



Shosuke Yasuda, President

Sangetsu Corporation (8130)



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

Stock Information

Share Price	Shares Outstanding	Total market cap	ROE Act.	Trading Unit	
¥2,479	59,200,000 shares	¥146,757million	15.3%	100 shares	
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥130.00	5.2%	¥178.93	13.9x	¥1,631.57	1.5x

*The share price is the closing price on June 22. Each number is from the financial results for the fiscal year ended March 2023.

Earnings Trend

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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 Act.	176,022	20,280	20,690	14,005	238.71	105.00
March 2024 Est.	183,000	15,000	15,400	10,500	178.93	130.00

*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 report outlines the financial results of Sangetsu Corporation for the term ended March 2023 and the Medium-term Business Plan (2023-2025) "BX 2025," and includes the interview with President Yasuda.

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. Fiscal Year ended March 2023 Earnings Results](#)

[3. Fiscal Year ending March 2024 Earnings Forecasts](#)

[4. Medium-term Management Plan \(2023-2025\) 【BX 2025】](#)

[5. Interview with President Yasuda](#)

[6. Conclusions](#)

[<Reference1: Long-term Vision of Sangetsu Group 【DESIGN 2030】>](#)

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

Key Points

●In the term ended March 2023, sales grew 17.8% year on year to 176 billion yen and operating income rose 154.8% year on year to 20.2 billion yen. Through the third price hike in October 2022 following the first price hike in September 2021 and the second price hike in April 2022, the profitability of the interior business improved considerably. The loss in the overseas segment shrank. Sales and profit exceeded the earnings forecast that was revised upwardly twice and announced in February 2023, and hit a record high.

●For the term ending March 2024, sales are expected to rise 4.0% year on year to 183 billion yen and operating income is projected to drop 26.0% year on year to 15 billion yen. While sales are forecast to grow thanks to the recovery of sales quantities and the improvement in the overseas business, profit is projected to decline due to the augmentation of costs, including procurement prices, distribution costs, and personnel expenses. The reflection of the rise in costs in prices is not assumed as of now. The company plans to pay a dividend of 130.00 yen/share, up 25.00 yen/share from the previous term, increasing the dividend amount for the 10th consecutive term. The expected payout ratio is 72.7%.

●In the term ended March 2023, which is the final fiscal year of the Medium-term Business Plan (2020-2022) “D.C. 2022,” sales and profit significantly exceeded the goals set in the long-term vision “DESIGN 2030.” In the past 3 years, the COVID-19 affected the company’s business, but the business base and earning capacity of the Sangetsu Group have expanded and improved. On the other hand, the future economic environment remains uncertain. Considering this situation, the Sangetsu Group reviewed the long-term vision “DESIGN 2030” and formulated a new Medium-term Business Plan “BX 2025” for long-term growth.

●In “DESIGN 2030,” the image of a Space Creation Company was clarified, future businesses were discussed, and the quantitative goals for the term ending March 2030 were raised from “sales of 225 billion yen and an operating income of 18.5 billion yen” to “sales of 250 billion yen and an operating income of 27 billion yen.”

●“BX 2025” is recognized as the 3 years for preparing for the next leap to “improve the solution providing capability as a strategy for further growth” while taking into account current issues. The priority measures are the following five: (1) Supporting expansion, advancement, and active utilization of human capital, (2) Accumulation, analysis, and utilization of digital capital, (3) strengthening the ability to provide solutions, (4) exterior and overseas businesses, and (5) enhancing social value. In particular, they consider that the enhancement of human capital is the most important.

●We interviewed President Shosuke Yasuda about the review of the results for the term ended March 2023 and “D.C. 2022,” the major points of “BX 2025,” his message toward shareholders and investors, etc. The theme of “BX 2025” was set as “3 years for preparing for the next leap.” He said, “we will steadily proceed with the most important mission of strengthening human capital and implement measures for attaining ‘sales of 250 billion yen and an operating income of 27 billion yen’ in the term ending March 2030. We would appreciate your continued support from the medium/long-term viewpoint.”

●The results of the previous Medium-term Business Plan “D.C. 2022” were almost perfect. The company considers the three years as the investment phase mainly for enhancing human capital, and forecasts that sales will achieve a single-digit growth and operating income will decline by double digits in the term ending March 2024. Share price is relatively healthy, increasing investors’ expectations. We would like to pay attention to the progress of their business toward the forecast for this term, as well as the trends of measures looking ahead to the year 2030.

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 except for some 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 2023, the group is composed of nine companies including “Sangetsu Okinawa Corporation,” which sells interior merchandise 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 merchandise 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, “Kurosukikaku Corporation (incorporated in April 2023),” which is a leading delivery firm in the Kyushu area.

【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】

In Sangetsu Group’s Long-term Vision “DESIGN 2030,” which was formulated in 2020, the company set its ideal state as “a Space Creation Company.” However, as mentioned in Section 4 “Medium-term Business Plan (2023-2025) ‘BX 2025’,” the company revised the long-term vision “DESIGN 2030” while considering the results until the previous term, the future environment surrounding the company, etc., and formulated a new Medium-term Business Plan “BX 2025” for long-term growth.

Accordingly, the task force composed of mainly employees of the Sangetsu Group is revising the corporate philosophy.

【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

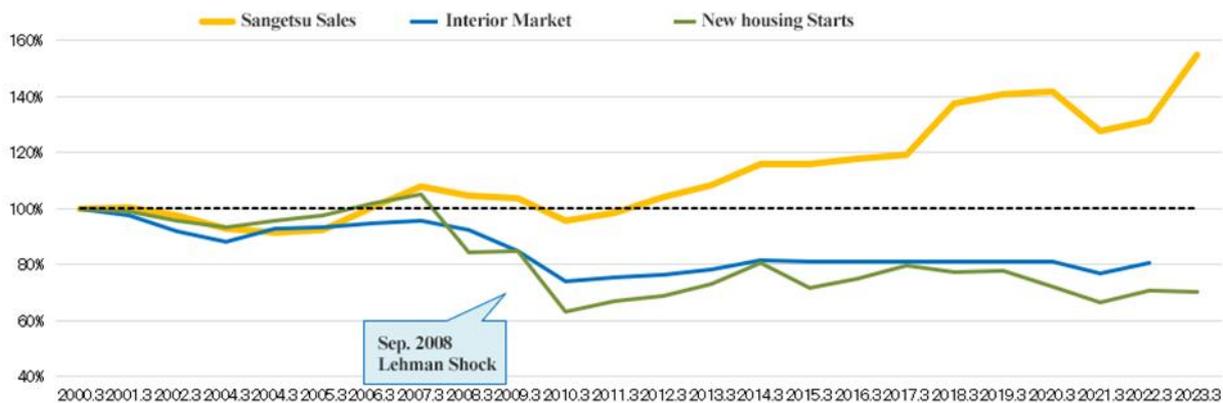


* Nippon Interior Fabrics Association "2018 General State of the Interior Fabrics Business and Market Size Determination" (Investment Bridge made the graph based on the raw data provided by Sangetsu.)

(Source: the company)

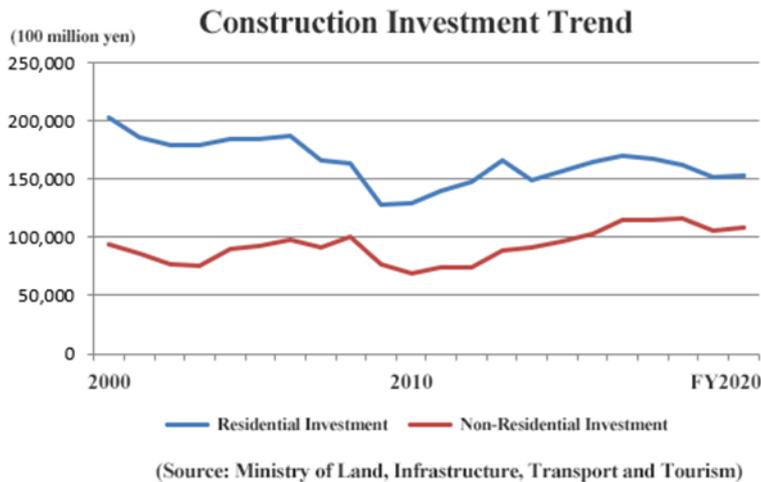
At the same time, the graph below shows the correlation between net sales of Sangetsu relative to net sales of the Japanese interior market and new housing starts (Ministry of Land, Infrastructure, Transport, and Tourism data).

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 term ended March 2021, sales dropped for the first time in 11 terms due to the novel coronavirus, but in the term ended March 2022, sales grew, and in the term ended March 2023, sales hit a record high.



* FY1999=100 Investment Bridge made the graph.

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



According to the “Outlook for investment in construction in FY2021” released by the Ministry of Land, Infrastructure, Transport and Tourism, both private-sector residential construction investment and private-sector non-residential construction investment were on the way to recovery after the collapse of Lehman Brothers, but private-sector residential construction investment has been reaching peaks since FY2017, and private-sector non-residential construction investment, which had been above the 2000 level, has been flat.

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

In addition, according to “Outlook for investment in construction based on a construction economy model” released by Research Institute of Construction and Economy on April 12, 2023, nominal private investment in non-housing construction increased steadily through fiscal 2019, then declined considerably by 9.2% (estimated) in fiscal 2020 due to the coronavirus pandemic, but is expected to grow 3.0% (estimated) in fiscal 2021, 11.3% (forecast) in fiscal 2022, and 4.7% (forecast) in fiscal 2023 showing a recovery.

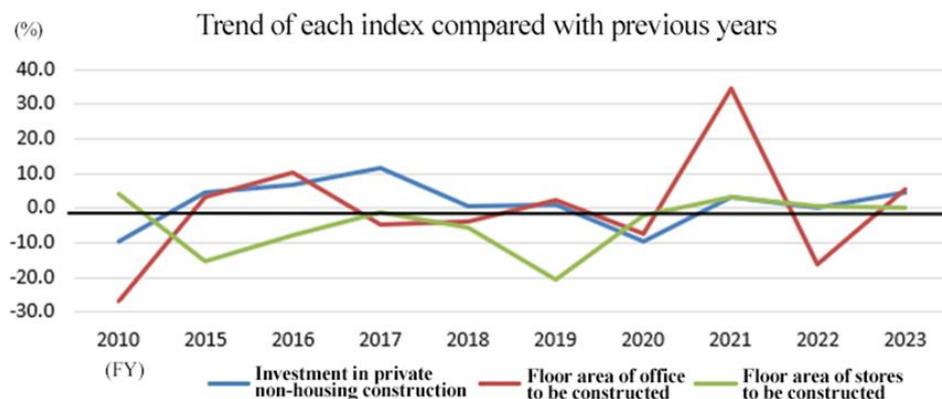
Floor areas of facilities to be constructed

*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, the floor area of new housing is expected to be healthy, increasing 3.7% year on year. They mentioned, “While there are concerns over the impact of the skyrocketing of prices of building materials, etc., investors’ willingness to invest is strong and they keep investing in mainly large-scale redevelopment projects in the Tokyo Metropolitan Area, so the floor area of new housing 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 mentioned, “The rise in sales costs hindered investment, but the investment in construction in the fields of wholesale, retail, etc. is still expanding, so the number of stores is projected to remain stable thanks to the continuous investment in the thriving retail industry.”



*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)

According to “Outlook for investment in construction based on the construction economy model” (announced on April 12, 2023), it is mentioned that “We forecast that the number of repairs in the private sector will decline year on year in FY 2022. In FY 2023, it can be expected that the number of repairs will increase steadily in not only the private non-residential field, where investment was sluggish during the coronavirus pandemic, but also the residential field, because the needs for spaces suited for new lifestyles will grow.” The demand for renovation and refurbishing is expected to be healthy.

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.	94,000	+15.0%	1,100	+893.9%	1.2%	16,685	68.8	0.5	1.0%
4206	Aica Kogyo Co., Ltd.	250,000	+3.3%	21,500	+4.6%	8.6%	208,787	15.0	1.4	6.9%
4215	C.I.TAKIRON Corporation	154,000	+5.7%	7,800	+34.7%	5.1%	51,508	10.3	0.6	2.7%
4224	Lonseal Corporation	21,100	+7.9%	600	+5.5%	2.8%	6,137	13.6	0.3	2.5%
5956	TOSO COMPANY, LIMITED	21,800	+2.4%	550	-23.6%	2.5%	5,260	13.4	0.3	2.7%
7971	TOLI Corp.	99,500	+4.5%	3,600	+1.9%	3.6%	20,516	7.0	0.5	6.5%
7989	TACHIKAWA CORPORATION	42,800	+3.6%	4,070	+6.5%	9.5%	26,369	8.9	0.6	5.8%
8130	Sangetsu Corporation	183,000	+4.0%	15,000	-26.0%	8.2%	142,376	13.4	1.5	15.3%
9827	Lilycolor Co., Ltd.	35,700	+7.4%	870	-46.4%	2.4%	7,419	16.4	0.9	13.3%

*Unit: million yen, times. Estimates are from those of the respective companies this term. Total market capitalization, PER and PBR are based upon the closing share price of each stock in June 9, 2023. ROE is based on the previous term.

【1-4 Business Description】

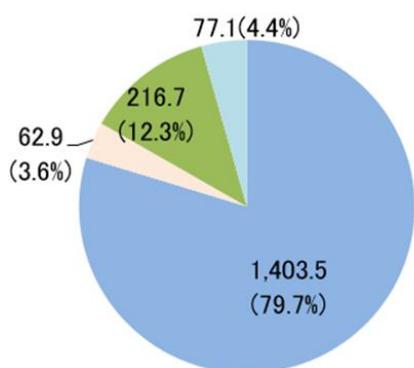
The main businesses include planning, development, and sales of wallcoverings, flooring materials, curtains, upholstery and other interior products. Although Sangetsu is fabless except for some products, it is not a typical trading firm as all the products it sells are planned, designed and developed in-house. Sangetsu also provides exterior products through its subsidiary. The Overseas Segment is operated by three subsidiaries located in the U.S., Singapore, and China/Hong Kong.

The company has 4 business segments, which are Interior Segment, Exterior Segment, Overseas Segment, and Space Creation Segment. From the term ending March 2024, the company will use the three new segments: “Domestic Interior,” “Domestic Exterior,” and “Overseas” Segments.

Before the change	After the change	Related group companies
Interior	Domestic Interior	CREANATE Inc. FAIRTONE COMPANY, LIMITED. Sangetsu Vosne Corporation Sangetsu Okinawa Corporation Kurosukikaku, Corporation
Space Creation		
Exterior	Domestic Exterior	Sungreen Co., Ltd.
Overseas	Overseas	Koroseal Interior Products Holdings, Inc. Goodrich Global Holdings Pte., Ltd. Goodrich Global Limited

(Source: the company)

Sales by Business Segment
(FY3/23, Unit: ¥ 100mn)



■ Interior ■ Exterior ■ Overseas ■ Space Creation

*Sales to external clients

①“Interior Segment”

◎Main Products

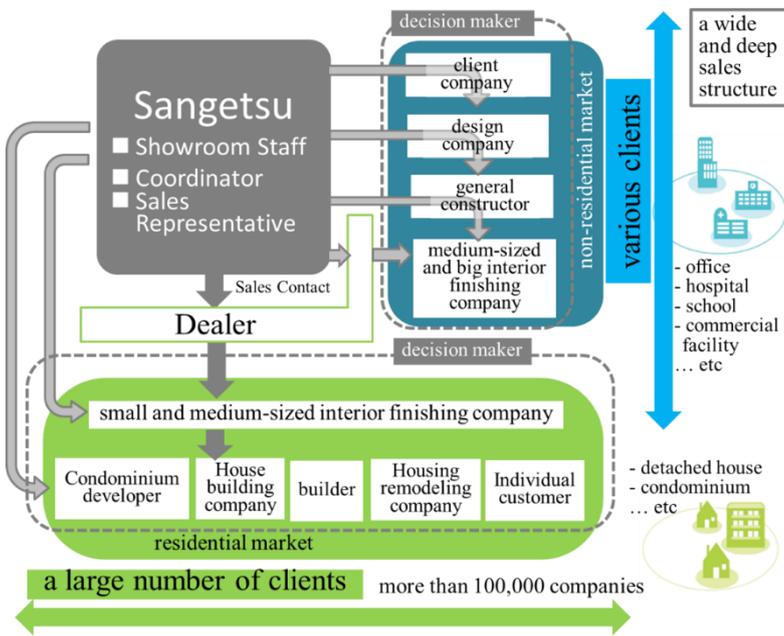
Wallcoverings	Sangetsu’s main product, used in a wide range of residential and non-residential applications. High functionality products have become popular in recent years that are resistant to staining, odor absorbing, and scratch resistant. The product lineup also includes antiviral wallcovering. Also, “Accent Wall” a wallcovering with colorful designs being used to decorate one full wall or a part of a wall in homes, adds an appeal to the living space, and is increasingly adopted in general residences and rental residences.
Cushion Vinyl Sheet	Sheet formed flooring materials that are used in both residential and retail store applications, and commonly used in apartments and condominiums. They boast of wood grain, stone, and a wide range of other motif designs and have cushioning function for use in a wide range of applications.
Vinyl Sheets	Sheet formed flooring materials used in commercial applications including medical and welfare institutions, and educational institutions. This product boasts of high levels of safety and hygiene, and is designed to reduce maintenance costs, thanks to the excellent maintenance properties, such as the unnecessary of waxing. It also has been designed with the environment in mind and helps to reduce the environmental burden.
PVC Tiles	Tile formed PVC flooring which has a wide range of applications, is used in commercial facilities, educational institutions, detached houses and apartments. One feature is its high design, in which the materials used as motifs such as wood and stone are expressed through high-tech printing technology and precise embossing.
Carpets	Textile flooring materials used in a wide range of applications including ryokans (i.e. Japanese inns), hotels, residential and commercial facilities. Manufactured with variety of designs and high functionality. It also proposes original designs to each property.
Carpet Tiles	A square-shaped-tile-like carpet with a length of 50 cm, which is used mainly for offices, hotels, commercial facilities, and educational institutions It excels in its feature of easy installation and superior maintenance.
Curtains	All of the curtains sold by Sangetsu are custom made and boast of the ability to create unique designs and custom sizes of curtains to match room decorations in which they are used. In addition to highly fashionable designs and heavy materials, mirror-like insulating characteristic lace curtains, which make it difficult to see inside from the outside and reduce the amount of heat transferred into the rooms, have also become popular.

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 2-3 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 9 regional offices and 50 sales offices throughout Japan, with 8 of these sales offices also hosting showrooms as important sales offices.



(Source: the company)

The downstream interior finishing process includes the final delivery of products, booking of sales, and receipt of cash. The main customers are interior construction companies and interior and building material shops that are serviced through dealers. Furthermore, public relations and advertising for products at the start of the process are also very important. By the time the residence or building is completed, a large number of players such as the client (facility owner), design office, design office, general contractor, subcontractor, residential manufacturer, etc. are involved, and the interior is finally selected from design and function. In many cases, decision making starts upstream.

Therefore, Sangetsu conducts public relations and advertising for its products through its sample books, showrooms, and others. In addition to these “passive” sales activities, Sangetsu also conducts “proactive” sales of its products through its 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.,(Incorporated in April 2023)” 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】

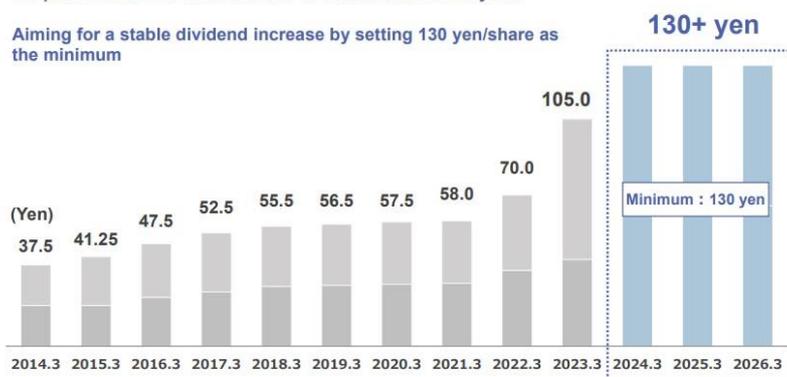
According to the new Medium-term Business Plan “BX 2025,” their capital policies are “to have a net worth of 95-105 billion yen at the end of March 2026 (95.7 billion yen as of the end of March 2023),” “to return profit to shareholders mainly by paying dividends and aim to keep increasing the dividend amount while setting the lower limit of the annual dividend amount at 130 yen/share,” and “to consider the acquisition of treasury shares according to the market situation.”

1) Shareholder Return Policy

(2) Changes in Dividends

We plan to increase dividends for 10 consecutive fiscal years

Aiming for a stable dividend increase by setting 130 yen/share as the minimum



(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	FY 3/23
ROE (%)	4.6	3.7	5.6	6.0	4.2	3.5	1.5	5.1	0.3	15.3
Net income margin (%)	4.14	3.33	4.77	4.84	2.89	2.23	0.89	3.29	0.19	7.96
Total asset turnover [times]	0.93	0.91	0.95	0.88	0.91	0.94	0.96	0.90	1.01	1.13
Leverage [times]	1.20	1.21	1.24	1.41	1.60	1.67	1.74	1.73	1.69	1.70

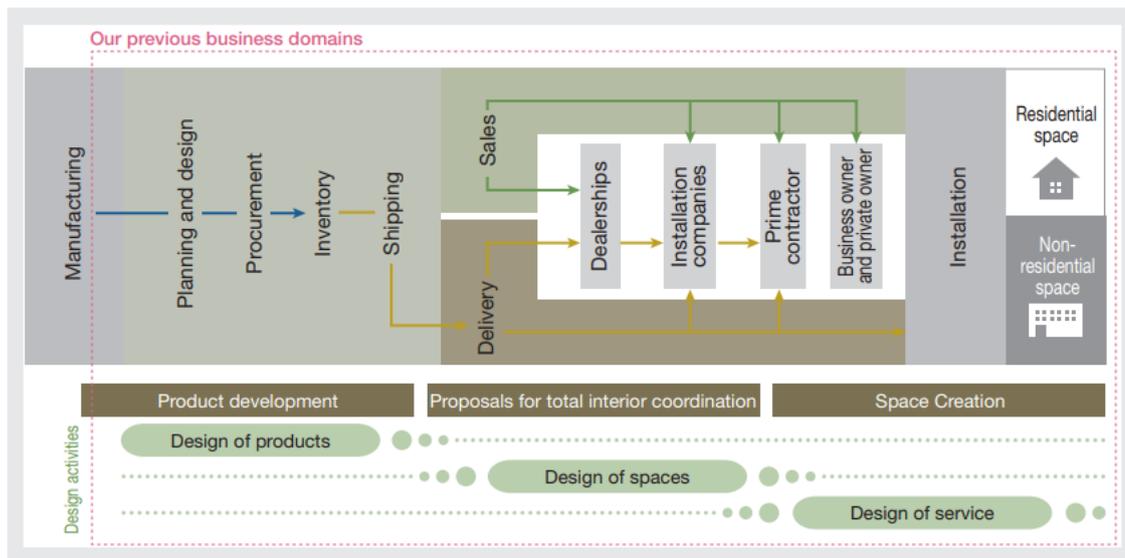
Through the price revision, net income margin improved significantly, and ROE considerably exceeded 8%, which is said to be the value Japanese enterprises should pursue.

【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.>

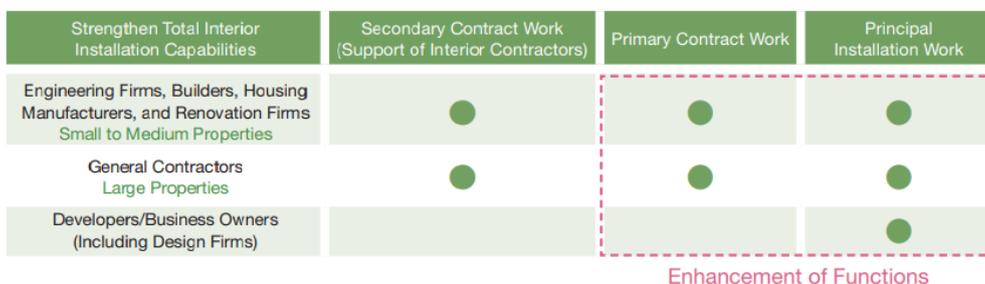
Residential design staff (proposing designs mainly in the residential market)	30 members
Contract design staff (proposing designs mainly in the non-residential market)	40 members
Space creation design staff (giving comprehensive proposals for design and installation mainly in the non-residential market)	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.

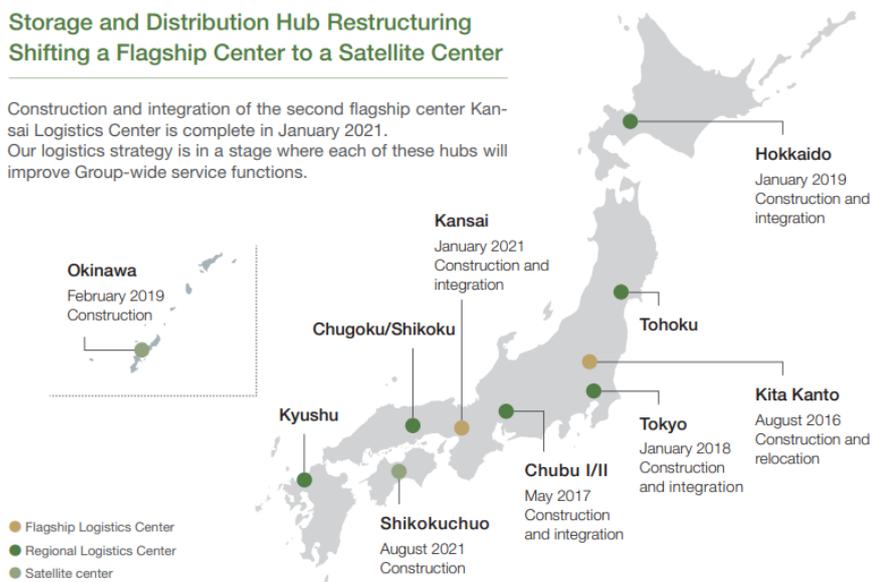
Stable inventory, a timely shipment system, and a meticulous delivery system are indispensable for maintaining and strengthening their business structure, so they will implement various measures actively.

<Major resources, etc.>

800 specialists or outsources
8 flagship/local LCs, 236,000 m ²
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. Fiscal Year ended March 2023 Earnings Results

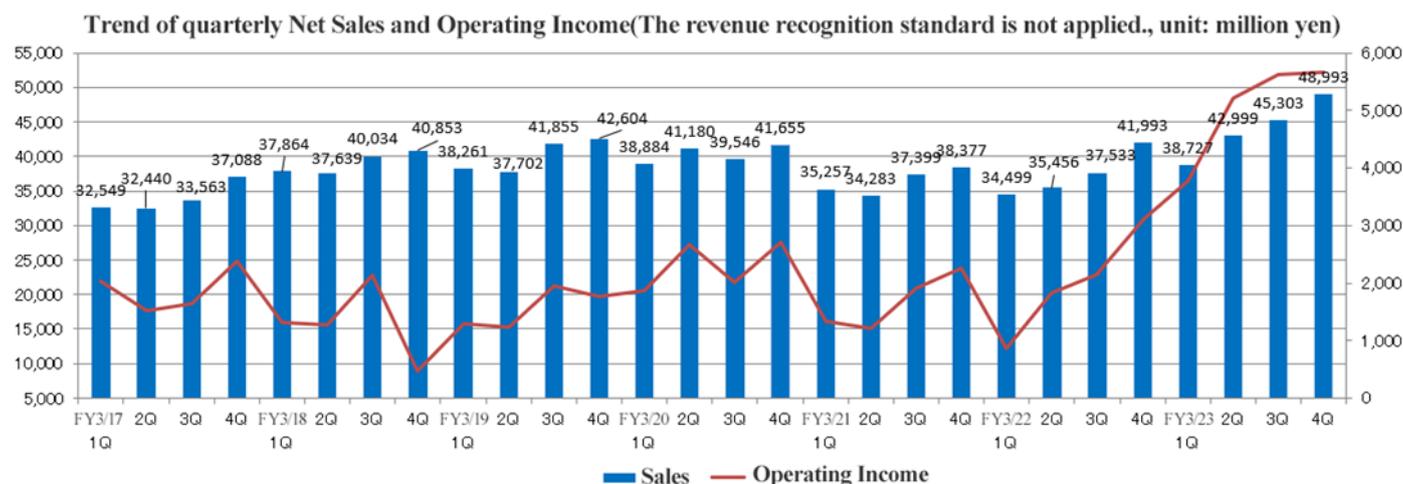
[2-1 Earnings Results]

	FY 3/22	Ratio to sales	FY 3/23	Ratio to sales	YoY	Ratio to revised forecast
Net Sales	149,481	100.0%	176,022	100.0%	+17.8%	+1.2%
Gross profit	39,962	26.7%	56,374	32.0%	+41.1%	+0.7%
SG&A	32,002	21.4%	36,094	20.5%	+12.8%	+0.3%
Operating Income	7,959	5.3%	20,280	11.5%	+154.8%	+1.4%
Ordinary Income	8,203	5.5%	20,690	11.8%	+152.2%	+0.9%
Net Income	276	0.2%	14,005	8.0%	-	+3.7%

*Unit: million yen. Net income attributable to owners of the parent. Ratio to revised forecast announced in February 2023.

Double-digit sales growth and substantial profit growth, with record-high sales and profits

In the term ended March 2023, sales grew 17.8% year on year to 176 billion yen and operating income rose 154.8% year on year to 20.2 billion yen. Through the third price hike in October 2022 following the first price hike in September 2021 and the second price hike in April 2022, the profitability of the interior business improved considerably. The loss in the overseas segment shrank. Sales and profit exceeded the earnings forecast that was revised upwardly twice and announced in February 2023, and hit a record high.



【2-2 Business Segment Trends】

	FY 3/22	FY 3/23	YoY
Net Sales			
Interior Segment	123,042	141,949	+15.4%
Wallcovering Materials business	62,337	73,503	+17.9%
Flooring Materials business	44,881	52,154	+16.2%
Fabric Materials business	8,612	9,514	+10.5%
Others	7,210	6,776	-6.0%
Exterior Segment	5,823	6,293	+8.1%
Overseas Segment	15,930	21,670	+36.0%
Space Creation Segment	6,579	7,746	+17.8%
Adjustments	-1,893	-1,638	-
Total	149,481	176,022	+17.8%
Operating Income			
Interior Segment	9,097	20,504	+125.4%
Exterior Segment	541	450	-16.8%
Overseas Segment	-1,821	-1,065	-
Space Creation Segment	139	391	+179.9%
Adjustments	2	0	-
Total	7,959	20,280	+154.8%

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

① Interior Segment

Sales and profit increased.

Transaction prices were revised, and new prices were used from April 1 and October 1, 2022 in the wallcoverings, floorcoverings, and fabrics businesses. As a result, both sales and operating income grew.

The sales quantities of major products of Sangetsu, such as wallcoverings and PVC sheet flooring materials, decreased in the wake of the price hike, and their market share shrank, but within a sound range in terms of revenues. The company aims to expand its market share based on its product competitiveness and service provision capacity.

<Wallcoverings>

Sales increased.

Due to the decrease in floor area of new housing, the performance of the entire market was declining, but “SP,” mass-produced wallcoverings for housing, sold well. “FAITH,” a sample book of certified non-flammable wallcoverings for non-residential facilities published in November 2022, was adopted for not only non-residential facilities, but also housing, so sales grew immediately after the publication. “CLEAS,” a sample book of glass films, and “REATEC,” a sample book of decorative films with adhesives, were shared by sales divisions, and performed well.

<Flooring materials>

Sales increased.

Thanks to the demand in the commercial and restaurant fields in urban areas and the robust housing renovation market, the sales of “FLOOR TILE,” a sample book of PVC floor tiles that can be used broadly in the housing and non-housing fields, were healthy. “NT700,” a sample book of carpet tiles including products with low environmental burdens, met the market needs for environmental friendliness, and was adopted mainly for offices. In addition, the sales of “DT” and “carpets” grew, thanks to the recovery trend of demand in hotels. In January 2023, the company published “S Floor,” a sample book of flooring materials for facilities, and enriched low-priced strategic products.

<Fabrics>

Sales increased.

As a downward trend was seen in the entire curtain market, the business environment was severe, but in the housing market, “STRINGS,” a sample book of curtains, drove sales, and in February 2023, the company published “AC,” a sample book of curtains for houses, and conducted sales promotion for distributing it in the market. The company revised the selling price of the new sample book “AC” to improve profitability. Sangetsu Vosne Corporation, which carries out the BtoC business, conducted marketing activities through the EC business and the sales business for builders.

<Other>

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

② Exterior Segment

Sales increased and profit decreased.

The housing section was sluggish, because of the stagnation of new housing starts, but sales promotion campaigns commemorating the 50th anniversary of establishment of Sungreen Co., Ltd., marketing activities focused on renovation, etc. turned out to be effective, and sales grew. The non-housing section performed well during the period of peak demand at the end of the fiscal year, and a lot of large fences, perimeter fences, etc. were completed, indicating some progress in the space creation field. As the company increased human resources and promoted specialized personnel based on growth strategies, sales increased, but profit declined due to the augmentation of SGA through the measures for increasing human resources.

③ Overseas Segment

Sales increased, and loss decreased.

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

<North American market>

The market was on a recovery track due to the resumption of economic activities, but the decline in the construction market due to the rise in interest rate was seen. Under such an environment, their original wallcoverings, for which Sangetsu enhanced design development, were highly evaluated in the market and sold well. In the wall protection material business, in which the company discontinued some products, revenues improved, and the delivery to large-scale medical properties outside Japan contributed to sales. The factors in decreasing revenues include the decline in production efficiency due to the drop in production output for inventory adjustment and the augmentation of SGA due to the rise in performance-linked bonuses.

<Southeast Asian market>

As the restrictions on transportation for coping with COVID-19 were lifted, the economic activities in each country got on a recovery track. As a result, suspended construction works were resumed, and the sales of 100% subsidiaries in Thailand and Vietnam, which were acquired in 2020, increased significantly, indicating healthy performance at each business base. The company adopted new marketing support and customer management systems and enhanced marketing for global specs, to cement inter-regional cooperation.

<Chinese and Hong Kong Markets>

The situation remained severe, as there were lingering effects of rigorous lockdowns and restrictions on travel of sightseers in each region, leading to the postponement of construction of properties. In this situation, the company steadily implemented measures looking ahead to the post-pandemic period, such as the reform of the marketing system for improving profitability and the online session for announcing new products of Koroseal, which is a group company in North America.

④ Space Creation Segment

Sales and profit increased.

Fairtone Co., Ltd., which mainly engages in renovation works, saw healthy sales, thanks to the demand for office renovation mainly in the Tokyo Metropolitan Area. The increase of human resources in cooperation with the marketing department of Sangetsu turned out to be effective, increasing new clients.

【2-3 Financial standing and cash flows】

◎Main BS

	End of Mar.22	End of Mar.23	Increase/Decrease		End of Mar. 22	End of Mar.23	Increase/Decrease
Current Assets	87,525	104,843	+17,318	Current Liabilities	40,758	56,565	+15,807
Cash, Equivalents	18,347	24,817	+6,470	Payables	27,791	30,856	+3,065
Receivables	50,175	56,209	+6,034	Short-Term Debt	2,077	9,041	+6,964
Marketable Securities	300	300	0	Noncurrent Liabilities	18,857	12,063	-6,794
Inventories	17,722	20,925	+3,203	Long-Term Debt	8,018	1,413	-6,605
Noncurrent Assets	60,417	59,610	-807	Total Liabilities	59,616	68,629	+9,013
Tangible Assets	35,285	36,825	+1,540	Net Assets	88,326	95,825	+7,499
Intangible Assets	4,058	3,512	-546	Retained earnings	54,537	64,138	+9,601
Investments, Others	21,073	19,273	-1,800	Treasury Stock	-907	-849	+58
Total Assets	147,943	164,454	+16,511	Total Liabilities, Net Assets	147,943	164,454	+16,511
				Capital Adequacy Ratio	59.4%	58.2%	-1.2pt

*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.

Total assets swelled 16.5 billion yen from the end of the previous term, due to the increases in cash & deposits, trade receivables, inventories, etc.

Total liabilities swelled 9.0 billion yen, as accounts payable, short-term debt increased.

Net assets swelled 7.4 billion yen, due to the rise in retained earnings. As a result, capital-to-asset dropped 1.2 points from the end of the previous term to 58.2%. Long- and short-term debt increased 0.3 billion yen to 10.4 billion yen.

【2-4 Topics】

◎ Initiatives for sustainability

①Environment

The company developed products for realizing a sustainable society, and increased products with low environmental burdens, including “MEGUReWALL,” a wallcovering made of recycled resources, “NT700 Fiber Eco,” a carpet tile, and “&ECO,” a curtain, in all categories of walls, floors, and fabrics. The company strove to expand the recycling capacity at “Sangetsu Sample Book Recycling Center” and actively participated in environmental protection activities where employees took important roles.

For reducing GHG emissions, the company implemented measures for reducing Scope 1 and Scope 2 emissions, and directly visited suppliers to confirm their environmental measures and gave advice for improvements with the aim of reducing Scope 3 emissions, which account for a significant proportion of GHG emissions from the Sangetsu Group.

②Social participation

The company kept supporting the interior remodeling of orphanages while implementing measures against COVID-19. The number of such cases was 55 in FY 2022, and amounted to 187 for the cumulative period from 2014. For diversity & inclusion, the company strove to improve the ratio of female managers and the ratio of disabled employees, and improved the working environment so that diverse personnel can flourish a broad range of organizations. The company engaged in a wide range of activities, including the cooperation with an NPO that supports children in developing countries, the participation in projects based on business-academia collaboration, and the holding of seminars for deepening the understanding of LGBTQ.

③Improvement in value of human resources

The company adopted a job-based appointment system for managerial positions through the reform of human resources systems, to establish an organization where the fairness of duties and remuneration is emphasized and employees can envision diverse career paths and take on challenges. The company was certified as an “Excellent Corporation in Health-oriented Management 2023,” because its long-term efforts based on its policy for health-oriented management, including the health guidance and improvements in living habits after health checkups of employees. The company was certified five times for 4 consecutive years.

④Disclosure

The company received the Silver (Excellent) Award at “Sustainability Award 2023,” which is hosted by Association for Sustainability Communication, for Sangetsu’s sustainability site in January 2023, because the active disclosure of information on sustainability was recognized.

3. Fiscal Year ending March 2024 Earnings Forecasts

【3-1 Earnings Forecasts】

	FY3/23	Composition ratio	FY3/24 (Est.)	Composition ratio	YoY
Net Sales	176,022	100.0%	183,000	100.0%	+4.0%
Gross profit	56,374	32.0%	53,500	29.2%	-5.1%
SG&A	36,094	20.5%	38,500	21.0%	+6.7%
Operating Income	20,280	11.5%	15,000	8.2%	-26.0%
Ordinary Income	20,690	11.8%	15,400	8.4%	-25.6%
Net Income	14,005	8.0%	10,500	5.7%	-25.0%

*Unit: million yen.

Increase in sales and decrease in profit forecast

For the term ending March 2024, sales are expected to rise 4.0% year on year to 183 billion yen and operating income is projected to drop 26.0% year on year to 15 billion yen. While sales are forecast to grow thanks to the recovery of sales quantities and the improvement in the overseas business, profit is projected to decline due to the augmentation of costs, including procurement prices, distribution costs, and personnel expenses. The reflection of the rise in costs in prices is not assumed as of now. The company plans to pay a dividend of 130.00 yen/share, up 25.00 yen/share from the previous term, increasing the dividend amount for the 10th consecutive term. The expected payout ratio is 72.7%.

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



【3-2 Business Segment Trends】

From the term ending March 2024, the company will use the new segments to be reported: “Domestic Interior,” “Domestic Exterior,” and “Overseas.”

	FY3/22	FY3/24 (Est.)	YoY
Net Sales			
Domestic Interior	147,987	153,500	+3.7%
Domestic Exterior	6,293	6,700	+6.5%
Overseas	21,758	22,800	+4.8%
Adjustment	-17	-	-
Total	176,022	183,000	+4.0%
Operating Income			
Domestic Interior	21,096	14,600	-30.8%
Domestic Exterior	450	400	-11.2%
Overseas	-1,263	0	-
Adjustment	-2	-	-
Total	20,280	15,000	-26.0%

*Unit: million yen. *The results for the term ended March 2023 are the reference values recalculated under the new segments.

4. Medium-term Management Plan (2023-2025) 【BX 2025】

On May 12, 2023, the Sangetsu Group reviewed its long-term vision “DESIGN 2030” for the year 2030, which was announced in May 2020, and formulated a three-year Medium-term Business plan (2023-2025) “BX 2025,” which will end in FY 2025.

【4-1 Background to the Revision of the Long-Term Vision and the Formulation of the New Medium-Term Business Plan】

In May 2020, Sangetsu Group announced its long-term vision "DESIGN 2030" as well as its Medium-term Business Plan (FY2020-FY2022) "D.C. 2022" and has steadily implemented separate measures based on four basic policies.

As a result, the company has been able to significantly exceed the profitability targets for sales and profits set in the long-term vision “DESIGN 2030.” During these three years, the market declined significantly due to the COVID-19 pandemic, and Koroseal in the United States recorded a large impairment loss, which also affected the company. However, the company perceives that its business foundation and profitability have greatly expanded and strengthened.

On the other hand, the global economy has recovered from the impact of the COVID-19 pandemic, but it is still facing increasing unpredictability and uncertainty due to widening inequalities, growing geopolitical instability, the growing urgency to address global warming, and financial instability.

In light of these circumstances, the corporate group has once again reviewed its long-term vision "DESIGN 2030" and formulated a new Medium-term Business Plan "BX 2025" to achieve long-term growth.

A task force composed of mainly group employees is currently reviewing the corporate philosophy.

【4-2 Review of the previous Medium-term Business Plan (2020-2022) “D.C. 2022”】

(1) Results: Implemented measures and outcomes

1. To expand earnings through qualitative growth of core business	<ul style="list-style-type: none"> Strengthened the product portfolio by launching products with low environmental burdens, increasing low-priced products, etc. Established a strategic procurement system, through the acquisition of CREANATE Inc. and decisions on new factory construction Enhanced a community-based sales structure and improved the customer acquisition ability through development of a nationwide customer follow-up system Established a flagship logistics center, which is a large-scale inventory hub, operated regional satellite logistics centers, and developed a nationwide distribution network Expanded the sale of curtains to customers
2. To secure profitability in next-generation business based on resources of core business	<ul style="list-style-type: none"> Strengthening of spatial design and construction management capabilities in both interior and exterior fields Improvement in the renovation capability through the acquisition of HEKISOU Co., Ltd., a leading construction company in the Tohoku region Reorganization of the business structure in Southeast Asia, China, and Hong Kong
3. To strengthen management and business foundations	<ul style="list-style-type: none"> Adoption of a job-based personnel system, a salary system for managerial positions
4. To improve revenues through three price revisions	-

(2) Results: Quantitative Results**① Financial Indicators**

	FY 3/23	Reference: Record high	【D.C. 2022】 Target	【DESIGN 2030】 Target
Net Sales	1,760.2	1,612 (FY 2019)	1,620	2,250※
EBITDA	246.8	140 (FY 1996)	-	-
Operating Income	202.8	125 (FY 1996)	120	185
Net Income	140.0	65 (FY 2016)	85	-

*Unit: hundred million yen

*The sales target before the revision of "DESIGN 2030" was set without the application of accounting standards for revenue recognition.

Under the new structure launched in FY 2014, the investments made under the two Medium-term Business Plans "Next stage Plan G" and "PLG 2019" created positive results in "D.C. 2022," and the company achieved improved profitability based on the strengthening of its business foundation and service functions.

Operating income exceeded the long-term target of "DESIGN 2030" of 18.5 billion yen.

	FY 3/23	【D.C. 2022】Target
ROIC	16.5%	9.0%
ROE	15.3%	9.0%
CCC	77.1 days	65 days

All targets were achieved except for CCC, which fell short of its target due to the lengthening of the accounts payable turnover period and inventory turnover period.

② Non-financial Indicators

Targets for the global environment, human capital, and social capital were achieved as follows.

GHG emission reduction targets in Scopes 1 and 2 were achieved.

(1) Global environment

- Scopes 1 & 2 GHG emissions reduction Target 30% → 30.1% **Achieved**
- Reduction of energy consumption Target 4% → 3.5% **Not achieved**
- Reduction of total waste disposal Target 4% → 9.55% increase **Not achieved**
- Recycling rate Target: 83% → 86.4% **Achieved**
- Establishment of a new sample book recycling center
- Recycling results in FY 2022: 77,262 books

(2) Human capital

- Employment of people with disabilities Target 4% → 3.91% **Not achieved**
- Non-smoking rate Target: 82% → 81.1% **Not achieved**
- Ratio of female managers Target: 20% → 20.1% **Achieved** (*Assumed figure after the transfer on July 1, 2023)

(3) Social capital

- Renovation of orphanages Target: 30 projects/year → 55 projects/year **Achieved**
- Matching gift Target: 13,000 S-miles → 15,129 S-miles **Achieved**

(Source: the company)

③ Capital Policy and Shareholder Returns***Shareholders' equity**

The goal was to maintain shareholders' equity in the range of 90-95 billion yen, while it was 93.24 billion yen as of the end of March 2020, but it slightly went beyond the range, standing at 95.74 billion yen at the end of March 2023.

***Fund Allocation**

The company planned to allocate "20-26 billion yen" for growth investment, but the actual amount was 15.86 billion yen, falling short of the target by 5-10 billion yen.

***Shareholder Returns**

Total shareholder return over the three-year period was 16.92 billion yen. Total return ratio was 88.8% compared to the policy of approximately 100%.

(3) Recognition of Issues

After completing the previous Medium-term Business Plan "D.C. 2022," the following issues have been recognized.

◎ Direct external environment

- * Stagnation of sales volume of existing mainstay products, such as wallpaper, which has a high market share in the Japanese market
- * Aging of renovation workers and the manifestation of insufficient renovation capabilities
- * Problems with logistics in small-lot and heavy-lift deliveries in 2024
- * Continuous increases in raw material, distribution, and labor costs
- * Demand for recycled and other products with low environmental burdens in the general-purpose price range

◎ Internal issues

- * Limited products they deal in
- * Brand development capability to support unique product design capabilities
- * Establishment of a system to integrate management of products, logistics, construction, sales, and administration
- * Specialized capabilities in spatial design, renovation management, estimation, procurement, and proposal
- * Exterior business limited by geography and scale
- * Overseas operating companies' ability to propose space designs, supply products in a short period of time, support renovation, and design products
- * Increase in SG&A expenses due to implementation of business transformation
- * Employees' mindset change, employee engagement, compliance, and increase of non-regular employees
- * Low investment in human capital, including education and training.

【4-3 Review of Long-Term Vision "DESIGN 2030"】

The long-term vision "DESIGN 2030" sets the goal of "Sangetsu Group becoming a Space Creation Company," and clearly states the approach to be taken to transform the company into a Space Creation Company.

While there is no change in the basic concept or strategy that forms the basis of the plan, the wording of the approach to achieving the long-term vision has been partially changed in light of the progress made in terms of measures and earnings during the period of the previous Medium-term Business Plan, to clarify the image of a Space Creation Company, and to examine the business beyond that point. Also, the earnings target of the long-term vision "DESIGN 2030" was achieved in the FY 2022 financial results, a new quantitative target was set.

(1) Changes in "Approach toward Becoming a Space Creation Company"

The wording of the "Approach toward Becoming a Space Creation Company" announced in May 2020 shall be changed as follows:

	Old	New
Management and Business Foundations	Diverse professionals	Diverse human capital
	Linkage and utilization of business-related data	Cooperation and utilization of digital capital
Main Function	Complete shift to service-oriented sales business Business in which services generate added value	Providing solutions Business that organically integrates functions of space design, products, delivery, logistics, and construction to provide solutions



(2) Clarification of the desired image of a Space Creation Company

The company will clarify the image of the Space Creation Company that the company aims to become in the long-term vision "DESIGN 2030" as follows:

“An enterprise that provides high value globally in space creation based on its capability of offering solutions by organically integrating four functions with their designing skills and creativity based on human capital and digital capital”

<Four Functions>

- * A function to propose attractive space designs based on concepts that are optimal for each market
- * A space material supply function with advanced planning, development, and procurement capabilities, to propose a wide range of products

- * A function for inventory, delivery, and logistics, which enables fast delivery to a wide area without stockout.
- * A renovation function with scale, comprehensiveness, and agility, achieved through various businesses, human relationships, and corporate collaboration

(3) Strategy for further growth: Strengthening solution providing capability

In addition to strengthening the platform as a Space Creation Company, the Sangetsu Group will develop a growth strategy in further products, fields, and regions.

The company will focus on enhancing solution offering capability for spatial design, material supply, logistics, delivery, and construction.

Specifically, the company will work on "maintaining and improving the revenues from major products and businesses," "strengthening medium-sized products," "developing new markets with new products," "strengthening the exterior field," and "expanding overseas business" from "BX 2025" with a view to "DESIGN 2030."

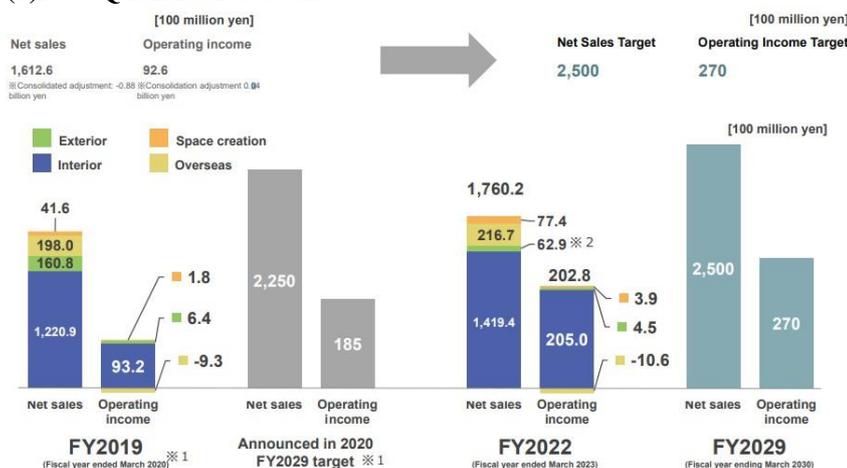
(4) Expansion into Space Operation Business as the next step beyond a Space Creation Company

While the company has confirmed the expansion of its revenue base and the stability of its earnings by converting into a Space Creation Company, it has also recognized the need to further develop its business beyond being a Space Creation Company in order to achieve even greater growth.

As a Space Creation Company, the company designs, proposes, and provides spaces that bring joy and comfort to people, and they need to think about and envision how people spend their time in these spaces. In other words, space creation means thinking about what kind of space to provide and how people will use the space, and the company believes that this is connected to considering how the operation of the space will be carried out.

In this sense, the company believes that beyond the space creation business, there is the possibility of a Space Operation Business, and it intends to study the possibility of developing into a Space Operation Business that combines the "space axis" with the "time axis."

(5) New Quantitative Goals



sangetsu

※1 Revenue recognition accounting standard not applied
 ※2 Revenue recognition accounting standard not applied: 16.07

©Copyright Sangetsu Corporation 27

(Source: the company)

The Sangetsu Group will promote "BX 2025" from this fiscal year to achieve the goal in the fiscal year ending in March 2030, and aim to expand into the Space Operation Business from a long-term perspective.

【4-4 Outline of Medium-term Business Plan “BX 2025”】

(1) Basic policy

“BX 2025” is positioned as a three-year period to prepare for the next leap forward, based on the aforementioned "recognition of issues" and to “improve the solution providing capability as a strategy for further growth.”

<Basic Policy>

To transform into a Space Creation Company with strong profitability and growth potential by strengthening and expanding solution offering capability that enhance the value of space creation.

In addition to business expansion in major products and markets, the company will expand its product lineup, exterior business, and overseas business.

In order to operate businesses that will enable further long-term growth, the company will examine the possibility of a Space Operation Business.

<New Organizational Structure>

In order to thoroughly implement this basic policy and strengthen and expand the company's solution offering capability, the company has changed its business divisions from a product-based structure to a business unit structure divided by region.

(2) Measures

The company has identified the following five areas: (1) supporting expansion, advancement, and active utilization of human capital; (2) accumulation, analysis, and utilization of digital capital; (3) strengthening the ability to provide solutions; (4) exterior and overseas businesses; and (5) enhancing social value.

① Supporting expansion, advancement, and active utilization of human capital

The company considers the strengthening of human capital to be the most important challenge, and is taking the following specific initiatives:

- * Assignment of HR personnel for each organization
- * Significant increase of diverse career hires and expansion of new graduate hiring
- * Expansion of education and training for strengthening expertise and business development capability
- * Improvement of remuneration and the working environment
- * Improvement of the ratio of non-regular employees and promotion of diversity

- To provide detailed support to each employee, the company has assigned HR personnel in charge of each organizational unit, rather than having a centralized HR department.

- The Sangetsu Corporation plans to hire 60-80 new employees over the next three years in areas such as space design, renovation engineering, information systems, logistics, and corporate departments. For this fiscal year, the company expects to hire 40 new employees.

- Within the Sangetsu Corporation, there is an expected 5% base salary increase, as well as bonuses based on performance, which should result in a 14.6% increase in salary compared to the previous year. The average annual salary is also expected to rise from 6.79 million yen in the previous year to 7.75 million yen.

- Through periodic questionnaire surveys targeted at employees, the company has found that while job satisfaction is declining, there is an increasing percentage of employees who see potential for growth and development within the company, and a growing number of employees who value a culture that emphasizes taking on new challenges.

Regarding job satisfaction, the company believes that the shift from individual-based evaluation and compensation to team-based evaluation and compensation for sales employees, who make up the majority of the workforce, has contributed to the decline. However, the company notes that perceptions are changing due to the improvements in treatment mentioned above.

② Accumulation, analysis, and utilization of digital capital

Specific measures are as follows:

- * Renovation of core systems for business model transformation
- * Promotion of information and data utilization for value chain transformation, including space design proposals
- * Improvement in efficiency and reliability of marketing and logistics through the utilization of sales and logistics data in collaboration with distributors
- * Improvement in business operations and digitalization of on-site operations

The most critical challenge is "Improvement in efficiency and reliability of marketing and logistics through the utilization of sales and logistics data in collaboration with distributors."

Currently, information and data are fragmented within the company's long value chain, and there is no integration between order data and logistics data. Therefore, it is difficult to track the locations of shipped goods.

To address this challenge, the company plans to link the data to improve transaction reliability and logistics efficiency. Additionally, the company plans to provide added value to consumers by supporting digital product selection.

③ Strengthening the ability to provide solutions

Specific measures are as follows:

- * Strengthening of space design and space proposal offering capability specialized for each market
- * To expand and upgrade the product lineup and strengthen brand development
- * Improvement and reinforcement of the product procurement system
- * To expand and strengthen the logistics system geographically and functionally
- * To establish large-scale swift interior decoration capability and construction management systems

- Sangetsu Corporation expects to increase the number of employees specializing in space design and planning, from 37 in FY 2019 to 86 in FY 2023 to 120 in FY 2025. The company aims to increase the number of engineers in charge of estimation, procurement, and construction management from 0 in FY 2019 to 5 in FY 2023 to 25 in FY 2025.

- The company is expanding its product lineup to include new items such as ceramics and exterior goods. The company is also working to strengthen its product design and brand development capabilities by introducing a new collection, "MORRIS CHRONICLES," which blends the William Morris design archives with modern lifestyles.

- The company tries to differentiate not only by product but also by strengthening functions and is expanding and strengthening its logistics capabilities, by expanding its same-day delivery network to distant areas, delivering heavy items, and providing a service function that can lift and distribute goods between floors.

The company is also expanding the number of staff members in charge of product delivery. The company plans to increase the number of delivery staff members from 13 at the end of FY 2022 to 40 by the end of FY 2023. Currently, the service is provided in Sapporo, the 23 cities of Tokyo, and Shikoku, but in FY 2023, the company plans to launch the service in Miyagi, Fukushima, and Nagoya, with plans to expand nationwide in FY 2025.

- In addition, the company plans to increase the number of construction management engineers (currently 13 first-class construction management engineers and 79 second-class construction management engineers) and workers (currently 1,250) in order to strengthen its interior finishing capability and construction management systems, and to strengthen cooperation between Sangetsu and Fairtone.

④ Exterior and Overseas Businesses

Specific measures are as follows:

- * To expand and upgrade the exterior business geographically and in scale.
- * To strengthen product and space design capabilities, the company will establish a quick-delivery supply system, strengthen renovation support capabilities, and build a sales system tailored to the market in order to shift to a space creation business in overseas operations.

- The exterior business has a 35% share of the market in the Chubu region, but its share in the Kanto region and nationwide is low at 2.0% and 6.5%, respectively. Therefore, the company will strengthen cooperation between the interior and exterior businesses. The company will use its interior design business base to boost sales activities in the exterior business, strengthen its ability to make proposals through collaboration between interior and exterior space design, and improve its renovation system. The number of exterior designers will be increased from 5 in FY 2022 to 30 in FY 2025.

- In overseas business, the company aims to strengthen its business in North America. The North American wallpaper market is small compared to the Japanese market, at about 1/30 of the volume, but the unit price is more than 10 times that of the Japanese market. In addition to product competitiveness, Sangetsu will improve the functions in which it excels in order to increase its share of the North American market, which currently stands at about 17%, and thereby efficiently expand earnings.

⑤ Enhancing social value

The company will promote the following measures regarding the environment and society.

<Environment>

- * Reduction of consolidated and non-consolidated GHG (Scope 1 & 2) emissions
- * To identify GHG (Scope 3) emissions and clarify measures to reduce emissions
- * To strengthen the development of products with low environmental burden
- * To promote recycling, including expansion of sample book recycling centers

The GHG (Scopes 1 & 2) emissions reduction targets are "28% reduction (consolidated) in FY 2026 (compared to FY 2021), 60% reduction (non-consolidated) (compared to FY 2018)" and "55% reduction (consolidated) in FY 2030 (compared to FY 2021), realization of carbon neutrality (non-consolidated)".

In addition to aiming to achieve carbon neutrality at the group's non-manufacturing companies, the company will promote initiatives to reduce its environmental impact, such as switching from heavy oil to liquefied natural gas (LNG) at its wallpaper manufacturing company CREANATE's new factory in Hiroshima.

<Society>

- * Promoting diversity, equity, and inclusion
- * Promoting activities to improve the living environment of children in foster care facilities
- * Continuous support for children in need, developing countries, and refugees

- Sangetsu plans to increase the ratio of female managers from the current 20.1% to 25.0% by the beginning of FY 2026, and to increase the ratio of employees with disabilities from the current 3.9% to 4.0% by FY 2025.

(3) Capital Policy**① Shareholder Return Policy**

- * To achieve shareholders' equity of 95 to 105 billion yen as of March 31, 2026 (95.7 billion yen as of March 31, 2023)
- * The main source of shareholder returns will be dividends, with the aim of steadily increasing the annual dividend per share to a minimum of 130 yen per share.
- * Consideration will be given to share buybacks depending on market conditions.

They plan to increase dividends for the 10th consecutive year in FY 3/2024.

② Funds allocation plan

The company plans to create and procure funds with cash and cash equivalents of 27 billion yen at the end of March 2023, an operating cash flow of 47-51 billion yen over the next three years, and a net change in borrowings of -8 to -6 billion yen over the next three years.

Based on this, the company plans to allocate 20-25 billion yen for growth investments and 25-35 billion yen for shareholder returns.

The major capital expenditures will be 8 billion yen for the CREANATE Hiroshima factory and 1.8 billion yen for logistics investments.

The company expects to have cash and cash equivalents of 20-25 billion yen at the end of March 2026.

(4) Quantitative Targets (KPI)**① Economic Value**

◎ Key Indicators

	FY 3/23	FY 3/26
Consolidated Net sales	1,760.2	1,950.0
Consolidated Operating income	202.8	205.0
Consolidated Net income	140.0	145.0
ROE	15.3%	14.0%
ROIC	16.5%	14.0%
CCC	77.1 days	65 days

*Unit: hundred million yen

◎ Targets in each segment

	FY 3/23	FY 3/26

BRIDGE REPORT



Net sales	1,760.2	1,950.0
Domestic Interior	1,479.8	1,590.0
Domestic Exterior	62.9	100.0
Overseas	217.5	260.0
Operating Income	202.8	205.0
Domestic Interior	210.9	187.0
Domestic Exterior	4.5	10.0
Overseas	-12.6	8.0

*Unit: hundred million yen

② Social Value

◎ Global Environment

<Reduction of environmental impact in business activities (Scopes 1 & 2)>

GHG emissions	Consolidated: 28% reduction (compared to FY 2021) Non-consolidated: 60% reduction (compared to FY 2018)
Energy consumption	Non-consolidated: 6.0% reduction (compared to FY 2018)
Recycling rate (effective utilization rate)	Non-consolidated: 90.0% or higher

◎ Human capital

<Health and skill development of employees, reform of corporate culture>

Non-smoking rate	85% or higher
Human capital investment	A total of 700 million yen over 3 years
Number of career hires	A total of 60-80 for 3 years
Satisfaction Index	77% or higher

*All figures are on a non-consolidated basis. The "satisfaction index" is the "job satisfaction affirmation rate" in the employee awareness survey.

<Promotion of Diversity and Inclusion>

Ratio of female managers	25.0% or higher (as of April 2026)
Ratio of employees with disabilities	4.0% or higher (as of March 31, 2026)
Percentage of male employees who took childcare leave	More than 2 weeks: 100%

*All figures are on a non-consolidated basis.

③ Social capital

<Participation in Communities>

Cost of renovation activities for children's foster care facilities	50 cases per year (consolidated)
Matching gift	Consolidated: 18,000 S-mile (*)
Social contribution activities including donations to external organizations	Consolidated: Donations are carried out continuously for specific organizations, allocating 0.3-0.5% of annual ordinary income.

*S-mile

"Sangetsu Group Matching Gift Program" is aimed at promoting social contribution activities. The program counts employees' social contribution activities and awards smile points (S-mile) based on the activity content. The points are converted into money and donated to NPOs and other organizations supported by the company.

Activities that meet the criteria include not only activities conducted by the company's volunteer club, but also personal activities such as support for welfare facilities, disaster victims, international exchange, community activities, youth education, and NPO support. The company supports activities so that employees nationwide can actively participate regardless of region.

5. Interview with President Yasuda

We interviewed President Shosuke Yasuda about the financial results for FY 2022 and the previous Medium-term Business Plan "D.C. 2022," the main points of the new Medium-term Business Plan "BX 2025," and his message to shareholders and investors.

Q: “It seems that the financial results for FY 2022, which was the final year of the Medium-term Business Plan “D.C. 2022,” have been very satisfactory. What do you think about these results?”

We were able to achieve all of the goals set in “D.C. 2022,” including business results and financial indicators, except cash conversion cycle (CCC). As you mentioned, the business results were very satisfactory.

Although it is true that the three price revisions had a significant effect, it was not simply because we were able to raise prices, especially for wallcoverings, in which we have a large market share, but it was also the result of our customers' evaluation of our comprehensive capabilities, including functions and services that we have long refined, such as product competitiveness, space proposing capability, and meticulous delivery capability. We believe that this is the result of our efforts since 2014 to strengthen our revenue base. Although we have decreased the market shares of some products due to price hikes, the extent of the decline is within a healthy range, and we believe it is well within our capability to regain the market shares by further strengthening our functions and services in the future.

On the other hand, since we achieved record-high sales and profits, we recognize the need to draw out our future growth strategy more clearly than ever before in order to meet the expectations of our stakeholders.

Q: “Keeping this in mind, you have revised the long-term vision “DESIGN 2030.” First of all, please tell us about the clarification of your image as a Space Creation Company and the concept of Space Operation Business that aims to go beyond a Space Creation Company.”

We define a Space Creation Company as “a company that provides high value in space creation globally through its solution providing capabilities that organically integrate four functions with design and creativity based on human and digital capital.” We will further strengthen our functions of space design proposal, space material provision, inventory, delivery and logistics, and renovation.

In addition, we believe that space creation companies design, propose, and create spaces that bring joy and comfort to people, and by offering and providing valuable and comfortable spaces that can be used continuously, we can link this to the provision of sustainable value and create a business such as space subscription.

I think it may take some time, but we will continue to consider the possibility of a “Space Operation Business,” spatial operations based on a “time axis” that goes beyond the “space creation business” based on a “space axis.”

Q: “Thank you. Next, please tell us about your reflections on the Medium-term Business Plan “D.C. 2022,” the recognition of issues, and necessary initiatives.”

◎ Implementation measures and results of “D.C. 2022”

Although we have been affected by COVID-19 over the past three years, we have been able to steadily implement the measures we needed to take, such as acquiring CREANATE Inc. to strengthen our wallpaper manufacturing system, completing our flagship logistics center, and developing a nationwide distribution network.

As a result of aggressive product planning and development, we were able to create a product line with considerable differentiation.

We have strengthened our spatial design and renovation management capabilities by hiring excellent personnel for both interior and exterior design and have gained recognition and understanding from our customers.

Although the overseas business continues to incur losses, we have completed reorganizing our business structure to focus on Southeast Asia and China.

In addition, in order to strengthen human capital, which is one of the most important measures going forward, we will adopt a job-based personnel system on April 1, 2022, and conduct major organizational changes on July 1, 2023.

◎ Recognition of current issues

In the Japanese market, stagnation in sales volume of existing flagship products such as wallpaper, which has a high market share, is inevitable. In addition, the external environment is facing a variety of challenges, including labor and renovation capacity shortages due to the aging population, the realization of the “2024 problem” due to the promotion of work-style reforms in logistics, continued rise in various costs, and the needs for recycled products and environmentally friendly products in the regular price range.

However, issues other than the numerical stagnation of the Japanese market also provide great opportunities.

We believe that by establishing a system and pursuing our functions, we will be able to further strengthen our business foundation.

In terms of logistics, we are building a meticulous regional delivery system across the country, and in areas where we have strengthened individual deliveries, we have seen a clear increase in the volume of orders.

In other words, if we can provide excellent product and space proposals, delivery services, and renovation support, when necessary, our customers will choose us even if a product price is a little high.

Meanwhile, we have identified the internal issues of our company.

In order to correct the dependence on certain products, it is necessary to expand the number of products we deal in and improve the profitability of existing products.

In addition, we must further strengthen our space design capability.

Space design proposals are in great demand. For example, our sales employees bring sample books to customers. If we simply just bring a sample book, they might say, "I'll look at it later," and communication with the customer often takes a back seat. However, having a space designer accompany the sales staff would allow for conversation about various things, which naturally lead to product proposals.

Many of our customers are capable of structural design, but are unable to manage interior design, so they have strong expectations of us.

The most prominent issue is "strengthening human capital."

It is no exaggeration to say that our ability to grow sustainably depends on our ability to strengthen our human capital.

Q: "Could you comment on the main measures in the Medium-term Business Plan (2023-2025) "BX 2025" that you are promoting based on your recognition of these issues?"

We have four measures, but the most important is, "supporting expansion, advancement, and active utilization of human capital."

*Allocating personnel in charge of human resources for each organization

Under the new personnel system started on July 1, we will assign a personnel manager for each organization.

By assigning personnel in charge of human resources for each organization, we will follow up and evaluate members of the organization in detail, not only on an individual basis, but also across the entire group, which will lead to the skill development of each employee.

I don't think the system will lead to immediate results just because it is adopted, but it is an absolutely essential system.

*Significantly increasing diverse career hires and recruitment of new graduates

To strengthen and expand our position as a Space Creation Company, we are hiring not only space designers, but also specialists in procurement estimation and cost estimation, which are essential for making appropriate proposals, and interior management engineers, who are nationally certified to strengthen our renovation capabilities.

We are also hiring other personnel with delivery-related experience in major companies and IT-related personnel.

As for space designers, we have an increasing number of applicants who share our vision of being a "Space Creation Company."

It is also extremely important to have a system in place to rigorously evaluate and manage the space designers who are interested in joining our company, so we also invite people with a wealth of experience in this area.

We are working on various methods of new graduate recruitment, including referral-based recruitment, as well as general methods.

*Improving learning and training programs to strengthen expertise and business-building capabilities

With regard to strengthening the space design capability, on-the-job training within the company will be the main focus, so we believe it is important to hire people who are considered top-notch and have them lead various discussions.

On the other hand, we believe that the key issues that need to be addressed by our existing employees are that they have a narrow perspective, a limited worldview, and a lack of knowledge of other industries. Therefore, we will create opportunities for them to go out and meet a variety of people and come into contact with a diverse world.

In addition, there is still a sense of the old system that needs to be changed, so we will actively recruit personnel from outside the company to strengthen diversity.

***Improving working conditions and environment**

The increase in base pay, base bonus, and performance-linked bonus will result in a wage increase of approximately 15% this fiscal year compared to the previous year.

Although the price revision was a heavy burden for our sales staff in the field in terms of dealing with customers, it was reasonable in the end, and our employees understood that customers highly evaluated our comprehensive strength, which we believe will lead to higher motivation in the future.

***Improving the ratio of non-regular employees and promoting diversity**

The current ratio of non-regular employees is approximately 20% and has been rising over the past several years. In order to realize equal pay for equal work and to foster job satisfaction among employees, we recognize the need to systematically improve the employment situation, particularly in showrooms and delivery departments.

Q: “Could you briefly talk about your other measures?”

Regarding “accumulation, analysis, and utilization of digital capital,” the current situation is that we are unable to grasp what products are ultimately used by customers and how they are used, and what needs are being generated in the field, in our long value chain. By consolidating data in the supply chain, we will ensure transactions, streamline distribution, and strengthen our ability to make proposals to on-site staff.

With respect to “strengthening the ability to provide solutions,” we will enhance our spatial proposal, delivery, and renovation capabilities by increasing personnel, including specialists, and strengthening collaboration among group companies.

Regarding the “exterior and overseas businesses,” we will first strengthen cooperation between the exterior business section and the interior business section, and then expand the number of exterior designers in the exterior business to increase our share of the Japanese market.

In the overseas business, we will strive to increase our market share and efficiently expand earnings in the U.S. market by improving supply lead time and strengthening our design proposing capability as well as product competitiveness.

In terms of “**enhancing** social value,” we will ensure that we achieve our Scope 1 and 2 targets for reducing GHG emissions and aim to grasp emissions and identify reduction measures under Scope 3.

To strengthen our human capital, we will also work to improve the ratio of female managers and the employment ratio of people with disabilities.

Q: “Thank you very much. Finally, please provide a message to your shareholders and investors.”

In the previous Medium-term Business Plan “D.C. 2022,” we were able to achieve results that pleased our shareholders, despite the difficult environment.

However, the Japanese market will inevitably shrink in volume, which must be covered mainly by overseas markets, and ongoing cost increases are expected to continue in the future.

Under such circumstances, in order to make the next leap forward, we believe it is most important to first strengthen the foundation that enabled us to make great progress in the previous Medium-term Business Plan, and we have set the theme of the new Medium-term Business Plan “BX 2025” as “**Three years to prepare for the next leap forward.**”

In “BX 2025,” we set targets for FY 2025 as “net sales of 195 billion yen and an operating income of 20.5 billion yen.”

Although profit will remain slightly higher than in FY 2022, we will steadily promote “strengthening human capital,” which is our most important task, and take various measures to achieve “net sales of 250 billion yen and an operating income of 27 billion yen” in FY 2029.

We would appreciate your continued support from a medium to long-term perspective.

6. Conclusions

The results of the previous Medium-term Business Plan “D.C. 2022” were almost perfect. The company considers the three years as the investment phase mainly for enhancing human capital, and forecasts that sales will achieve a single-digit growth and operating income will decline by double digits in the term ending March 2024. Share price is relatively healthy, increasing

investors' expectations. We would like to pay attention to the progress of their business toward the forecast for this term, as well as the trends of measures looking ahead to the year 2030.

<Reference1: Long-term Vision of Sangetsu Group 【DESIGN 2030】>

Long-term Vision of Sangetsu Group 【DESIGN 2030】

(1) Outline of 【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】 in May 2020.

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

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

The Long-term Vision of Sangetsu Group

【 DESIGN 2030 】

Designing “how we should be” in Year of 2030

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

(Source: The company)

(2) Review of 【DESIGN 2030】

The long-term vision “DESIGN 2030” sets the goal of “Sangetsu Group becoming a Space Creation Company,” and clearly states the approach to be taken to transform the company into a Space Creation Company.

While there is no change in the basic concept or strategy that forms the basis of the plan, the wording of the approach to achieving the long-term vision has been partially changed in light of the progress made in terms of measures and earnings during the period of the previous Medium-term Business Plan, to clarify the image of a Space Creation Company, and to examine the business beyond that point. Also, the earnings target of the long-term vision “DESIGN 2030” was achieved in the FY 2022 financial results, a new quantitative target was set.

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.

At this review, while the company has confirmed the expansion of its revenue base and the stability of its earnings by converting into a Space Creation Company, it has also recognized the need to further develop its business beyond being a Space Creation Company in order to achieve even greater growth.

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 human capital” and “Cooperation and utilization of digital capital” as the business and management base in order to be “an organization where diverse professionals with on-site capabilities fulfill an active role” and also “use DATA to increase the efficiency of business and transform business.”

The company aims to “Providing solutions” by organically integrating functions for space design, products, delivery, logistics and construction.

Moreover, the business area will be the Pacific Rim region primarily in Japan, North America, Southeast Asia, and China. Thanks to this approach, the business will shift directions to a “Space Creation Company” while working towards creating social value.



(Source: The company)

③ Design-driven management

The concept of Design-driven management is as below.

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

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

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

④ Social value for which the company strives

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

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

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

⑤ Numerical targets

For the term ending March 2030, 10 years from now, the company aims to achieve “net sales of 250 billion yen and operating income of 27 billion yen.”

<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 22, 2022

<Basic Concept>

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.

<Reason for Non-Compliance with the Principles of the Corporate Governance Code>

Our company follows all principles of the Corporate Governance Code.

<Disclosures Based on the Principle of the Corporate Governance Code (excerpts)>

Principles	Disclosure contents
Principle 1-4 So-called strategically held shares	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

	<p>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</p> <p>We will keep an open dialogue and communicate through various channels, while respecting the management policies of companies that we invest in. We will make a comprehensive judgment based on company's stance on shareholder returns and improving corporate value in the medium-to long-term, their corporate governance policies, and CSR activities. We will also separately examine whether holding the shares of the company is constructive to our goals and whether it will lead to improving the corporate value of the company we invest in.</p>
<p>【Principle 2-4 Ensuring Diversity, including Active Participation of Women】</p> <p>Supplementary Principle 2-4-1 Ensuring diversity in promotion to core human resources</p>	<p>(1) Our attitude toward ensuring diversity</p> <p>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"> •Promotion of women to managerial positions <p>The percentage of female full-time employees in our company is increasing year by year, which is currently 37.4%, 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 42.1% of our employees in the positions of leadership (those at the section chief level or more senior levels) and 18.3% of our employees in managerial positions(Expect to exceed 20% at the time of reorganization in July 2023). Our company has set an objective of increasing the ratio of female employees in managerial positions to 25% by 2026 and has been disclosing changes in the ratio of female employees in managerial positions since the fiscal year 2017 on our website https://www.sangetsu.co.jp/company/sustainability/</p> <p>We offer various education and training programs for encouraging active participation of our female employees, including programs of career development support and support skills improvement for the female employees and their bosses and health seminars for promoting women's active participation.</p> <ul style="list-style-type: none"> •Promotion of career hires to managerial positions <p>We have employed career workers proactively since 2016 in order to secure human resources with expertise in such fields as management, information systems, and design. Five of our ten executive officers are mid-career hires, or 50%. The percentage of career hires in other managerial positions than the executive officer position is 4.7% as of April 1, 2021. We actively promote 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 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"> •Promotion of foreign nationals to managerial positions <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</p>

Supplementary Principle 3-1-3

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 about 60% of the employees in the positions of officers that play the central roles in the business.

(3) Our policies on human resources development for ensuring diversity, policies on internal environment development, and their progress

Considering diversity management, which leads new perspectives and ideas brought by different backgrounds, sensibilities, and senses of values to enriched creativity, as the core of our business management, we are making efforts in this regard as an important policy toward achieving business growth while handling diversifying market demand. We have set diversity and inclusion goals, which are proactive employment of foreign nationals, employment of a greater number of people with disabilities, and support for promoting female employees to managerial positions. Other efforts of our company include improvement of the rate of paid holidays taken by our employees, reduction in long working hours, and approaches related to LGBTQ.

- Our initiatives toward sustainability

Our long-term vision, **【DESIGN 2030】**, includes 10 of the 17 goals of the SDGs as our corporate group's objectives. In addition, one of the basic policies of our medium-term management plan, **【BX 2025】**, is Quantitative targets for 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 low environmental impact products, and (4) recycle our books of samples. With regard to the item (4), we opened the Sangetsu Sample Books Recycling Center in March 2021 and have operated it since then.

- Investment in human capital

Our company aims to run a personnel system that respects the diversity, personality, and individuality of our employees and allows each of them to demonstrate their abilities to the fullest extent as the leading role in business management, and we disclose information on the relevant systems on our website

<https://www.sangetsu.co.jp/company/sustainability/ht>

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-effectiveness of investments in training and reskilling employees for advanced specialties. Please refer to the disclosure on our website.

<https://www.sangetsu.co.jp/company/ir/>

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

<https://www.sangetsu.co.jp/company/sustainability/ht>

- Investment in intellectual property

Under our long-term vision, "DESIGN 2030," we have made "design

	<p>management" the basis of our management, aiming to enhance brand value and transform our business through design. 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> <ul style="list-style-type: none"> • Impact of climate change on our business activities <p>Risks of climate change are described in the financial statements issued in June 2023, and on pages 44-47 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.</p> <p>On our website, we use many graphs and tables to explain our "Climate Change Perspective and Key Issues". https://www.sangetsu.co.jp/company/sustainability/</p> <p>Furthermore, we also agree with the TCFD, disclose the four TCFD disclosure elements (Strategy, Governance, Risk Management, and Indicators and Targets) on our website. Risk management is explained in a table on the "Risks and Opportunities from Climate Change" section of the website https://www.sangetsu.co.jp/company/sustainability/</p> <p>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.</p> <p>We are in the process of developing and disclosing scenario analysis and we will further enrich the quality and quantity of our approaches.</p>
<p>Principle 5-1 Policy on constructive communication with shareholders</p>	<ul style="list-style-type: none"> • 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. • Our company has established the General Affairs Public Relations and IR Department for rational communication with our shareholders and swift IR activities. • The Chief Executive Officer, the executive in charge, and the General Affairs Public Relations and IR Department carry out interviews with both Japanese and overseas institutional investors, and analysts, upon their request. • Although the IR department specializes in handling IR activities, other departments such as the headquarters of each business, the Finance and Accounting Department, and the Office of the President's Corporate Planning Division cooperate with the IR department to provide information with higher effectiveness. • 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 from FY 2020 to 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. The information is shared with business unit managers on a quarterly basis to enhance information disclosure and improve corporate value.
- 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.