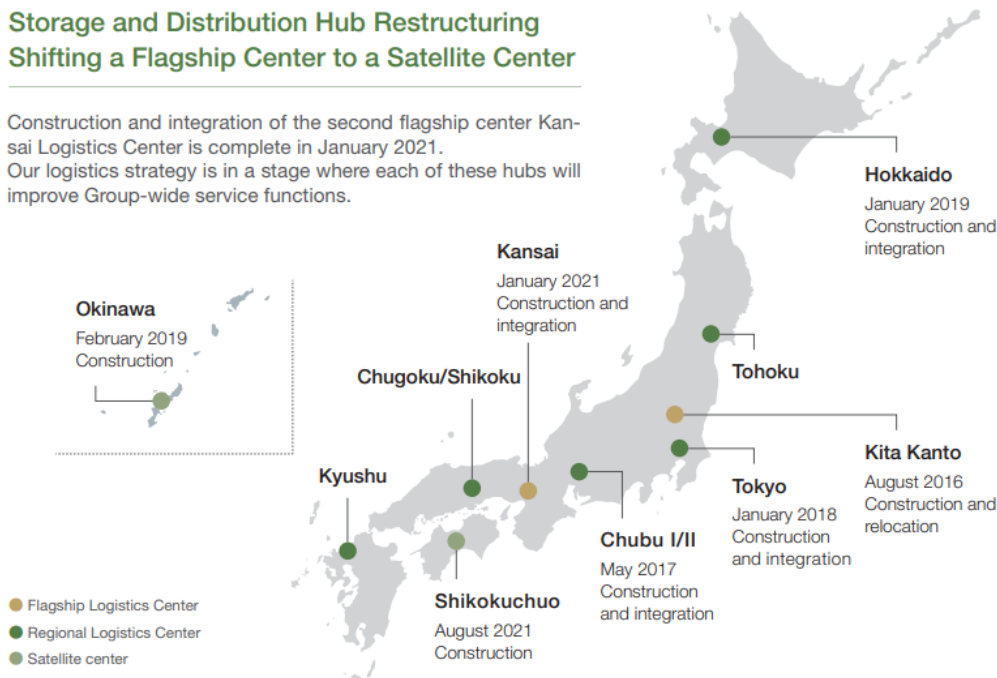
Stable inventory, a timely shipment system, and a meticulous delivery system are indispensable for maintaining and strengthening their business structure, so they will implement various measures actively.

<Major resources, etc.>

800 specialists or outsourcees
8 flagship/local LCs, 236,000 m <sup>2</sup>
500 domestic trucks/day

**Storage and Distribution Hub Restructuring  
Shifting a Flagship Center to a Satellite Center**

Construction and integration of the second flagship center Kansai Logistics Center is complete in January 2021. Our logistics strategy is in a stage where each of these hubs will improve Group-wide service functions.



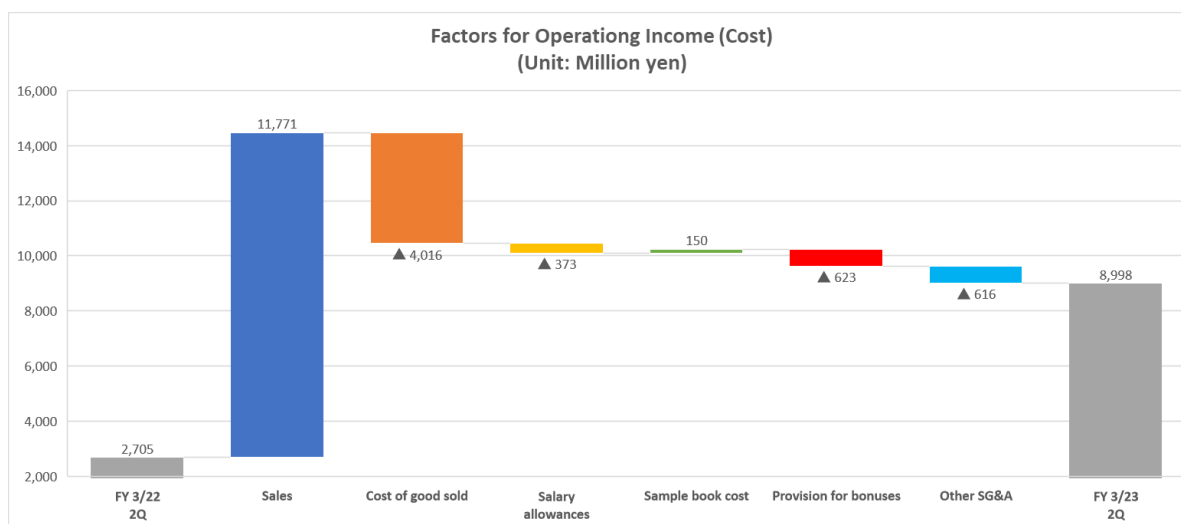
(Taken from the integrated report “SANGETSU REPORT 2022”)

## 2. Second Quarter of Fiscal Year ending March 2023 Earnings Results

### 【2-1 Earnings Results】

	FY 3/22 2Q	Ratio to sales	FY 3/23 2Q	Ratio to sales	YoY	Compared to initial forecast
Net Sales	69,955	100.0%	81,726	100.0%	+16.8%	+4.8%
Gross profit	18,413	26.3%	26,168	32.0%	+42.1%	+17.9%
SG&A	15,707	22.5%	17,169	21.0%	+9.3%	+2.6%
Operating Income	2,705	3.9%	8,998	11.0%	+232.6%	+65.1%
Ordinary Income	2,796	4.0%	9,267	11.3%	+231.4%	+59.8%
Net Income	1,611	2.3%	6,238	7.6%	+287.2%	+68.6%

\*Unit: million yen. Net income attributable to owners of the parent. At the end of the fiscal year ended March 2022, the Company finalized the tentative accounting treatment for the business combination, and each figure for the second quarter of the fiscal year ended March 2022 reflects the details of the finalization of the tentative accounting treatment.



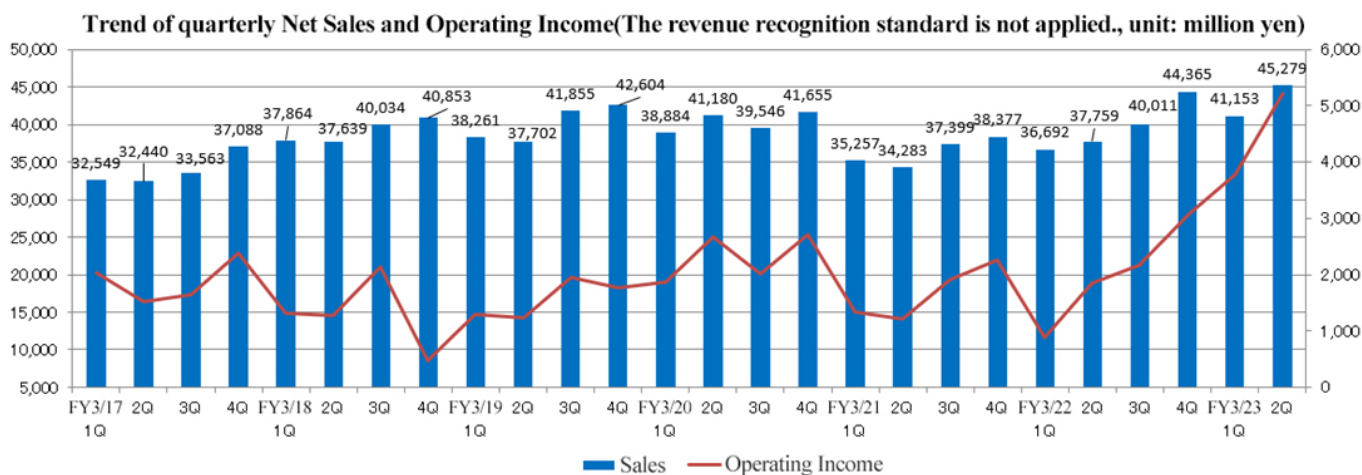
\*Produced by Investment Bridge Co., Ltd. with reference to the material of Sangetsu.

\*A ▲ in the expense item indicates an increase in expenses.

### Substantial increase in sales and profit due to improvement in basic profitability, exceeding the initial forecast

In the second quarter of the fiscal year ending March 2023, net sales grew 16.8% year on year to 81.7 billion yen and operating income rose 232.6% year on year to 8.9 billion yen. Following the revision of prices of its products (the first price hike) in September 2021 in response to the skyrocketing of raw material prices, the rise in distribution costs, etc., the company conducted a price revision (the second price hike) again for products ordered on or after April 1, 2022, to improve the profitability in the interior segment, and profit grew considerably. The company considers that this performance is an outcome of improvement in basic earning capacity through the enhancement of product competitiveness and procurement capability, and the enrichment of the function to offer solutions for distribution and installation, which have been promoted since 2014. If the accounting standards for revenue recognition are not applied, all of net sales, gross profit, operating income, ordinary income, and net income hit a record high for the second quarter. Both sales and profit exceeded the initial forecasts.





Both sales and operating income reached record highs on a quarterly basis as well.

## 【2-2 Key points of the financial results】

The key points of the financial results for the first half are as follows.

☆ The two price increases in September 2021 and April 2022 have steadily permeated the market, and Sangetsu's non-consolidated gross profit margin improved 5.8% year on year to 40.3% (without the application of the revenue recognition standards).

☆The company demonstrated its strength in functions and services in residential properties, primarily small-lot and small-sum transactions, and in small-scale non-residential properties, such as commercial and restaurant businesses. The company ships an average of about 60,000 items daily and keeps enough inventory to avoid running out of products. In addition, the company offers significant benefits to their clients through a meticulous order receiving system for orders in units of 10 cm or one piece, quick delivery that ships ordered products immediately, close cooperation with distributors, a meticulous delivery system, a nationwide delivery network, installation support, and design proposals by showroom staffs and designers. These differentiating factors and excellence, which set the company apart from other companies, are behind the permeation of price increases.

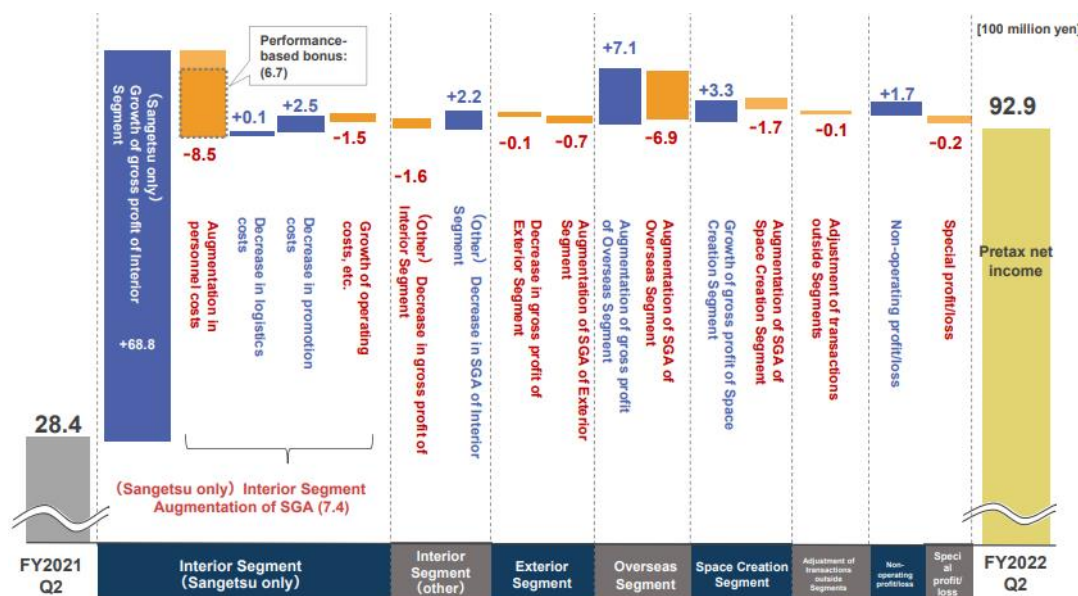
☆Regarding medium/large-lot transactions, where prices are more critical, competitors slashed prices, so sales volume decreased, and the market share declined slightly except for some products. Still, the company believes that it is within a healthy range.

☆Publishing costs decreased as few sample books have been published this term. On the other hand, performance-linked bonuses increased significantly, and SG&A expenses augmented.

**[2-3 Business Segment Trends]**

	FY 3/22 2Q	FY 3/23 2Q	YoY	Compared to initial forecast	
Net Sales					
Interior Segment	57,857	66,571	+15.1%	+4.8%	+3,071
Wallcovering Materials business	29,764	34,820	+17.0%	-	-
Flooring Materials business	21,428	23,991	+12.0%	-	-
Fabric Materials business	3,828	4,547	+18.8%	-	-
Others	2,835	3,211	+13.3%	-	-
Exterior Segment	2,823	2,895	+2.6%	-3.5%	-105
Overseas Segment	7,391	9,422	+27.5%	+2.4%	+222
Space Creation Segment	2,703	3,580	+32.5%	+8.5%	+280
Adjustments	-820	-744	-	-	+256
<b>Total</b>	<b>69,955</b>	<b>81,726</b>	<b>+16.8%</b>	<b>+4.8%</b>	<b>+3,726</b>
Operating Income					
Interior Segment	3,118	9,326	+199.1%	+55.4%	+3,326
Exterior Segment	253	169	-33.1%	-32.1%	-81
Overseas Segment	-624	-600	-	-	+300
Space Creation Segment	-34	127	-	+27.5%	+27
Adjustments	-7	-23	-	-	-
<b>Total</b>	<b>2,705</b>	<b>8,998</b>	<b>+232.6%</b>	<b>+65.1%</b>	<b>+3,548</b>

\*Unit: million yen. The fabric materials category of sales includes both curtains and upholstery. The segment information for the second quarter of the fiscal year ended March 2022 is disclosed based on the figures after reflecting the significant revision of the initial acquisition cost allocation due to the finalization of the provisional accounting process.



(Source: the company)

**① Interior Segment**

Sales and profit increased. Both sales and profit exceeded the forecasts.

Although the increase in procurement costs due to the surge in raw material prices affected the wallcovering, flooring, and fabric businesses, the price revisions from the orders placed on April 1 permeated the market.

<Wallcoverings>

Sales increased.

In the residential market, sales of the mass-produced wallpaper sample book "SP" were strong. Moreover, due to the recovery

trend in the non-residential renovation market, sales of the adhesive-attached decorative film "REATEC" were strong. Regarding the glass film sample book "CLEAS," published in June, the company enhanced sales activities through collaboration between the product development and sales departments. As a result, the low environmental impact product "Creacia 90," which aims to achieve a decarbonized society, and the well-designed "Fog" series penetrated the market, and sales increased.

#### <Flooring materials>

Sales increased.

Sales of "Floor Tile," a vinyl floor tile sample book that can be used in a wide range of residential and non-residential areas, continued to grow steadily. In the non-residential renovation market, the carpet tile "NT700" sales were strong, mainly in the office market. The antistatic vinyl floor tile "OT" was also highly evaluated in the market due to the expansion of its lineup. Due to the recovery in the field of medical and welfare facilities, the sales of floor sample book "S floor" for various facilities expanded.

#### <Fabrics>

Sales increased.

Due to a decrease of newly constructed houses, the overall custom-made curtain market showed a downward trend. Still, the curtain sample book "Strings" performed well. Moreover, the curtain sample book "Simple Order," which is aimed at simplifying the selection process by unifying the prices, was recognized in the market for the enhancement of the product lineup and new roll screens, thus increasing sales.

At Sangetsu Vosne Corporation., as a measure to strengthen the B to C business, the company expanded its original products that are exclusive on the website in the EC business and improved usability.

The Joyplus business, which provides builder services centered on curtain sales, expanded its sales bases by starting operations in Hiroshima and Kyushu.

#### <Other>

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

### ② Exterior Segment

Sales increased and profit decreased. SG&A expenses augmented due to the expansion of human resources. Both sales and profit fell short of the forecasts.

In the residential market, the overall trend was stagnant due to a decrease of owned newly constructed houses and a reactionary fall after price revisions at the end of the previous fiscal year. Still, the sales of sheds and garages were strong, partly due to the last-minute demand before the price revision in August.

In the non-residential market, Sungreen Co., Ltd.'s Space Creation Business Unit proposed exterior space designs, such as medical facilities and offices, and the designs were adopted. In addition, Sungreen is implementing measures including increasing the number of specialists and improving the business system to expand the space creation business.

### ③ Overseas Segment

Sales increased, and loss decreased. Both sales and profit exceeded the forecasts.

In the Overseas Segment, the results of group companies from January to June 2022 were taken into account in the results for the second quarter of fiscal year ending March 2023.

#### <North American market>

As the entire economy is on a recovery trend, the non-residential construction market, which is closely related to the company's business, has recovered, and sales in the primary market of hotels, as well as in the office and medical fields, have increased. Profitability improved, and the company returned to the black in the second quarter (April-June), excluding temporary expenses. This was attributed to the reflection of the increases in costs, such as raw material prices, in sales prices, the expansion of sales through the continuous launch of new products in the in-house manufactured wallpaper business, and the withdrawal from unprofitable businesses.

#### <Southeast Asian market>

Although some issues remain in the recovery of transportation of people and the tourism industry, economic activities have resumed as a whole. Under these circumstances, sales increased primarily in the mainstay hotel market as well as the residential market and the medical and welfare market, which had been focused on as markets to be cultivated.

In the second quarter (April-June), the company almost broke even.

## &lt;Chinese and Hong Kong Markets&gt;

Due to the resurgence of the novel coronavirus, the severe conditions continued, including restrictions on tourists and strict lockdowns in various places, so loss expanded.

Under these circumstances, the company strengthened its business base by conducting sales activities and improving its human resources system to acquire new customers.

## ④ Space Creation Segment

Sales increased, and this segment turned profitable. Both sales and profit exceeded the forecasts.

Fairtone Co., Ltd., which is mainly responsible for the installation sector, received orders for large-scale projects against the backdrop of expanding demand for office renovation in the non-residential market, leading to increased sales. Sales also expanded in the hotel market through sales activities in collaboration with Sangetsu.

As part of its growth strategy, the company worked to expand its construction capabilities geographically, including opening a new Tokyo branch by Hekiso Co., Ltd., a group company of Fairtone Co., Ltd., in September.

At Sangetsu's Space Creation Division, which is mainly responsible for the design sector, sales activities in a wide range of fields have been fruitful, and renovation work has increased for a variety of properties, mainly offices, which are the core of the business, as well as residential properties.

The company implemented measures to expand the business domain, by acquiring specialist personnel and so on. Thanks to the comprehensive strength of the Sangetsu Group, the new office, "Kansai Branch's Center Office," which embodies the space creation company, won the "Kinki New Office Encouragement Award" at the 35<sup>th</sup> Nikkei New Office Awards and the "Kansai Branch Lighting Facility Encouragement Award" at the 2022 Lighting Facility Awards.

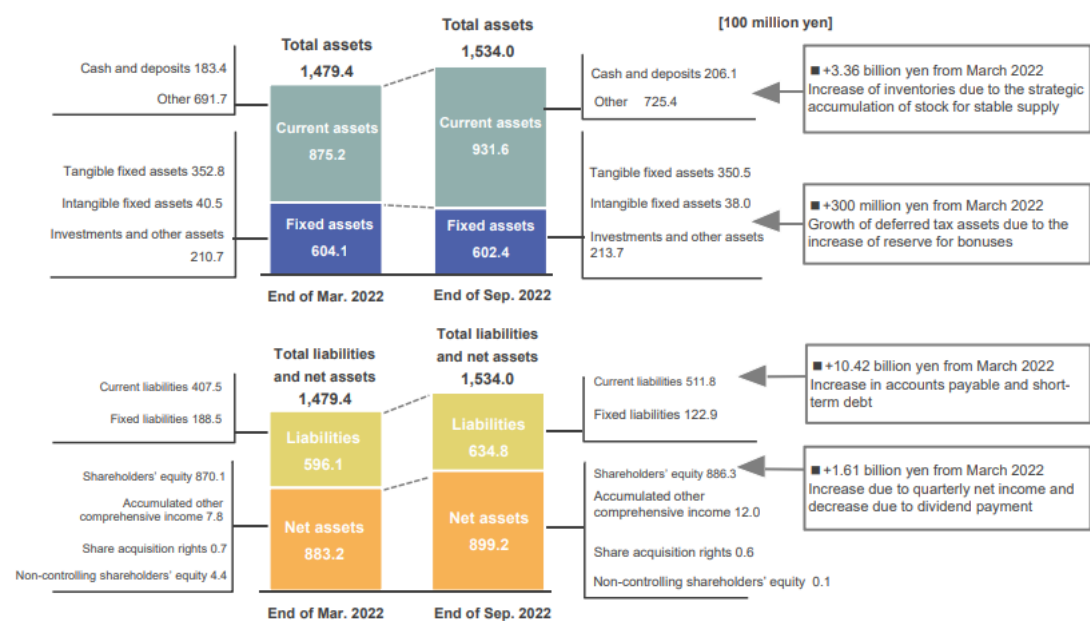
## 【2-4 Financial standing and cash flows】

## ◎Main BS

	End of Mar. 22	End of Sep.22	Increase/ Decrease		End of Mar. 22	End of Sep.22	Increase/ Decrease
Current Assets	87,525	93,161	+5,636	Current Liabilities	40,758	51,183	+10,425
Cash, Equivalents	18,347	20,614	+2,267	Payables	27,791	28,950	+1,159
Receivables	50,176	50,152	-24	Short-Term Debt	2,077	9,813	+7,736
Marketable Securities	300	300	0	Noncurrent Liabilities	18,857	12,296	-6,561
Inventories	17,722	21,362	+3,640	Long-Term Debt	8,018	1,231	-6,787
Noncurrent Assets	60,417	60,240	-177	Total Liabilities	59,616	63,480	+3,864
Tangible Assets	35,285	35,051	-234	Net Assets	88,326	89,921	+1,595
Intangible Assets	4,058	3,809	-249	Retained earnings	54,537	58,718	+4,181
Investments, Others	21,073	21,379	+306	Treasury Stock	-907	-850	+57
Total Assets	147,943	153,401	+5,458	Total Liabilities, Net Assets	147,943	153,401	+5,458
				Capital Adequacy Ratio	59.4%	58.6%	-0.8pt

\*Unit: million yen. Accounts receivable is the sum of notes and accounts receivable-trade, contract assets, and electronically recorded monetary claims. Accounts payable is the sum of notes and accounts receivable-trade, contract liabilities, and electronically recorded liabilities. Debt includes lease obligations.

BRIDGE REPORT



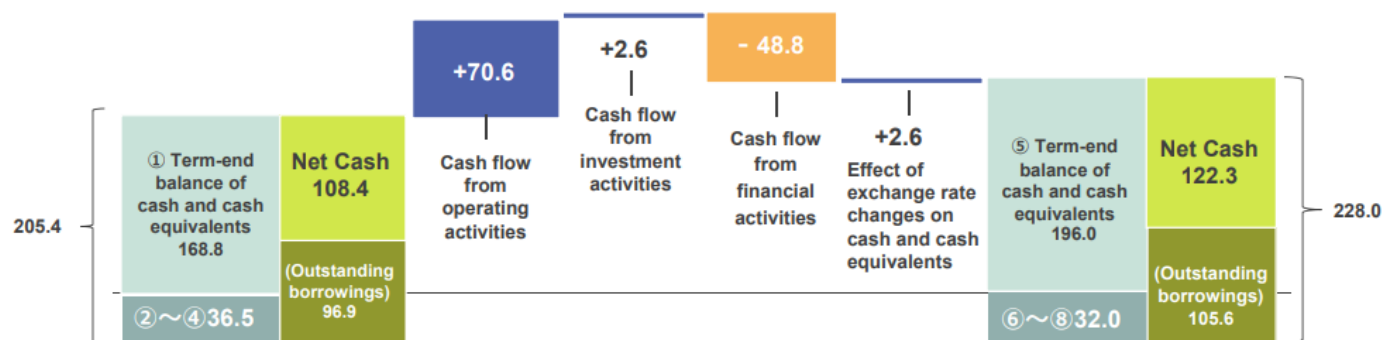
(Source: the company)

Total assets swelled 5.4 billion yen from the end of the previous term, due to the increases in cash & deposits, inventories, etc. Total liabilities swelled 3.8 billion yen, as accounts payable, short-term debt increased. Net assets swelled 1.5 billion yen, due to the rise in retained earnings. As a result, capital-to-asset dropped 0.8 points from the end of the previous term to 58.6%. Long- and short-term debt increased 0.9 billion yen to 11.0 billion yen.

◎Cash Flow

	FY 3/22 2Q	FY 3/23 2Q	Increase/ Decrease
Operating CF	2,535	7,067	+4,532
Investing CF	-602	267	+869
Free CF	1,933	7,334	+5,401
Financing CF	-3,900	-4,883	-983
Cash and Equivalents	23,286	19,601	-3,685

\*Unit: million yen.



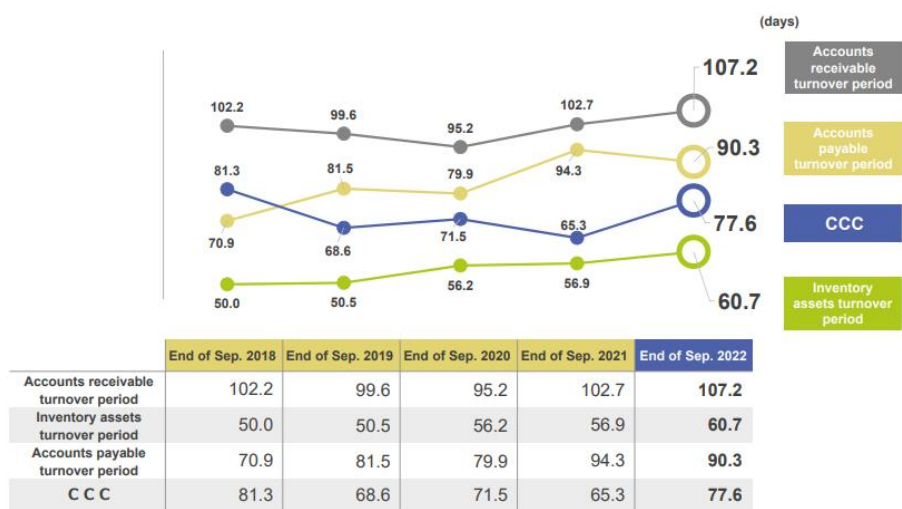
(Source: the company)

Operating CF and free CF is expanded positive range due to the increase in income before taxes, etc.. Cash position declined.



©CCC

Consolidated Cash Conversion Cycle



(Source: the company)

In parallel with the sales growth, CCC increased by 12.3 days from the end of the same period of the previous year.

### 3. Fiscal Year ending March 2023 Earnings Forecasts

#### 【3-1 Earnings Forecasts】

	FY3/22	Composition ratio	FY3/23 (Est.)	Composition ratio	YoY	Revision rate	Progress rate
Net Sales	149,481	100.0%	170,000	100.0%	+13.7%	+6.9%	48.1%
Gross profit	39,962	26.7%	54,000	31.8%	+35.1%	+21.3%	48.5%
SG&A	32,002	21.4%	36,500	21.5%	+14.1%	+5.8%	47.0%
Operating Income	7,959	5.3%	17,500	10.3%	+119.9%	+75.0%	51.4%
Ordinary Income	8,203	5.5%	18,000	10.6%	+119.4%	+68.2%	51.5%
Net Income	276	0.2%	12,000	7.1%	+4,239.0%	+71.4%	52.0%

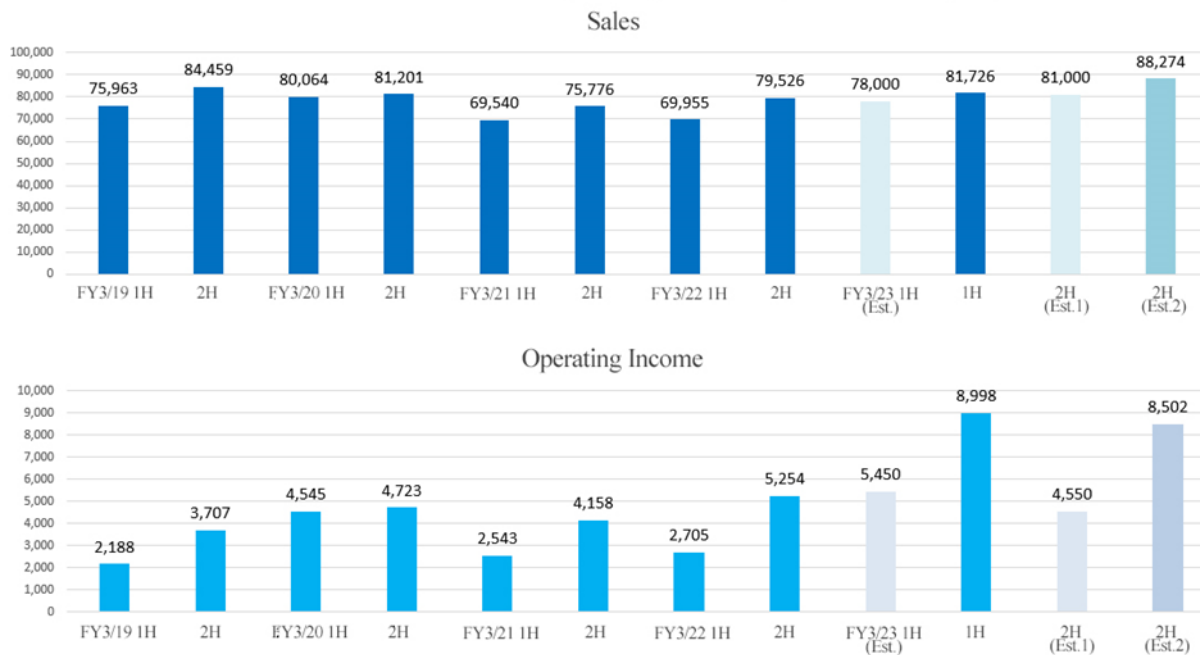
\*Unit: million yen

#### Upwardly revised earnings forecasts

The earnings forecast has been revised upwardly, because the performance in the first half of the term was healthy and the third price hike was implemented in the interior segment for products ordered on or after October 1, 2022 although the skyrocketing of raw material prices and the rise in energy costs are expected in the second half. Net sales are projected to rise 13.7% year on year to 170 billion yen, and operating income is forecast to increase 119.9% year on year to 17.5 billion yen. The company is expected to achieve the quantitative goals in the mid-term management plan “D.C. 2022,” that is, “net sales of 162 billion yen, an operating income of 12 billion yen, and a net income of 8.5 billion yen in the fiscal year ending March 2023.”

The expected dividend, too, has been revised. The interim and term-end dividends have been raised by 5.00 yen/share and 4.00 yen/share, respectively. The annual dividend is now forecast to be 80.00 yen/share, up 9.00 yen/share from the initial forecast and up 10.00 yen/share from the previous term. The expected payout ratio is 39.1%.

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



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

**[3-2 Business Segment Trends]**

	FY3/22	FY3/23 (Est.)	YoY	Revision rate	Progress rate
Net Sales					
Interior Segment	123,042	138,000	+12.2%	+7.0%	48.2%
Exterior Segment	5,823	6,000	+3.0%	0.0%	48.3%
Overseas Segment	15,930	20,000	+25.5%	+5.3%	47.1%
Space Creation Segment	6,579	7,500	+14.0%	+7.1%	47.7%
Adjustment	-1,893	-1,500	-	-	-
Total	149,481	170,000	+13.7%	+6.9%	48.1%
Operating Income					
Interior Segment	9,097	17,800	+95.7%	+61.8%	52.4%
Exterior Segment	541	500	-7.6%	0.0%	33.8%
Overseas Segment	-1,821	-1,100	-	-	-
Space Creation Segment	139	300	+114.7%	+50.0%	42.3%
Adjustment	2	-	-	-	-
Total	7,959	17,500	+119.9%	+75.0%	51.4%

\*Unit: million yen.

**\* Interior Segment**

The house construction/renovation market is recovering, but sales volume is conservatively forecast.

The company carried out the third price hike (7-12%) on October 1, to cover the augmentation of cost of sales in the first half of the term, and it has penetrated the market smoothly, but the makers demanded a further increase in prices of raw materials. It is assumed that SGA will augment, due to performance-based bonuses.

**\* 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**

The U.S. Market is recovering, and the company is expected to post an operating income in the third quarter (July to

September).

The Southeast Asian market has recovered gently, so the company is expected to post an operating income in the fourth quarter, although slight operating loss was posted in the third quarter.

The Chinese and Hong Kong markets are projected to remain harsh.

The company forecasts that a sense of uncertainty will augment in the North American, Chinese, and Hong Kong markets until the fourth quarter.

#### **4. Progress of Medium-term Management Plan (2020-2022) [D.C. 2022]**

In the medium-term management plan (2020-2022) "D.C. 2022," design capabilities, strategic procurement, and enhancement and sophistication of service functions are listed as the focus points in the interior business. The company also recognizes the need to strengthen overseas business as an important issue.

The progress of each measure is as follows.

##### **4-1 Interior business: Developmental enhancement of design capabilities and promotion of strategic procurement**

###### **①Expansion of products with low environmental impact**

The glass film "Creacia 90," which is made from recycled materials derived from PET bottles, the carpet tile "NT 700 Fiber Eco vol.2," which is made from 100% recycled yarn (ECONYL), and "MEGUReWALL," which is made from environmentally friendly materials such as recycled resin and rice husks, have been highly evaluated by major real estate companies that want to show that they address environmental issues.

###### **②External evaluation of designs**

A total of four products received the 2022 Good Design Award. These products have low-environmental impact, and they are the flooring material "NT double eco," the wallpaper "MEGUReWALL," the glass film "Creacia 90," and "CS Roll Screen," which offers child safety.

This is the first time the company has received simultaneous awards for wallpaper, flooring, and fabric.

In addition, "KAGETOHIKARI," which was created in collaboration with the architect Kengo Kuma, won the iF Design Award.

As mentioned above, the new office, the Kansai Branch's Center Office, which embodies the space creation company with the comprehensive strength of the Sangetsu Group, won the "Kinki New Office Encouragement Award" at the 35<sup>th</sup> Nikkei New Office Awards and the "Kansai Branch Lighting Facility Encouragement Award" at the 2022 Lighting Facility Awards.

###### **③Construction of a new wallpaper factory**

CREANATE Inc., the largest vinyl chloride wallpaper manufacturer in Japan, has decided to build a new factory in Hiroshima. The total floor area is 14,000 m<sup>2</sup>, and the scheduled investment amount is about 8.5 billion yen, including the investments in land, buildings, and equipment. Construction is scheduled to be completed in July 2024.

The purpose of the construction of the new factory is as follows.

###### **\* Building a sustainable, stable supply system**

Currently, the total shipment volume of mass-produced wallpaper in Japan is 450 million meters annually. CREANATE Ichinoseki Plant, which is currently in operation, produces approximately 90 million meters annually, and the company plans to increase the annual production capacity by approximately 80 million meters at the new Hiroshima Plant.

The purpose of constructing the new factory is to respond to the growing demand for mass-produced wallpaper. However, Sangetsu does not plan to operate the Hiroshima factory at full capacity for the time being, as its priority is to create a stable production and supply system by creating excess production capacity.

###### **\* Efforts to reduce environmental impact**

The company will reduce the distance required for raw material procurement and product delivery at the new plant. It will also switch the primary fuel from heavy oil to LNG and install solar panels to reduce GHG emissions proactively.

###### **\*Providing a comfortable work environment**

By achieving the spare production capacity mentioned above, the company will provide two days off per week on Saturdays and Sundays and secure stable human resources.

#### ④Developing a delivery system in Kyushu

On September 30, 2022, the company acquired 100% of the shares of Cross Kikaku Co., Ltd. (Fukuoka Prefecture), which handles delivery business and warehouse work for shipping interior materials throughout Kyushu, to strengthen small-lot delivery operations in the Kyushu area.

This is part of the delivery system improvements the company has promoted in various parts of Japan, such as Shizuoka, Hokuriku, and Shikoku.

#### 4-2 Strengthening business in the Pacific Rim region

Koroseal announced the Group's first standard brand, TAKUMI.

TAKUMI is a collection of wallpaper that expresses traditional Japanese crafts, targeting the high-end residential market and hospitality and office fields. Overseas group companies, including Goodrich, will sell it.

### 5. Conclusions

This term, which is the final fiscal year of the mid-term management plan “D.C. 2022,” the company is expected to attain the quantitative goals.

They are currently discussing the next mid-term management plan inside the company. According to President Yasuda, one of the primary themes is “the further enhancement of space creation capability.” In the long-term vision “DESIGN 2030,” they aim to realize a space creation enterprise that “will acquire the ability to envision, design, propose, and create new spaces based on their current skills to design, market, and distribute things and products.”

By honing their skills to not merely sell products, but also design, develop, and establish spaces, they plan to pursue the business scale beyond the mere sale of products inside and outside Japan. In the past several years, they have strived to improve their architects, installation engineers, and installation supervisors, but they consider that it is necessary to further improve them.

We would like to pay attention to how much they can accumulate sales and profit this term and how their road map will be provided in the next mid-term management plan, which is scheduled to be disclosed next year.

## <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)

### 5-1 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.

### 5-2 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)

**5-3 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.”

**5-4 Social value for which the company strives**

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

<p><b>An equal and healthy inclusive society</b></p> <p>Sangetsu Group will contribute to realize an equal, healthy and inclusive society, where diversity of gender will be respected, through creation of healthy and comfortable spaces.</p>	
<p><b>The global environmental protection with sustainable society</b></p> <p>Sangetsu Group will minimize our environmental footprint of the supply chain as a whole and will contribute to realize a sustainable society that will protect the global environment, through creation of spaces usable for the long term and utilization of stock buildings.</p>	
<p><b>A more affluent and enjoyable society</b></p> <p>Sangetsu Group will contribute to realize a more enjoyable society by promoting equal, safe, reassuring and efficient ways of working which respect human rights, through creation of spaces appropriate to various cultures and living.</p>	

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

### 5-5 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**

1	<b>Expand earnings through qualitative growth of core business</b> <b>Interior segment</b> (In Japan) <ul style="list-style-type: none"> <li>(1) Enhancement of design capabilities and strategic purchasing</li> <li>(2) Expansion and Upgrading of our Service functions</li> <li>(3) Deepening collaboration with distributors and strengthening sales structure</li> </ul> <b>Exterior segment</b> (In Japan) <ul style="list-style-type: none"> <li>(4) Qualitative and regional expansion in exterior business</li> </ul>
2	<b>Growth of profitability in next-generation business based on resources of core business</b> <b>Overseas segment</b> In each market globally <ul style="list-style-type: none"> <li>(1) Build a solid management foundation in the market in each country</li> <li>(2) Pursuit of the optimal business model and full commitment to localization</li> <li>(3) Strengthening branding and product portfolio</li> </ul> <b>Space Creation segment</b> (In Japan) <ul style="list-style-type: none"> <li>(4) Spread of Space creation business by expanding professional ability</li> </ul>
3	<b>Strengthen management and business foundations</b> <ul style="list-style-type: none"> <li>(1) Strengthening business execution capabilities and efficiency</li> <li>(2) The establishment of a system for the advanced utilization of data</li> </ul>
4	<b>Realize social value</b> <ul style="list-style-type: none"> <li>(1) Global environment</li> <li>(2) Human capital</li> <li>(3) Social capital</li> <li>(4) Governance</li> </ul>

(Source: The company)

**② Numerical goals of sales and profit \*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.

### ③ Outline of each basic policy

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

##### ◎ Interior Segment

##### \*Market environment

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

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

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

##### \*Three measures

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

##### ◎ Advancing and strengthening design capabilities

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

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

As for designs, the company has proposed product designs in the merchandise development section of each business department, non-housing space designs in the contract design division, coordination mainly related to housing in showrooms, and a variety of space designs in the Space Creation 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>
--	---

### 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%
	② Ratio of employees with disabilities	At least 4.0%
3. Social capital	Participation in local communities	
	① Space creation in children's home renovations	30 per year
	② Active employee participation	Matching gift: 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		Fund allocation	
Cash equivalents as of the end of March 2020*	36.8 billion yen	Investment for growth*	20 to 26 billion yen
+		+	
Operating cash flow over 3 years	28 to 30 billion yen	=	Return to shareholders
+		+	
3-year borrowings	Negative 5 to 10 billion yen	Cash as of the end of March 2023	25 to 30 billion yen

\*Cash & deposits and marketable securities other than stocks

\*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</p> <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>

Supplementary Principle 3-1-3	<p>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.</p> <ul style="list-style-type: none"> <li>• Promotion of foreign nationals to managerial positions</li> </ul> <p>Although the major target market of Sangetsu Corporation alone is the Japanese market, the Sangetsu Group began to employ foreign nationals in 2015 when the Sangetsu Group started the overseas business. We will promote these human resources to managerial positions equally, regardless of nationality, based on their capabilities and business performance. In our group companies engaging in the overseas business, foreign nationals account for 59% of the employees in the positions of officers that play the central roles in the business.</p> <p>(3) Our policies on human resources development for ensuring diversity, policies on internal environment development, and their progress Considering diversity management, which leads new perspectives and ideas brought by different backgrounds, sensibilities, and senses of values to enriched creativity, as the core of our business management, we are making efforts in this regard as an important policy toward achieving business growth while handling diversifying market demand. We have set diversity and inclusion goals, which are proactive employment of foreign nationals, employment of a greater number of people with disabilities, and support for promoting female employees to managerial positions. Other efforts of our company include improvement of the rate of paid holidays taken by our employees, reduction in long working hours, and approaches related to LGBTQ.</p> <ul style="list-style-type: none"> <li>• Our initiatives toward sustainability</li> </ul> <p>Our long-term vision, <b>【DESIGN 2030】</b>, 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, <b>【D.C. 2022】</b>, is realization of social value. Specifically, we (1) set concrete target values regarding reduction in environmental impact, (2) facilitate our understanding of environmental impact in the supply chain (and will use it as one of the criteria for making judgment about our procurement activities in the future), (3) develop highly durable, long-life products and environmentally friendly products, and (4) recycle our books of samples. With regard to the item (4), we opened the Sangetsu Sample Books Recycling Center in March 2021 and have operated it since then.</p> <ul style="list-style-type: none"> <li>• Investment in human capital</li> </ul> <p>Our company aims to run a personnel system that respects the diversity, personality, and individuality of our employees and allows each of them to demonstrate their abilities to the fullest extent as the leading role in business management, and we disclose information on the relevant systems on our website (<a href="https://www.sangetsu.co.jp/company/sustainability/social/divercity_policy.html">https://www.sangetsu.co.jp/company/sustainability/social/divercity_policy.html</a>).</p> <p>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>
-------------------------------	--



	<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>
<p>Principle 5-1 Policy on constructive communication with shareholders</p>	<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.

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

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