



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/

Stock Information

Share Price	Shares Outstanding	Total market cap	ROE Act.	Trading Unit	
¥2,847	59,200,000 shares	¥168,542million	15.3%	100 shares	
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.	PBR Act.
¥135.00	4.7%	¥226.59	12.6x	¥1,631.57	1.7x

*The share price is the closing price on December 5. shares outstanding, DPS, and EPS is from the financial results from the second quarter for the fiscal year ending March 2024. ROE and BPS is financial results from the previous year.

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.	187,000	18,500	18,900	13,300	226.59	135.00

*Unit: million yen, yen. Estimates are those of the company. Net income is profit attributable to owners of the parent. Hereinafter the same shall apply.

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

This Bridge Report presents earnings results for the second quarter of the fiscal year ending March 2024 of Sangetsu Corporation (8130).

Table of Contents

[Key Points](#)

[1. Company Overview](#)

[2. Second Quarter of the fiscal Year ending March 2024 Earnings Results](#)

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

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

[5. Conclusions](#)

[<Reference1: Medium-term Management Plan \(2023-2025\) 【BX 2025】>](#)

[<Reference2: Long-term Vision of Sangetsu Group 【DESIGN 2030】>](#)

[<Reference3: Regarding Corporate Governance>](#)

Key Points

- In the second quarter of the fiscal year ending March 2024, net sales increased 10.9% year on year to 90.6 billion yen. The sales in all segments grew. Operating income rose 14.0% year on year to 10.2 billion yen. The profit from the domestic interior business increased, while the profit from the domestic exterior business decreased. The deficit of the overseas business shrank. Net sales and all kinds of profits hit a record high for the first half of a fiscal year.
- In the domestic interior segment, which is the mainstay, sales and profit exceeded the forecast, as the impact of the hovering prices of raw materials, the rise in distribution costs, etc. was within the scope of their assumption and the sales volume of products increased through the execution of measures based on the medium-term management plan. On a quarterly basis, sales and profit increased year on year in the first quarter (Apr-Jun) thanks to the increase in sales volume and price revisions in the domestic interior segment, but in the second quarter (Jul-Sep), sales rose, but profit dropped year on year, due to the decline in sales volume and the augmentation of distribution and personnel costs in the domestic interior segment.
- The full-year earnings forecast for the fiscal year ending March 2024 has been revised upwardly, mainly because the augmentation of costs for energy and raw materials fell below the initial forecast thanks to governmental measures and sales volume is expected to exceed the initial forecast, although the number of new housing starts is sluggish. Net sales are projected to increase 6.2% year on year to 187 billion yen, while operating income is forecast to decline 8.8% year on year to 18.5 billion yen, due to the rise in SGA, including personnel expenses. In the second half of the fiscal year ending March 2024, it is forecast that sales will increase, but profit will decrease year on year and also from the first half.
- The dividend forecast for this fiscal year has been revised from 130.00 yen/share to 135.00 yen/share (up 30.00 yen/share from the previous fiscal year). The dividend amount is expected to increase for the 10th consecutive fiscal year since April 2014 when President Yasuda was appointed as president. In that period, the share price after the adjustment for share splits rose about two times (CAGR: approx. 8%). It can be said that the achievements so far are very satisfactory to shareholders and investors.
- The future performance does not depend on the past performance, but the competitive advantage of the domestic interior business has improved further, fortifying the business base of the company. In addition, there remain uncertainties over the overseas business, partially due to the situation of China, but the business in North America, which has the largest scale, is recovering steadily. We would like to pay attention to how speedily the company will proceed with business transformation (BX) through the medium-term management plan (2023-2025) titled BX 2025.

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” 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 Medium-term Management 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.

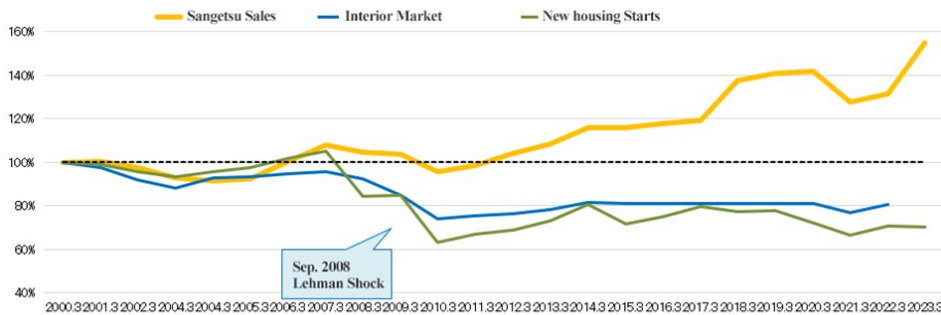
BRIDGE REPORT



* 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.)

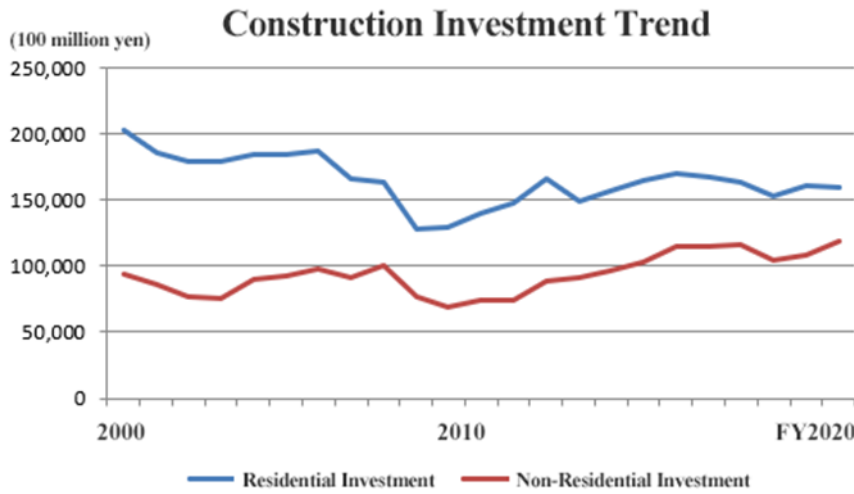
(Source: the company)

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 22, sales grew, and in the term ended March 2023, sales hit a record high.

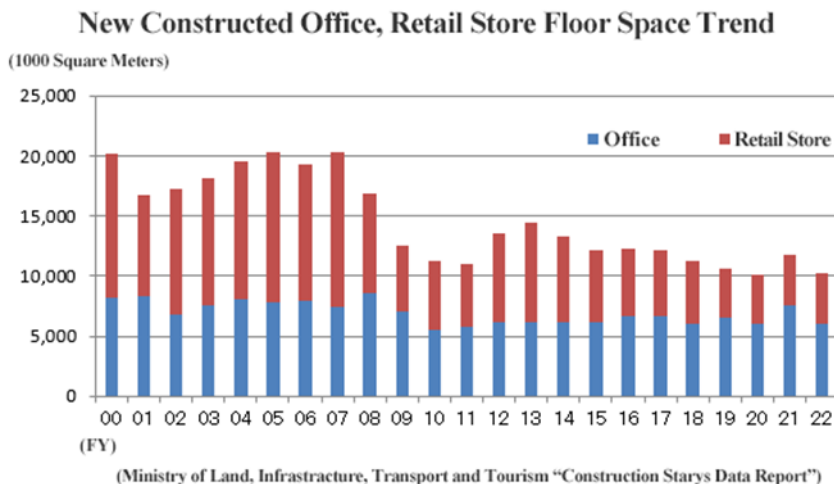


* FY1999=100 Investment Bridge made the graph.

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.



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



According to the “Outlook for investment in construction in FY2021” released by the Ministry of Land, private investment in housing construction has been on a plateau since FY 2017, while private investment in non-housing construction is expected to exceed the peak before the coronavirus pandemic.

In addition, according to the “statistical survey on the start of construction” by MLIT, the total floor area of offices and (newly built) stores decreased after the bankruptcy of Lehman Brothers, and has been flat.

According to “Outlook for investment in construction based on a construction economy model” released by Research Institute of Construction and Economy on October 20, 2023, nominal private investment in non-housing construction increased steadily through fiscal 2019, then declined considerably by 8.1% (estimated) in fiscal 2020 due to the coronavirus pandemic but is expected to grow 3.1% (estimated) in fiscal 2021. 1.5% (estimated) in fiscal 2022, and 3.3% (forecast) in fiscal 2023, 1.6% (forecast) in fiscal 2024 showing a recovery.

Floor areas of facilities to be constructed

*Offices

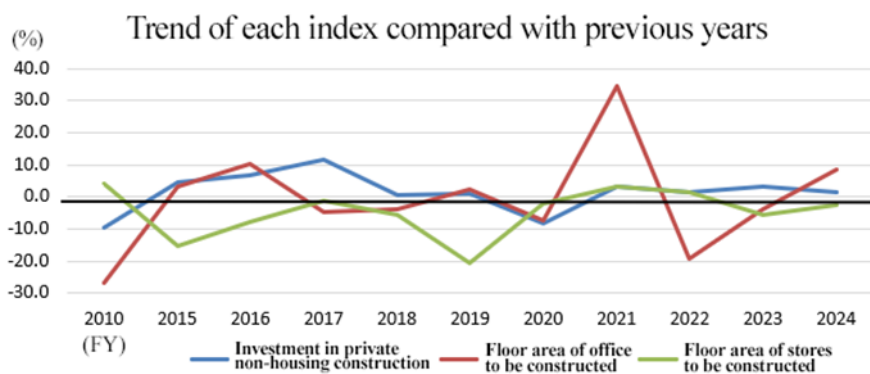
In FY 2021, floor area of new offices increased 34.6% from the previous fiscal year, showing a significant recovery from the previous fiscal year, in which their business was affected by the coronavirus pandemic. However, in FY 2022, floor area of new offices dropped considerably by 19.2% due to the recoil from that. In FY 2023, floor area of new offices declined 3.8%, showing a decline for the second consecutive year. In FY 2024, it is expected to rise 8.4%.

They mentioned, “The floor area of new offices in FY 2023 was lowest in recent years, so it is forecast to decline from the previous fiscal year. In 2025, it is forecast that a lot of offices will be supplied in Tokyo, so floor area of new offices is expected to increase from the previous fiscal year in FY 2024.” This is somewhat conservative compared with the outlook in August, in which they said, “Since investors’ willingness to invest will remain strong, we expect that floor area of new offices will

increase from the previous fiscal year in FY 2023 and following years, mainly for development projects in metropolitan areas.”

***Stores**

The floor area of stores to be constructed dropped 20.5% in FY 2019 and 2.0% in FY 2020, and recovered 3.4% in FY 2021. In FY 2022, floor area of new stores increased healthily by 1.6%, but it is forecast to drop 5.4% in FY 2023 and 2.5% in FY 2024, showing a continuous year-on-year decrease. They mentioned, “Some retail businesses are showing a recovery in sales at existing stores from the coronavirus pandemic, but floor area of new stores is projected to decrease from the previous fiscal year in FY 2023 and following fiscal years, due to the uncertain economic outlook.”



*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 2023).
 As for investment in private non-housing construction figures, figures before 2020 are results, from 2021 and 2022 are expectation, from 2023 are forecast.
 As for floor area, figures before 2022 are results, from 2023 are forecast.

Private building repair (remodeling and renovation)

According to “Outlook for investment in construction based on the construction economy model” (announced on October 20, 2023), they mentioned, “the nominal and real investment amounts are expected to keep increasing year on year in FY 2023 and FY 2024, as the subsidies in governmental energy-saving campaigns will contribute in the housing field and the interest in upgrading equipment and saving labor will grow in the non-housing field.” Accordingly, the demand for renovation and remodeling is expected to remain healthy.

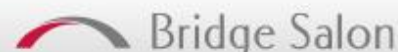
Like this, private investment in non-housing construction is projected to be unstable yet healthy, after the decline due to the coronavirus pandemic. Moreover, there is steady demand for renovations in the non-residential market, so Sangetsu is intending to meet the demand mainly through the Market Development Department and the contract 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. After the previous report was produced and released on September 20, 2023, Sangetsu and TOLI revised the forecasts of net sales and operating income upwardly, C.I. TAKIRON revised net sales and operating income downwardly, and LONSEAL and Lilycolor revised net sales downwardly, while revising operating income upwardly.

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.	99,000	+4.4%	2,600	+100.8%	2.6%	16,946	11.0	0.5	1.1%
4206	Aica Kogyo Co., Ltd.	250,000	+3.3%	21,500	+4.6%	8.6%	226,834	16.3	1.5	6.9%
4215	C.I.TAKIRON Corporation	146,000	+0.2%	6,200	+7.1%	4.2%	58,070	11.6	0.6	2.7%
4224	LONSEAL Corporation	20,500	+4.8%	850	+49.5%	4.1%	6,993	11.6	0.4	2.5%
5956	TOSO COMPANY, LIMITED	21,800	+2.4%	550	-24.3%	2.5%	5,280	13.5	0.3	2.7%
7971	TOLI Corp.	101,000	+6.1%	4,000	+13.3%	4.0%	21,919	7.1	0.5	6.5%
7989	TACHIKAWA CORPORATION	42,800	+3.6%	4,070	+6.5%	9.5%	30,356	10.3	0.6	5.8%

BRIDGE REPORT



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
8130	Sangetsu Corporation	187,000	+6.2%	18,500	-8.8%	9.9%	168,542	12.6	1.7	15.3%
9827	Lilycolor Co., Ltd.	32,700	-1.7%	1,320	-18.7%	4.0%	6,875	8.0	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 December 5, 2023. The number of outstanding shares of each company that was used for calculation includes the number of treasury shares, and was taken from the latest brief report on financial results of each company, like EPS and BPS. ROE is based on the previous term.

【1-4 Business Description】

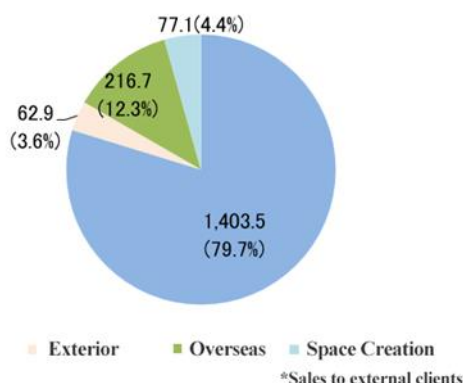
The main businesses include planning, development, and sales of wallcoverings, flooring materials, curtains, upholstery and other interior products. Although Sangetsu is fables except for some products, it is not a typical trading firm as all the products it sells are planned, designed and developed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

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

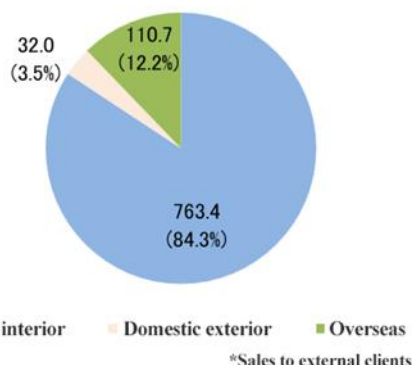
Before the change	After the change	Related group companies
Interior	Domestic Interior	CREANATE Inc. FAIRTONE COMPANY, LIMITED. Sangetsu Vosne Corporation Sangetsu Okinawa Corporation Kurosukikaku, Corporation
Space Creation		
Exterior	Domestic Exterior	Sungreen Co., Ltd.
Overseas	Overseas	Koroseal Interior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

(Source: the company)

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



Sales by business segment (FY 3/24 2Q, Unit:100mn)



①“Domestic 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 antivirus wallcovering. Also, “Accent Wall” a wallcovering with colorful designs being used to decorate one full wall or a part of a wall in homes, adds an appeal to the living space, and is increasingly adopted in general residences and rental residences.
Cushion Vinyl	Sheet formed flooring materials that are used in both residential and retail store applications, and

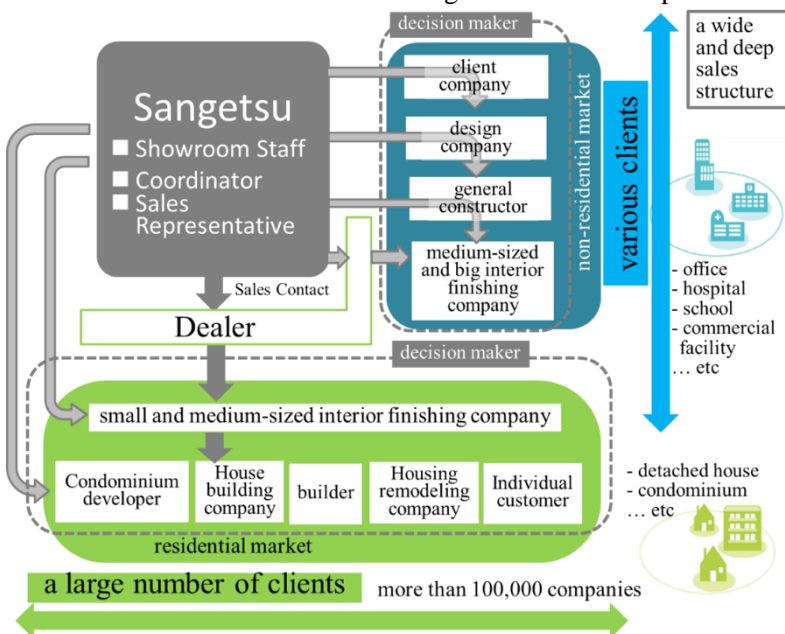
Sheet	commonly used in apartments and condominiums. They boast of wood grain, stone, and a wide range of other motif designs and have cushioning function for use in a wide range of applications.
Vinyl Sheets	Sheet formed flooring materials used in commercial applications including medical and welfare 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 3-4 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 700 sales staff which belongs to its Market Development Unit and its Contract Department, etc. to provide and gather information, and propose products to clients.

While the main sales efforts are conducted through dealers (some sell directly), the number of customers totals 6,000 in Chubu area 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. Following the establishment of a local delivery system in Tohoku, the company is developing local delivery systems in other regions, and networks for individual deliveries, including the deliveries of heavy items and deliveries to construction sites. In September 2022, the company acquired “Cloth Kikaku Ltd.,” which delivers products throughout Kyushu, to improve the delivery of small lots of products in the Kyushu region.

◎ Space planning

Sangetsu creates and provides optimal spaces for clients, while utilizing the capabilities of designing spaces, coming up with new ideas, making concepts, giving proposals, offering consultation services, etc., adding comprehensive installation skills for woodworking, lighting, electricity, etc., and strengthening the installation management capability, based on the capabilities of designing the entire space and managing installation work of the planning and development unit of the Space Planning Department of Sangetsu and the interior finishing capability of the subsidiary Fairtone.

②“Domestic 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 management plan, the company will concentrate on the expansion of its business area in the Tokyo Metropolitan Area and the improvement of its capability of proposing interior and exterior spaces together and so on.

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

【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.”

BRIDGE REPORT

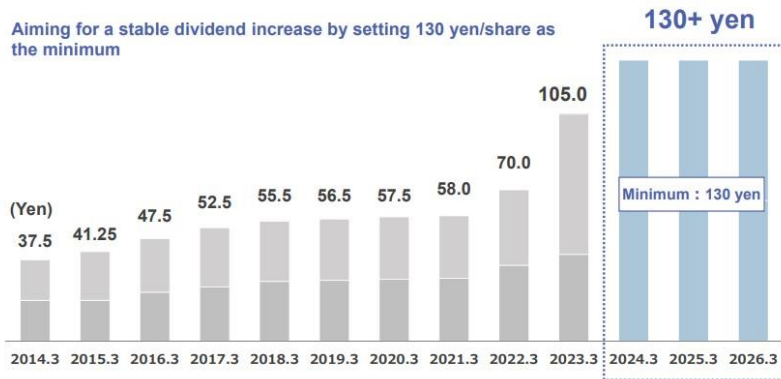


1) Shareholder Return Policy

(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

* Net income margin = Net income attributable to owners of the parent ÷ Net sales

Total asset turnover = Net sales ÷ (Total assets as of the end of the previous fiscal year + Average of total assets as of the fiscal year under review)

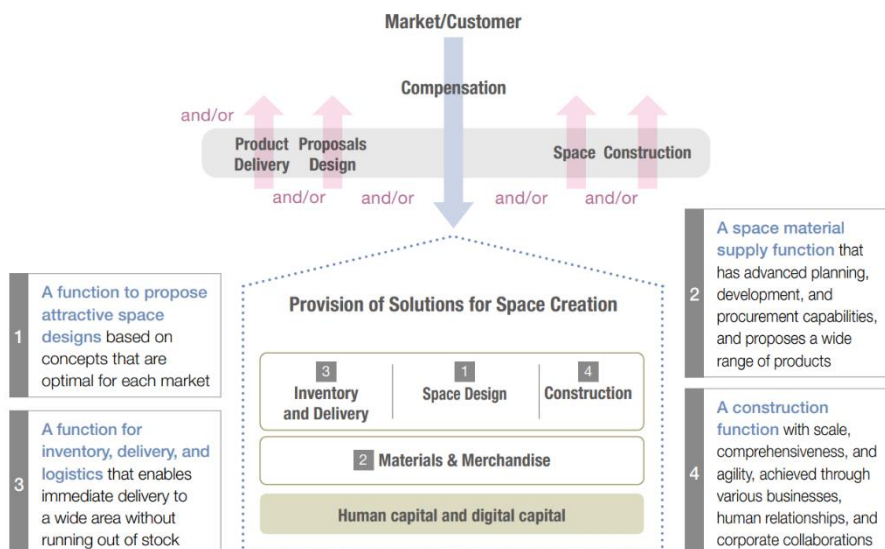
Leverage = (Total assets as of the end of the previous fiscal year + Average of total assets as of the fiscal year under review) ÷ (Equity capital as of the end of the previous fiscal year + Average of equity capital as of the end of the fiscal year under review)

Through the price revision, net income margin improved significantly, and ROE of fiscal year ended March 2023 considerably exceeded 8%, which is said to be the value Japanese enterprises should pursue.

[1-7 Characteristics and strengths]

“The function to propose attractive space designs,” “the function to provide materials for creating spaces,” “the function to store, deliver, and distribute products,” and “the function to conduct interior finishing” 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.



(Taken from the integrated report “SANGETSU REPORT 2023”)

(1) Function to propose spatial designs

While the economic value of experiences is getting higher through the diversification of lifestyles, the increase of flexibility of workstyles, etc., the necessity to design spaces is growing year by year.

The Sangetsu Group fuses interior and exterior designs based on the capability of proposing coordinates, which has been nurtured in the interior business, and utilizes its ability to comprehensively propose spaces, including various products, such as furniture and lamps, which add color to scenes, in business.

In order to offer accurate and high-quality solutions to meet the needs of each customer, the company is increasing personnel for spatial design by recruiting external personnel and proactively improving the spatial design capability by developing the skills of internal personnel. The company employs designers in a broad range of fields, including housing, non-housing, new construction, renovation, interior, and exterior designs.

Proposing spatial designs is the source of added value. As people pursue comfort in their living, its importance is expected to increase, so the entire corporate group will keep improving its designing capability.

<Major resources, etc.(2022)>

Space design professionals: about 80 employees
Domestic interior marketing: 40 offices
Domestic exterior marketing: 16 offices
Overseas marketing: 7 countries

(2) Proposing spatial designs and products

Interior and exterior products are the final stage of the construction process, and as products that design spaces, they require high design quality and a prompt, stable supply system that prevents product shortages. In addition to developing products that meet market-driven customer needs, the company group is also striving to improve its product design capabilities by expanding its product design staff and working with outside and overseas designers in order to supply the market with new products that are not bound by conventional ideas.

About 12,000 kinds of products are always in stock, and the company supplies about 1.5 million sample books to the market every year. In order to stably supply such diverse products, it is indispensable to maintain the relationships with about 270 companies for the interior business and about 150 companies for the exterior business. The company is developing and manufacturing a wide array of products with various business partners.

Regarding wallcoverings, which are core products, the company acquired CREANATE Inc. (former name: Wavelock Interior), which boasts the largest production amount of wallcoverings in Japan, as a group company in March 2021, and is striving to strengthen and streamline its business based on the integrated system for manufacturing and selling products. The company implements measures for establishing a sustainable, stable supply system by cementing the alliance and cooperation with suppliers.

In addition, the company engages in design development based on the collaboration among group companies, including the product development based on the cooperation among the product development department of Sangetsu, overseas group companies and CREANATE, which manufactures products, and will continue the group-wide development and provision of products to meet the needs of the market while taking advantage of the strengths of each company.

< Major resources, etc. (FY2022)>

Product design professionals 70 members
Suppliers
Domestic interior segment: approx. 270 companies
Domestic exterior segment: approx. 150 companies
Largest wallcovering manufacturing facility in Japan (CREANATE)
State-of-the-art wallcovering manufacturing equipment (Koroseal)

(3) Function to store, deliver, and distribute products

In the domestic interior business, the company ships 60,000 products and 40,000 samples per day. The systems for shipping and delivering products around Japan without fail contribute significantly to the flexible response to changes in deadlines for interior finishing and smooth discussions on interior designs and specifications.

As logistics bases, the company has established two flagship logistics centers (LCs), which function to back up inventory in each region by using a huge space and serve as an inventory base in each area, and 6 local LCs, which serve as an inventory base in each area, and is also proceeding with the establishment of satellite centers for developing more meticulous delivery

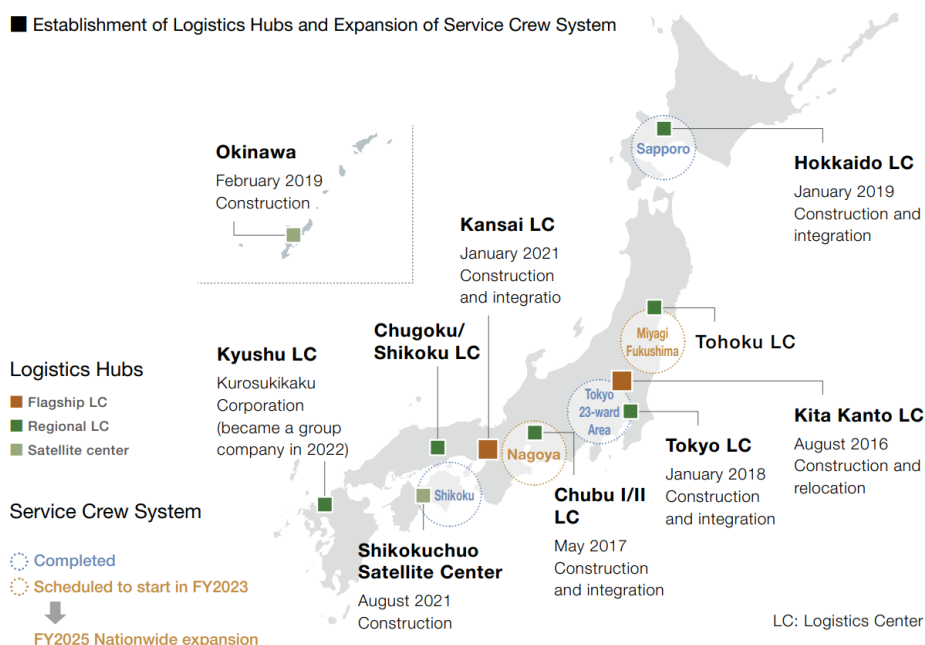
networks. At Kansai LC, which was newly established and integrated in January 2021, the company plans to automate operations and save labor thoroughly in order to cope with the recent issues of the shortage of manpower and the aging population and develop a working environment where women, too, can work comfortably, and apply this model to other LCs around Japan.

Regarding delivery systems, the company is developing delivery systems for transporting and delivering products to each construction site and to each installation place in order to realize a last-mile service. The number of service crew members who offer various delivery-related services was 13 as of the end of FY 2022, and the company plans to increase them around Japan, to maintain or improve the quality of delivery.

The company will enhance its logistics functions by improving its service level further and develop sustainable systems.

< Major resources, etc. (FY2022)>

Specialist staff and contractors responsible for warehouse operations: approx. 800 people
Flagship/regional LCs: 8 hubs, 224,000 m ²
Domestic delivery trucks: approx. 500 trucks/day
Service crew: 13 workers



(Taken from the integrated report “SANGETSU REPORT 2023” of Sangetsu)

(4) Interior 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). In the medium-term management plan “Next Stage Plan G” announced in 2014, the company aimed to improve its installation capability as a priority measure and has positioned it as an important function in the subsequent medium-term management plans. While utilizing the functions of Fairtone (acquired as a group company in 2017) and HEKISOU (acquired as a group company in 2021), which engage in installation work, the company is striving to maximize the installation function of the entire corporate group.

The new organization established in July 2023 has improved not only the capacity of interior finishing, which has been dealt with by Sangetsu so far, but also the comprehensive interior design capacity for embodying the entire space at a position close to a business owner, establishing a system for undertaking tasks as a primary contractor and a subcontractor. Fairtone has established Quality Control Section for improving the quality of wallcovering work, and is improving the quality of all functions, including supervision quality, process management, and cost control.

From now on, the company will recruit qualified installation supervisors and expand the network of firms that possess the ability to install products nationwide, in order to enhance the interior finishing capability (number of installation engineers) and the installation management capability and the comprehensive installation capability, which are important for undertaking tasks as a primary contractor or subcontractor, and then improve the functions based on the cooperation among group companies.

BRIDGE REPORT



<Major resources, (2022)>

First and second-class architects: 28 people
Building operation and management engineers : 92 people

2. Second Quarter of the fiscal Year ending March 2024 Earnings Results

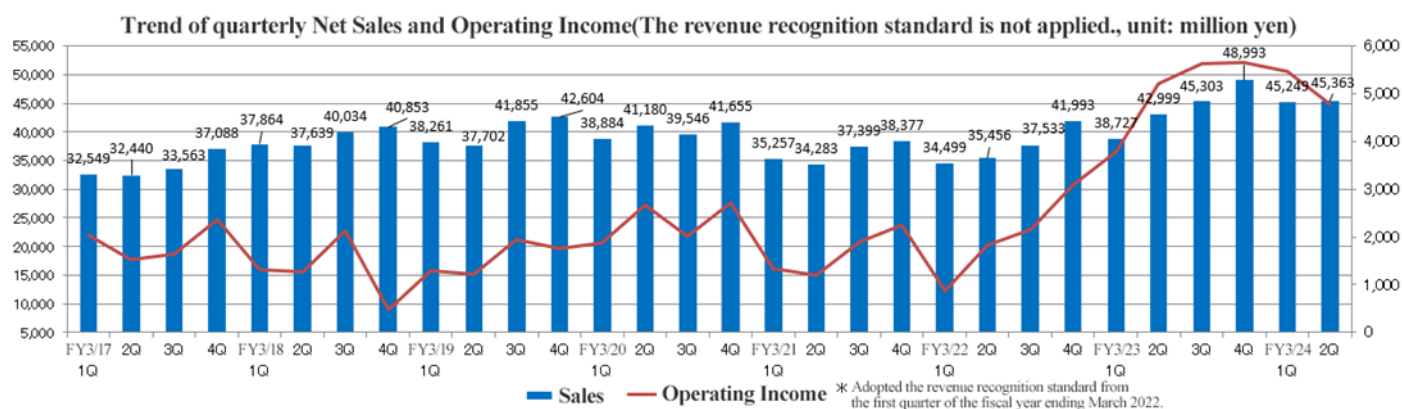
[2-1 Earnings Results]

	1H of FY 3/23	Ratio to sales	1H of FY 3/24	Ratio to sales	YoY	Ratio to forecast
Net Sales	81,726	100.0%	90,612	100.0%	+10.9%	+3.6%
Gross profit	26,168	32.0%	28,922	31.9%	+10.5%	+10.8%
SGA	17,169	21.0%	18,663	20.6%	+8.7%	-0.7%
Operating Income	8,998	11.0%	10,259	11.3%	+14.0%	+40.5%
Ordinary Income	9,267	11.3%	10,456	11.5%	+12.8%	+39.4%
Quarterly Net Income	6,238	7.6%	7,121	7.9%	+14.2%	+39.6%

*Unit: million yen. Quarterly net income attributable to owners of the parent.

Net sales growth and profit growth, with record-high sales and profits in the first half of the year

In the second quarter of the fiscal year ending March 2024, net sales increased 10.9% year on year to 90.6 billion yen. The sales in all segments grew. Operating income rose 14.0% year on year to 10.2 billion yen. The profit from the domestic interior business increased, while the profit from the domestic exterior business decreased. The deficit of the overseas business shrank. Net sales and all kinds of profits hit a record high for the first half of a fiscal year. In the domestic interior segment, which is the mainstay, sales and profit exceeded the forecast, as the impact of the hovering prices of raw materials, the rise in distribution costs, etc. was within the scope of their assumption and the sales volume of products increased through the execution of measures based on the medium-term management plan. On a quarterly basis, sales and profit increased year on year in the first quarter (Apr-Jun) thanks to the increase in sales volume and price revisions in the domestic interior segment, but in the second quarter (Jul-Sep), sales rose, but profit dropped year on year, due to the decline in sales volume and the augmentation of distribution and personnel costs in the domestic interior segment.



[2-2 Business Segment Trends]

	FY 3/23 2Q	FY 3/24 2Q	YoY	Ratio to forecast
Net Sales				
Domestic Interior Segment	69,365	76,346	+10.1%	+4.6%
Wallcovering Unit	34,405	37,527	+9.1%	-
Flooring Materials Unit	23,732	26,703	+12.5%	-
Fabrics Unit	4,509	4,517	+0.2%	-
Construction and others	6,717	7,597	+13.1%	-
Domestic Exterior Segment	2,895	3,215	+11.0%	-2.6%

BRIDGE REPORT



Overseas Segment	9,480	11,069	+16.8%	-1.2%
Adjustments	-15	-18	-	-
Total	81,726	90,612	+10.9%	+3.6%
Operating Income				
Domestic Interior Segment	9,555	10,305	+7.8%	+40.2%
Domestic Exterior Segment	169	110	-35.0%	-26.5%
Overseas Segment	-726	-157	-	-
Adjustments	-0	1	-	-
Total	8,998	10,259	+14.0%	+40.5%

*Unit: million yen.

① Domestic Interior Segment

Net sales and profit increased.

The business division, which is composed of business units in northern Japan, Kanto, Chubu, western Japan, and Kyushu, took the initiative in designing and executing business strategies while considering the characteristics and needs of local customers and the market environment in cooperation with the departments in charge of products, logistics, installation, and spatial design.

Logistics division has developed a network for storing and delivering products, including a system for transporting products between bases, and increased the members of the “service crew” specializing in more meticulous delivery services.

Regarding Space Planning Division, the planning and development unit proposed spaces in each region, while the product unit published “MORRIS CHRONICLES,” a sample book for licensed brands of wallcoverings, flooring materials, and fabrics, which was jointly developed with Sanderson Design Group, in July, to popularize the new brands in cooperation with the business division. Furthermore, the company worked on new initiatives, such as the trend seminar “Sangetsu Design Talks” for providing unique opportunities to spread trends, as a space creation enterprise.

In addition to these activities, the enhancement of functions, which has been promoted since before, paid off, increasing the sales of REATEC (adhesive decorative films), glass films, upholstery, floor tiles, carpet tiles, etc., which were defined as “medium-sized products,” whose share and market are expected to grow, in their growth strategy.

For “Supporting expansion, advancement, and active utilization of human capital,” which are the priority measures set in the medium-term management plan, the company steadily proceeded with the initiatives for enhancing expertise, such as the recruitment of more mid-career workers and the development of systems for educating and training employees.

As the effects of the third price increase (Oct. 1, 2022) continued, unit selling price rose year on year. Meanwhile, the costs for procuring wallcoverings, flooring materials, etc. augmented due to the rise in raw material prices. Accordingly, the improvement in gross profit as a difference between selling and buying prices, was limited.

In terms of sales volume, the sales volume in the entire market declined as floor area of new housing decreased from the previous fiscal year. Thanks to the effects of measures for enhancing functions, the forte of the company contributed, so the sales and profit of major products and medium-sized products, on which the company concentrates, expanded, and the market share, too, rose due to the increase in sales volume.

Regarding the market condition in each quarter, the first quarter saw the rebound from the subsiding of rush demand in the previous year, but the second quarter witnessed the reactionary decline from the growth of rush demand in the previous year.

② Domestic Exterior Segment

Net sales increased and profit decreased.

While the business condition was harsh due to the downturn of housing starts, the company put energy into marketing in the non-housing field, including renovation and public works. In addition, their activities for not only selling products, but also proposing the design and construction of exterior spaces and making collaborative proposals for exterior and interior designs with Sungreen progressed steadily, so their products and services were adopted for educational facilities, condominiums, etc. On the other hand, the company implemented measures for increasing employees, recruiting specialized personnel, and expanding target geographical regions based on growth strategies, so SGA augmented.

③ Overseas Segment

Net sales grew, and deficit shrunk.

The financial results of overseas affiliated companies for the period from January to June 2023 are included in the consolidated results for the second quarter. From this term, the profit and loss from the overseas business unit of Sangetsu Corporation, which had been included in the domestic interior segment, have been included in the overseas segment.

BRIDGE REPORT



<North American market>

Thanks to the recovery trend of the hotel domain, which is the mainstay, the sales of wallcoverings produced in house, which are core products, increased. In addition, an operating profit was posted, as production efficiency improved through the increase in in-house production output of wallcoverings, the company withdrew from the sale of unprofitable products in the previous year, and their profit-oriented business strategies, etc. turned out to be effective.

<Southeast Asian market>

While the demand for construction in each country was on a recovery trend, sales were healthy mainly in Singapore and Thailand. The company made efforts to distribute “goodwall SEED,” a sample book for overseas markets, which was produced by CREANATE Inc. , and proceeded with the development of functions to deliver and install products and design spaces according to the market environment and needs in each country, to acquire the space creation function.

<Chinese and Hong Kong Markets>

As consumer confidence declined due to the downturn of the real estate market and the worsening of the employment environment, construction plans were delayed or suspended, indicating that the situation remains severe. In this situation, the company conducted activities for increasing customers and sales channels and promoting new products, such as “goodwall SEED” in order to establish a more stable and robust business base.

【2-3 Financial standing and cash flows】

◎Main BS

	End of Mar.23	End of Sep.23	Increase/ Decrease		End of Mar.23	End of Sep.23	Increase/ Decrease
Current Assets	104,843	102,219	-2,624	Current Liabilities	56,565	50,103	-6,462
Cash, Equivalents	24,817	23,227	-1,590	Payables	30,856	31,917	+1,061
Receivables	56,210	54,514	-1,696	Short-Term Debt	9,041	6,781	-2,260
Marketable Securities	300	300	0	Noncurrent Liabilities	12,063	12,176	+113
Inventories	20,925	23,394	+2,469	Long-Term Debt	1,413	1,331	-82
Noncurrent Assets	59,610	60,593	+983	Total Liabilities	68,629	62,279	-6,350
Tangible Assets	36,825	37,875	+1,050	Net Assets	95,825	100,532	+4,707
Intangible Assets	3,512	3,293	-219	Retained earnings	64,138	67,446	+3,308
Investments, Others	19,273	19,424	+151	Treasury Stock	-849	-791	+58
Total Assets	164,454	162,812	-1,642	Total Liabilities, Net Assets	164,454	162,812	-1,642
				Capital Adequacy Ratio	58.2%	61.7%	+3.5pt

*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 decreased 1.6 billion yen from the end of the previous term, due to the decreases in cash & account

Total liabilities decreased 6.3 billion yen, as debt decreased, etc.

Net assets swelled 4.7 billion yen, due to the rise in retained earnings. As a result, capital-to-asset increased 3.5 points from the end of the previous term to 61.7%. Long- and short-term debt decreased 2.3 billion yen to 8.1 billion yen.

【2-4 Topics】**◎ Initiatives for sustainability****① Environment**

“SP,” a sample book for mass-produced wallcoverings published in June 2023, lists products including environmentally friendly PFC-free water repellent agents for the first time in this industry. In addition, the company proceeded with the development of wallcoverings, flooring materials, and fabrics with low environmental burdens. In addition, the company continuously participated in nature conservation projects under the themes of biodiversity and environmental conservation.

② Human capital

In order to attain the quantitative goals regarding social value set in the medium-term management plan, Sangetsu implemented some measures, including health-oriented management and the active promotion of female workers to managerial positions, and proceeded with the development of a working environment where employees can work comfortably without worry regardless of gender and age. From the viewpoints of “diversity, equity & inclusion,” the company participated in events related to LGBTQ+, and became a supporter of “ASTA,” a specified non-profit organization engaging in activities for raising the awareness of sexual minorities, to develop a society in which diverse people can flourish.

③ Social capital

It is assumed that total costs for social contribution activities account for 0.3-0.5% of ordinary income. The company selected four groups to support continuously, and aims to solve social issues by giving donations, participating in concrete activities, and so on.

The company carried out continuous activities in which employees can participate proactively, including the support for renovation of orphanages, which has been continued since 2014, and “TABLE FOR TWO,” which delivers school lunches to children in developing countries.

3. Fiscal Year ending March 2024 Earnings Forecasts

【3-1 Earnings Forecasts】

	FY3/23	Compositi on ratio	FY3/24 (Est.)	Composi tion ratio	YoY	Revision rate	rate of progress
Net Sales	176,022	100.0%	187,000	100.0%	+6.2%	+2.2%	48.5%
Gross profit	56,374	32.0%	58,000	31.0%	+2.9%	+8.4%	49.9%
SGA	36,094	20.5%	39,500	21.1%	+9.4%	+2.6%	47.2%
Operating Income	20,280	11.5%	18,500	9.9%	-8.8%	+23.3%	55.5%
Ordinary Income	20,690	11.8%	18,900	10.1%	-8.7%	+22.7%	55.3%
Net Income	14,005	8.0%	13,300	7.1%	-5.0%	+26.7%	53.5%

*Unit: million yen.

Upwardly revised earnings forecast

The full-year earnings forecast for the fiscal year ending March 2024 has been revised upwardly, mainly because the augmentation of costs for energy and raw materials fell below the initial forecast thanks to governmental measures and sales volume is expected to exceed the initial forecast, although the number of new housing starts is sluggish. Net sales are projected to increase 6.2% year on year to 187 billion yen, while operating income is forecast to decline 8.8% year on year to 18.5 billion yen, due to the rise in SGA, including personnel expenses. In the second half of the fiscal year ending March 2024, it is forecast that sales will increase, but profit will decrease year on year and also from the first half.

The dividend forecast for this fiscal year has been revised from 130.00 yen/share to 135.00 yen/share (up 30.00 yen/share from the previous fiscal year), increasing the dividend amount for the 10th consecutive term. The expected payout ratio is 59.6%.

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



【3-2 Business Segment Trends】

	FY3/23	FY3/24 (Est.)	YoY	Revision rate	Rate of progress
Net Sales					
Domestic Interior Segment	147,962	157,500	+6.4%	+2.6%	48.5%
Domestic Exterior Segment	6,293	6,700	+6.5%	0.0%	48.0%
Overseas Segment	21,783	22,800	+4.7%	0.0%	48.5%
Adjustment	-17	-	-	-	-
Total	176,022	187,000	+6.2%	+2.2%	48.5%
Operating Income					
Domestic Interior Segment	21,102	18,450	-12.6%	+26.4%	55.9%
Domestic Exterior Segment	450	350	-22.3%	-12.5%	31.4%
Overseas Segment	-1,273	-300	-	-	-
Adjustment	1	-	-	-	-
Total	20,280	18,500	-8.8%	+23.3%	55.5%

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

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

[4-1 Positioning of Measures]

In the interior finishing, interior designing, and building/construction industries, business owners/clients are at the upstream end of the industry, while prime contractors and design companies, such as general contractors, developers, and builders, are at the downstream. Businesses engaged in interior finishing and interior designing (about 100,000 firms nationwide) are at the downstream of the above mentioned, and further downstream, there are distributors who sell products.

At the downstream side of them, there are “brand designer” such as Sangetsu, which plan, design, and develop products and procure them from manufacturers, and such companies do business with about 100 distributors. In addition, manufacturing companies are at the most downstream level.

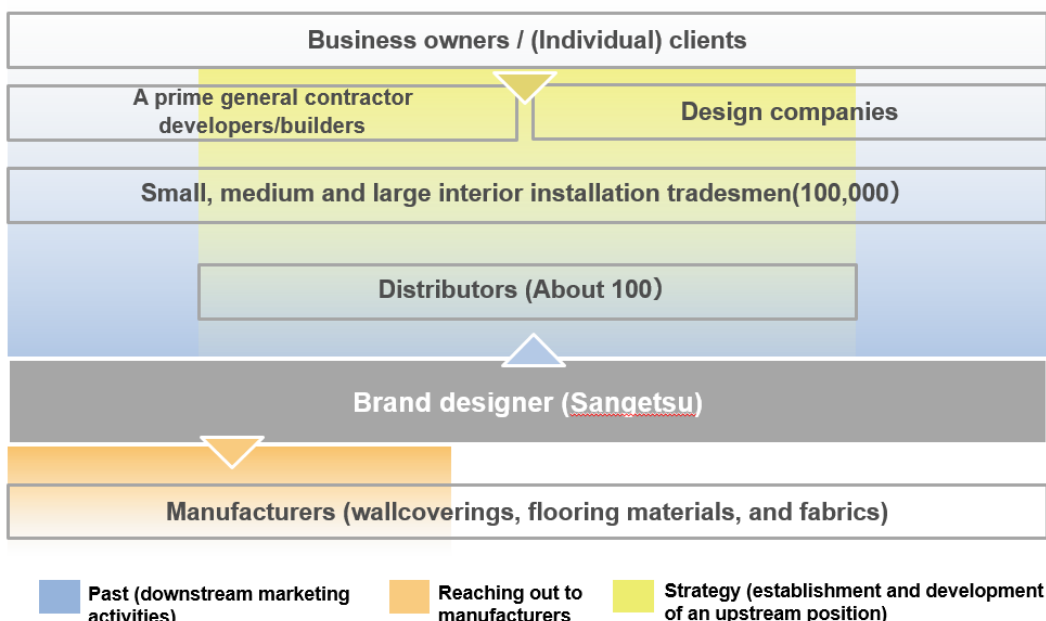
In this value chain, the basic business model of the company was to sell products from its position as a brand manufacturer to the upstream end, either through distributors to interior finishing firms, or directly sell some products, approaching prime contractors and design firms and conducting promotional activities targeted at business owners and individual clients. However, during the previous medium-term business plan period, the company made the wallpaper manufacturer CREANATE Inc. into a group company, thereby expanding into the downstream manufacturing area and partially integrating manufacturing and sales sections.

The presence of manufacturing capacity within the group has strengthened its bargaining power in the industry. In addition, the profitability of CREANATE Inc. itself has steadily improved since the time of the acquisition, and although the operation of the new Hiroshima plant will initially incur a burden of depreciation costs, the company expects to see a further improvement in profitability in the medium term through the release of original and high value-added products. The company believes that the supply of products to its overseas group companies, including those in North America, will also contribute significantly to the growth of sales and profit.

In the current medium-term business plan, the company aims to implement its BX (Business Transformation) strategy by developing its business from upstream.

The key objectives of the new medium-term business plan are to establish a position as a prime contractor, acquire design capabilities, strengthen construction management or construction capabilities, and develop a business structure that will lead to product sales. For this purpose, the company is promoting the following five measures: [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 business], and [5. Enhancing social value].

Improvement of the Position in Value Chain



(Source: the company)

[4-2 Progress of Measures]

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

The company is actively promoting mid-career recruitment. As of November 2023, 46 mid-career professionals were hired for the current fiscal year. Including the employees converted to regular ones from non-regular, the number becomes 50, accounting for about 4% of the total number of employees (currently, there are approximately 1,250 regular employees,) which is an impactful number.

The company is hiring for various departments, including designer, construction management, information systems, legal affairs, finance, accounting, region-specific, client-specific sales representatives, and logistics.

In the annual employee opinion survey, the figures for each category in general have improved, particularly in the percentage of respondents who said, "I find my current job fulfilling," which increased 5.7 points from the previous year to 72.8%, steadily approaching the target of 77% set forth in the medium-term business plan.

(2) Strengthening the ability to provide solutions

①Geographically and functionally expanding and strengthening the logistics system

The company is expanding its service crew system to deliver products to each floor and each room separately instead of delivering to the entrance of each building.

It plans to increase the number of staff members from 27 as of December 2023 to 40 by the end of March 2024.

At present, the program is being implemented in Sapporo, Tohoku (started in July 2023), 23 wards of Tokyo, Nagoya (started in October 2023), Chugoku/Shikoku, and Kyushu (started in October 2023), and is scheduled to start in Kansai during the current fiscal year.

While some distributors have similar functions, it is difficult to recruit and maintain employees, for which the company has been steadily developing a system by focusing on improving the working environment, including the salary system.

②Expanding and improving the product lineup and strengthening brand development

The development of new products in the large-format ceramic tile "GARZAS" is underway.

In addition to new products developed for use not only on walls, but also on kitchen counters and furniture tops, which went on sale in November 2023, the Sangetsu Group has developed products for use on exteriors and floor surfaces to design "harmonious interior and exterior spaces," which are unique to the Sangetsu Group, and will go on sale in the fall of 2024.

(3) Exterior and overseas business

①Exterior Business

The company is expanding this business geographically and in size and advancing it.

In the second half of the current fiscal year, the company will establish two new sales offices in the Kanto region.

In the first half of 2023, the company hired four professionals, such as construction managers and exterior designers, and eight salespersons.

In order to strengthen its ability to propose space designs, the company is strengthening its sales activities based on interior and exterior integrated proposals in cooperation with its domestic interior design business.

②Overseas Business

The office in each region will pursue its own key initiatives, focusing on business potentiality in the North American market, intensifying competition in the Chinese and Hong Kong markets, and the business model expansion in the Southeast Asian market.

One of the common challenges in each area is to "strengthen the small and medium-sized transaction system."

Both Koroseal Interior Products Holdings, Inc. and Goodrich Global Holdings Pte., Ltd. originally focused on the hospitality market (hotels). The U.S. economy is booming, as the effects of the coronavirus pandemic are gradually fading away in North America. Meanwhile, in Southeast Asia, demand has not been fully captured in response to the recovery after the subsiding of the coronavirus pandemic. In addition, competition in the hospitality market is intense, with large lots ordered at low unit prices.

Under these circumstances, in addition to the hospitality market, the company is developing small and medium-sized transaction markets with small lots, but high unit prices, such as non-residential retail stores, commercial buildings, and offices in North America, and residential buildings in Southeast Asia.

For this reason, it is necessary to change the sales structure, which conventionally depended on individual salespeople, to the one that covers the entire region as an organization, and each company is currently working on organizational changes,

including the assignment of employees.

*North America: Koroseal Interior Products Holdings, Inc.

- Organizational changes to strengthen the system for small and medium-sized transactions with high sales unit prices
- Improve production lead time and scrap rate
- Strengthen in-house wallpaper design capabilities, products other than wallpaper, and the ability to propose space solutions
- Strengthen and improve customer services

The head of Koroseal Interior Products Holdings, Inc., who took office last July, has been steadily transforming the company under his leadership.

However, the lead time (the period from receipt of an order to delivery) of other companies was 3-4 weeks, and the lead time of the company was equal to or longer than that of other companies. However, the company is now able to shorten the lead time to one week by increasing the number of products in stock in order to expand small and medium-sized transactions.

*Southeast Asia

- Strengthen the small and medium-sized transaction system, primarily for the housing market
- Strengthen space proposing and construction capabilities
- Start selling non-woven wallcovering manufactured by CREANATE Inc. and expand inventory

*Hong Kong, China

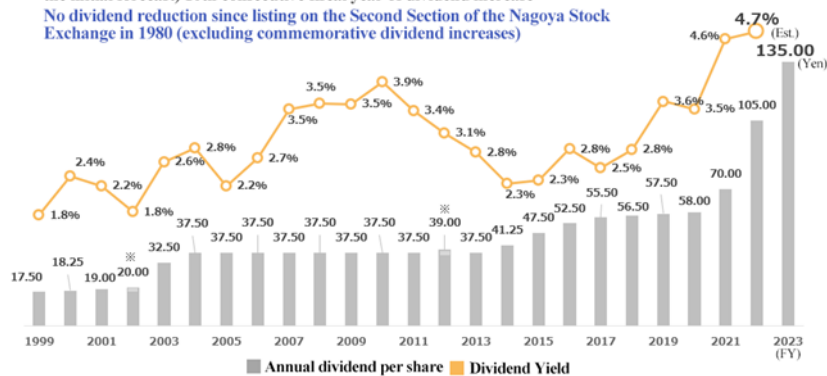
- Strengthen the small and medium-sized transaction system, primarily for the housing market
- Strengthen designers to enhance their ability to offer proposals for spaces to business owners and prime contractors
- The current situation in the Chinese market, primarily the real estate recession, is severe, and it is necessary to proceed with business restructuring

5. Conclusions

The dividend forecast for this fiscal year has been revised from 130.00 yen/share to 135.00 yen/share (up 30.00 yen/share from the previous fiscal year). The dividend amount is expected to increase for the 10th consecutive fiscal year since April 2014 when President Yasuda was appointed as president. In that period, the share price after the adjustment for share splits rose about two times (CAGR: approx. 8%). It can be said that the achievements so far are very satisfactory to shareholders and investors. The future performance does not depend on the past performance, but the competitive advantage of the domestic interior business has improved further, fortifying the business base of the company. In addition, there remain uncertainties over the overseas business, partially due to the situation of China, but the business in North America, which has the largest scale, is recovering steadily. We would like to pay attention to how speedily the company will proceed with business transformation (BX) through the medium-term management plan (2023-2025) titled BX 2025.

Dividends and Dividend Yield

Interim dividend for the fiscal year ending March 31, 2024 is 65.0 yen/share and year-end dividend is 70.0 yen/share (forecast)
 (Dividend will be increased by 30.0 yen from the previous fiscal year and 5.0 yen from the initial forecast) 10th consecutive fiscal year of dividend increase
 No dividend reduction since listing on the Second Section of the Nagoya Stock Exchange in 1980 (excluding commemorative dividend increases)



sangetsu Dividend yield for each fiscal year is calculated based on the share price (closing price) at the end of the fiscal year.

※ Figures for FY2002 and FY2012 include commemorative dividends.

Copyright Sangetsu Corporation 0

(Source: the company)

<Reference1: 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.

【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.

【Review of the previous Medium-term Business Plan (2020-2022) "D.C. 2022"】

(1) Results: Implemented measures and outcomes

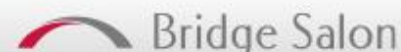
1. To expand earnings through qualitative growth of core business	<ul style="list-style-type: none"> Strengthened the product portfolio by launching products with low environmental burdens, increasing low-priced products, etc. Established a strategic procurement system, through the acquisition of CREANATE 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	-

BRIDGE REPORT



*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.

【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	<p>Complete shift to service-oriented sales business</p> <p>Business in which services generate added value</p>	<p>Providing solutions</p> <p>Business that organically integrates functions of space design, products, delivery, logistics, and construction to provide solutions</p>



(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."

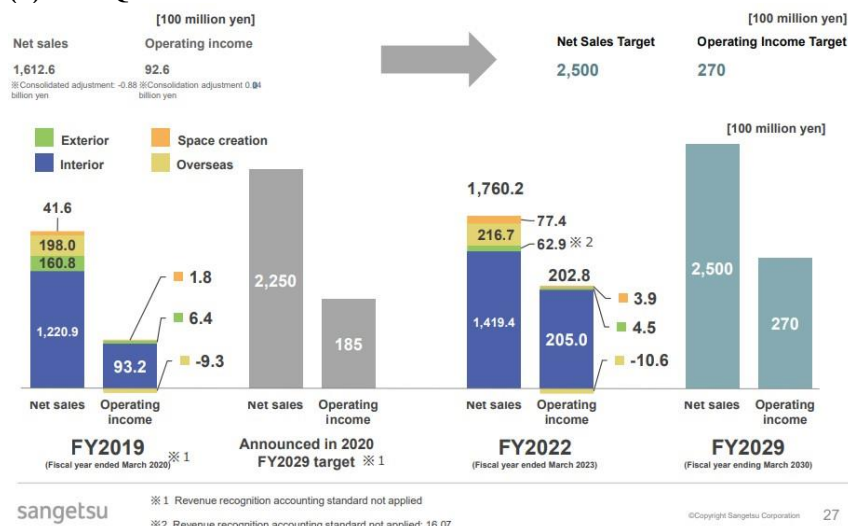
(4) Expansion into Space Operation Business as the next step beyond a Space Creation Company

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



(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.

【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.

②Accumulation, 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.

③Strengthening 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

④Exterior 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.

⑤Enhancing 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.

BRIDGE REPORT

**(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
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

BRIDGE REPORT



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.

<Reference2: Long-term Vision of Sangetsu Group 【DESIGN 2030】>

Long-term Vision of Sangetsu Group 【DESIGN 2030】

(1) Outline

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) Revision of the long-term vision “DESIGN 2030”

In the long-term vision “DESIGN 2030,” they set the goal of “transforming the Sangetsu Group into a space creation enterprise” and clearly stated their approach for transforming into a space creation enterprise, to put it into practice.

There is no change in their basic policy or strategy, but considering the progress of measures and earnings during the period of the previous medium-term management plan, the company partially revised the description of the approach, clearly stated the image of a space creation enterprise, and discussed their future businesses, while setting new quantitative goals, because the target revenue set in the long-term vision “DESIGN 2030” was achieved in the results for FY 2022.

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 the time of the above revision, the company confirmed the expansion of the revenue base and the stability of revenues through the transformation into a space creation enterprise, and recognized the necessity to expand business further without sticking to the form of the space creation enterprise, in order to achieve further 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</p>	

creation of spaces appropriate to various cultures and living.
--

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

<Reference3: 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	<p>1. Policy on strategically held shares and details of the review of the appropriateness of shareholding</p> <p>We make decisions on shares to strategically hold for the medium- to long-term by comprehensively judging from various perspectives, considering companies with which we should newly forge relationships and companies with which we should continue to strengthen relationships as our clients for business strategies. With regard to holding shares, each year we will check the associated cost and returns, and if it is determined that holding the shares has no strategic value in the medium-and long-term, we will sell the shares, and conduct operations based on that decision. The Board of Directors’ decision and a disclosure of the shares we decide to continue holding will appear in the “Shareholding status” column of the securities report.</p> <p>2. Attitude toward exercise of voting rights</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>
【Principle 2-4 Ensuring Diversity, including Active Participation of Women】	<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</p>

<p>Supplementary Principle 2-4-1 Ensuring diversity in promotion to core human resources</p>	<p>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/social/divercity_policy.html)</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 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.</p> <p>(3) Our policies on human resources development for ensuring diversity, policies on internal environment development, and their progress</p> <p>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,</p>
--	---

Supplementary Principle 3-1-3

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/social/divercity_policy.html).

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

- Investment in intellectual property

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

	<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/environment/climatechange.html).</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/environment/risk.html).</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>
Principle 5-1 Policy on constructive communication with shareholders	<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.)

BRIDGE REPORT



- 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.