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To whom it may concern,

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## Notification on the Revision to the Long-Term Vision and Formulation of a New Medium-Term Management Plan

Our corporate group has revised the Sangetsu Group's long-term vision "DESIGN 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 2025. Their outlines are as follows.

### I. Background for Revision to the Long-Term Vision and Formulation of a New Medium-Term Management Plan

In May 2020, our corporate group announced its long-term vision "DESIGN 2030" and the medium-term management plan (2020-2022) "D.C. 2022" (hereinafter referred to as the previous medium-term management plan). Under the previous medium-term management plan, we have steadily implemented specific measures based on our four basic policies: 1. Expanding earnings through qualitative growth of core businesses, 2. Generating earnings from next-generation businesses based on core business resources, 3. Strengthening management and business foundations, and 4. Realizing social value. As a result, the consolidated results for fiscal 2022 recorded net sales of 176.02 billion yen, an operating income of 20.28 billion yen, an ordinary income of 20.69 billion yen, and a profit attributable to owners of parent of 14.00 billion yen while we set our quantitative targets (consolidated): sales of 162.0 billion yen<sup>\*1</sup>, an operating income of 12.0 billion yen, and a net income of 8.5 billion yen.

The period of the previous medium-term management plan was three years in which COVID-19 had a significant impact on economic and social activities, and the market declined significantly. In fiscal 2021, we recorded an impairment loss of 5.59 billion yen on trademarks related to Koroseal Interior Products Holdings, Inc. in the United States. However, we believe that the long-term vision "DESIGN 2030" and the previous medium-term management plan have greatly expanded and strengthened our corporate group's business base and profitability.

Although the global economy has recovered from the impact of COVID-19, there are still widening disparities, increasing geopolitical instability, increasing urgency to respond to global warming, and destabilizing financial conditions, which are leading to growing concerns and uncertainties.

In view of these circumstances, our corporate group has revised its long-term vision "DESIGN 2030" and formulated a new medium-term management plan "BX 2025" for long-term growth.

In addition, our corporate group is currently reconsidering its corporate philosophy through a task force composed of mainly group employees and plans to formulate and announce a new corporate philosophy around July 2023.

\*1. Revised and announced due to the adoption of accounting standards for revenue recognition, etc. in May 2022

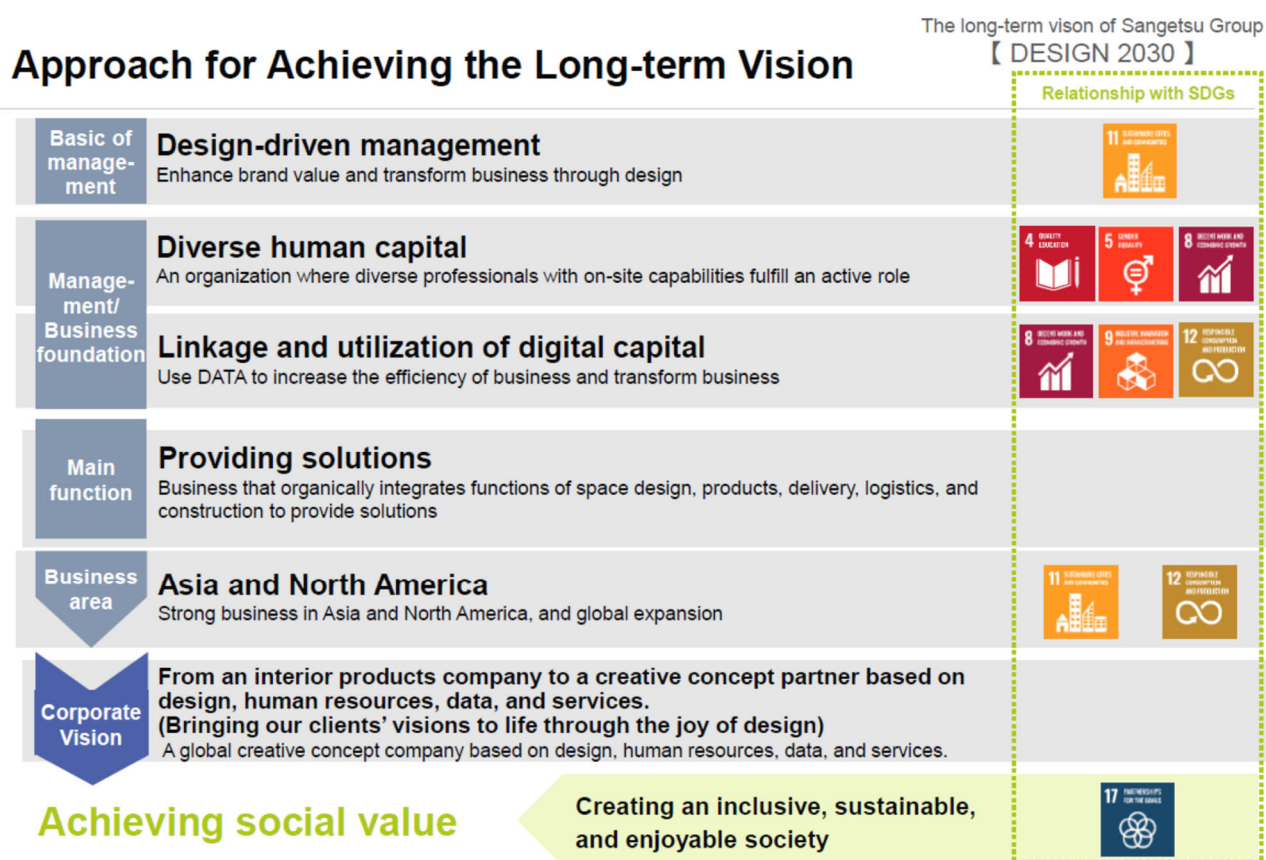
### II. Revision to the Long-Term Vision "DESIGN 2030"

In the long-term vision "DESIGN 2030," we have set a goal that "The Sangetsu Group Aims to Become a Space Creation Company," and we have clearly stated our approach to transforming ourselves into a space creation company, and we will continue to work toward this goal. However, in light of the progress made in terms of measures and earnings during the previous medium-term management plan, we have partially changed the wording of our approach to achieving our long-term vision, clarified our image as a Space Creation company, and examined our future business. At the same time, we have set new quantitative targets, having achieved the profit target of our long-term vision "DESIGN 2030" in the financial results for FY 2022.

1. Changes in the “Approach toward Becoming a Space Creation Company”

The wording of the “Approach toward Becoming a Space Creation Company” announced in May 2020 has been changed as follows.

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



2. Clarification of our Image as a Space Creation Company

We will clarify our image as a space creation company, which has been mentioned as our aim in the long-term vision “DESIGN 2030,” as follows.

We will utilize design capabilities and creativity based on human and digital capital to organically integrate four functions, which are

- Attractive space design proposals based on the best concept for each market
  - Space material provision that proposes a wide range of products with advanced planning, development, and procurement capabilities
  - Inventory, shipping, and logistics that enable immediate delivery over a wide area without running out of stock
  - Swift, large-scale, integrated construction through a variety of businesses, personal relationships, and corporate partnerships,
- and transform into a company that provides high value in space creation globally.

3. Future Developments as a Space Creation Company

In May 2020, we announced our long-term vision “DESIGN 2030” and the previous medium-term management plan, and in the process of promoting them, we have confirmed the expansion of our revenue

base and the stability of our earnings by transforming ourselves into a space creation company. However, we also recognized the need to further develop our business beyond being a space creation company to achieve further growth. As a space creation company, in order to design, propose, and create a space that brings people joy and comfort, it is necessary to consider and envision how people spend their time in that space. In other words, space creation involves thinking about what kind of space to provide and how people can utilize the space, and this is closely related to considering how spatial operations are carried out. In this sense, we believe that beyond the space creation business, there is potential, and we will continue to consider the possibility of expanding in the space operation business.

4. Quantitative targets

The revised quantitative targets are as follows.

	Term ending March 31, 2030	Consolidated sales	250 billion yen
		Consolidated operating income	27 billion yen
(Reference)	Announced in May 2020		
	Term ending March 31, 2030	Consolidated sales	225 billion yen
		Consolidated operating income	18.5 billion yen

### **III. Review of the Previous Medium-Term Management Plan (2020-2022) [D.C. 2022]**

In the first fiscal year of the previous medium-term management plan, the market shrank considerably due to restrictions on activities and other constraints caused by the novel coronavirus, and their effects lingered in the fiscal years 2021 and 2022, mainly in China. Even in such an environment, our corporate group has implemented various measures to strengthen and transform the business since the launch of the new system in the fiscal year 2014. In particular, the strengthening of space design and proposal capabilities has led to the development of not only the space sales business, which designs, proposes, constructs, and provides spaces to customers, but also the design + materials sales business, which receives space design fees and sells materials, and our on-site workers have realized the effectiveness of the space creation business in transactions.

On the other hand, in the middle of the continuous rise in the cost of not only crude oil, crude oil-related products, and raw materials, but also logistics costs since the beginning of 2021, our corporate group implemented three price revisions in Japan to pass on the cost increases and made efforts to improve profitability while recouping the costs of various investments and measures taken in the past. Through the implementation of various measures and price revisions since the transition to the new system, earnings have expanded beyond the targets of the long-term vision and the previous mid-term management plan announced in May 2020. While we are proceeding with the previous mid-term management plan, various external environments and issues have become apparent in addition to the results achieved as mentioned below.

#### **1. Results of the previous medium-term management plan**

- Strengthening the product portfolio through the launch of products with low environmental burdens and the increase of low-cost products.
- Establishment of a strategic procurement system, including the acquisition of CREANATE Inc. and the decision to establish a new plant.
- Strengthening the community-based sales system and increasing the capability of striking a business deal by maintaining a nationwide customer follow-up system.
- Expansion of construction capabilities, mainly through the acquisition of HEKISOU Co., Ltd., a leading construction company in the Tohoku region.
- Establishment of a flagship logistics center as a large-scale inventory base, operation of regional satellite logistics centers, and implementation of a nationwide logistics network
- Enhancement of space design and construction management capabilities in both interior and exterior segment
- Expansion of sale of curtains to the consumer market
- Reorganizing business structures in Southeast Asia, China, and Hong Kong
- Adopted a job-based pay system (job-based personnel system) for managerial positions.
- Improvement of profitability through three price revisions

#### **2. Recognition of challenges after the previous mid-term management plan**

##### **Direct External Environment**

- Stagnation of sales volume of existing leading products, such as wallcoverings, which have a high market share, in the Japanese market
- Aging of construction engineers and the apparent lack of construction skills
- Realization of the logistics problem in small-lot and heavy-goods deliveries in 2024
- Continuous rise in costs for materials, logistics, and labor
- Demand for recycled and more cost effective environmentally friendly products

##### **Internal Challenges**

- Limited product lineup
- Unique product design capabilities and brand development skills for supporting business
- Building a system for integrated management of products, logistics, construction, sales, and management
- Expertise in space design, construction management, quotation, procurement, and proposal submission
- Exterior business is limited by geography and in terms of scale.
- Capabilities of proposing space design, delivering products in a short period of time, supporting construction, and designing products of overseas operating firms
- Increase in sales, general, and administrative expenses as a result of business transformation
- Changes in employees' awareness, engagement, and compliance, and the increase of non-regular employees
- Low investment in human capital, including education and training

### 3. Economic value in the fiscal year ended March 2020 and the three fiscal years of the previous medium-term management plan (2020-2022) [D.C. 2022]

[Unit: million yen]

	Fiscal year ended March 2020	Fiscal year ended March 2021	Fiscal year ended March 2022	Fiscal year ended March 2023	Previous Medium-Term Management Plan Targets
Sales	161,265	145,316	149,481	176,022	162,000
Year on Year	100.5%	90.1%	—	117.8%	—
Gross Profit	52,925	47,640	39,962	56,374	—
Ratio to sales	32.8%	32.8%	26.7%	32.0%	—
SGA	43,656	40,938	32,002	36,094	—
Ratio to sales	27.1%	28.2%	21.4%	20.5%	—
Operating Income	9,268	6,701	7,959	20,280	12,000
Ratio to sales	5.7%	4.6%	5.3%	11.5%	—
Ordinary Income	9,844	7,042	8,203	20,690	—
Net Income	1,432	4,780	276	14,005	8,500
Ratio to sales	0.9%	3.3%	0.2%	8.0%	—
Total Assets	164,101	158,665	147,943	164,454	—
Equity Capital	93,244	93,360	87,808	95,741	—
ROE	1.5%	5.1%	0.3%	15.3%	9.0%
ROIC	7.9%	5.6%	7.1%	16.5%	9.0%
CCC	72.4 Days	68.9 Days	76.5 Days	77.1 Days	65 Days

From the beginning of the fiscal year ended March 31, 2022, the Accounting Standard for Revenue Recognition (ASBJ Statement No. 29, March 31, 2020) and other standards have been applied, influencing net sales, gross profit, and selling, general, and administrative expenditures.

(Net sales, gross profit, and selling, general and administrative expenses for the fiscal year ended March 31, 2023 without applying the Accounting Standard for Revenue Recognition were 185,813 million yen, 69,685 million yen, and 49,405 million yen, respectively.)

### 4. Quantitative Social Value Targets and Results

	Category		Previous Medium-Term Management Plan FY 2022 targets	Results in FY 2022	Remarks
Global Environment	GHG Emissions (Scopes 1 & 2)	Non - Consolidated	30% Reduction	30.1% Reduction	Compared to Fiscal Year 2018
	Energy Consumption	Non - Consolidated	4% Reduction	3.5% Reduction	Compared to Fiscal Year 2018
	Total Waste Disposed	Non - Consolidated	4% Reduction	9.6% Increase	Compared to Fiscal Year 2018
	Recycling Rate	Non - Consolidated	83% or higher	86.4%	
Human Capital	Cancer Screening Rate (Prostate Gland)	Non - Consolidated	80%	83.8%	
	Cancer Screening Rate (Lungs)	Non - Consolidated	100%	98.9%	
	Cancer Screening Rate (Stomach)	Non - Consolidated	100%	95.0%	
	Cancer Screening Rate (Large Intestine)	Non - Consolidated	100%	95.7%	
	Ratio of Non-Smokers	Non - Consolidated	82%	81.1%	
	Ratio of Female Managers	Non - Consolidated	20%	20.1%	As of July 1, 2023 Figures after changes due to organizational restructuring
	Ratio of employees with disabilities	Non - Consolidated	4%	3.91%	
Social Capital	Children's Home Renovation	Consolidated	30 cases per year	55 cases per year	
	Matching Gift	Consolidated	13,000 S-mile	15,129 S-mile	

## 5. Targets and Results of Capital Allocation Policy

### Capital Policy

Target	Results
Maintain Equity Capital in the range of 90-95 billion yen	95.74 billion yen by the end of March 2023
Approximate total payout ratio of 100% for the 3 years	88.8%

### Results of Shareholder Returns in 3 Years

Acquisition of treasury shares	3.12 billion yen
Dividend	13.79 billion yen (Planned)

### Fund Allocation Plan

(Unit: 100 million yen)

Fund Generation			Fund Allocation		
	Target	Results		Target	Results
End of March 2020 Cash Equivalents Held	368.1	368.1	Growth Investment	200-260	158.6
Operating CF	280-300	327.8	Shareholder Return	170-190	148.6
Increase/Decrease in Loans Payable	▲ 50-100	▲ 118.7	End of March 2023 Cash Equivalents Held	250-300	270.0
Total		577.2	Total		577.2

## IV. New Medium-Term Management Plan (2023-2025) “BX 2025”

(\*BX = Business Transformation)

As a result of the various measures implemented during the period of the previous medium-term management plan, we achieved a significant increase in revenues in FY 2022, but we also understand that the increase in revenues was more than the progress made in the measures of the previous medium-term management plan. In this sense, the three years of the medium-term management plan (2023-2025) “BX 2025” are intended as a period to keep solidifying the revenue base and prepare for the next leap forward. For this purpose, we will implement various measures to ensure the realization of our vision as a space creation company, as clarified in our long-term vision “DESIGN 2030.” In addition to expanding our existing main products and major markets, we will improve our products, strengthen and expand our overseas markets, and generate profits there, and expand and upgrade our exterior business through the platform of our space creation business. Further, we will consider the possibility of the space operation business, which will be the next development added to our long-term vision “DESIGN 2030.” The basic policy, measures, capital policy, and quantitative targets of the medium-term management plan (2023-2025) “BX 2025” are as follows.

### 1. Basic Policy

We will strengthen and expand the solution-offering capability that enhances the value of space creation, transform ourselves into a space creation company with strong profitability and growth potential, expand our business for major products and markets, and expand our product lineup, overseas business, and exterior business.

In addition, we will consider the possibility of space operation business to develop businesses that will enable further long-term growth.

### 2. Measures

- 1) Supporting expansion, advancement, and active utilization of human capital
  - Allocating human resources personnel for each organization
  - Significantly increasing diverse mid-career hires and recruitment of new graduates
  - Improving learning and training to strengthen expertise and business-building capabilities
  - Improving working conditions and environment
  - Improving the ratio of non-regular employees and promoting diversity

- 2) Accumulation, analysis, and utilization of digital capital
    - Renovating core systems for business model transformation
    - Promoting information and DATA utilization for value chain transformation, including spatial design proposals
    - Improving efficiency and stability of sales and logistics through the utilization of commercial and logistics data in collaboration with distributors
    - Improving operations and promoting digitization of on-site operations
  - 3) Strengthening the ability to provide solutions
    - Strengthening space design and space proposing capabilities specialized for each market
    - Expanding and improving the product lineup and strengthening brand development
    - Developing and strengthening the product procurement system
    - Geographically and functionally expanding and strengthening the logistics system
    - Developing large-scale, swift interior finishing capabilities and a construction management system
  - 4) Exterior and Overseas Businesses
    - Expanding the scale and target area of the exterior business and advancing it
    - Strengthening product and space design capabilities, developing a quick-delivery system, strengthening construction support capabilities, and establishing a sales system tuned to market needs in order to transform the overseas business into a space creation business
  - 5) Enhancing social value
    - Reducing non-consolidated and consolidated GHG (Scopes 1 & 2) emissions
    - Grasping GHG (Scope 3) emissions and clarifying reduction measures
    - Strengthening development of products with low environmental impact
    - Promoting recycling, including expansion of Sample Book Recycling Centers
    - Promoting diversity, equity, and inclusion
    - Promoting activities to improve the living environment of children's homes
    - Providing continuous support for children in need, developing countries, and refugees
3. Capital Policy
- 1) Shareholder Return Policy
    - We will maintain equity capital in the range of 95 to 105 billion yen as of March 31, 2026
    - Shareholder returns will be centered on dividends, and we will aim for stable dividend increases by setting the minimum annual dividend at 130 yen per share.
    - We will consider acquiring treasury shares depending on market conditions.

2) Capital Distribution Plan

Generation of funds during the period of the medium-term management plan		Fund distribution	
Cash equivalents at the beginning of the period	27 billion yen	Growth investment	20-25 billion yen
Operating cash flow	47-51 billion yen	Shareholder returns	25-35 billion yen
Increase/decrease in borrowings	Minus 8 billion to 6 billion yen	Cash equivalents at the end of the period	20-25 billion yen

4. Quantitative targets (for FY 3/2026)

1) Economic value

① Consolidated sales	195 billion yen
② Consolidated operating income	20.5 billion yen
③ Consolidated net income	14.5 billion yen
④ ROE	14.0%
⑤ ROIC	14.0%
⑤ CCC	65 days

2) Social value

① Earth environment

GHG emissions	Non-consolidated	Down 60% from FY 2018
GHG emissions	Consolidated	Down 28% from FY 2021
Energy consumption	Non-consolidated	Down 6% from FY 2018
Recycling rate (effective use rate)	Non-consolidated	90% or higher

② Human capital

Ratio of non-smokers	Non-consolidated	85% or higher
Job satisfaction indicator (“Ratio of employees who feel their jobs are worthwhile” based on the survey on employees’ awareness)	Non-consolidated	77% or higher
Ratio of female managers	Non-consolidated	25% or higher
Ratio of employees with disabilities	Non-consolidated	4% or higher
No. of mid-career workers hired	Non-consolidated	60-80 in 3 years
Investment in human capital	Non-consolidated	A total of 700 million yen in 3 years
Ratio of male employees who took childcare leave	Non-consolidated	100%, 2 weeks or longer

③ Social capital

Renovation of orphanages	Consolidated	50 cases/year
Matching gift	Consolidated	18,000 S-mile
Costs for social contribution, including donation to external groups	Consolidated	We target to spend around 0.3-0.5% of annual ordinary income for social contribution activities. In case of donation, we plan to donate to specific groups continuously.