 Yasumasa Kondo, President	Sangetsu Corporation (8130)
	sangetsu

Company Information

Market	TSE Prime Market, NSE Premier Market
Industry	Wholesale (Commerce)
Executive Director and President Executive officer	Yasumasa Kondo
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
¥2,967	59,200,000 shares	¥175,646 million	14.1%	100 shares
DPS Est.	Dividend yield Est.	EPS Est.	PER Est.	BPS Act.
¥150.00	5.1%	¥187.34	15.8x	¥1,816.16
				PBR Act.
				1.6x

*The share price is the closing price on June 20. Each figure is from the financial results for the fiscal year ended March 2024.

Earnings Trend

Fiscal Year	Net Sales	Operating Income	Ordinary Income	Net Income	EPS	DPS
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 Act.	189,859	19,103	19,695	14,291	243.44	140.00
March 2025 Est.	196,000	16,000	16,500	11,000	187.34	150.00

*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 fiscal year ended March 2024 of Sangetsu Corporation and interview with President Yasumasa Kondo.

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6. 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 fiscal year ended March 2024, operating income declined as increased sales did not absorb the increase in cost of sales and SG&A expenses. Sales and net income reached record highs. Sales increased 7.9% year on year to 189.8 billion yen. Sales grew in all segments. Operating income declined 5.8% year on year to 19.1 billion yen. Gross profit rose 4.6% year on year due to the sales growth, but gross profit margin declined 0.9 points year on year due to higher costs. The decline was also due to a rise in SG&A expenses (+10.4% year on year), including personnel, sales promotion, and system costs. On a quarterly basis, sales increased for the third consecutive quarter, but operating income declined for the fourth consecutive quarter.
- For the fiscal year ending March 2025, sales are expected to increase 3.2% year on year to 196 billion yen. Operating income is expected to decline 16.2% year on year to 16 billion yen. The residential market is expected to remain stagnant for both new constructions and renovation. The non-residential market is also projected to remain sluggish in terms of new construction, but steady for renovation. The company expects to increase its share of the market, particularly for medium-sized products on which it is focusing. Gross profit is forecast to increase in line with sales growth, but gross profit margin is projected to decline 0.2 points year on year due to higher procurement costs and distribution costs. The company expects operating income to decline for the second consecutive year due to higher SG&A expenses, particularly personnel and sales expenses. The dividend is expected to be 150.00 yen/share, up 10.00 yen/share from the previous fiscal year. They will increase the dividend for the 11th consecutive year, and the expected payout ratio is 80.1%.
- We asked President Yasumasa Kondo about his mission, future initiatives, and message to shareholders and investors. He answered, "What our shareholders are looking for is growth potential and a concrete path and strategy to achieve it. We have already set out the direction of pursuing and reforming our core businesses and exploring and creating new businesses, and we intend to take this direction to a more concrete level as soon as possible, share it with our employees, shareholders, and all other stakeholders, and swiftly produce numerical results. We would appreciate your support in our endeavors."
- Like in the fiscal year ended March 2024, the company expects an increase in sales, but a decrease in profit in the fiscal year ending March 2025. While the sales in the second half in the domestic interior segment are expected to hit a record high on a half-year basis, profit is projected to be lower than that in the second half of the previous fiscal year and almost the same as that in the first half. The key point will be how much cost reductions and other measures can absorb the expected rise in procurement costs.
- In the overseas segment, the sales in the first half were unchanged from the second half of the previous fiscal year, and losses continued to be posted. However, in the second half, sales are expected to increase significantly year on year and from the first half, and profit is forecast to improve to the break-even point. We look forward to seeing whether the company can sustain and expand profitability in the North American market, which it has been focusing on, through structural reforms.

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 2024, 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. In July 2024, they acquired the shares of D’Perception Pte. Ltd., which designs spaces and offers comprehensive construction services in China, Southeast Asia, mainly Singapore, and other regions.

【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.

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 fiscal year ended March 2023, the future environment surrounding the company, etc., and formulated a new Medium-term Management Plan “BX 2025” for long-term growth.

Accordingly, a task force composed of mainly employees of their group companies reviewed their corporate philosophies, and in January 2024, they set up new corporate philosophies: “Purpose: the supreme concept,” “Dream: a vision to realize based on the purpose,” “Belief: a belief as an enterprise for realizing the purpose,” and “Way: employees’ stance” with the aim of creating social value as an enterprise.

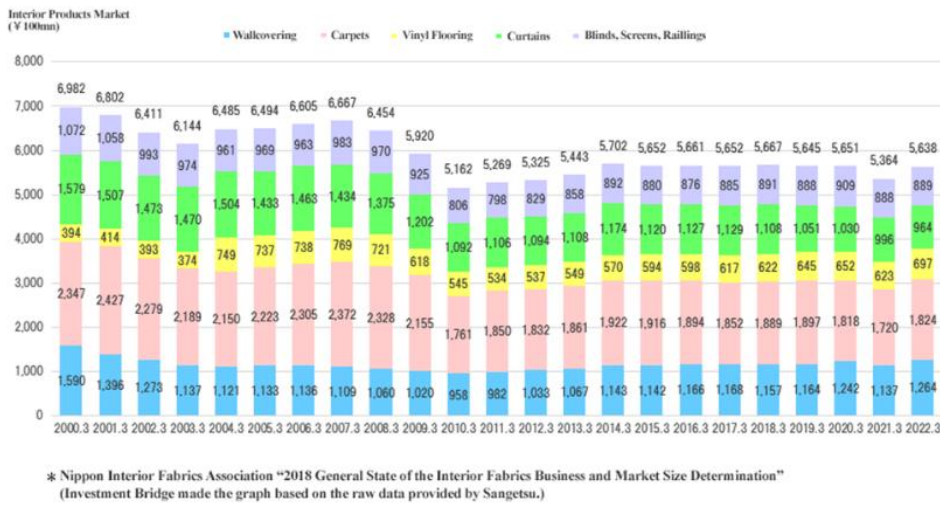
Purpose: meanings of existence	To create a space filled with peace of mind and hope, together with everyone
Dream: Vision to realize	A world where anyone can talk about tomorrow’s dream
Belief: Belief to cherish	The sincerity of each enterprise would become power to change our society.
Way: our stance	Freedom & fairness, ego & co-creation, and change & a leap forward

【1-3 Market Environment】

◎ Overview

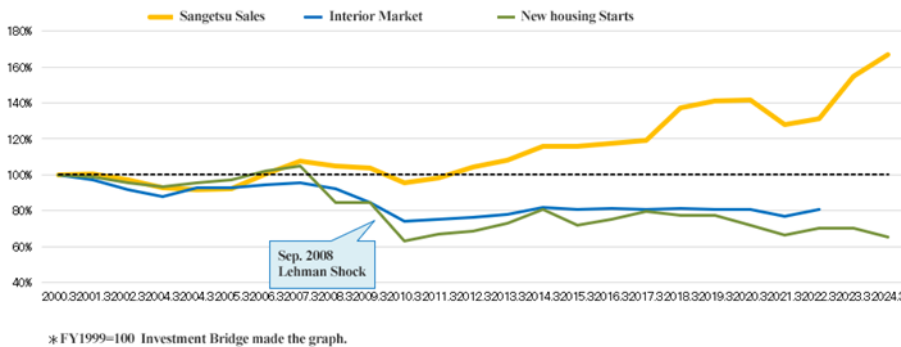
The market environment for the main wallcoverings and flooring materials is strongly influenced by trends in the Japanese construction market. Declines in new housing start arising from declining population and changing family structures within Japan, and deflationary trends have depressed sales of the interior products market as shown in the graph below.

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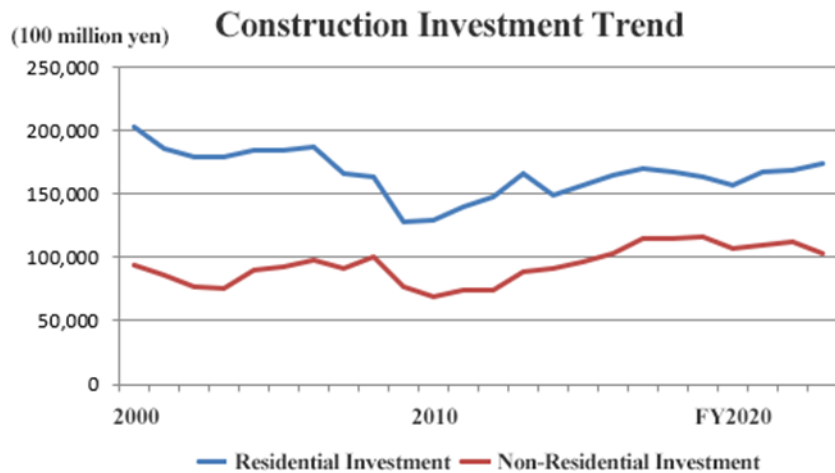


(Source: the company)

At the same time, the graph below shows the correlation between sales of Sangetsu relative to sales of the Japanese interior market and new housing starts (Ministry of Land, Infrastructure, Transport, and Tourism data). The company's 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 sales have been at record highs continuously until March 2020. In the fiscal year ended March 2021, sales dropped for the first time in 11 fiscal years, due to the COVID-19, but sales grew in the fiscal year ended March 2022, and hit a record high in consecutive years in the fiscal year ended March 2023 and the fiscal year ended March 2024.

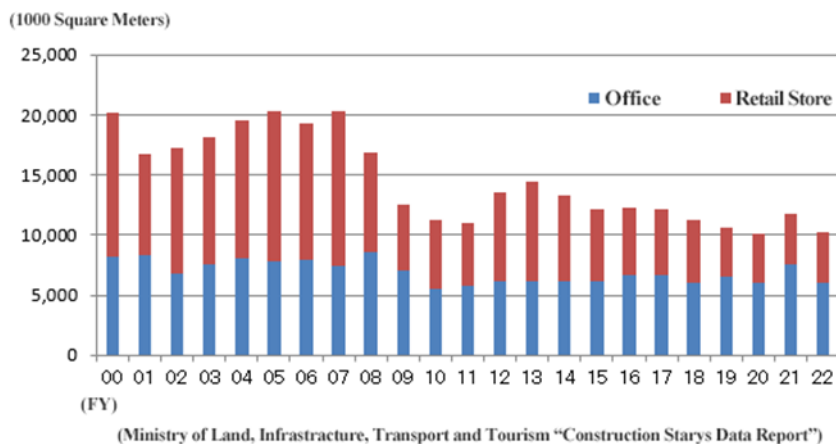


Besides M&A, this strong recovery can be attributed to Sangetsu's efforts to cultivate business in the non-residential realm in addition to private housing.



(Created by Investment Bridge Co., Ltd. with reference to "2023 Construction Investment Forecast" by MLIT)

New Constructed Office, Retail Store Floor Space Trend



According to the "2023 Construction Investment Forecast" released by MLIT, private housing construction investment, which had been on a plateau since fiscal year 2017, is growing, while private non-residential construction investment is unchanged. Accordingly, it seems that they will not grow significantly.

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 April 10, 2024, 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 COVID-19 pandemic but is expected to grow 3.1% (estimated) in fiscal 2021, 1.5% (estimated) in fiscal 2022, and 2.5% (forecast) in fiscal 2023, 2.4% (forecast) in fiscal 2024 showing a recovery. The floor area of offices and stores whose construction have been started and private building repairs (renovations and repairs) are described as follows.

Floor areas of facilities to be constructed

*Offices

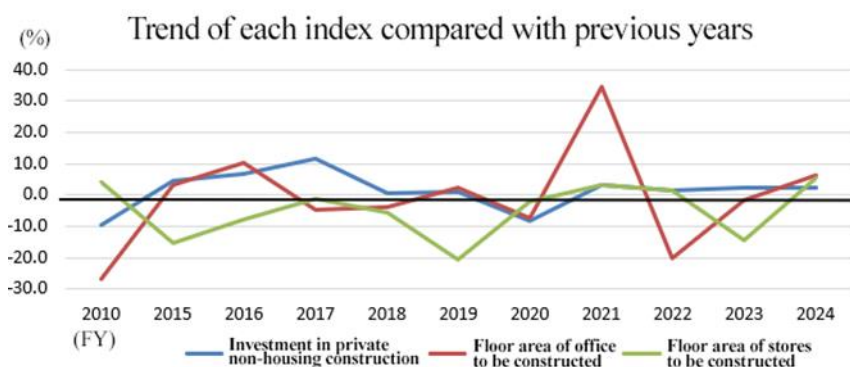
In fiscal year 2021, floor area of new offices increased 34.6% from the previous fiscal year, showing a significant recovery from the previous fiscal year, in which their business was affected by the COVID-19 pandemic. However, in fiscal year 2022, floor area of new offices dropped considerably by 20.1% due to the recoil from that. In fiscal year 2023, floor area of new offices declined 1.7%, showing a decline for the second consecutive year. In fiscal year 2024, it is expected to rise 6.3%.

They mentioned, "The floor area of new offices in fiscal year 2023 slightly declined year on year, and is projected to be the smallest since fiscal year 2016. The floor area of buildings whose construction has been started in fiscal year 2024 is expected to increase year on year, as the demand for offices is forecast to grow gently due to the continuation of recovery of the Japanese economy and a lot of offices are expected to be supplied in Tokyo in 2025."

*Stores

The floor area of stores to be constructed dropped 20.5% in fiscal year 2019 and 2.0% in fiscal year 2020, and recovered 3.4% in fiscal year 2021. In fiscal year 2022, floor area of new stores increased healthily by 1.6%, but it is forecast to drop 14.3% in fiscal year 2023. However, it is forecast to increase again by 5.6% in fiscal year 2024. It is projected that "the floor area of buildings whose construction has been started will decline year on year in fiscal year 2023, being the smallest in the past 10 years, and increase year on year in fiscal year 2024, due to the rebound from the significant decline in fiscal year 2023, although the number of newly opened large-scale stores is decreasing year by year."

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*Made by Investment Bridge according to "Outlook for Investment in Construction based on a Construction Economy Model" released by Research Institute of Construction and Economy(in April 2024).
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 the "survey on the remodeling and renovation of buildings conducted by the Ministry of Land, Infrastructure, Transport and Tourism," the number of orders received is increasing. In the housing sector, the subsidies in the governmental energy-saving campaign, etc. turned out to be effective and in the non-housing sector, there is growing interest in energy-saving measures and comfortable office environments, so investment is expected to progress healthily. Accordingly, nominal and real investments in fiscal year 2023 and fiscal year 2024 are projected to be healthy.

Like this, private investment in non-housing construction is projected to be unstable yet healthy, after the decline due to the COVID-19 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.

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.	102,200	+7.8%	3,100	+139.4%	3.0%	19,190	10.3	0.5	1.1%
4206	Aica Kogyo Co., Ltd.	250,000	+5.7%	26,500	+4.8%	10.6%	233,660	14.3	1.4	9.9%
4215	C.I.TAKIRON Corporation	145,000	+5.4%	7,600	+22.0%	5.2%	70,270	12.5	0.7	5.4%
4224	LONSEAL Corporation	21,500	+2.3%	600	-44.0%	2.8%	7,497	16.6	0.4	4.5%
5956	TOSO COMPANY, LIMITED	22,700	+5.1%	580	+20.0%	2.6%	5,320	13.7	0.3	2.1%
7971	TOLI Corp.	105,000	+2.5%	4,100	-17.6%	3.9%	23,330	7.7	0.5	8.6%
7989	TACHIKAWA CORPORATION	42,800	+3.6%	4,180	+3.3%	9.8%	27,989	9.0	0.5	6.0%
8130	Sangetsu Corporation	196,000	+3.2%	16,000	-16.2%	8.2%	175,646	15.8	1.6	14.1%
9827	Lilycolor Co., Ltd.	35,400	+8.0%	1,050	-27.1%	3.0%	8,470	9.7	1.0	11.4%

*Unit: million yen, times. Estimates are from those of the respective companies this term. Total market capitalization, PER and PBR are based upon the closing share price of each stock in June 20, 2024. 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 fiscal year.

【1-4 Business Description】

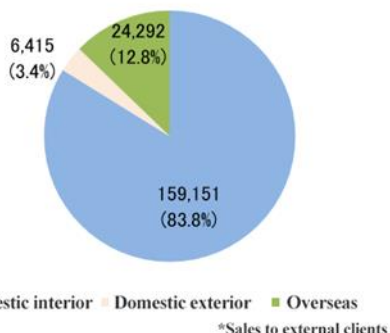
The main businesses include planning, development, and sales of wallcoverings, flooring materials, curtains, upholstery and other interior products. Although Sangetsu is fables except for some products, it is not a typical trading firm as all the products it sells are planned, designed and developed in-house. Sangetsu also provides domestic exterior products through its subsidiary.

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The Overseas Segment is operated by three subsidiaries located in the U.S., Singapore, and China/Hong Kong. The company is using three business segments: "Domestic Interior," "Domestic Exterior," and "Overseas" Segments.

Sales by Business Segment
(FY3/24, Unit: ¥ 1mn)



①“Domestic Interior Segment”

◎Main Products

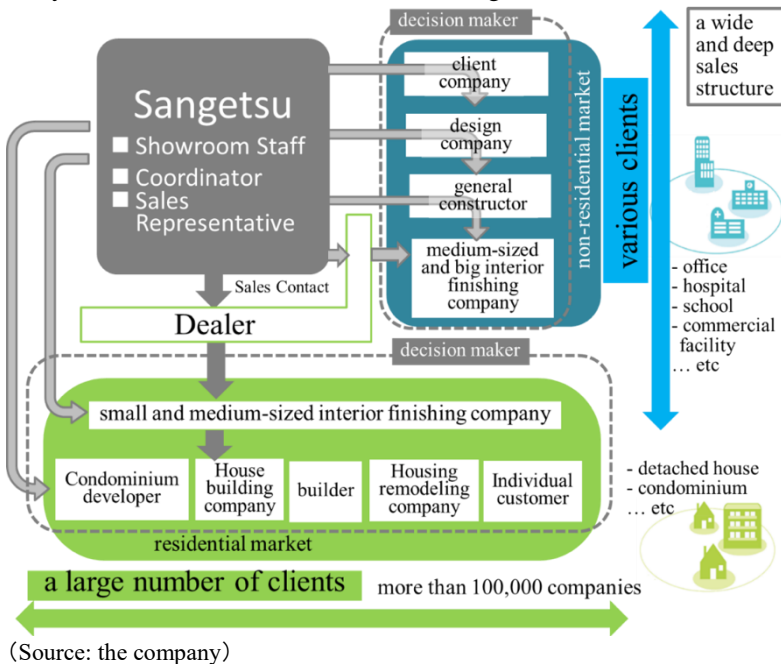
Wallcoverings	Sangetsu’s main product, used in a wide range of residential and non-residential applications. High functionality products have become popular in recent years that are resistant to staining, odor absorbing, and scratch resistant. The product lineup also includes antivirus wallcovering.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

Sangetsu boasts a diverse product lineup with about 12,000 different products in total. There are about 4,300 different wallcovering products alone. Sample books are updated approximately every 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 about 50 sales offices throughout Japan, with 8 of these sales offices also hosting showrooms as important sales offices. In March 2024, they opened PARCs

Sangetsu Group Creative Hub (PARCs) in Hibiya, Tokyo, as a new base for value creation, and transferred some functions of Tokyo Branch, which was located in Shinagawa, to PARCs.



(Source: the company)

The interior finishing process (figure shown above) 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, they are establishing local delivery systems one after another throughout Japan, while developing networks for delivering heavy objects and supplies 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

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of designing the entire space and managing installation work of the planning and development unit of the Space Planning Department of Sangetsu, Space Design Unit, and Construction Unit, which was established within the business division in April 2024, 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 Management Plan “BX 2025,” their capital policies are “to have a net worth of 95-105 billion yen at the end of March 2026,” “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.”

The equity capital as of the end of March 2024 stood at 106.6 billion yen, exceeding the upper limit, as profit increased more than expected and the market prices of shares they hold rose due to high share prices. They are discussing future policies in order to realize business administration for keeping a good balance between strategic investment for sustainable, progressive growth and shareholder return.

【1-6 ROE Analysis】

	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	FY 3/24
ROE (%)	3.7	5.6	6.0	4.2	3.5	1.5	5.1	0.3	15.3	14.1
Net income margin (%)	3.33	4.77	4.84	2.89	2.23	0.89	3.29	0.19	7.96	7.53
Total asset turnover [times]	0.91	0.95	0.88	0.91	0.94	0.96	0.90	1.01	1.13	1.13
Leverage [times]	1.21	1.24	1.41	1.60	1.67	1.74	1.73	1.69	1.70	1.66

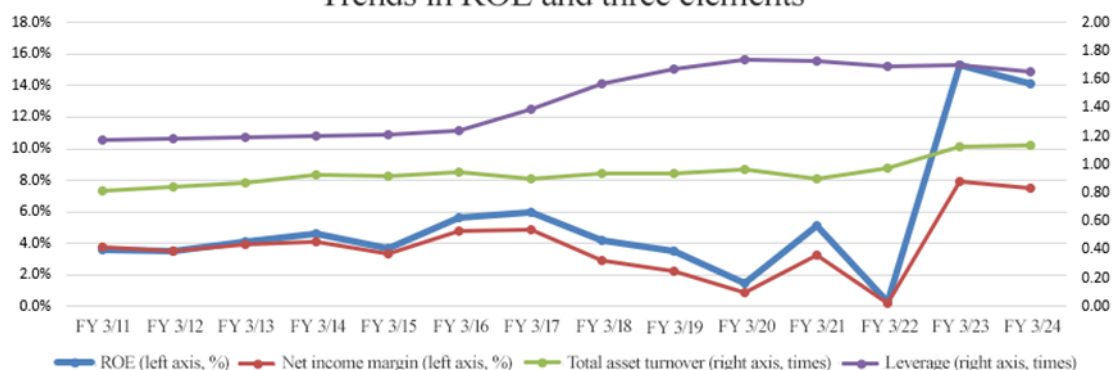
* Net income margin = Net income attributable to owners of the parent ÷ Net sales

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)

As net income margin improved significantly thanks to price revisions in fiscal year ended March 2023, ROE in fiscal year ended March 2024 considerably exceeded 8%, which is the value that should be targeted by Japanese enterprises.

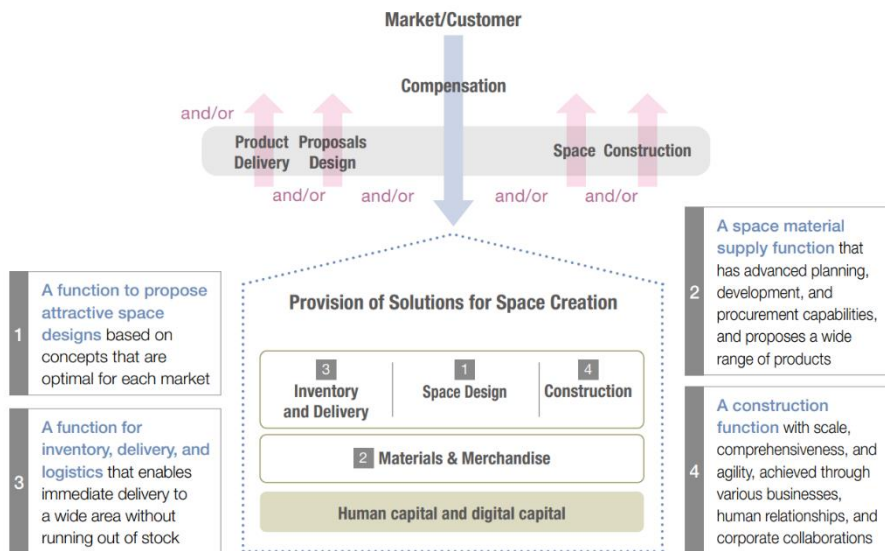
Trends in ROE and three elements



[1-7 Characteristics and strengths]

A business model that integrates manufacturing and sales, covering the entire value chain with continuous and complex functions, consisting of “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,” 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 domestic 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. (FY 2023)>

Space design professionals: about 90 employees
Domestic interior marketing: 40 offices
Domestic exterior marketing: 16 offices
Overseas marketing: 7 countries

(2) Function to provide space materials

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 Koroseal, a North American company, and CREANATE Inc. (former name: Wavelock Interior), which boasts the largest production number of wallcoverings in Japan, as a group company in November 2016 and March 2021, respectively, 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. (FY 2023)>

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.

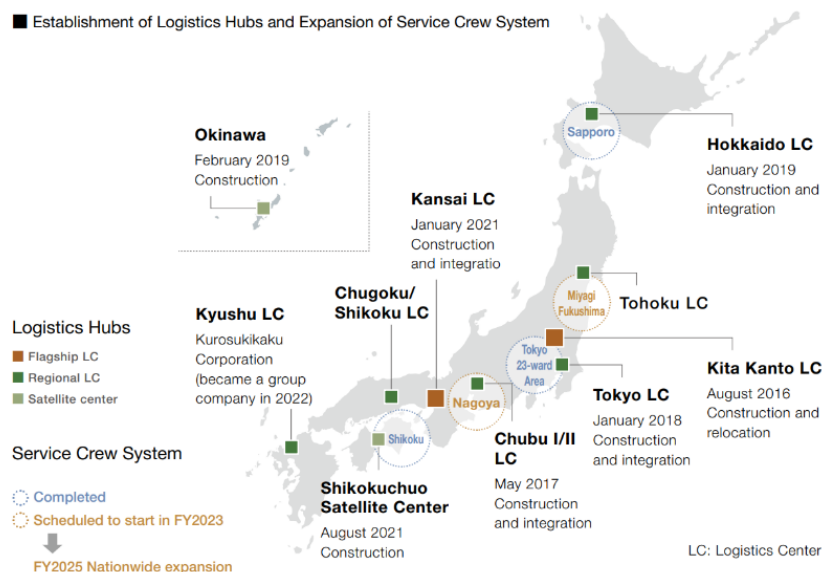
As logistics bases, the company has established two flagship logistics centers (LCs), which function to back up inventory in each region by using a huge space and serve as an inventory base in each area, and 6 local LCs, which serve as an inventory base in each area, and is also proceeding with the establishment 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 39 as of the end of fiscal year 2023, 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. (FY 2023)>

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: 39 workers



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

(4) Interior finishing function

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 measures 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 organizational restructuring 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 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. In April 2024, they established Construction Unit, which controls the group-wide system and foundation for installation works, in order to hone not only the capability of putting up wallcoverings and installing flooring materials, but also the comprehensive interior finishing capacity to produce a whole space.

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.

<Major resources, (FY 2023)>

First and second-class architects: 30 people
Building operation and management engineers: 95 people

2. Fiscal Year ended March 2024 Earnings Results

【2-1 Earnings Results】

	FY 3/23	Ratio to sales	FY 3/24	Ratio to sales	YoY	Ratio to forecast
Net Sales	176,022	100.0%	189,859	100.0%	+7.9%	-0.6%
Gross profit	56,374	32.0%	58,959	31.1%	+4.6%	-2.1%
SGA	36,094	20.5%	39,856	21.0%	+10.4%	-0.9%
Operating Income	20,280	11.5%	19,103	10.1%	-5.8%	-4.5%
Ordinary Income	20,690	11.8%	19,695	10.4%	-4.8%	-3.9%
Net Income	14,005	8.0%	14,291	7.5%	+2.0%	-2.1%

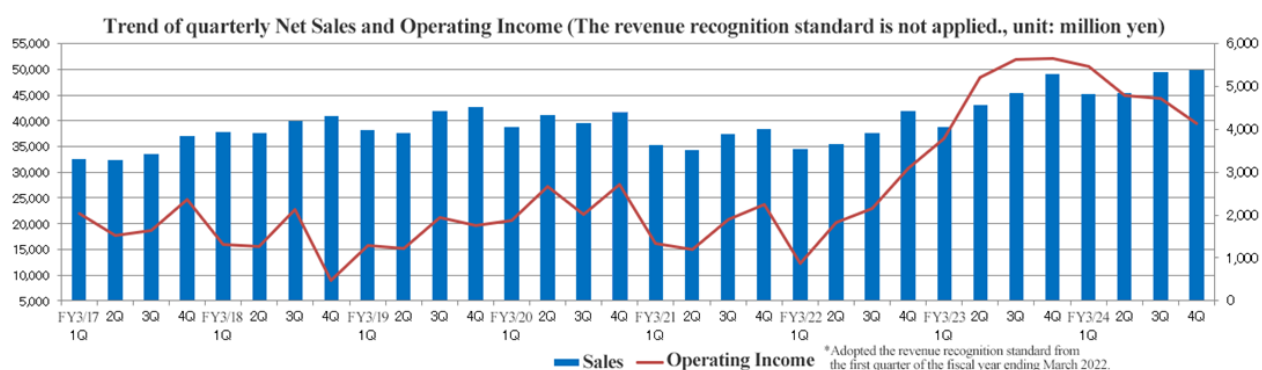
*Unit: million yen. Net income is profit attributable to owners of the parent.

Operating income declined as increased sales did not absorb the increase in cost of sales and SG&A expenses. Sales and net income reached record highs.

Sales increased 7.9% year on year to 189.8 billion yen. Sales grew in all segments.

Operating income declined 5.8% year on year to 19.1 billion yen. Gross profit rose 4.6% year on year due to the sales growth, but gross profit margin declined 0.9 points year on year due to higher costs. Operating income declined as a rise in SG&A expenses (+10.4% year on year), including personnel, sales promotion, and system costs, could not be fully absorbed.

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On a quarterly basis, sales increased for the third consecutive quarter, but operating income declined for the fourth consecutive quarter.

【2-2 Business Segment Trends】

	FY 3/23	FY 3/24	YoY
Net Sales			
Domestic Interior Segment	147,962	159,157	+7.6%
Wallcovering Unit	72,596	77,236	+6.4%
Flooring Materials Unit	51,559	56,356	+9.3%
Fabrics Unit	9,440	9,505	+0.7%
Construction and others	14,365	16,058	+11.8%
Domestic Exterior Segment	6,293	6,462	+2.7%
Overseas Segment	21,783	24,292	+11.5%
Adjustments	-17	-53	-
Total	176,022	189,859	+7.9%
Operating Income			
Domestic Interior Segment	21,102	19,489	-7.6%
Domestic Exterior Segment	450	-77	-
Overseas Segment	-1,273	-311	-
Adjustments	1	2	
Total	20,280	19,103	-5.8%

*Unit: million yen.

① Domestic Interior Segment

Sales increased, but profit decreased.

Sales remained steady. While industry-wide shipments of both wallcoverings and flooring materials were down from the previous fiscal year, the company's shipments increased. The company was able to increase its market share. However, there was a slowdown in the new residential construction market in March 2024, which affected shipment volume.

While selling prices remained almost flat throughout the fiscal year 2023, distribution costs and some raw material costs soared, resulting in a decrease in gross profit per unit.

To realize the vision of being a "Space Creation Company," 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.

"Construction Unit" has been established within the business department for the installation function.

This unit will strengthen its efforts in comprehensive interior finishing, which involves a long span of work, including wallpapering, and will address issues related to installations, by studying measures to address the shortage of craftsmen, which is a major challenge in the construction industry.

In view of the Japanese logistics issue in 2024, the company enhanced supply chain management, established a more detailed

regional delivery system, including inter-hub transportation, and increased its service crew in charge of delivery services.

In the Space Planning Department, in addition to expanding space proposal activities by the planning and development unit in each region, the product unit published sample books such as "Reatec" for adhesive-backed decorative films and "UP" for upholstery. Furthermore, following the publication of the residential wallcovering sample book "FINE" in the fiscal year ended March 2024, and carpet tile sample books "NT700," "DT," and vinyl floor tile sample book "FLOOR TILE," it worked with the business department to penetrate the market. The reinforcement of each function the company has been focusing on has also been successful, and sales of products such as Reatec, glass films, upholstery, floor tiles, and carpet tiles, which are positioned as "medium-sized products" in the medium-term management plan and are expected to expand their share and market, have shown steady growth. Sales of these product groups increased over 10% from the previous fiscal year.

② Domestic Exterior Segment

Sales increased, but a loss was recorded.

Although the overall exterior market remained stagnant due to sluggish new housing starts, the number of orders received increased due to efforts to make proposals for residential and non-residential renovation properties, public works projects, and other projects outside the new housing market.

Proposals, including exterior space design and installation, as well as joint proposals for exteriors and interiors in collaboration with Sungreen, have steadily progressed. In addition to sales activities targeted at architectural firms and general contractors, the company has promoted collaboration for the development of original exterior products.

On the other hand, upfront investments such as the expansion of personnel based on the company's growth strategy, the recruitment of specialized personnel, and measures for geographic expansion into the Kanto region have resulted in an increase in SG&A expenses, leading to an operating loss.

③ Overseas Segment

Sales grew, and deficit shrunk.

The financial results of overseas affiliated companies for the period from January to December 2023 are included in the consolidated results for the fiscal year ended March 2024.

Since the fiscal year ended March 2024, the administrative costs of the head office, which were previously included in the domestic interior segment, have been included in the overseas segment.

<North American market>

In addition to an increase of orders for medium- and large-scale properties due to a recovery in demand in the hotel sector, which is the company's main market, sales of products with high unit prices, primarily wallcoverings manufactured in-house, remained strong. In terms of profit, the company achieved to become profitable in operating income by improving production efficiency through the increase of production volume and reducing costs through the withdrawal from unprofitable products in the fiscal year ended March 2023.

<Southeast Asian market>

While construction demand, especially in the hotel sector, was generally recovering although the recovery pace varies among countries, sales grew year on year, particularly in Thailand and Vietnam. In addition to promoting the market penetration of "goodwall SEED," an overseas sample book produced by the wallcoverings manufacturer CREANATE, and improving the brand image of products and services through the update of the website, the company strengthened the foundation of each function tailored to the situation of each country, such as enhancing the organizational structure through optimal human resources allocation as part of the enhancement of the space creation functions.

<Chinese and Hong Kong markets>

Against the backdrop of a sluggish real estate market and declining consumer confidence due to the deteriorating employment environment, conditions remained challenging, especially in the residential sector. To build a more stable and solid business foundation, the company worked to expand its customer and sales channels, develop a market-specific sales structure, strengthen its space design proposal capabilities by hiring designers, and improve its shipping system.

【2-3 Financial standing】

◎Main BS

	End of Mar.23	End of Mar.24	Increase/ Decrease		End of Mar.23	End of Mar.24	Increase/ Decrease
Current Assets	104,843	107,463	+2,620	Current Liabilities	56,565	53,273	-3,292
Cash, Equivalents	24,817	25,096	+279	Payables	30,856	32,762	+1,906
Receivables	56,209	59,247	+3,038	Short-Term Debt	9,041	6,233	-2,808
Marketable Securities	300	300	0	Noncurrent Liabilities	12,063	10,767	-1,296
Inventories	20,925	21,787	+862	Long-Term Debt	1,413	1,251	-162
Noncurrent Assets	59,610	63,287	+3,677	Total Liabilities	68,629	64,040	-4,589
Tangible Assets	36,825	39,909	+3,084	Net Assets	95,825	106,709	+10,884
Intangible Assets	3,512	3,228	-284	Retained earnings	64,138	70,799	+6,661
Investments, Others	19,273	20,149	+876	Treasury Stock	-849	-791	+58
Total Assets	164,454	170,750	+6,296	Total Liabilities, Net Assets	164,454	170,750	+6,296
				Capital Adequacy Ratio	58.2%	62.5%	+4.3pt

*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 increased 6.2 billion yen from the end of the previous term to 170.7 billion yen, due to the increases in receivables and tangible assets.

Total liabilities decreased 4.5 billion yen from the end of the previous term to 64.0 billion yen, as debt decreased, etc.

Net assets increased 10.8 billion yen from the end of the previous term to 106.7 billion yen, due to the rise in retained earnings.

As a result, capital-to-asset increased 4.3 points from the end of the previous term to 62.5%. Long- and short-term debt decreased 2.9 billion yen from the end of the previous term to 7.4 billion yen.

【2-4 Topics】

◎ Initiatives for sustainability

① Corporate philosophy

In January 2024, with the creation of social value as a company in mind, they established a new corporate philosophy, the Purpose (Meanings of Existence): “With all people we collaborate to create peaceful and inspirational spaces,” as the highest concept.

In addition, the vision of the future based on Purpose was newly defined as Dream, the belief as a company that shapes Purpose as Belief, and the attitude of employees as Way. Furthermore, along with this formulation, they have redefined the “realization of an inclusive, sustainable, and enjoyable society” advocated in the long-term vision “DESIGN 2030.”

② The environment

In “SP,” a sample book for mass-production wallcoverings published in June 2023, they included the industry's first product using an environmentally friendly non-fluorinated water repellent (PFC-free). In the carpet tile sample books “NT700” and “DT,” published in November of the same year, and the upholstery sample book “UP,” published in February 2024, they have expanded the lineup of low-environmental-impact products using recycled materials for raw materials such as thread. In order to contribute to a decarbonized society and the conservation of water resources, the company has assembled a large number of low-environmental-impact products for wallcovering materials, floor materials, and fabrics and is promoting product development to realize a sustainable society.

In order to reduce the environmental impact of corporate activities, the company has set targets for reducing GHG emissions, reducing energy consumption, and improving the recycling rate (effective utilization rate). As part of its efforts to reduce GHG emissions, the company has started a self-generation service in which part of the electricity generated by a solar power generator at a distribution facility in Inazawa City, Aichi Prefecture, is transmitted to the head office and Chubu Branch Office

in Nagoya City, Aichi Prefecture.

③ 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. Specifically, “PARCs” in Hibiya, Tokyo, which was established as a new value creation base, is promoting initiatives that lead to the “well-being” of working employees and visitors. It has obtained the preliminary certification of “WELL Building Standard™ v2” and aims to obtain gold-level certification in the future.

Furthermore, in recognition of its long-term efforts for “encouraging employees to work actively and lead healthy lives” based on its Basic Policy on Health-oriented Business Administration, the company was recognized as an “excellent corporation in terms of health-oriented management in 2024” for the fifth consecutive year and the sixth time in total.

In terms of “Diversity, Equity, and Inclusion,” initiatives such as the continued holding of seminars to deepen understanding of LGBTQ+ and the introduction of the “Same-Sex Partnership System” were highly evaluated, and the company was awarded gold certification for the first time in the “PRIDE Index 2023,” an evaluation index for LGBTQ+.

④ Social capital

Since 2014, they have supported the renovation of orphanages in cooperation with NPOs that support children in developing countries and participated in industry-academia collaboration projects. These and other ongoing initiatives encourage employees to proactively participate.

Continued support was provided to children in need of assistance and to four NPOs (Habitat for Humanity Japan, Aichi Children's Hospice Project, Mirai Kodomo Foundation, and Chance for Children) working to resolve social issues related to housing. In addition, as support for humanitarian crises caused by disasters and conflicts, assistance was provided for earthquake damage in the Kingdom of Morocco and earthquake damage in the Noto Peninsula. Furthermore, they are expanding their efforts with external stakeholders. For example, they are a gold sponsor of the “HERALBONY Art Prize 2024,” which is an award for artworks by people with disabilities around the world.

3. Fiscal Year ending March 2025 Earnings Forecasts

[3-1 Earnings Forecasts]

	FY 3/24	Ratio to sales	FY 3/25 (Est.)	Ratio to sales	YoY
Net Sales	189,859	100.0%	196,000	100.0%	+3.2%
Gross profit	58,959	31.1%	60,500	30.9%	+2.6%
SGA	39,856	21.0%	44,500	22.7%	+11.7%
Operating Income	19,103	10.1%	16,000	8.2%	-16.2%
Ordinary Income	19,695	10.4%	16,500	8.4%	-16.2%
Net Income	14,291	7.5%	11,000	5.6%	-23.0%

*Unit: million yen.

The company forecasts an increase in sales and a decrease in profit.

Sales are expected to increase 3.2% year on year to 196 billion yen. Operating income is expected to decline 16.2% year on year to 16 billion yen.

The residential market is expected to remain stagnant for both new constructions and renovation. The non-residential market is also projected to remain sluggish in terms of new construction, but steady for renovation. The company expects to increase its share of the market, particularly for medium-sized products on which it is focusing.

Gross profit is forecast to increase in line with sales growth, but gross profit margin is projected to decline 0.2 points year on year due to higher procurement costs and distribution costs. The company expects operating income to decline for the second consecutive year due to higher SG&A expenses, particularly personnel and sales expenses.

The dividend is expected to be 150.00 yen/share, up 10.00 yen/share from the previous fiscal year. They will increase the dividend for the 11th consecutive year, and the expected payout ratio is 80.1%.

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



*Adopted the revenue recognition standard from the the fiscal year ending March 2022.

[3-2 Business Segment Trends]

	FY 3/24	FY 3/25 (Est.)	YoY
Net Sales			
Domestic Interior Segment	159,157	161,000	+1.2%
Domestic Exterior Segment	6,462	6,300	-2.5%
Overseas Segment	24,292	28,700	+18.1%
Adjustment	-53	-	-
Total	189,859	196,000	+3.2%
Operating Income			
Domestic Interior Segment	19,489	16,250	-16.6%
Domestic Exterior Segment	-77	50	-
Overseas Segment	-311	-300	-
Adjustment	2	-	-
Total	19,103	16,000	-16.2%

*Unit: million yen.

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

The progress of measures in the Medium-term Management Plan 【BX 2025】 is as follows:

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

① To substantially increase diverse mid-career recruitment and recruit more fresh graduates

- In fiscal year 2023, 49 new employees were recruited, indicating an increase of 31 from the previous fiscal year.
- Of the 91 mid-career hires who joined the company in fiscal year 2020 or later, about half are in the space planning division, which handles designers, construction management, and product development. They are promoting measures to evolve into a space creation company. At the same time, the company is recruiting almost the same number of IT engineers and other specialized staff members in each corporate function. It is also building a foundation for business expansion.
- The number of employees increased by 98 on a consolidated basis and by 41 on a non-consolidated basis from the end of the previous fiscal year. The number of fresh graduates recruited (non-consolidated) increased from 50 to 63.
- Through regular pay raises, etc., the base salary is expected to increase by about 5% in fiscal year 2024, following an increase of about 7% in fiscal year 2023.
- An engagement survey was adopted as a measure to improve employee engagement, with the objectives of “clarifying the factors that constitute engagement through data visualization,” “accelerating aggregation and analysis of data,” “understanding the company’s own position by comparing their company with other companies,” and “understanding the current status of each organization and implementing specific improvement measures based on the survey results.” With the adoption of this tool, the target for the KPI “engagement score” in the medium-term management plan has been changed.

The score in the survey implemented in December 2023 was 53.7 (rating BB), while the target score for fiscal year 2025 is 58.0 (rating A).

② Improve the working conditions and environment

A project to improve the working environment has been launched as part of initiatives to strengthen human capital in order to realize new ways of working. Aiming to realize the ideal office as a “space creation company,” they plan to relocate and renovate offices at each branch and business site.

At Kita-Kanto Branch, which is currently undergoing a renovation plan, employees took the initiative in creating an office layout to facilitate communication by allowing employees to walk around freely, which is scheduled to be completed in fiscal year 2024.

The Hibiya PARCs, which opened in March 2024, adopted Activity-Based Workplaces (ABW) and obtained the preliminary certification of the “WELL Certification,” a global assessment index for buildings focused on people's health and well-being.

(2) Accumulation, analysis, and utilization of digital capital

① To make marketing and logistics more efficient and reliable using commercial and logistics data

Supply chain management is being reviewed and strengthened with the aim of “optimizing inventory,” “rectifying suppliers’ processes by improving procurement planning functions and collaboration,” “increasing profits by reducing costs,” and “increasing orders and sales by improving delivery services.”

In Step 1 of the current initiatives, with the aim of “optimizing the inventory of Sangetsu LC (Logistic Center),” which is the most important element in the supply chain, the calculation logic of appropriate inventory and automatic replenishment flow are being prepared. The target will gradually be expanded to each regional LC, and they aim to complete it by the end of fiscal year ending March 2026.

② To improve business operations and promote digitalization of on-site operations

*** To establish a centralized system for data utilization**

The flow of various data related to business, such as accounting, order receipt, sales, shipping arrangements, marketing activities, and customer data, which had previously been managed individually, is centrally managed and made visible. By doing so, efforts are being made to improve the efficiency of logistics, optimize the supply chain, and promote the use of data company-wide.

*** To promote company-wide cross-organizational digital projects**

On-site staff take the initiative in promoting the project. The “RPA Project” and “AppSheet Utilization Project” are promoted to develop human resources versed in digital technology and respond to further business growth and changes with a sense of speed.

The RPA project, which started in 2020, is aimed at promoting workstyle reform and increase employees’ productivity. By utilizing RPA, they aim to increase efficiency by automating routine operations.

As of March 2024, 205 robots were created, resulting in a reduction of approximately 11,000 working hours per year.

The AppSheet utilization project, launched in 2023, is aimed at digitalizing operations and improving productivity by turning ideas for business improvement and information utilization into apps through the use of AppSheet, a tool for developing mobile and desktop apps easily without coding.

As of March 2024, 157 applications have been implemented.

About 10% of all employees are participating in both projects, and they aim to further increase the participation rate in the future.

*** To build a safe environment to use generative AI and start using/validating it**

They are beginning to validate the safe use of generative AI.

In March 2023, the company began using generative AI from in-house applications and AI that automatically generates interior images. Currently, it is working to use AI that makes use of in-house data, such as AI that answers based on in-house documents and AI that searches for similar products from images.

In the future, the company will consider full-scale applications in business outside the company, such as AI that automatically proposes spatial designs and owned media AI that updates customer experiences.

(3) Strengthening the ability to provide solutions

① Expanding and improving the product lineup and strengthening brand development

They are strengthening the lineup of functional and environment-friendly products through collaboration with external partners.

“Light Fresh WALL” is an anti-virus wallpaper that suppresses viruses by utilizing TOTO LTD.'s “Hydrotect” environmental purification technology. It is a functional product that has acquired SIAA certification and PIAJ certification.

“MEGURReWALL,” a low-environmental-impact product made from recycled materials such as resin offcuts, rice husks and cypress offcuts, won the “iF Design Award 2024,” an internationally prestigious design award.

The company has been proposing integrated interior and exterior solutions for a long time and considers “Chayagasaka Progress” in Nagoya City, Aichi Prefecture, as a good representative example.

The Sangetsu Group is in charge of project management, designing, management, and construction of the condominium at “Chayagasaka Progress.” Sangetsu Corporation designed and constructed the interior space in the building, and Sungreen Co., Ltd. designed and constructed the exterior and planting space. Taking advantage of the strength of the integrated proposal for interiors and exteriors, products such as large-sized ceramic tiles “GARZAS” and decorative film with adhesive “Reatech” were installed in the spaces inside and outside the building.

They will further strengthen their comprehensive proposal capabilities such as construction management and spatial design proposals.

② Geographically and functionally expand and strengthen logistics system

The following measures are being taken to address the Japanese logistics issues in 2024.

- To increase the number of service crews in order to provide individual deliveries to contractors and construction sites and to enhance delivery services.
- In order to improve the efficiency of the transportation system from the flagship center to each regional base, the transportation between bases is being restructured. The company is responding to the tightening of delivery schedules of external suppliers.
- In the Kyushu area, a new delivery system was established in cooperation with “Cross Planning,” a group company with a strong distribution network in the region.

They recognize that the following issues need to be resolved: “improving efficiency and saving manpower in logistics functions,” “reviewing and restructuring the delivery system from procurement logistics to the last mile,” and “implementing efficiency improvement measures based on SCM (utilizing demand forecasts, etc.).”

③ To strengthen market-specific spatial design and space proposal capabilities

The company is engaged in a wide range of fields, both residential and non-residential, and is working to strengthen its spatial design proposal function in response to customer needs.

Based on consulting and marketing research, the design strategist organizes the client's issues and requirements, drafts business plans, and makes high-quality, comprehensive proposals that take into account both business and design.

In fiscal year 2023, the Space Design Unit, which makes space proposals for residential and non-residential buildings, had 86 employees, up 49 employees from fiscal year 2019. The target for fiscal year 2025 is 120 employees. The aim is to develop a system that can meet the needs in a variety of sites.

④ To improve their interior finishing capability and construction management system

Construction Unit was newly established in April 2024 in order to strengthen not only the surface finishing ability, such as the installation of wallcoverings and flooring materials, but also the comprehensive interior finishing capacity, which shapes the entire space.

The following measures will be promoted.

“Building a business that creates new value: Build a business model that utilizes the functions of the entire group to carry out design and installation.”

“Strengthening and improving infrastructure: Improve systems to expand business, including profit management.”

“Establishing personnel systems: secure and train professional human resources, subcontractors, and craftsmen.”

“Centralizing management of risks in work: Manage compliance, safety and health, and quality to build a stable business.”

The program started with 12 employees. The target is to double the number of employees to 25 in fiscal year 2025.

(4) Exterior and overseas business

① Expand the exterior business geographically and in scale and upgrade it.

In order to strengthen its sales network in the Tokyo Metropolitan Area, which is its largest market, it opened Tokyo East Branch (Misato City, Saitama) in February 2024 and Saikyo Branch (Toda City, Saitama) in March 2024. It aims to gain market share and increase profits in the South Kanto area through new market cultivation.

In addition, the company will expand cooperation between Sangetsu and Sungreen, such as the aforementioned “Chayagasaka Progress,” and strengthen integrated proposals for interiors and exteriors by improving the system through the expansion of specialized human resources.

By strengthening the sales network and interior/exterior's space proposal capabilities, they will enhance the functions as an

exterior business of the Sangetsu Group.

② Growth strategy and measures in overseas business

*North America

As mentioned above, in addition to an increase of orders for medium- and large-scale properties due to a recovery in demand in the hotel sector, which is the main market, sales of high-unit-price products such as wallcoverings manufactured in-house were solid. In terms of profits, the company achieved to become profitable in operating income as a result of improved production efficiency due to increased production volumes and reduced costs achieved by the withdrawal from unprofitable products in the fiscal year ended March 2023.

Since 2022, the company has been reforming and evolving through a major reshuffle of the top management, and the effects are starting to appear.

In the future, they will continue to expand production capacity, develop products with functionality and low environmental impact, and work on new commercial products such as flooring materials and fabrics. They also plan to increase the number of employees.

The company changed its logo in April 2024 as another brand development to change its image from a long-established company into one with creative and growth potential.

*Southeast Asia

The company will expand their space creation functions, including construction, design, and delivery and as part of such strategy, they made "D' Perception Pte. Ltd.," a group company, on July 1, 2024.

Established in 1991, D' Perception is one of the leading spatial design and general interior construction companies in Asia. It has a strong and proven track record in the public and private office sector in Singapore and other parts of Asia.

The company is capable of developing spatial design and comprehensive interior design work in Southeast Asia, China, and India, which will contribute to the launch and strengthening of the comprehensive space proposals business overseas through collaboration with Goodrich.

*Hong Kong, China

Although the business environment continues to be difficult, sales strategies and measures such as reducing delivery times have been effective since around autumn 2023, and the number of orders started to improve.

They will work to strengthen the business base and expand the customer base by strengthening inventory, delivery systems, and promotions.

5. Interview with President Kondo

We interviewed President Yasumasa Kondo, who assumed the position as new president in April 2024, about his mission, future initiatives, and his message to shareholders and investors.

Q: What do you consider to be your personal mission?

As president, I believe that I have two missions for our shareholders, especially in terms of business operation.

The first is to pursue and reform our core business, centered on the domestic interior business.

Sangetsu, with its 70-year history, has a strong domestic sales network and excellent products such as wallcoverings, flooring materials, and fabrics. In recent years, Sangetsu has also focused on strengthening its product planning, development, logistics, installation, and other functions. Our customers have recognized these efforts, leading to an expansion of our market share and significant growth in sales and profit. Having such a strong business foundation is a major strength and competitive advantage of our company, but the domestic market will shrink inevitably due to the declining birthrate and aging population. Therefore, it is necessary to steadily generate profits not only from the domestic interior business, which has a solid foundation, but also from the domestic exterior business, the overseas business, and the comprehensive space proposal business.

Regarding the domestic exterior business and the overseas business, we will introduce the business model that has been successful and established in the domestic interior business into each of these businesses. Compared to the business model of Sangetsu's founder in the domestic interior business, which was "to receive orders and deliver products immediately," Sangetsu's comprehensive space proposal business has a longer workflow, including planning, development, order receipt, installation, and after-sales follow-up. Therefore, Sangetsu will develop its business infrastructure and strengthen its staff by hiring mid-career personnel with specialized knowledge to achieve profitability.

The second is the exploration and creation of new businesses.

Focusing only on existing core businesses will limit the room for growth. Therefore, in this era of extremely rapid environmental change, we must find new businesses and achieve further growth. In April 24, the Business Creation Promotion

Division was newly established as an organizational structure to address this issue.

We have formed a task force and begun discussions on what our strengths are and what kind of business we should develop by leveraging them.

I recognize that it is my mission for our shareholders to strive for the above two goals with a company-wide awareness of change and challenge.

Q: What are your strengths and how do you plan to leverage them at Sangetsu?

My business career began in 1986 when I graduated from college and joined a general trading company.

At the general trading company where I worked for 31 years, I was mainly involved in the plastics-related business. Plastic is such an extremely versatile and useful material that it is considered one of the greatest inventions in the 20th century. It is used in automotive parts, electrical products, and medical equipment, as well as in wallcoverings and flooring materials handled by Sangetsu.

Since this material is used on such a wide scale, we have a wide range of business partners, and I feel that being able to do business with a variety of companies and people has helped me know and understand diverse values.

I also spent five years working in Singapore for a general trading company. Singapore is one of the international business hubs, so the scope of business is not limited to Asia, including China and Hong Kong, but extends to the Middle East. This allowed me to experience and work with a diverse range of regions first hand. Through this, I have learned that mutual trust among people with diverse ideas is important for creating and strengthening a business, and I believe that my leadership to promote teamwork among diverse members both domestically and internationally is my strength.

After working at the general trading company, I was also involved in the management of a plastic-related manufacturer.

Experience in the management of a manufacturing company, with an emphasis on “on-site” work, which is completely different from the business of a trading company, has been a great asset for me.

The ability to emphasize diversity and promote management that makes the most of it, as well as management experience in both trading and manufacturing, which are important functions for Sangetsu, are two things that I believe will be of great use to our group.

Q: What message would you like to convey to your employees?

People are the cornerstone of any company or organization, and I want to do my best to motivate our employees and enhance their capabilities in order to strengthen the human capital of our company. At the same time, because we have a stable business foundation, I feel that our employees are a bit calm or conservative, so I would like them to work with even greater enthusiasm for change and endeavor.

In terms of creating an environment that supports change and endeavor, the “PARCs Sangetsu Group Creative Hub” established in March 2024 in Hibiya, Tokyo, as a new base for value creation, is of great significance.

I feel that many of the most energetic companies today, both domestically and internationally, are successfully incorporating external forces, and I would like to make effective use of “PARCs” as a place for open innovation not only within the company, but also for people from outside the company.

Q: In the fiscal year ended March 2024, the business in North America is showing signs of brightness. Could you comment on the future developments of your overseas business?

The business in North America has had a long difficult period, but the president of Koroseal, who assumed his post in July 2022, has extremely high communication skills, partly because of his experience in managing the U.S. subsidiary of a Japanese company. Additionally, very orthodox management and following the timeline of what should be done as a manufacturer have clearly strengthened the revenue base.

I have high expectations for the company's performance in this and the next fiscal years.

In China, the business environment is still difficult, but we have seen a slight improvement in the number of orders since last autumn.

I think we need to wait and see a little more, but we are considering re-formulating our growth strategy.

D'Perception, a group company in Singapore, is one of the leading companies in space design and comprehensive interior finishing in Asia, having strength and achievements in the public and private office sectors in Asia, including Singapore. Since we were originally a customer of Goodrich, we have a good relationship with the company, and we would like to collaborate with both companies to launch and strengthen comprehensive space proposals overseas.

Q: Thank you very much. Now, please conclude with a message to our shareholders and investors.

We conducted a questionnaire survey targeted at our shareholders this year and have received a lot of positive feedback.

BRIDGE REPORT



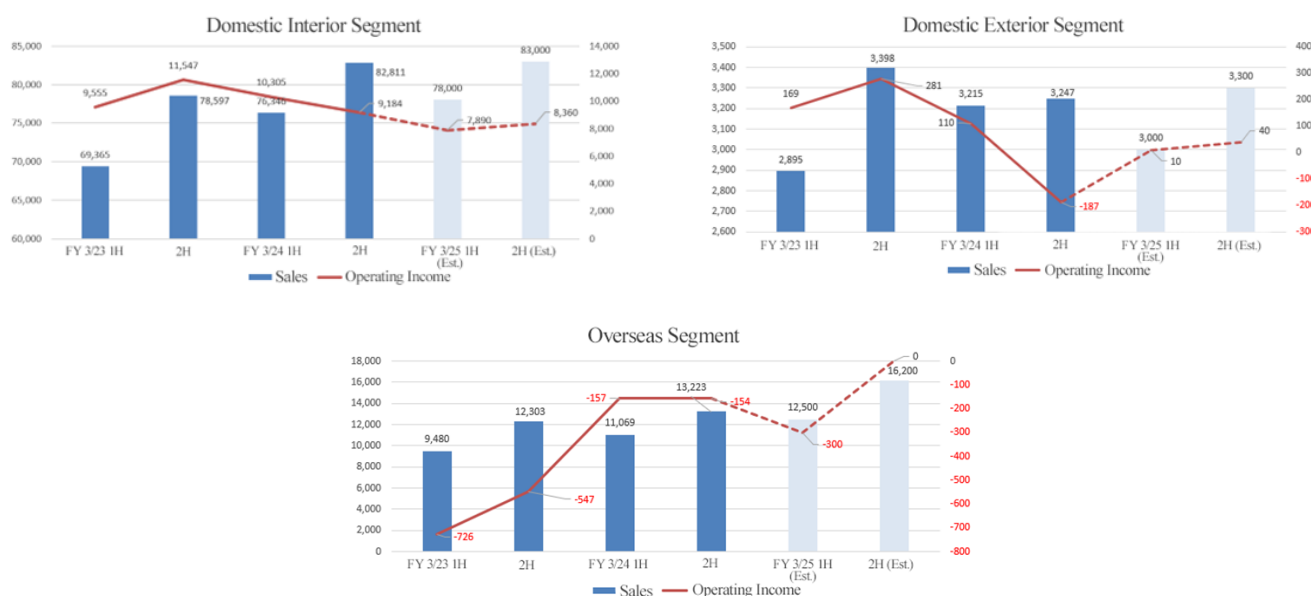
The three points shareholders commented the most were high dividends, stable performance, and a strong financial base. We are very grateful that our current strength, backed by our 70-year history, was appreciated in all of these areas. On the other hand, what our shareholders are looking for more than that is future growth potential, and a concrete path and strategy to achieve it.

As I mentioned in the beginning, we have laid out a direction to pursue and reform our core businesses and to search for and create new businesses, and we intend to take this direction to a more concrete level as soon as possible, share it with our employees, shareholders, and all other stakeholders, and swiftly produce good numerical results. We would appreciate your support in our endeavors.

6. Conclusions

Like in the fiscal year ended March 2024, the company expects an increase in sales, but a decrease in profit in the fiscal year ending March 2025. While the sales in the second half in the domestic interior segment are expected to hit a record high on a half-year basis, profit is projected to be lower than that in the second half of the previous fiscal year and almost the same as that in the first half. The key point will be how much cost reductions and other measures can absorb the expected rise in procurement costs.

In the overseas segment, the sales in the first half were unchanged from the second half of the previous fiscal year, and losses continued to be posted. However, in the second half, sales are expected to increase significantly year on year and from the first half, and profit is forecast to improve to the break-even point. We look forward to seeing whether the company can sustain and expand profitability in the North American market, which it has been focusing on, through structural reforms.



<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 Management Plan (2023-2025) “BX 2025,” which will end in fiscal year 2025.

[Background to the Revision of the Long-Term Vision and the Formulation of the New Medium-term Management Plan]

In May 2020, Sangetsu Group announced its long-term vision "DESIGN 2030" as well as its Medium-term Management Plan (fiscal year 2020 - fiscal year 2022) "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 Management Plan "BX 2025" to achieve long-term growth.

In January 2024, a task force composed of mainly group employees reviewed the corporate philosophy.

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

(1) Results: Implemented measures and outcomes

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

(2) Results: Quantitative Results

① Financial Indicators

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

*Unit: hundred million yen

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

Under the new structure launched in fiscal year 2014, the investments made under the two Medium-term Management 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 Management 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 Management 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 fiscal year 2022 financial results, a new quantitative target was set.

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

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

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



(Source: the company)

(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

Quantitative Goals (FY 3/30) of Long-Term Vision "DESIGN 2030"



*Unit: 100 million yen

The accounting standards for revenue recognition have not been applied to the original target sales in "DESIGN 2030."

(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 Management 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. The actual number of hired employees in the fiscal year ended March 2024, were 49 employees.

• In Sangetsu Corporation, the base salary was raised about 7% in fiscal year 2023, and the average annual income increased from 6,790 thousand yen to 7,722 thousand yen. In fiscal year 2024, they plan to raise the base salary by about 5%.

• According to the results of the regular questionnaire survey targeted at employees, the number of employees who feel that their jobs are worthwhile had been decreasing since fiscal year 2019, but it started improving in fiscal year 2023, thanks to various measures for improvement. In addition, the number of employees who sense the corporate culture that puts importance on endeavors is increasing.

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

② Accumulation, analysis, and utilization of digital capital

Specific measures are as follows:

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

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

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

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

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 fiscal year 2019 to 86 in fiscal year 2023 to 120 in fiscal year 2025. The company aims to increase the number of engineers in charge of estimation, procurement, and construction management from 0 in fiscal year 2019 to 5 in fiscal year 2023 to 25 in fiscal year 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 increased the number of delivery staff members from 13 at the end of fiscal year 2022 to 39 by the end of fiscal year 2023. In fiscal year 2023, the service is provided in Sapporo, Tohoku, the 23 cities of Tokyo, Chubu, Chugoku-Shikoku, and Kyushu, but the company plans to expand nationwide in fiscal year 2025.

- In addition, the company plans to increase the number of construction management engineers (13 first-class construction management engineers and 79 second-class construction management engineers in fiscal year 2022) and construction engineers (1,250 construction engineers in fiscal year 2022) 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 approx. 31.0% share of the market in the Chubu region, but its share in the Kanto region and nationwide is low at about 2.0% and 6.0%, 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 fiscal year 2022 to 30 in fiscal year 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 fiscal year 2026 (compared to fiscal year 2021), 60% reduction (non-consolidated) (compared to fiscal year 2018)" and "55% reduction (consolidated) in fiscal year 2030 (compared to fiscal year 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

•The ratio of female managers in Sangetsu Corporation increased from 18.3% as of April 1, 2023 to 21.2% as of April 1, 2024 to 25.0% at the beginning of fiscal year 2025, while the ratio of employees with disabilities declined from 3.9% in fiscal year 2022 to 3.5% in fiscal year 2023. The company plans to increase the ratio of employees with disabilities to 4.0% or higher in fiscal year 2025.

(3) Capital Policy

①Shareholder Return Policy

- * To achieve shareholders' equity of 95 to 105 billion yen as of March 31, 2026.
- * 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 11th consecutive year in FY 3/25.

②Funds allocation plan

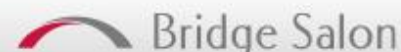
The company plans to create and procure funds with cash and cash equivalents of 27 billion yen at the end of March 2023, an operating cash flow of 47-51 billion yen over the next three years, and a net change in borrowings of -8 to -6 billion yen over the next three years.

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.

BRIDGE REPORT

**(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
Number of career hires	A total of 60-80 for 3 years
Engagement score*	58.0 (A)

*Non-consolidated goal. For estimating engagement score, they have been using the score in "Motivation Cloud," a service provided by Link and Motivation Inc., since fiscal year 2023.

<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 fiscal year 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.”

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

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

<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 (4 independent executives)
Audit and supervisory committee member	5 members, including 4 outside ones (4 independent executives)

◎Corporate Governance Report

Last update date: June 20, 2024

<Basic Concept>

We aim to foster good relationships with all stakeholders to improve our corporate value and grow sustainably. To attain these goals, we consider that it is essential to improve our corporate governance based on the transparency, swiftness, and efficiency of business administration. Our company has been reorganizing to a company with an audit committee, with the aim of strengthening the auditing and supervising functions of the board of directors, by having outside directors join the management. Under this governance system, we will make efforts to further improve our corporate value.

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

Our company follows all principles of the Corporate Governance Code.

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

Principles	Disclosure contents
Principle 1-4 So-called strategically held shares	1. Policy on strategically held shares and details of the review of the appropriateness of shareholding We make decisions on shares to strategically hold for the medium- to long-term by comprehensively judging from various perspectives, considering companies with which we should newly forge relationships and companies with which we should continue to strengthen relationships as our clients for business strategies. With regard to holding shares, each year we will check the

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	<p>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>
<p>【Principle 2-4 Ensuring Diversity, including Active Participation of Women】</p> <p>Supplementary Principle 2-4-1 Ensuring diversity in promotion to core human resources</p>	<p>(1) Our attitude toward ensuring diversity</p> <p>Pursuing the Sangetsu Group Human Rights Policy and the Sangetsu Group Basic Policy on Diversity, our company fosters a corporate culture that continues taking on challenges and innovating and enriches programs and systems by considering the individuality of each one of our employees as diversity regardless of gender, age, nationality, race, religion, disability, gender identity, sexual orientation, etc.</p> <p>(2) Our voluntary and measurable goals for ensuring diversity, and our current progress of ensuring diversity</p> <p>- Promotion of women to managerial positions</p> <p>The percentage of female full-time employees in our company is increasing year by year, which is currently 36.5%, 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 42.5% of our employees in the positions of leadership (those at the section chief level or more senior levels) and 21.2% of our employees in managerial positions. In addition, in order to support women in flourishing, we support career development for female employees and their superiors, conduct training for improving supporting skills, and hold health seminars for supporting women in flourishing. The medium-term management plan "BX 2025" includes the goal of increasing the ratio of female managers to 25% by 2026, and the variation in the past 5 years has been disclosed in our website. (https://www.sangetsu.co.jp/company/sustainability/social/divercity_policy.html)</p> <p>- Promotion of career hires to managerial positions</p> <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 career hires. 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 training and in-company communication after employment in order to help them get used to working in our company and actively participate in our business operations.</p> <p>- Promotion of foreign nationals to managerial positions</p> <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</p>

Supplementary Principle 3-1-3

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

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

Considering diversity management, which leads new perspectives and ideas brought by different backgrounds, sensibilities, and senses of values to enriched creativity, as the core of our business management, we are making efforts in this regard as an important policy toward sustainable growth while handling diversifying market demand. The goals for diversity & inclusion are to employ more people with disabilities, support female employees in the promotion to managerial posts, and encourage male employees to take childcare leave. 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 employee work engagement, and the creation of a comfortable working environment, all of which we are proactively implementing. In particular, the current medium-term management plan "BX 2025" includes the strengthening of human capital as one of major measures, and a plan to invest 700 million yen in 3 years, to expand and sophisticate human capital and support personnel in flourishing. As concrete measures, we engage in the recruitment of more mid-career workers and new graduates, the enrichment of education and training for supporting employees in flourishing, engagement surveys, the revision of personnel systems, the improvement of treatment of employees, etc.

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 section in charge of design strategies, and promoting to strengthen our ability to propose product and space designs through greater recruitment and training of design personnel. The legal affairs department, which was established in July 2023, is strengthening its function to handle intellectual property in addition to the function to deal with legal affairs, and aims to improve brand value by creating, protecting, and utilizing intellectual property rights. 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.

- Impact of climate change on our business activities

Risks and opportunities from climate change are described in the financial statements issued in June 2024, and on pages 60-63 of the Integrated Report issued in October 2023, 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.

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>) Furthermore, we agree with the TCFD in October 2021, and 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>)

Additionally, in fiscal year 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.

From now on, we will conduct scenario analysis, grasp financial impact, and improve the quality and quantity of information we disclose.

Principle 5-1 Policy on constructive communication with shareholders

- 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 Publicity and IR Section of the President's Office for rational communication with our shareholders and swift IR activities.

- The Chief Executive Officer, the executive in charge, and the Publicity and IR Section of the President's Office 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.

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	<ul style="list-style-type: none"> - Since 2017, we have held company briefings for shareholders at our Shinagawa showroom. This has created opportunities to introduce our company to mainly individual shareholders in the Kanto region. Directors attend this briefing session, and the president and executive officers described the company. (Not implemented from fiscal year 2020 to fiscal year 2022 to prevent the spread of COVID-19.) - Our company discloses the explanatory material that we used in various events and meetings and pictures of our dialogue with the stakeholders, and posts English versions of these materials as needed. - Our company creates an integrated report for every fiscal year and publishes such reports both in Japanese and in English through our website. (https://www.sangetsu.co.jp/company/ir/library/report.html) - Our company conducts activities which contribute to enhancement of our shareholders' understanding about various items, including our management strategy, business environment, business progress, and financial information, through direct communication and material published on our website and the disclosure of videos of financial results briefings and shareholders' meetings. - Our company responsibly utilizes opinions obtained from interaction with our shareholders and investors for administrative improvement through The Public Relations and IR Department. The information is shared with business unit managers on a quarterly basis to enhance information disclosure and improve corporate value. - Our company properly deals with the management of insider information in accordance with the regulations for the management of insider trading (regulations for the prevention of insider trading), by assiduously managing unpublished material facts.
<p>【Principle 5-2 Formulation and announcement of management strategies and plans】 【Measures for realizing business administration conscious of capital cost and share price】【Disclosed in English】</p>	<p>Our measures for realizing business administration conscious of capital cost and share price are disclosed in the medium-term management plan “BX2025” announced in May 2023. Please refer to our website at https://www.sangetsu.co.jp/information/pdf/20230524125206.pdf.</p> <ul style="list-style-type: none"> - We recognized that cost of shareholders' equity was 5.91% and WACC was 5.74% as of March 2024. - Our goal is to achieve an ROE of 14% and an ROIC of 14% in order to achieve a yield of capital exceeding capital cost. - We disclosed the plans for generating, procuring, and allocating funds for the three-year medium-term management plan, clarifying plans for investment for growth, shareholder return, and cash equivalents we would hold as of the end of March 2026. <p>Regarding business administration conscious of capital cost, we will analyze the status quo of capital cost and then report on the progress.</p>

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