



# Medium-term Business Plan (2020-2022)

【 Design  
&Creation D.C. 2022 】

May 26<sup>th</sup>, 2020

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# Medium-term Business Plan (2020-2022)

【 Design  
&Creation D.C. 2022 】

# **External environment for the medium- to long-term**

# External environment for the medium- to long-term (Consolidated)

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- **Climate change risk / fossil fuel independence / reduction in the use of plastics**
- **Major business environment risk from unpredictable events, such as natural disasters and pandemics**
- **Rise of anti-globalism, US-China friction and a G-Zero world**
- **End of population bonus in China and Southeast Asia**
- **Extreme expansion and easing of fiscal and monetary policies**
- **Permeation of data science and IT for individuals, corporations, and society**
- **Mobility and shortages of talent**
- **Diversification of individual tastes, decline in value of material possessions, and expansion in value of experiences**
- **Realization of social value of corporations**

# **I . Looking back on the previous Medium-term Business Plan (2017-2019) “PLG 2019”**

## The previous Medium-term Business Plan “PLG 2019” review (Consolidated)

- FY2019(the final year of the plan), sales were record high of JPY161.26 billion and operating income was JPY9.26 billion, posting a substantial increase of 57.2% YoY. On the other hand, due to the impairment loss of overseas business, consolidated net income was JPY1.43 billion. ROIC improved, due to the increase in operating income and improvement of cash conversion cycle, while ROE was sluggish.
- We implemented steadily the various measures set in the medium-term business plan such as enhancement of supply of products, sales, logistics, and expansion of overseas business, as well as measures relating to human resources and ESG.
- While we believe that these measures contributed in organizing, strengthening and expanding the basis, capability and function of our business, the increase in operating income during the period of previous medium-term business plan was achieved mostly by the revision of prices in the market in Japan. Therefore, we think the quantitative expansion was limited and the effect of measures is only halfway through.
- We are aware that it is our challenge to ensure further implementation of those measures in addition to the utilization of data and expansion of business to wider business categories.
- It is also an important issue to monetize and expand overseas business.
- Due to impairment loss, shareholders' equity at fiscal year-end ended lower than the targeted amount. On the other hand, total return ratio for three years was 260.5%, with total return amount posting JPY24.81 billion.

## Looking back on “PLG 2019”: Achievements (Consolidated)

### Strengthening functions

- Strengthening relationship with domestic and overseas designers, architects, and suppliers
- Strengthening market domains, products, and regional-specific sales organization
- Improving efficiency in order-taking operations, integrating order-taking and sales organizations
- Strengthening logistics facilities and delivery structure
- Strengthening and expanding construction capabilities (Fairtone Co., Ltd.)
- Establishment to Space Creation Business Unit
- Start of operation of new enterprise system
- Acquisition of Goodrich Global Holdings Pte., Ltd., and implementation of measures to improve the management of Koroseal Interior Products Holdings, Inc.

### Strengthening human resources

- Enhancing training and education, planned job rotations  
Enhancing meritocracy
- Introducing Logistics position program and an Interior Advisor program
- Work style reform / tele-working / Super-flex time  
Establishment of health insurance society

### Earnings management structure

- Intensifying management of Operating income targets and CCC targets
- Sale of all stock of Yamada Shomei Lighting Co., Ltd.; reorganization of group management structure

### ESG / CSR

- Scope 1 & 2 GHG emissions  
Reduction target **35%** → **45.3%** Achieved  
\*Preliminary data
- Hiring of disabled persons  
Target **3%** → **3.13%** Achieved
- Full compliance with  
“Corporate Governance Code”

### Capital policy

- Shareholders' equity  
JPY**110.37 billion** (end-March 2017)→  
JPY **93.24 billion** (end-March 2020)
- Three-years total shareholder return ratio  
**260.5%**  
Total shareholder return JPY**24.81 billion**

## **Continuing Issues from the previous Medium-term Business Plan**

**(Consolidated)**

- **Plateau in the Japanese market**
- **Limitations to significant growth under current business model**
- **Need to further develop consulting and proposal skills**
- **Need to strengthen alliances with suppliers amid growing competition**
- **Sustainability of sales function and limitations of function**
- **Lack of established overseas markets**
- **Underutilization of digital technologies and data**
- **Awareness gaps among employees**
- **Lack of diversity**
- **Disclosure of metrics for the achievement of social value**
- **Profit growth**
- **Impact of novel coronavirus (COVID-19) pandemic and market changes after infections recede**

# **I . Looking back on the previous Medium-term Business Plan (2017-2019) “PLG 2019”**

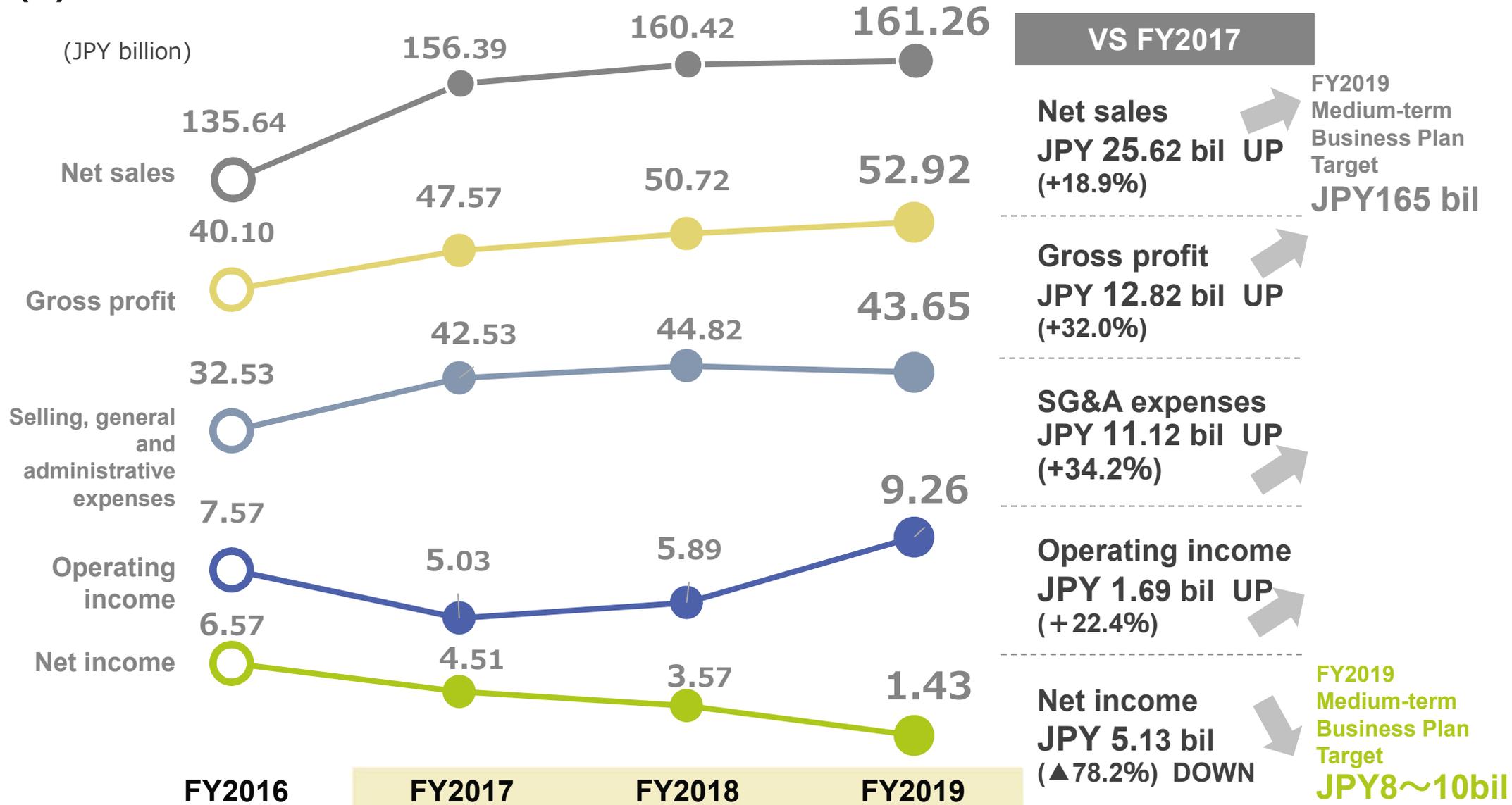
- 1. Quantitative results (Consolidated)**
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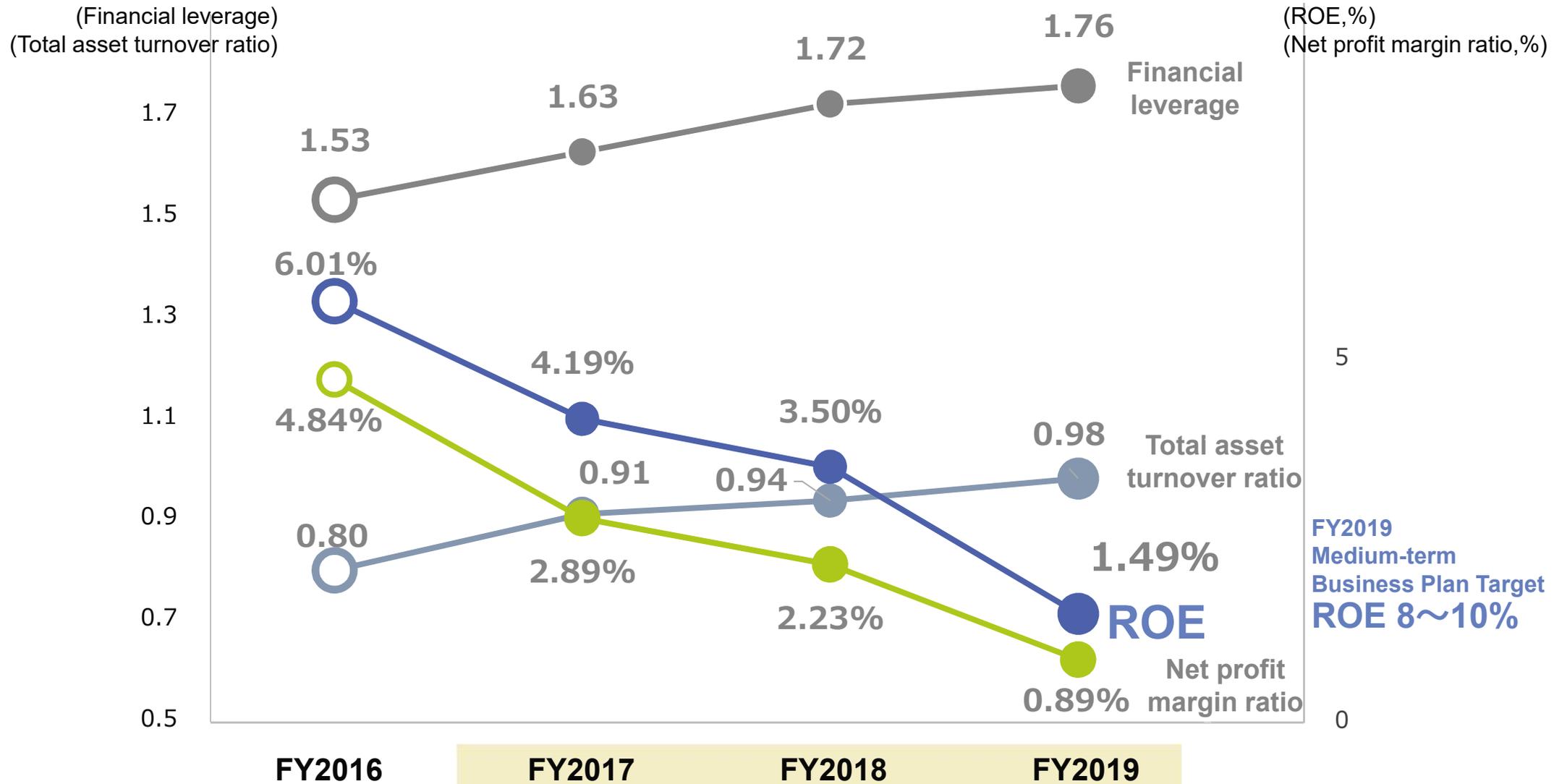
# 1. Quantitative results (Consolidated)

## (1) Consolidated Statement of Income



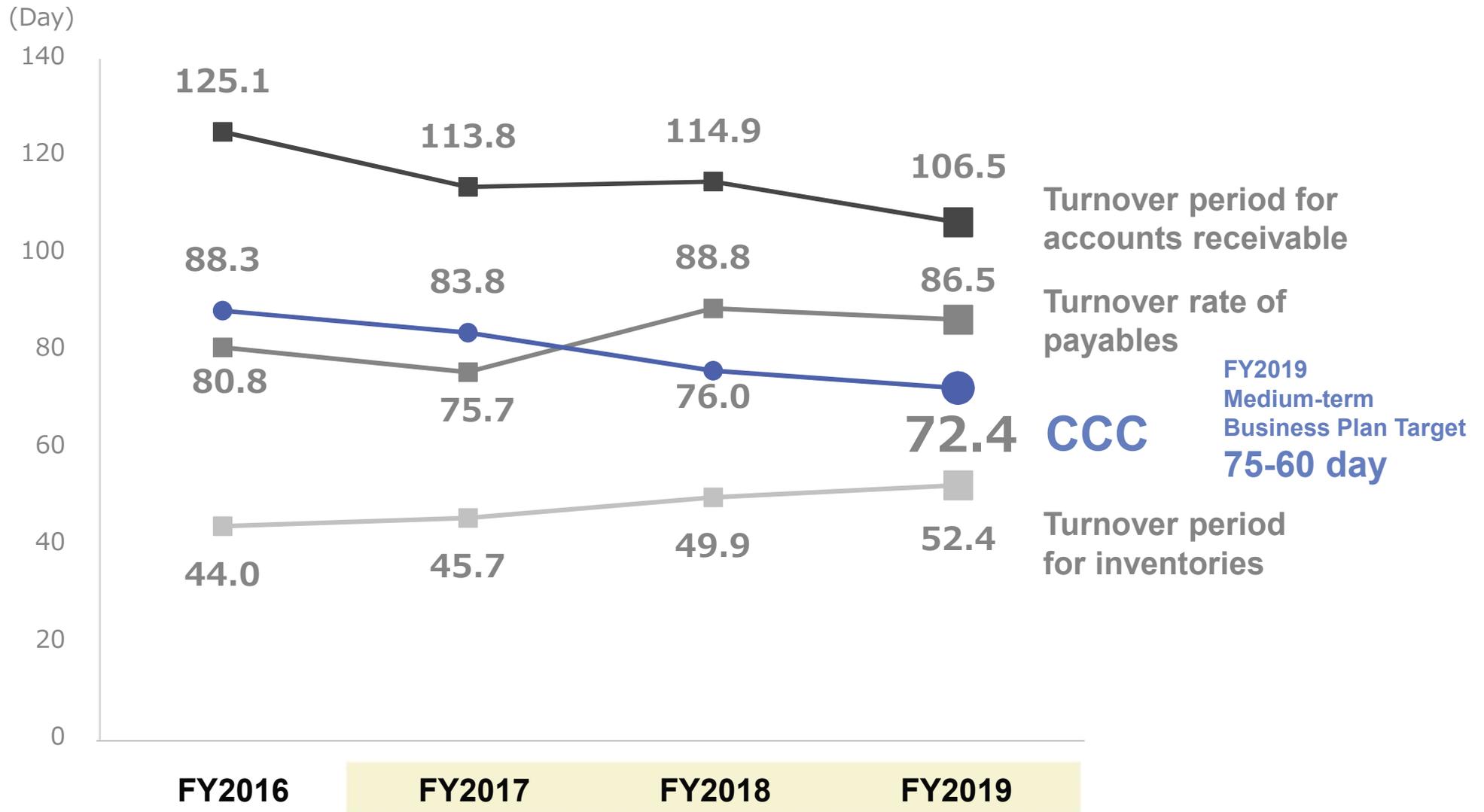
# 1. Quantitative results (Consolidated)

## (2) ROE and Related indicators



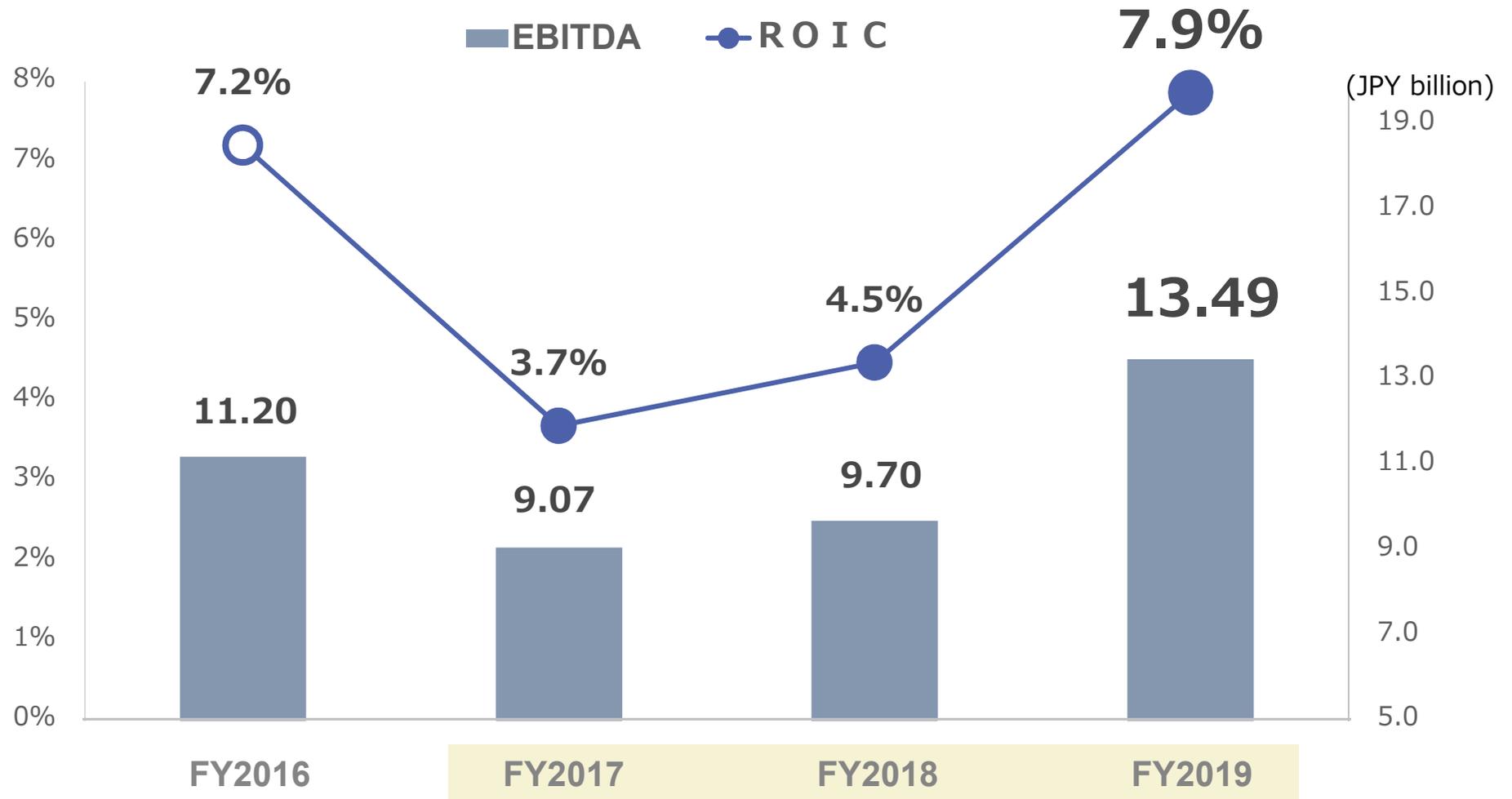
# 1. Quantitative results (Consolidated)

## (3) Cash Conversion Cycle



# 1. Quantitative results (Consolidated)

## (4) ROIC · EBITDA

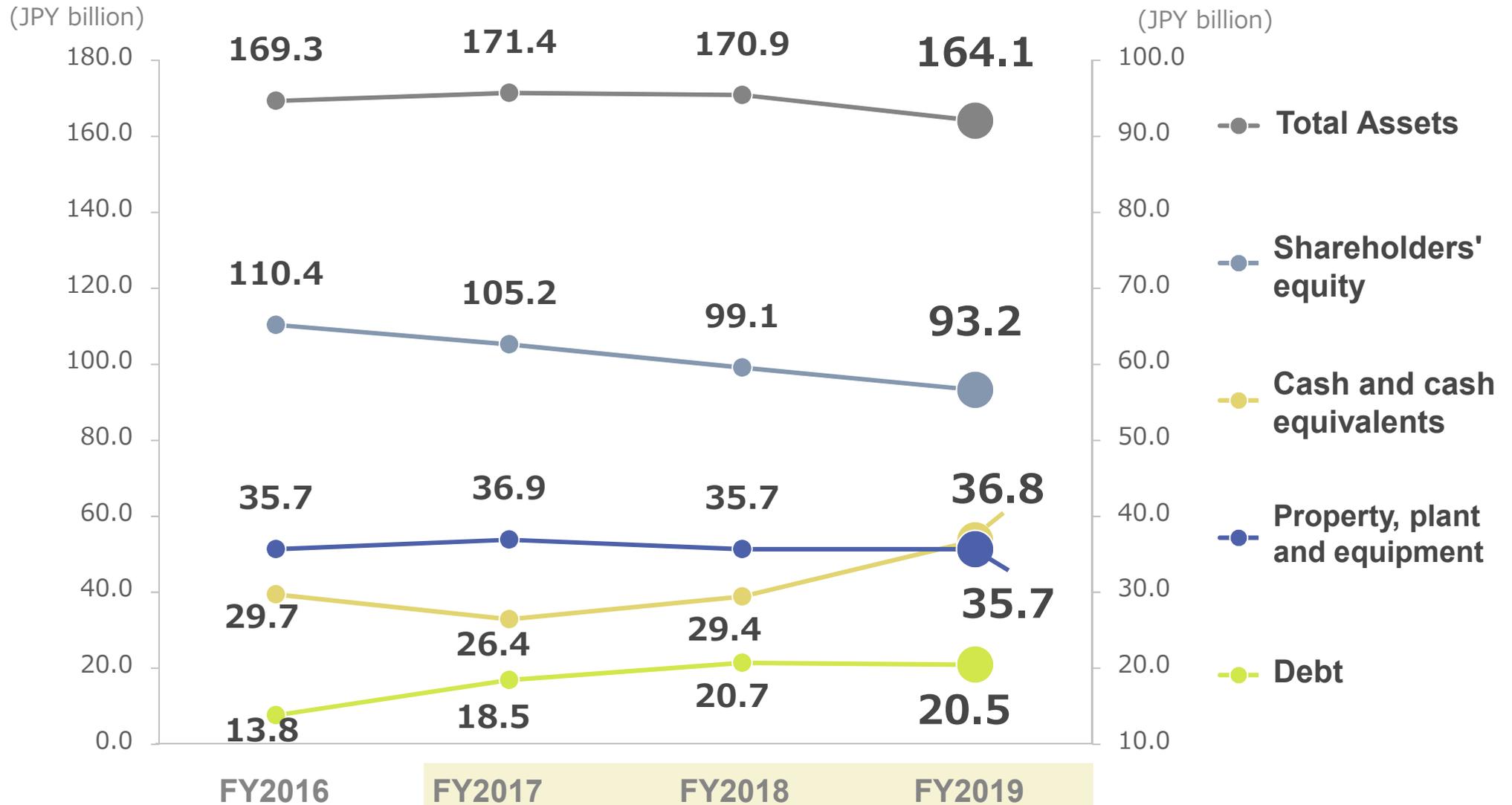


\*ROIC=Net Operating Profit After Taxes / (Working Capital + Property, plant and equipment + Intangible assets)

\*EBITDA = Income Before Taxes + Interest income/expense + Depreciation + Goodwill Amortization + Loss on impairment

# 1. Quantitative results (Consolidated)

## (5) Balance Sheet



\*cash and cash equivalents = cash + investment securities (excluding shares)

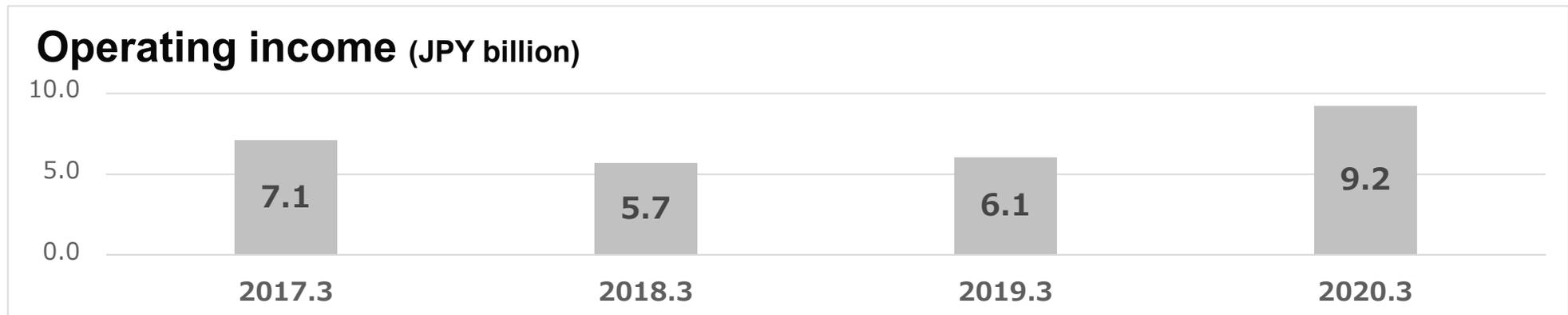
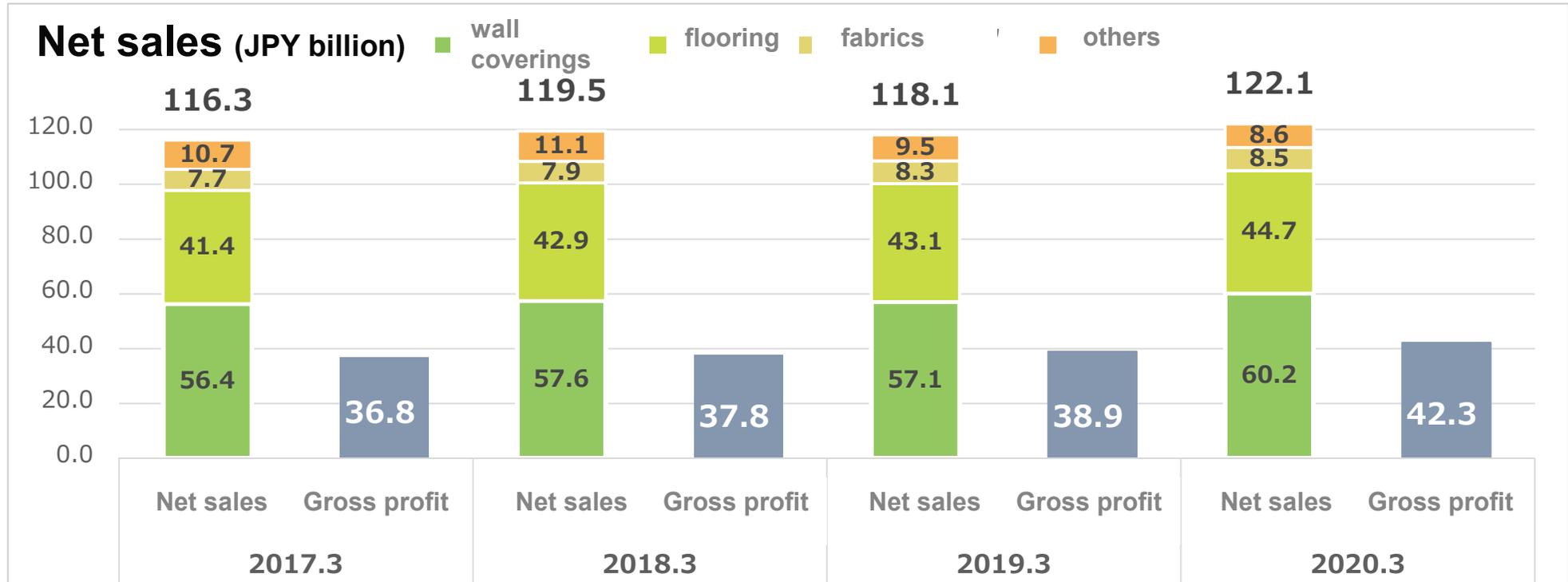
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## 2. Interior Segment (In Japan)

### (1) Net sales / Operating income

\*Interior segment results except space creation segment results until the end of March, 2020



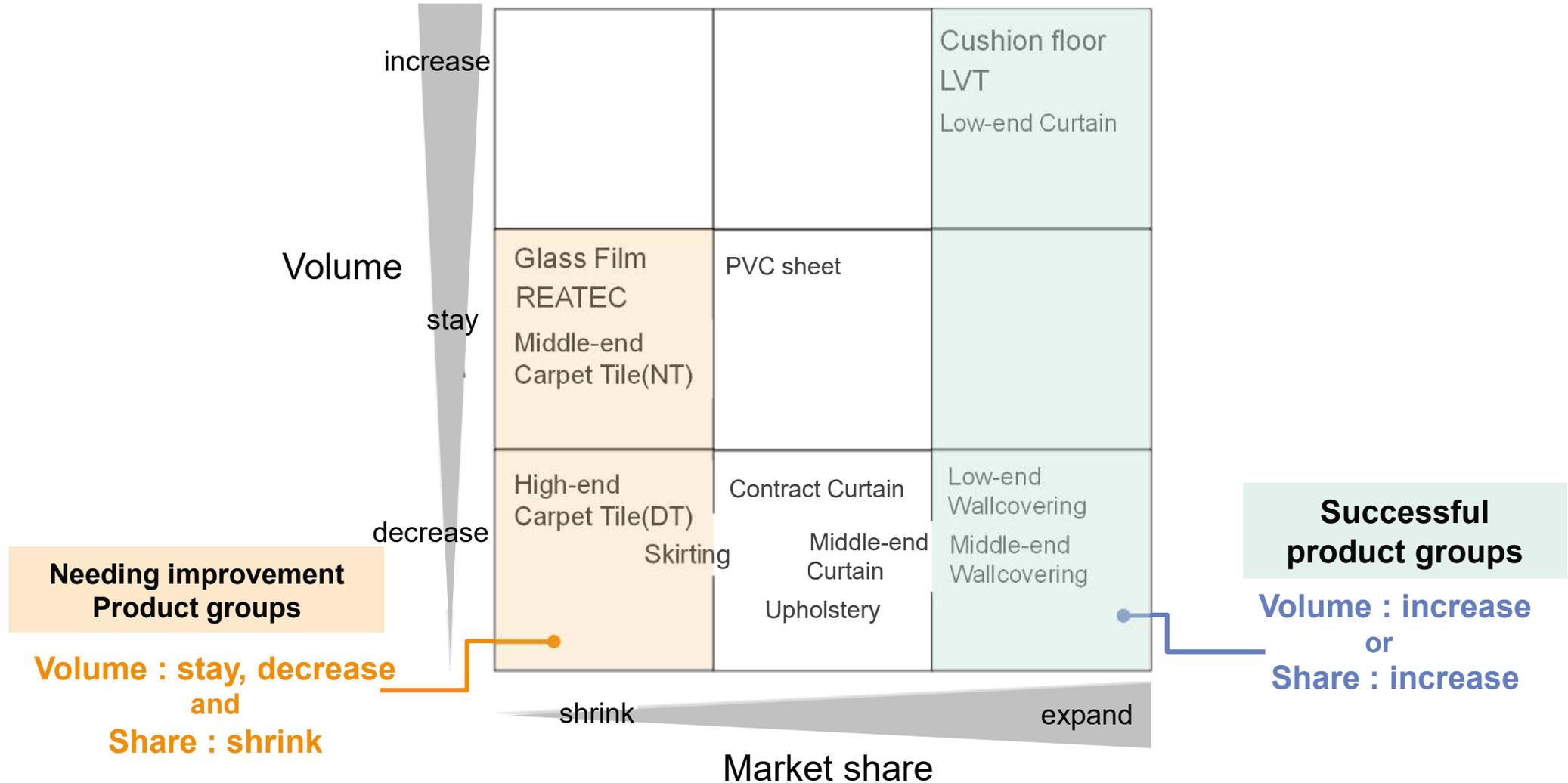
## 2. Interior Segment (In Japan)

### (2) Results of Volume / Market share by Products

(from FY2016 to FY2019)

#### Volume and Market share

※VS FY2016



## 2. Interior Segment (In Japan)

### (3) Volume by product / Market share achievements and analysis; evaluation of initiatives

#### Successful product groups

**Wallpaper, residential and commercial flooring materials, low-end curtains**

**Business format:** Small-lot transactions / Distributors  
**Previous medium-term plan initiatives:** Improve sample books; collaborate with distributors; strengthen order-taking, shipments, and delivery services



**Appropriate & Successful** → **Continue**

#### Needing improvement product groups

**Non-residential flooring materials, REATEC, glass film**

**Business format:** Sales activities to business owners and contractors, architects

**Previous medium-term plan initiatives:** Spec-sales through regional, market, and product sales organizations



**Initiatives were appropriate, but the execution inadequate** → **Target for improvement**

## 2. Interior Segment (In Japan)

### (4) Issue: Insufficient utilization of data from business

#### 【Interior materials business】

A business that makes

**Varied, Diverse, and Multiple**

**Varied, Diverse, and Multiple**

**Varied, Diverse, and Multiple**

**Varied, Diverse, and Multiple**

**shipments and deliveries of  
products to  
customers in  
markets.**



**Big data**



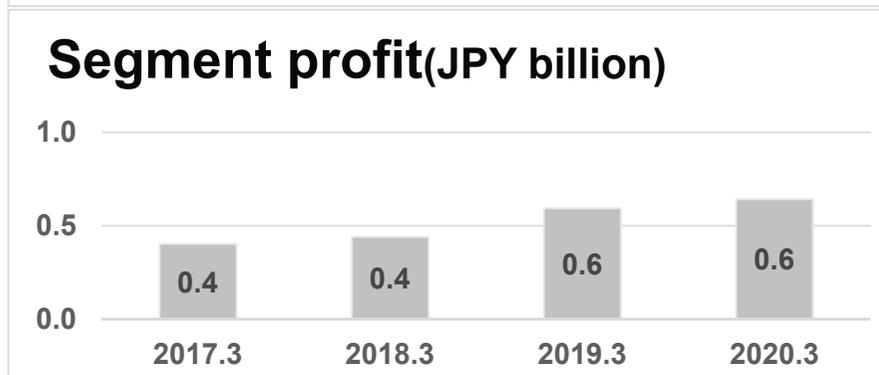
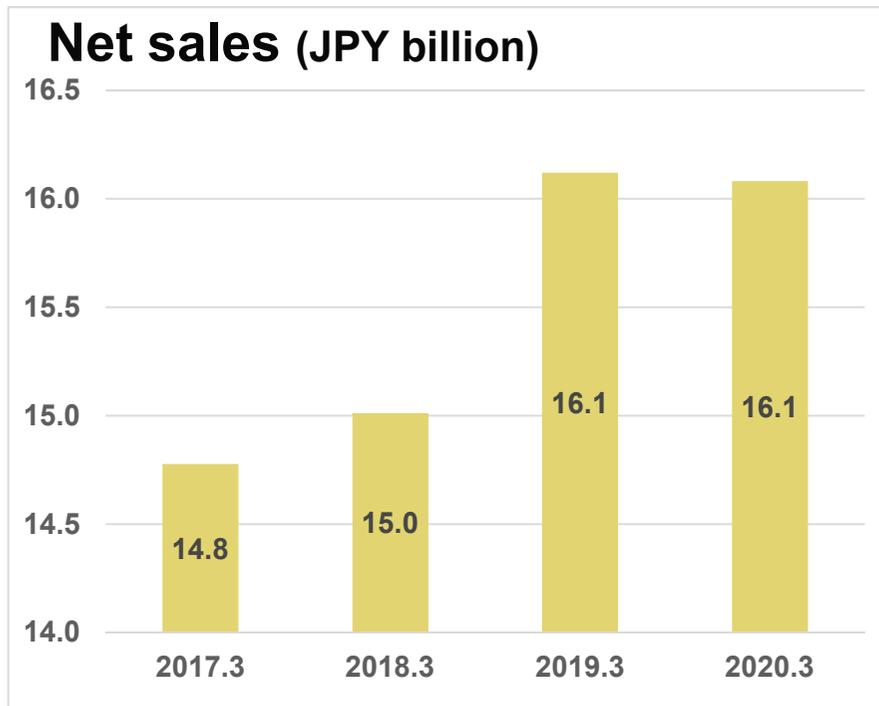
**Insufficient collection, acquisition, analysis  
and usage of data**

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### 3. Exterior Segment (In Japan)

#### (1) Net sales and segment profit



#### (2) Initiatives and issues

##### Initiatives

- **Strengthening construction capabilities by organizing skilled installation workers**  
→ Organizing at three main branches
- **Strengthening earnings by reducing processing errors**  
→ Limiting losses by sharing case studies of errors
- **Strengthening sales capabilities by realigning branch network**  
→ Merging of Gifu and Kakamigahara branches, Meinan and Tokoname branches; opening branch in Toyohashi

##### Issues

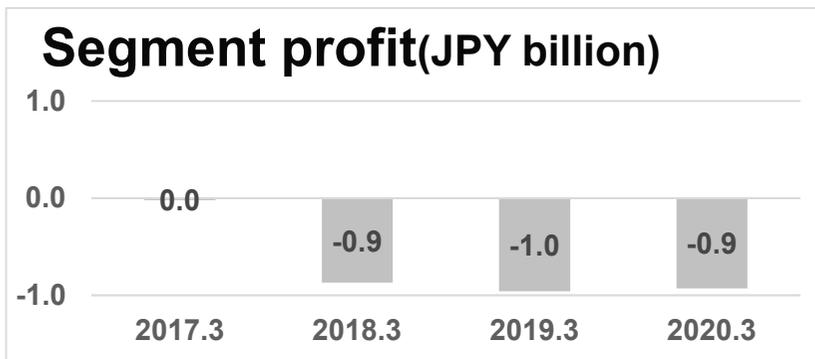
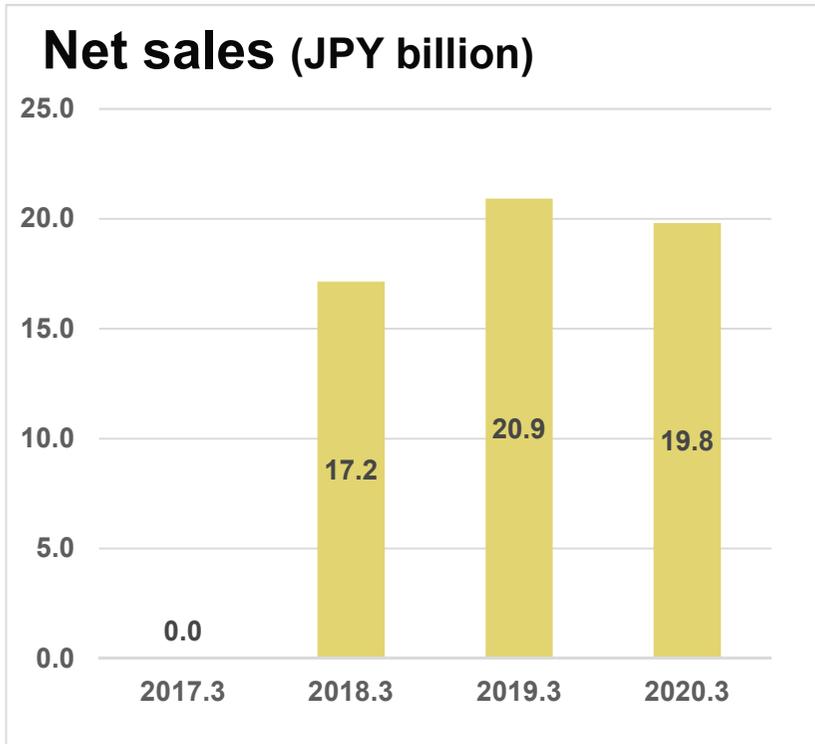
- **Lack of capabilities in construction and delivery both in quality and volume terms**
- **Limited business domains**
- **Presence in the greater Tokyo area**

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## 4. Overseas Segment

### (1) Net sales and segment profit



### (2) Initiatives and issues

#### Initiatives

##### North America

###### **Koroseal Interior Products Holdings, Inc.**

- Change in CEO
- Start of operating of cutting-edge wallpaper manufacturing equipment and digital wallpaper printing equipment
- Enhancing design skills, improving designs
- Impairment loss of intangible assets and goodwill

##### China / Southeast Asia

###### **Goodrich Global Holdings Pte., Ltd.**

- Acquired in December 2017
- Building a Pan-Pacific basin coverage structure

#### Issues

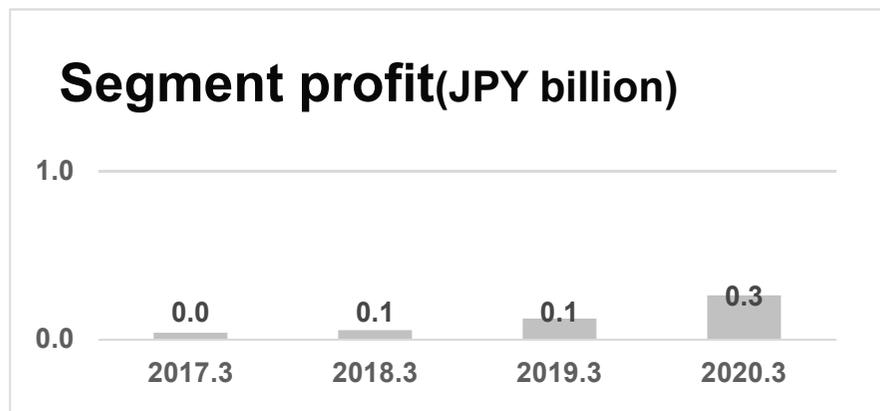
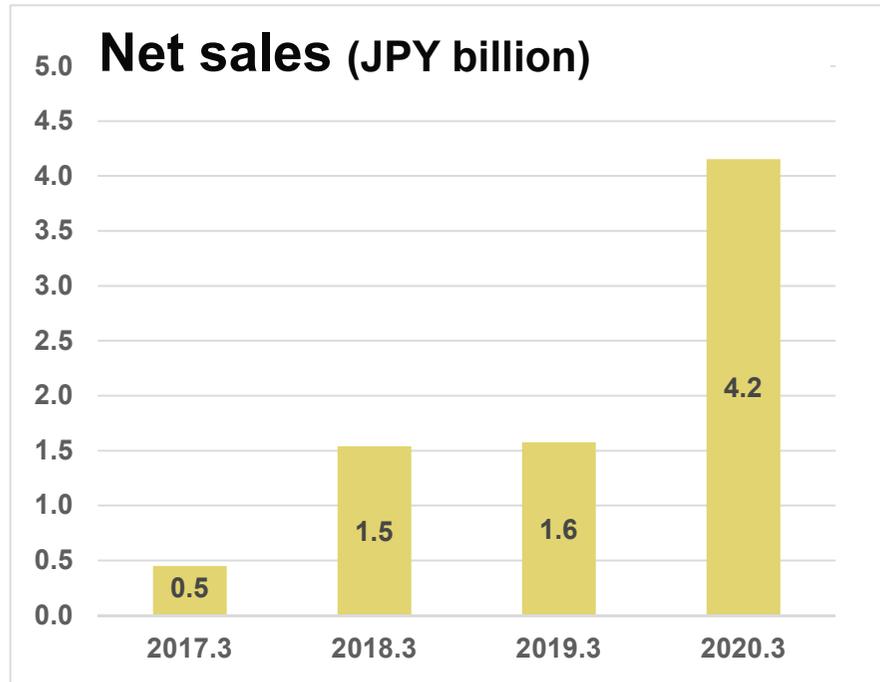
- **For each country and individual market:**
  - **Weak Management structure**
  - **Weak Business model**
  - **Weak branding**

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## 5. Space Creation Segment (Newly established from FY2020)

### (1) Net sales and segment profit



### (2) Initiatives and issues

#### Initiatives

##### Fairtone Co., Ltd.

- Fairtone acquired in January 2017
- Expansion of business in Kansai (western Japan) and Tokyo
- Business coordination for construction with Chubu Sangetsu
- Hiring designers, strengthening overall construction capabilities

##### Sangetsu Space Creation Division

- Established in April 2019

#### Issues

- **The above is just the beginning. Expansion of expert capabilities, scale**

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## 6. Human Resources-related (Non-consolidated)

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### (1) Initiatives and achievements

#### ① Commitment to developing professional talent and creating a meritocracy

- Expansion of job rotations / education & training
- Decided to introduce logistics position program / Introduction of Interior Advisor Program

#### ② Promoting diversity

- Promoting the advancement of women
- Hiring disabled persons
- Addressing LGBTQ issues

#### ③ Work style reform

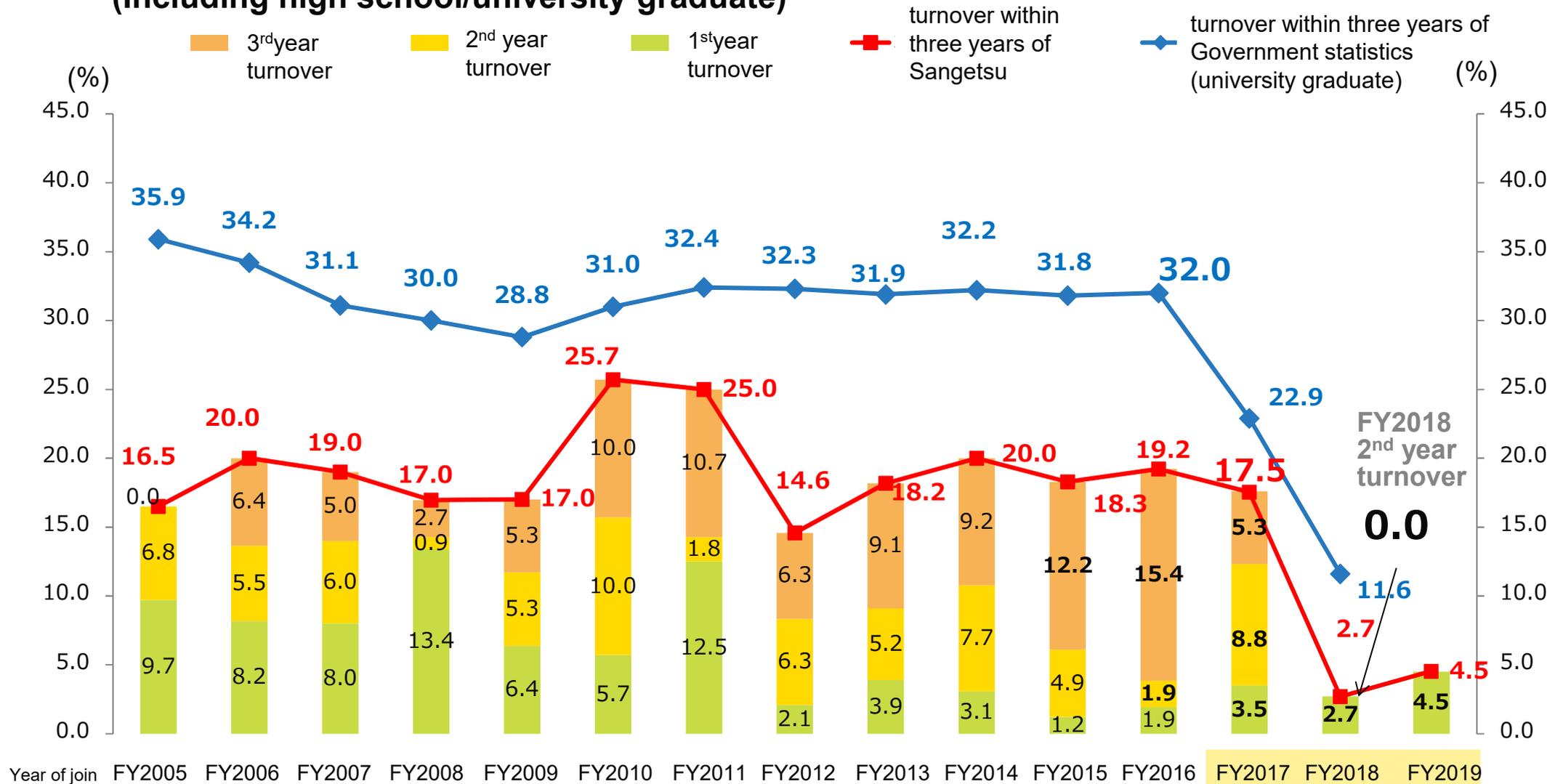
- Reform of the sales work system
- Introduction of tele-working and super-flex time
- Improving offices; expansion of free address offices

#### ④ Health management

- Establishment of the Sangetsu Health Insurance Union
- Introduction of subsidy program for advanced cancer treatment

## 6. Human Resources-related (Non-consolidated)

### (2) Employee turnover within three years (Including high school/university graduate)

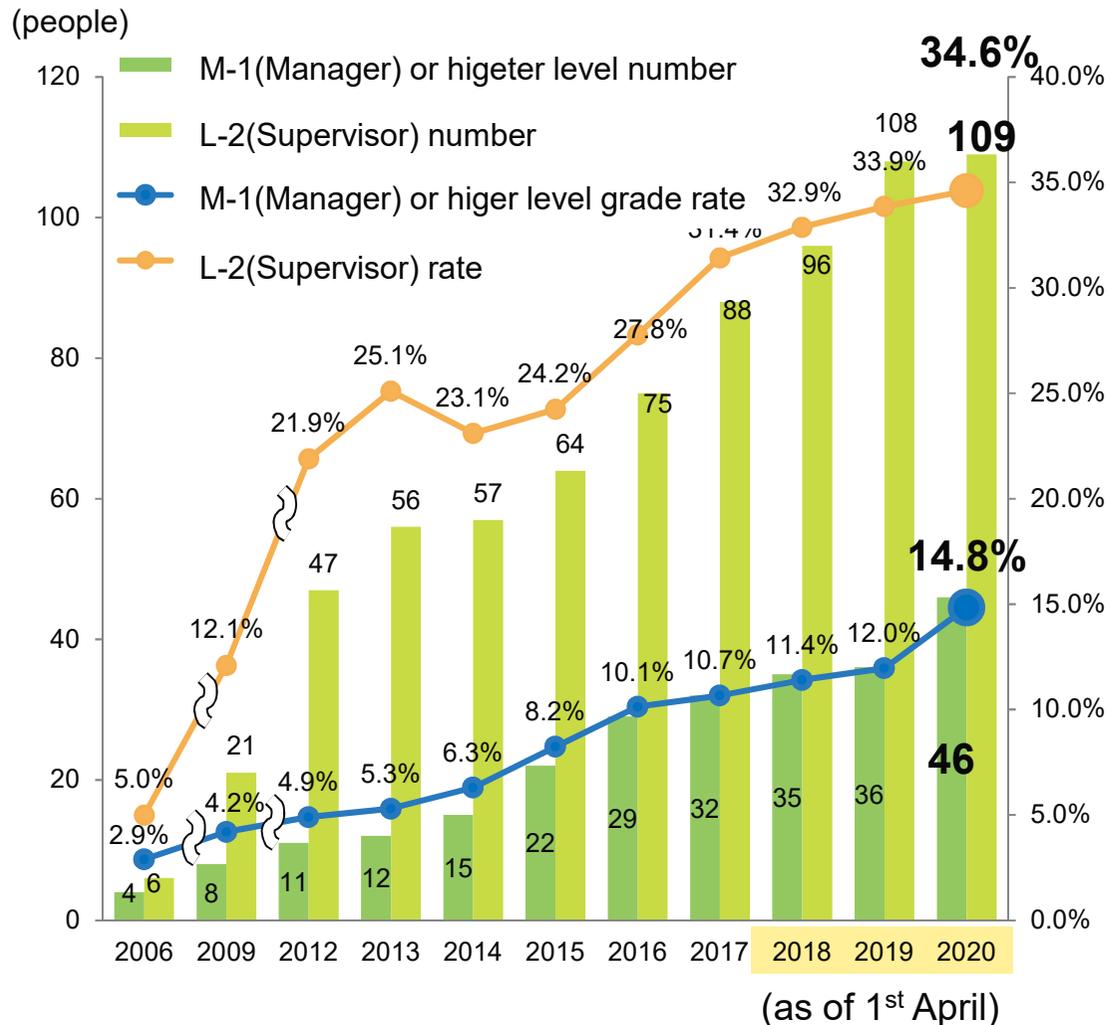


\*Since it passed within 3years for joined after FY2018, It counts based on only the year of passed.

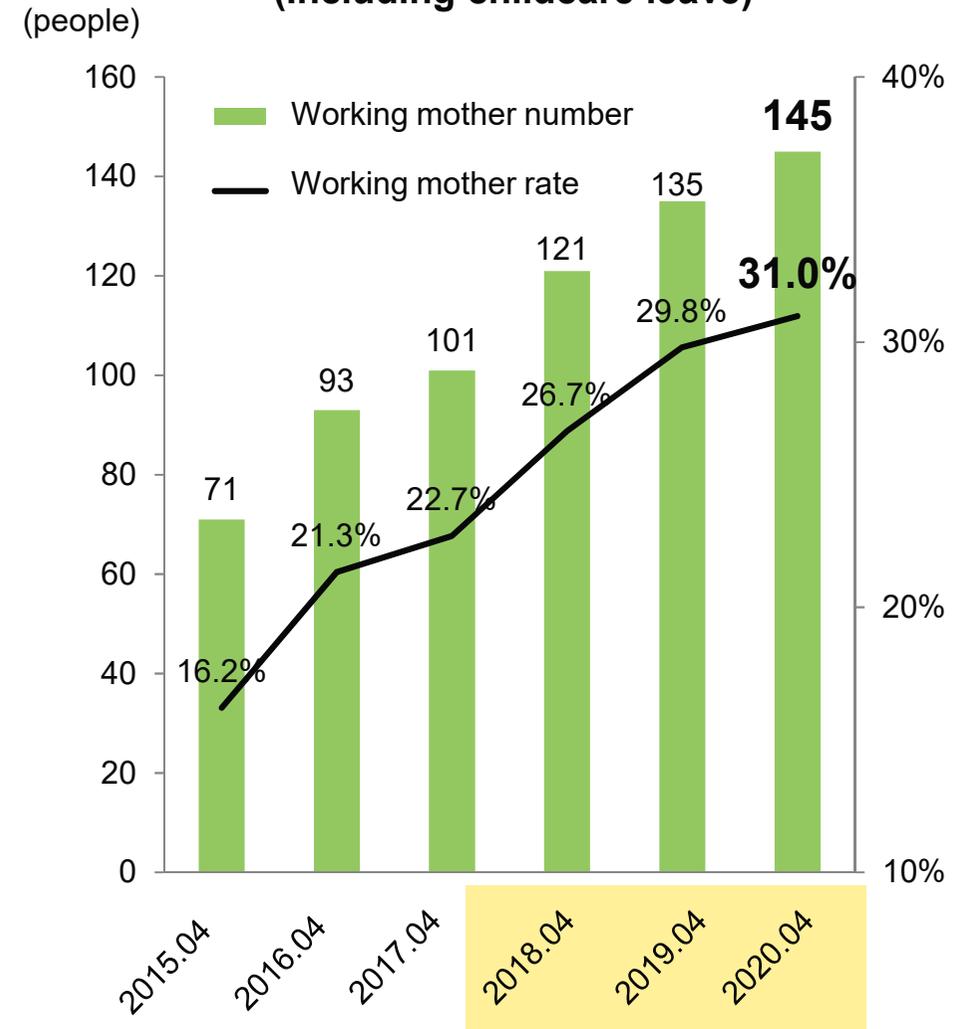
## 6. Human Resources-related (Non-consolidated)

### (3) Result about female employees

Number of female



Number of working mothers  
(Including childcare leave)



## 6. Human Resources-related (Non-consolidated)

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### (4) Health management

- **Establishment of the Sangetsu Health Insurance Union (April 2019)**

#### **Enhancement of periodic health check**

Expansion of health check items for employees under age 35  
Permitting employees aged 35 and older to take annual “human dock”  
comprehensive health exams free of charge

#### **Review of medical copayments**

**Holding awareness events related to health, such as measures to prevent metabolic syndrome and passive smoking, etc.**

- **Introduction of subsidy program for advanced cancer treatment (December 2019)**

Supporting **the balance of treatment and work** from an economic perspective in addition to activities to promote awareness of cancer prevention and early detection

## 6. Human Resources-related (Non-consolidated)

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### (5) Issues related to strengthening human resources

#### ① Gaps among employees in awareness and focus

- Gaps among employees in awareness and focus regarding targets and ambition to achieve them
- Clarification of the definition of “professional talent” and fostering awareness of career formation
- Need to strengthen middle management

#### ② Lack of diversity

- Diversity crossing national borders
- Experience at other companies and with other roles

#### ③ Shortage of expert talent

- Need to higher talent with a high degree of expertise in line with increasing specialization and sophistication in work

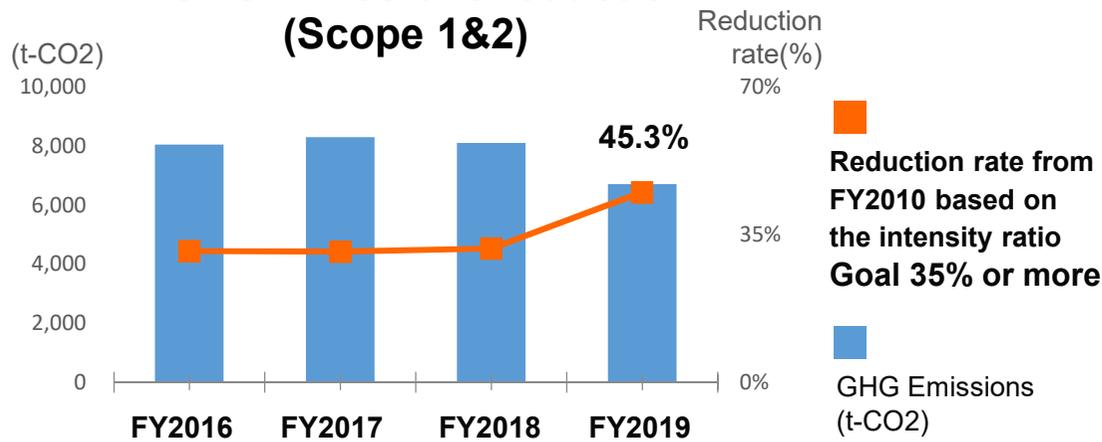
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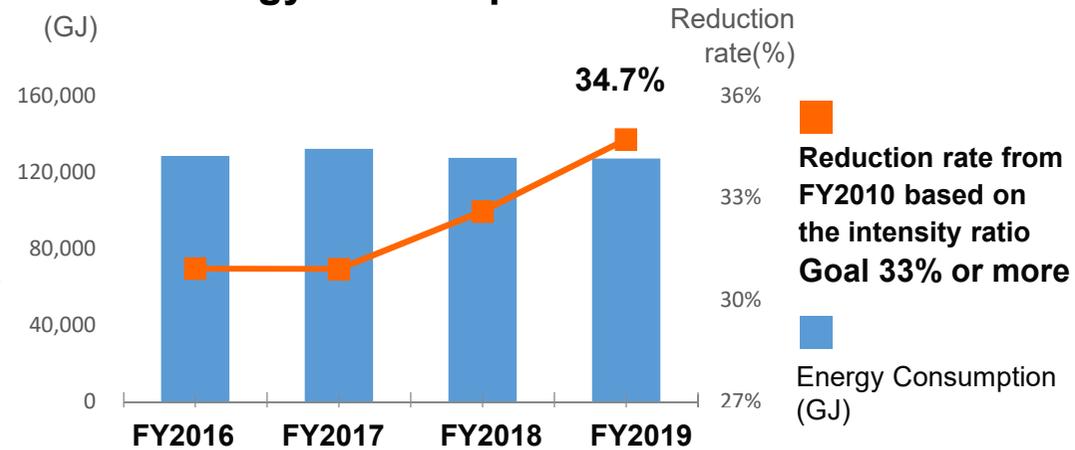
## 7. ESG / CSR

### (1) Result about environment (Non-consolidated) \*FY2019 is based on Preliminary data

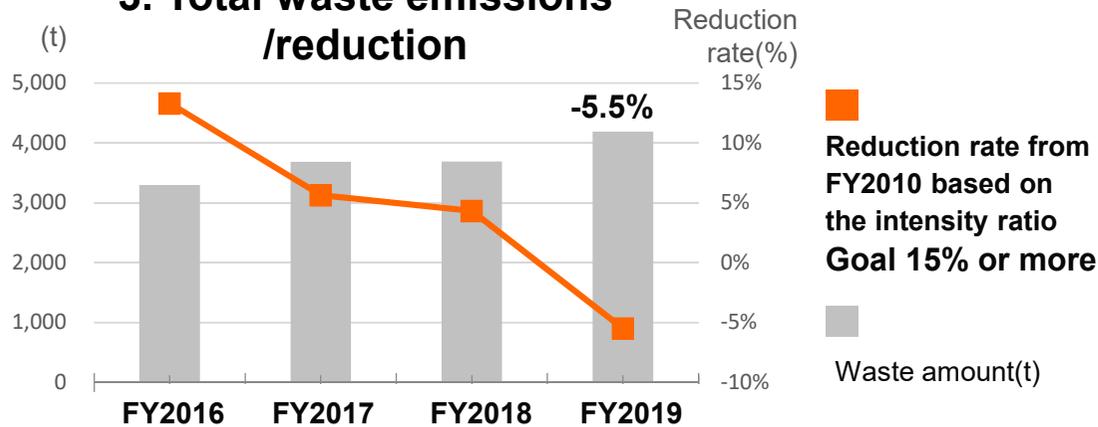
#### 1. GHG Emissions/reduction (Scope 1&2)



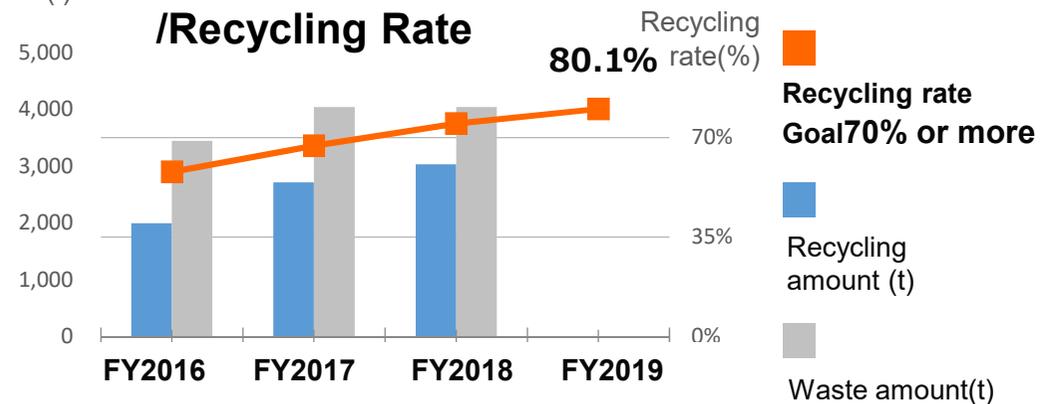
#### 2. Energy Consumption/reduction



#### 3. Total waste emissions/reduction



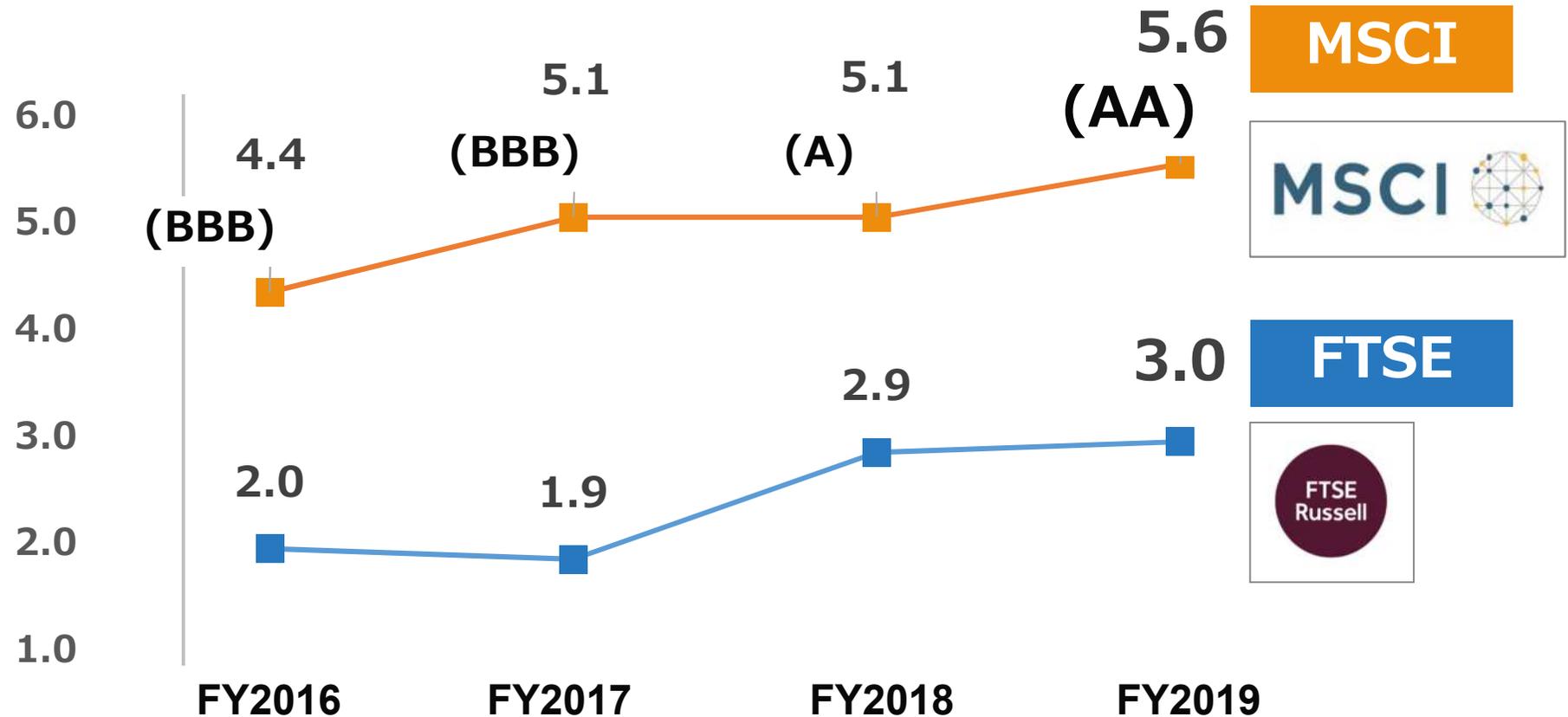
#### 4. Recycling amount/Recycling Rate



**➡ Total waste emissions were not achieved the target due to relocation of Hokkaido and Chugokushikoku branch and inventory write-downs. While other targets were all achieved.**

## 7. ESG / CSR

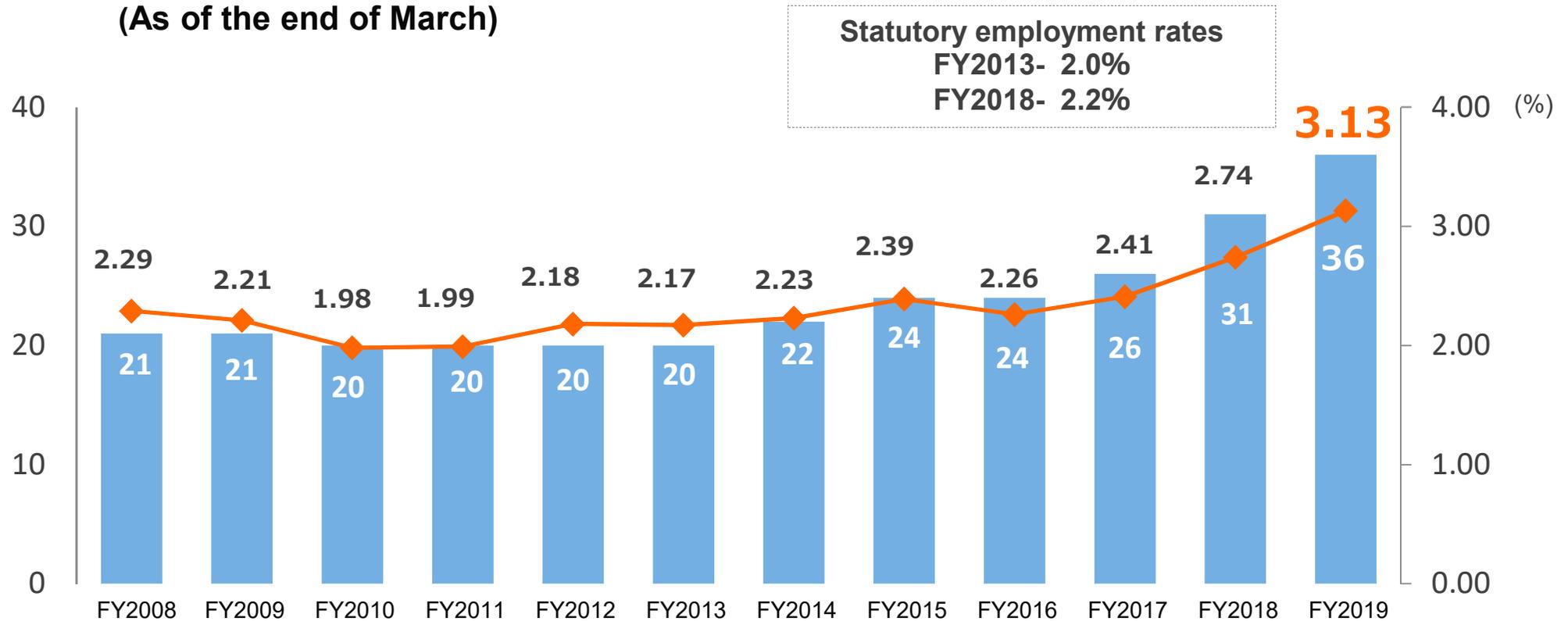
### (2) Rating for ESG by external certifying organization (Consolidated)



 “Environment/Social/Governance” have all improved

## 7. ESG / CSR

### (3) Employment rate of employees with disabilities (Non-consolidated) (As of the end of March)



	FY2008	FY2009	FY2010	FY2011	FY2012	FY2013	FY2014	FY2015	FY2016	FY2017	FY2018	FY2019
Employment rate of employees with disabilities(%)	2.29	2.21	1.98	1.99	2.18	2.17	2.23	2.39	2.26	2.41	2.74	3.13
Number of employees with disabilities (people)	21	21	20	20	20	20	22	24	24	26	31	36

## 7. ESG / CSR

### (4) LGBTQ-related activities (Non-consolidated)

- Internal training implemented for all employees
- Helpline established
- Gender neutral toilets installed in Shinagawa, Nagoya, Osaka, and Fukuoka showrooms
- ALLY Mark stickers designed and distributed

In 2018 and 2019, we were awarded the Silver rating on the PRIDE Index which is managed by “work with Pride”, a Japanese private organization



The Sangetsu ALLY Mark



Internal training provided through Out Japan Co., Ltd.



Expressing intent with an ALLY sticker



Marching in the Rainbow Parade

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## 8. Capital Policy (Consolidated)

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### (1) Equity

**Equity**

**End of March, 2017 : JPY 110.37 billion**



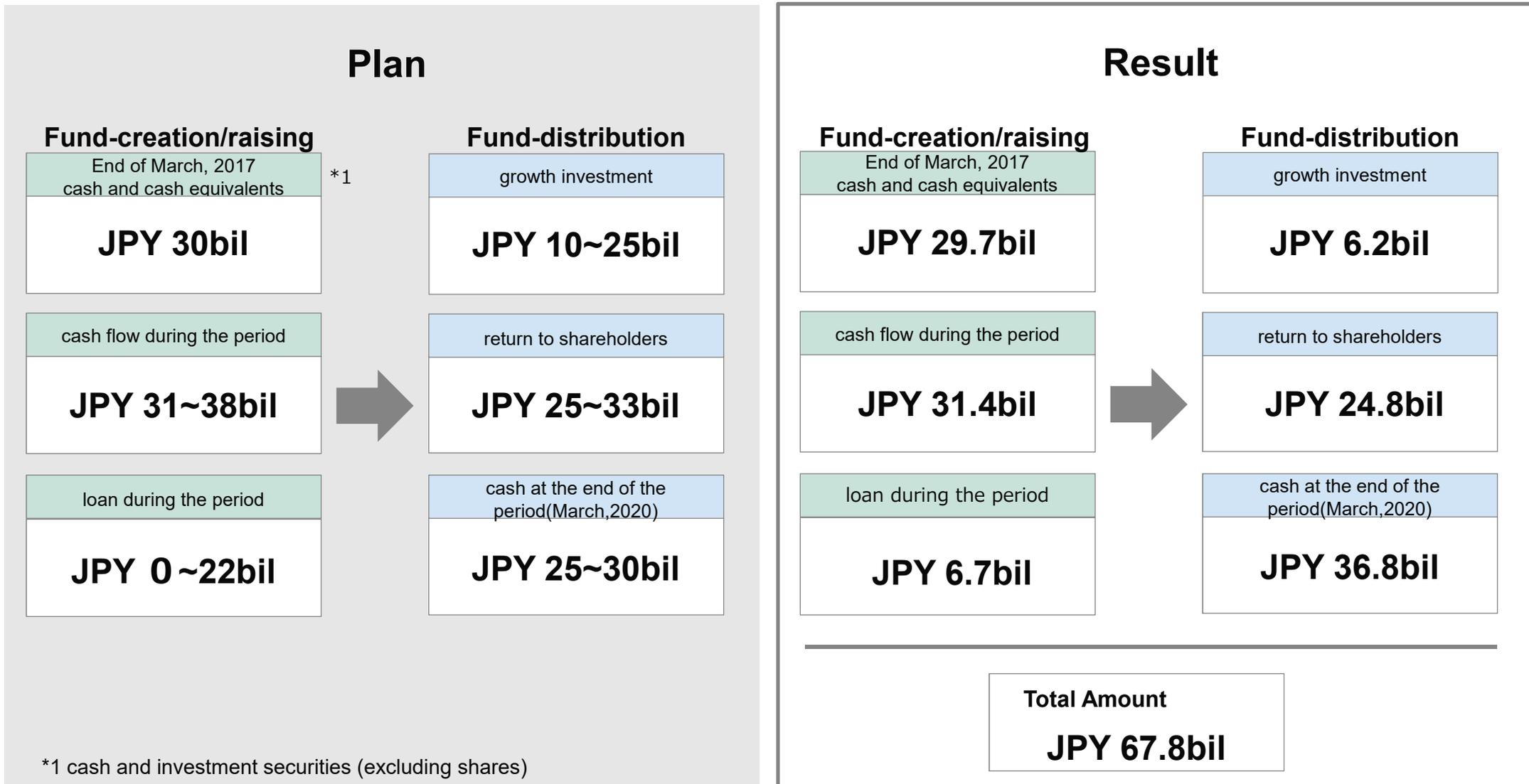
**The previous Medium-term Business Plan policy :  
Aim to Reduce for JPY105~100 billion**

**End of March, 2020 : JPY 93.24 billion**

## 8. Capital Policy (Consolidated)

### (2) Capital allocation

【JPY】



## 8. Capital Policy (Consolidated)

### (3) Result of return to shareholders

	FY2016	FY2017	FY2018	FY2019	Total for three years
Dividend per share	JPY52.5	JPY55.5	JPY56.5	JPY(TBE)57.5	—
Total dividend	JPY3.5bil	JPY3.5bil	JPY3.5bil	JPY3.4bil	JPY10.5bil
Payout ratio	53.8%	80.5%	98.6%	244.1%	113.1% (Average)
Shares of treasury stock	1.27mil	3.42mil	2.45mil	0.97mil	6.85mil
Purchase of treasury stock	JPY2.4bil	JPY6.9bil	JPY5.2bil	JPY1.9bil	JPY14.2bil
Total return	JPY6.0bil	JPY10.5bil	JPY8.7bil	JPY5.4bil	JPY24.8bil
Total return ratio	91.4%	234.0%	245.5%	381.4%	<b>260.5%</b> (Average)
Shares at the end of the period (Including treasury stock)	68.07mil	66.05mil	62.85mil	61.75mil	—
EPS	JPY97.5	JPY69.0	JPY57.3	JPY23.6	—

## II . Medium-term Business Plan (2020-2022)

### 【 Design &Creation D.C. 2022 】

**The Long-term Vision of Sangetsu Group 【 DESIGN 2030 】**

First step towards achievement

**Medium-term Business Plan (2020-2022)**

**【 Design  
&Creation D.C. 2022 】**

**Basic Policy**

We will aim to realize the growth by implementing two measures, which are expansion of profit through qualitative growth of core business and growth of profitability of next generation business based on the resources of core business.

# Basic Policy and Measure

## Basic Policy (Consolidated)

1

### Expand earnings through qualitative growth of core business

#### Interior segment (In Japan)

- (1) Enhancement of design capabilities and strategic purchasing
- (2) Expansion and Upgrading of our Service functions
- (3) Deepening collaboration with distributors and strengthening sales structure

#### Exterior segment (In Japan)

- (4) Qualitative and regional expansion in exterior business

2

### Growth of profitability in next-generation business based on resources of core business

#### Overseas segment In each market globally

- (1) Build a solid management foundation in the market in each country
- (2) Pursuit of the optimal business model and full commitment to localization
- (3) Strengthening branding and product portfolio

#### Space Creation segment (In Japan)

- (4) Spread of Space creation business by expanding professional ability

3

### Strengthen management and business foundations

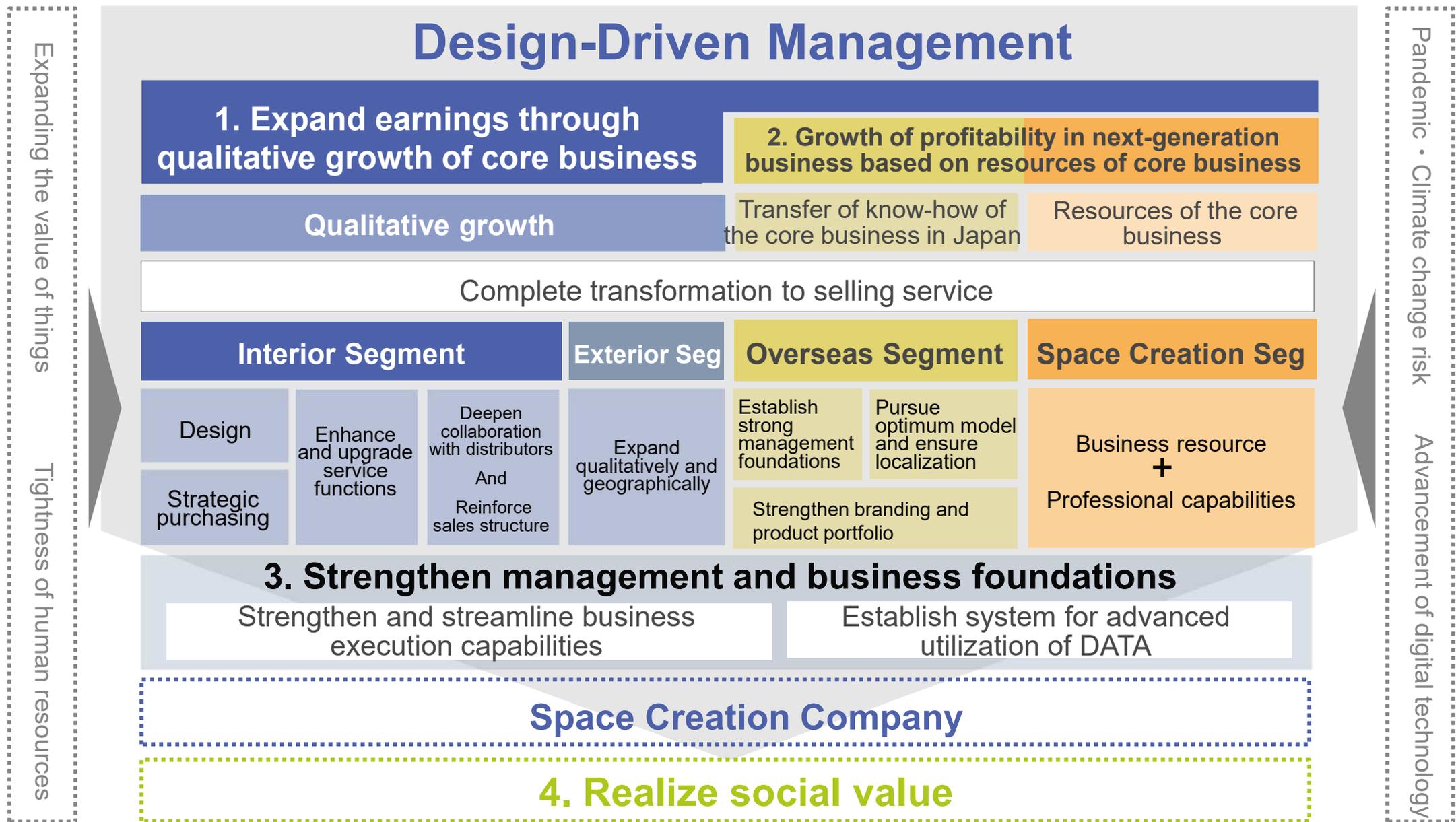
- (1) Strengthening business execution capabilities and efficiency
- (2) The establishment of a system for the advanced utilization of data

4

### Realize social value

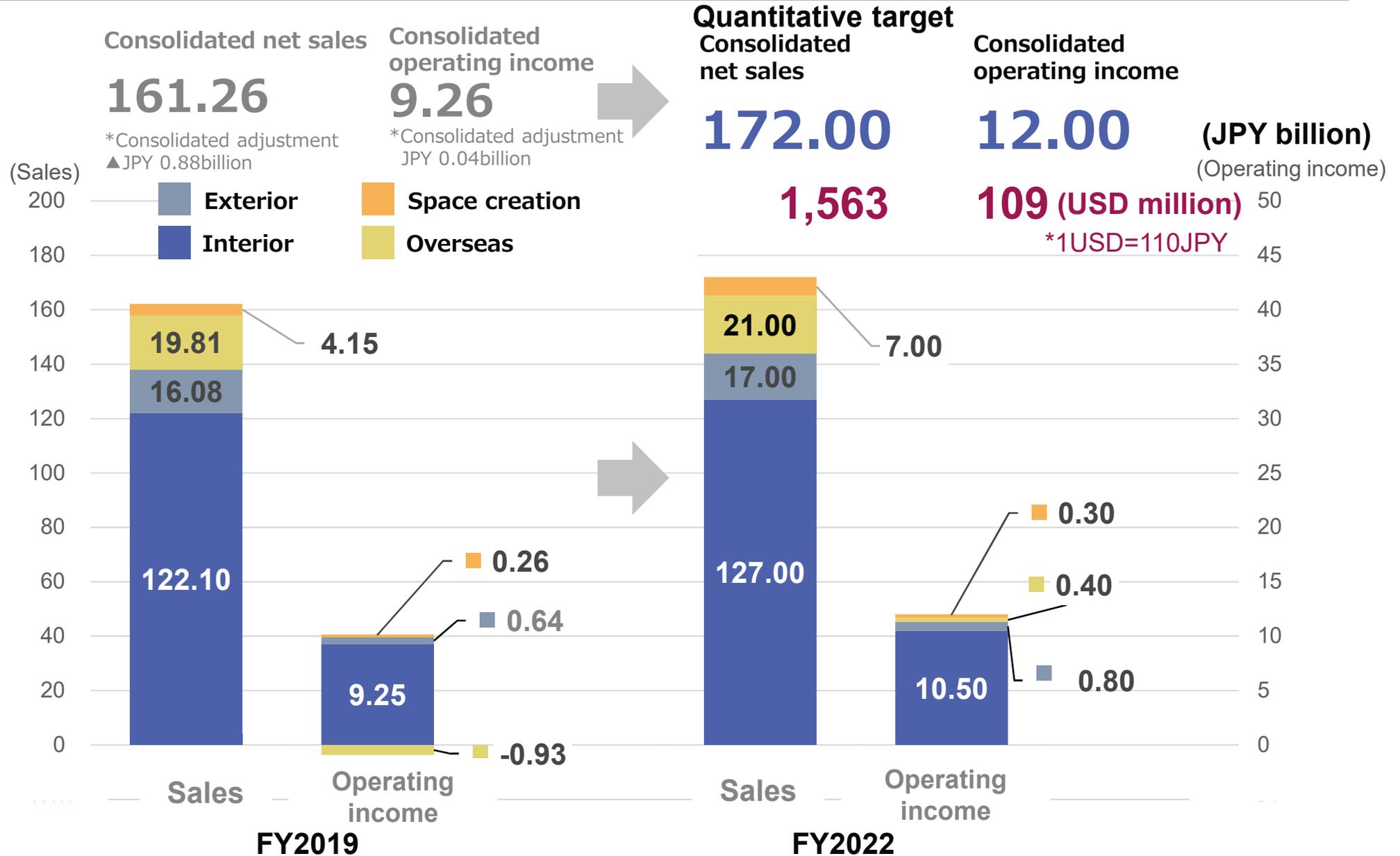
- |                        |                   |
|------------------------|-------------------|
| (1) Global environment | (2) Human capital |
| (3) Social capital     | (4) Governance    |

# Whole Picture (Consolidated)



\*Space Creation Company : A creative concept partner based on design, human resources, data, and services.

# FY2022 Targets by Segment (Consolidated)



## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

#### 1. Expand earnings through qualitative growth of core business

Interior Segment

Exterior Segment

#### 2. Growth of profitability in next-generation businesses based on resources of the core businesses

Overseas Segment

Space Creation Segment

#### 3. Strengthen management and business foundations

#### 4. Realize social value

#### 5. Quantitative target (KPI) / Capital Policy

## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

#### 1. Expand earnings through qualitative growth of core business

##### Interior Segment

- (1) Enhancement of design capabilities and strategic purchasing
- (2) Expansion and Upgrading of our Service functions
- (3) Deepening collaboration with distributors and strengthening sales structure

##### Exterior Segment

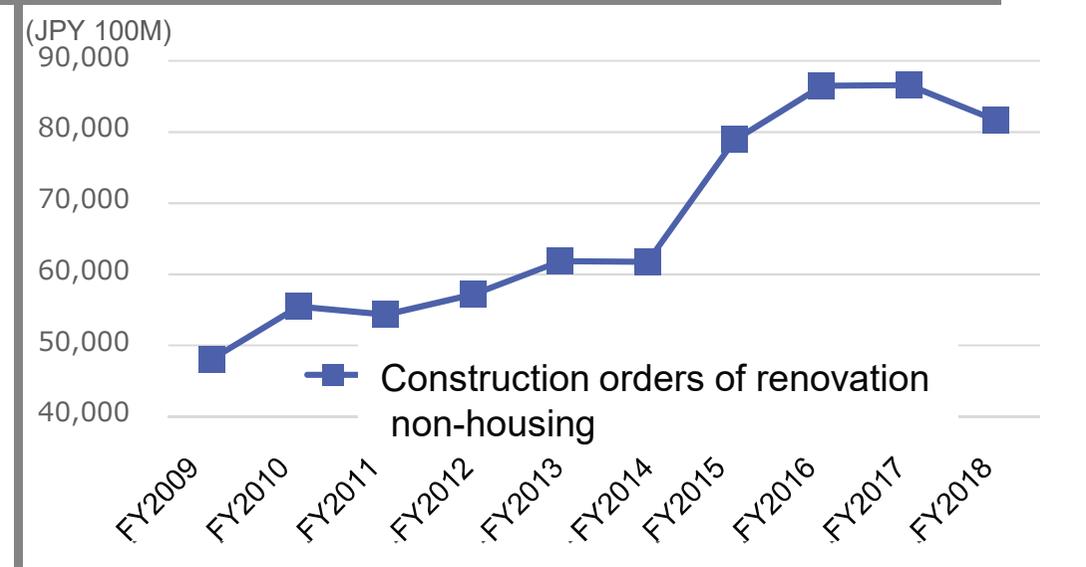
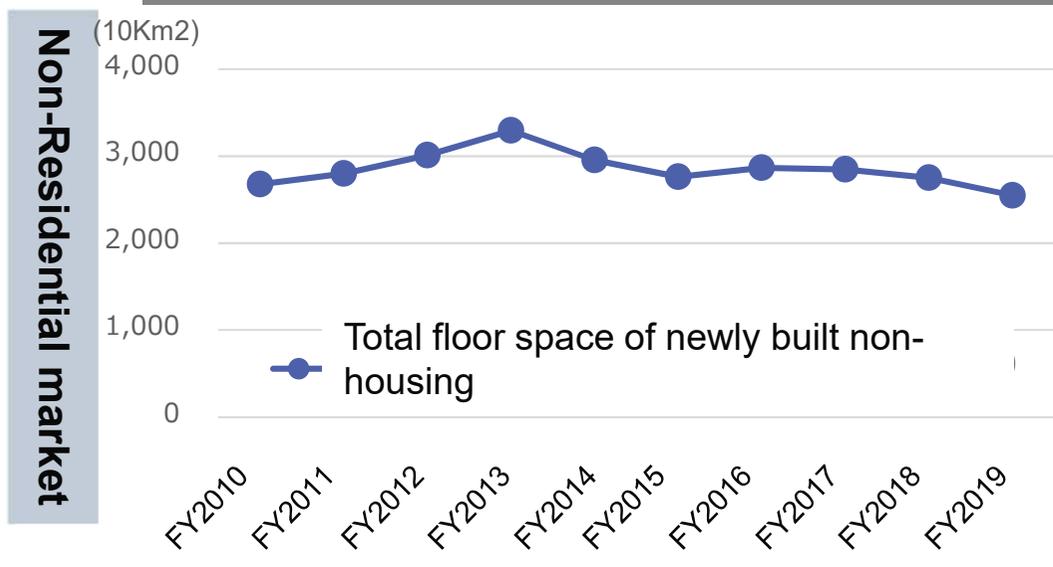
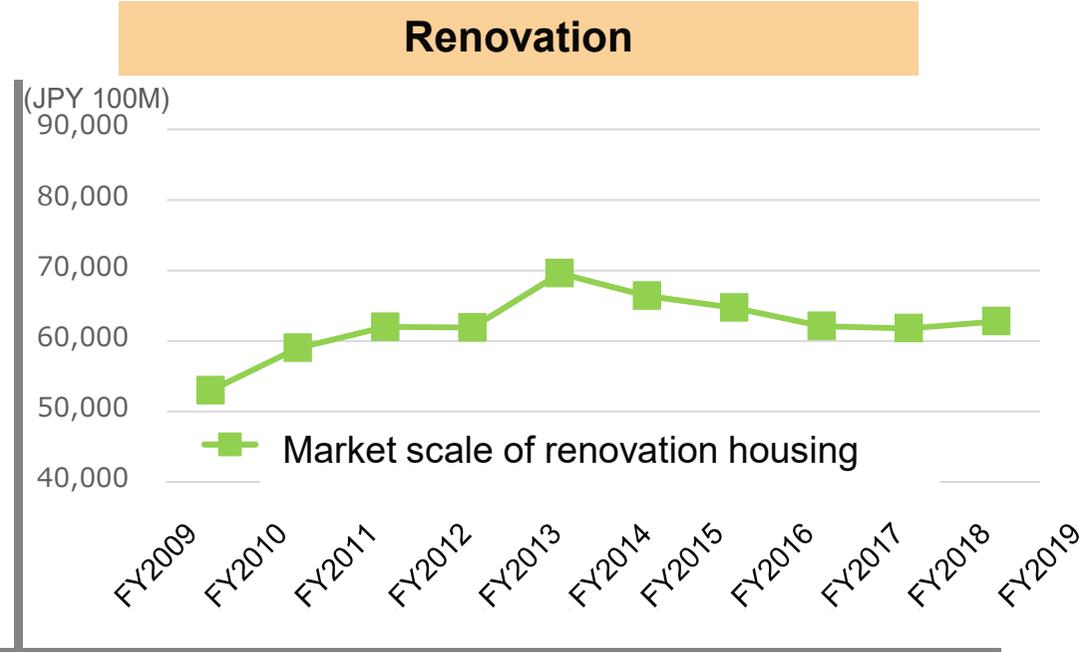
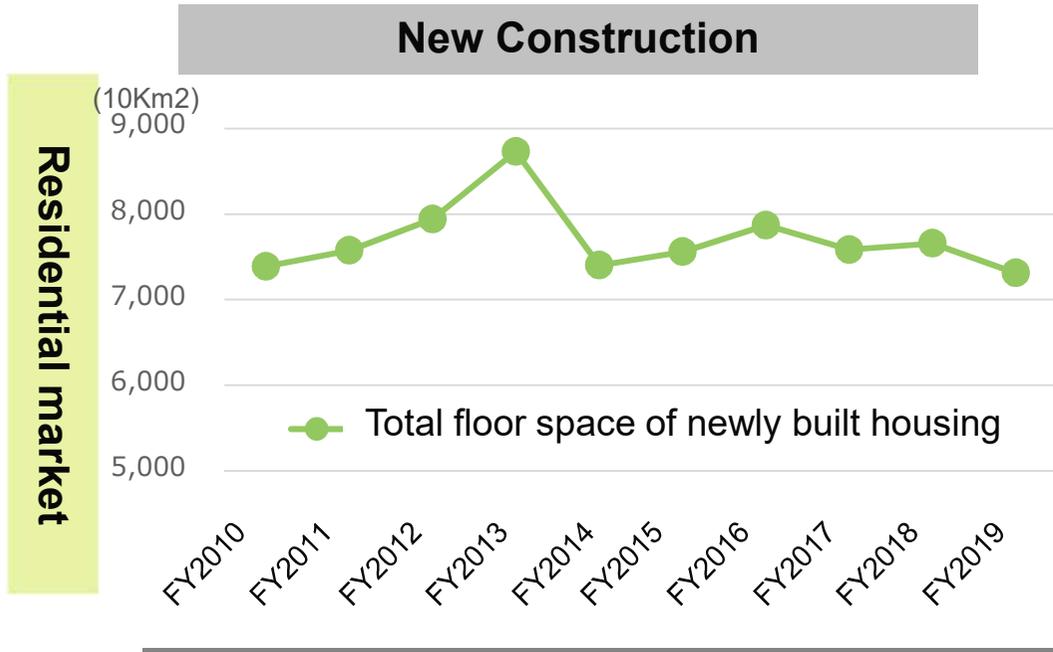
- (4) Qualitative and regional expansion in exterior business

# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

In Japanese domestic market

(In Japan)

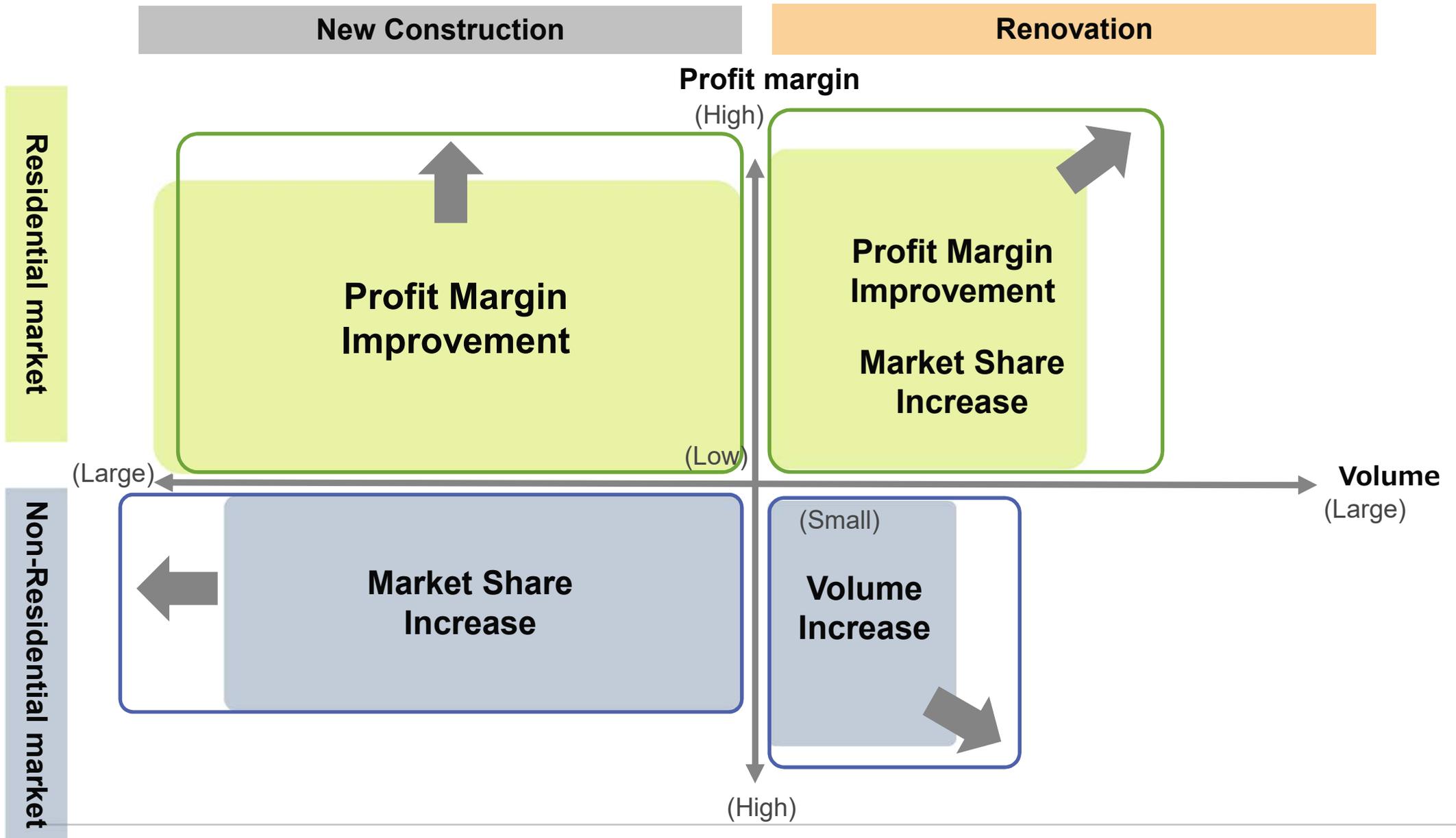


# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

(In Japan)

Basic strategy by market



# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

Initiatives aimed at growth in the Residential market

(In Japan)

## New Construction

## Renovation

Residential market

### Business format

- Decision-making and influence large among housemakers, builders, IC
- Small-lot transactions

### Major products

**Mass-produced wallpaper,**  
General wallpaper, Cushioned floors

### Enhancement initiatives

- Deepening collaboration with distributors**  
Developing a sample book for strong-selling products
- Advancing the expansion of ordering, shipment, and delivery services**
- Strengthening product design capabilities**
- Strengthening strategic purchasing**

### Business format

- Decision-making and influence large among business owners, IC
- Small-lot transactions

### Major products

**General wallpaper,**  
Mass-produced wallpaper, PVC tile

### Enhancement initiatives

- Deepening collaboration with distributors**
- Strengthening space design**
- Advancing the expansion of ordering, shipment, and delivery services**

# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

Initiatives aimed at growth in the Non-Residential market

(In Japan)

Non-Residential market

## New Construction

## Renovation

**Business format**

- Business owner → Contractor → Subcontractor

```

    graph TD
      BO[Business owner] -- Transaction --> C[Contractor]
      C -- Transaction --> SC[Subcontractor]
      BO -- Transaction --> A[Architect]
      A -.-> MS[Material supplier]
      MS -.-> C
      MS -.-> SC
      MS -.-> BO
  
```

→ Transaction  
 ···· Sales

- Multiple parties involved in transaction
- Small / Medium / Large-lot transaction

**Major products**

Non-flammable wallpaper, REATEC,  
 Non-residential flooring materials, Curtains

**Enhancement initiatives**

- Strategic allocation of management resources
- Developmental enhancement of design capabilities
- Strengthening strategic purchasing

**Business format**

- Business owner
- Building owner, Direct order by tenant
- Small / Medium / Large-lot transaction

**Major products**

Non-flammable wallpaper, REATEC,  
 Non-residential flooring materials

**Enhancement initiatives**

- Strategic allocation of management resources
- Strengthening design capabilities for experiences

## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

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- (1) Enhancement of design capabilities and strategic purchasing
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##### Exterior Segment

- (4) Qualitative and regional expansion in exterior business

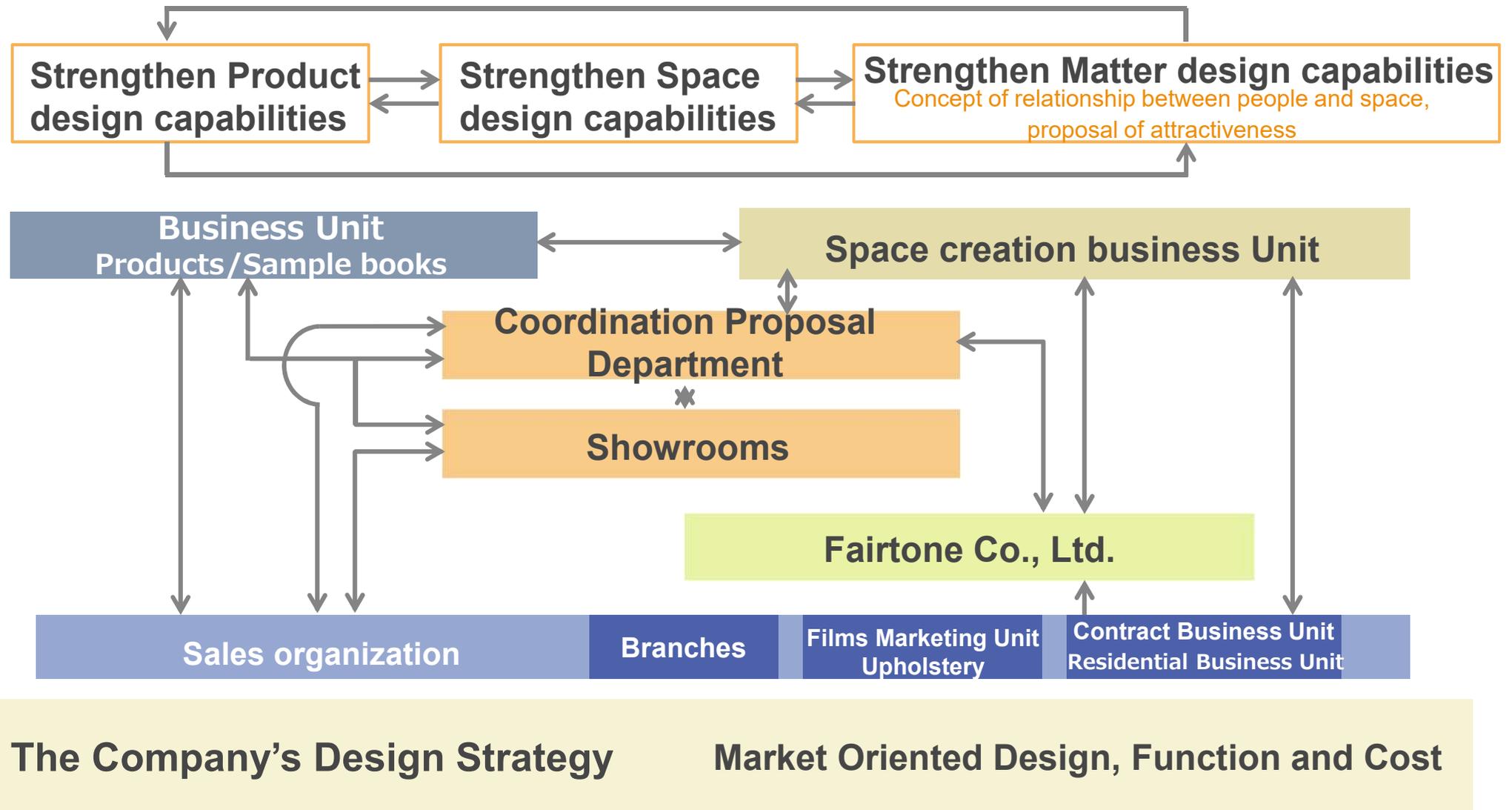
# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

(1) Enhancement of design capabilities and strategic purchasing

(In Japan)

## Advancing and strengthening design capabilities



# 1. Earnings expansion from qualitative growth of our core businesses

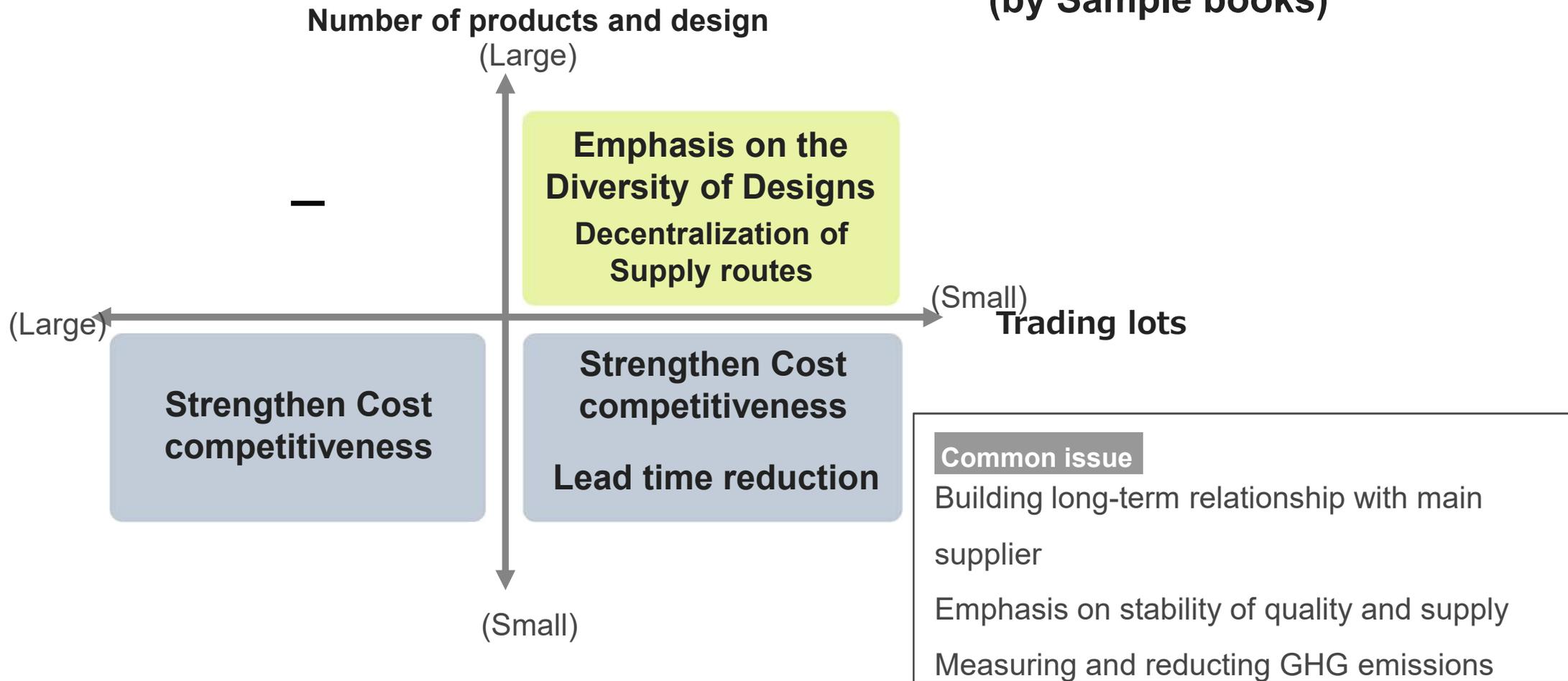
Interior Segment

(1) Enhancement of design capabilities and strategic purchasing

(In Japan)

## Promotion of strategic purchasing

Purchasing policy according to characteristics of Product group (by Sample books)



## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

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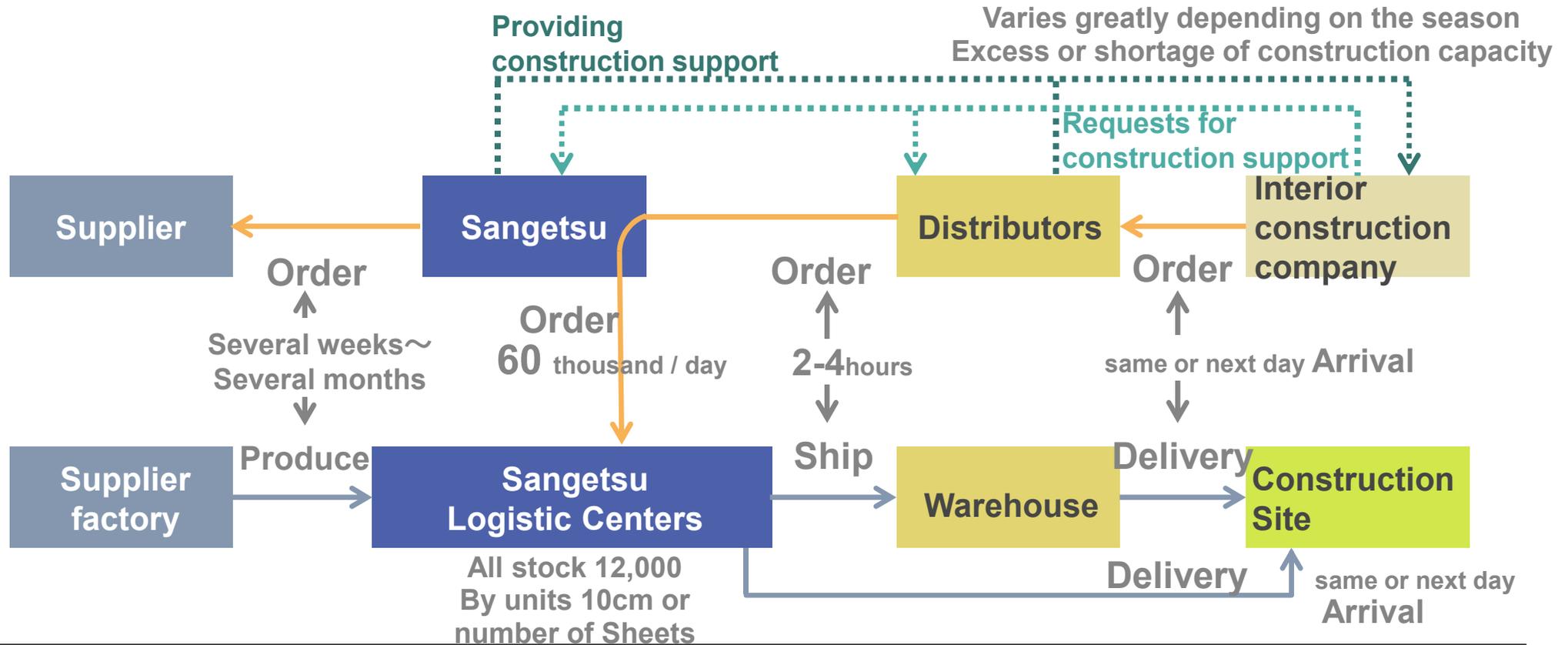
# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

## (2) Expansion and Upgrading of our Service functions

(In Japan)

### Order taking, Inventory shipment, Delivery and Installation



External environment	Advancing the expansion of function	Targets
Increased cost for individual distribution Increased difficulty for early morning delivery and frequent delivery Increased refusal to deliver heavy goods Aging and Shortage of labor	➔	Sustainability and Improving service Reducing cost / Improving customer convenience

# 1. Earnings expansion from qualitative growth of our core businesses

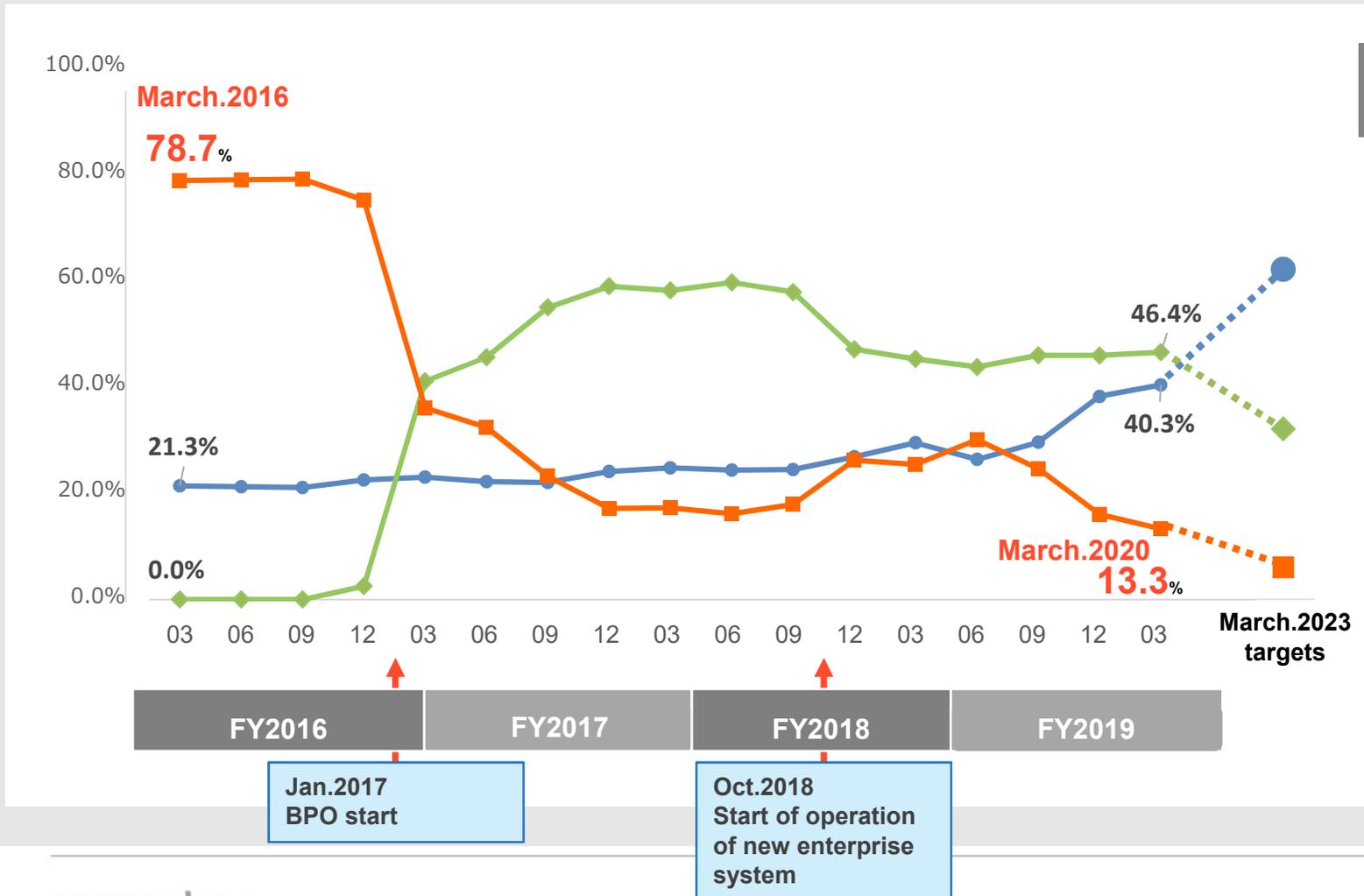
## (2) Expansion and Upgrading of our Service functions

Interior Segment

(In Japan)

### Improving efficiency in order-taking operations (Non-consolidated)

The ratio of Online, BPO and employees in order-taking operations



FY2022 targets

the Online ratio

40.3% → 62%

the BPO ratio

46.4% → 32%

the ratio of employees in order-taking operations

13.3% → 6%

# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

## (2) Expansion and Upgrading of our Service functions

(In Japan)

### Shipments and Delivery: Strengthening logistics facilities and Sustainability

the previous medium-term business plan:

we implemented various nationwide shipment policies, establishment of new facilities and integration of facilities.

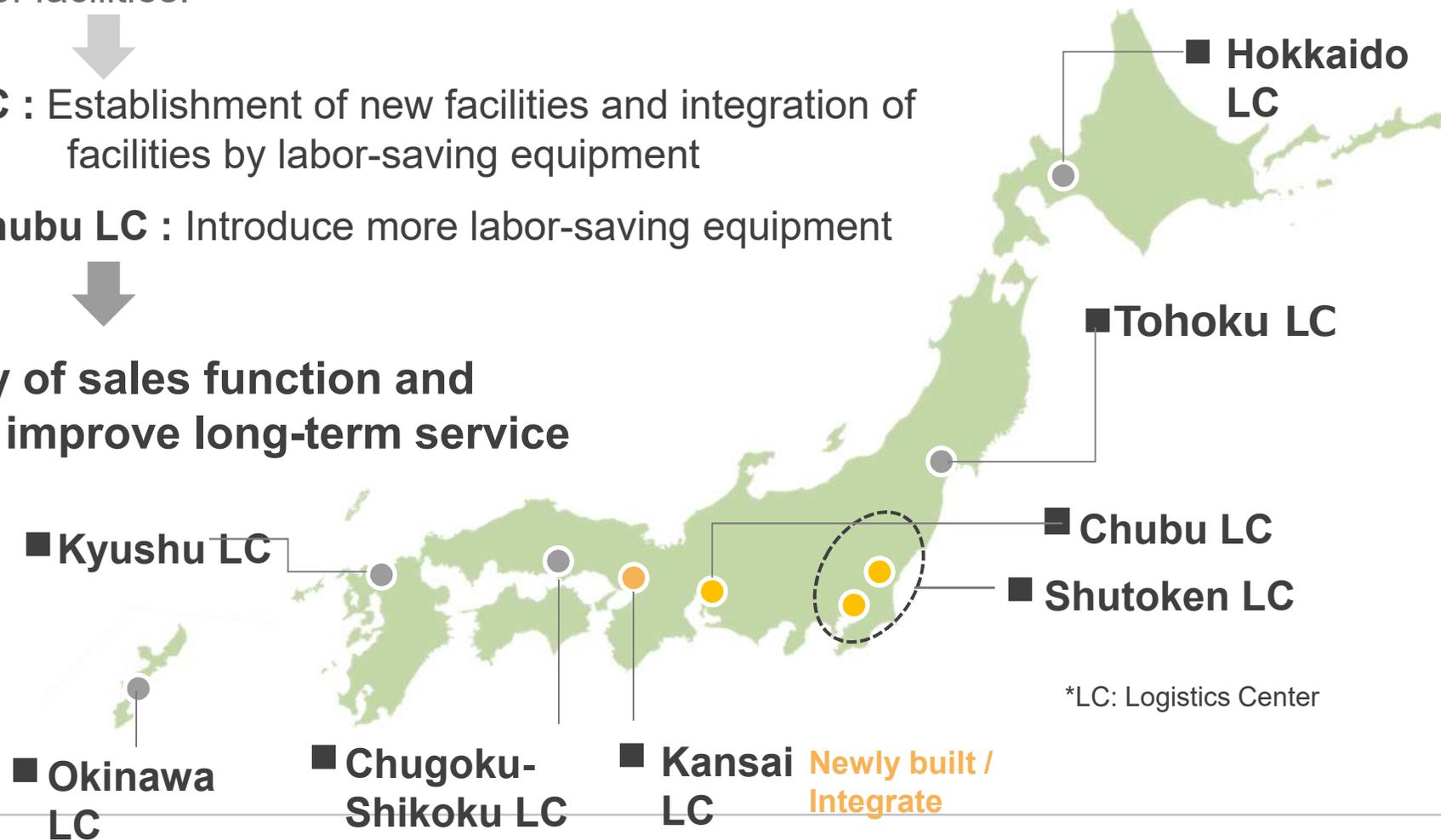


**New Kansai LC** : Establishment of new facilities and integration of facilities by labor-saving equipment

**Shutoken & Chubu LC** : Introduce more labor-saving equipment



**Sustainability of sales function and Maintain and improve long-term service**



# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

## (2) Expansion and Upgrading of our Service functions

(In Japan)

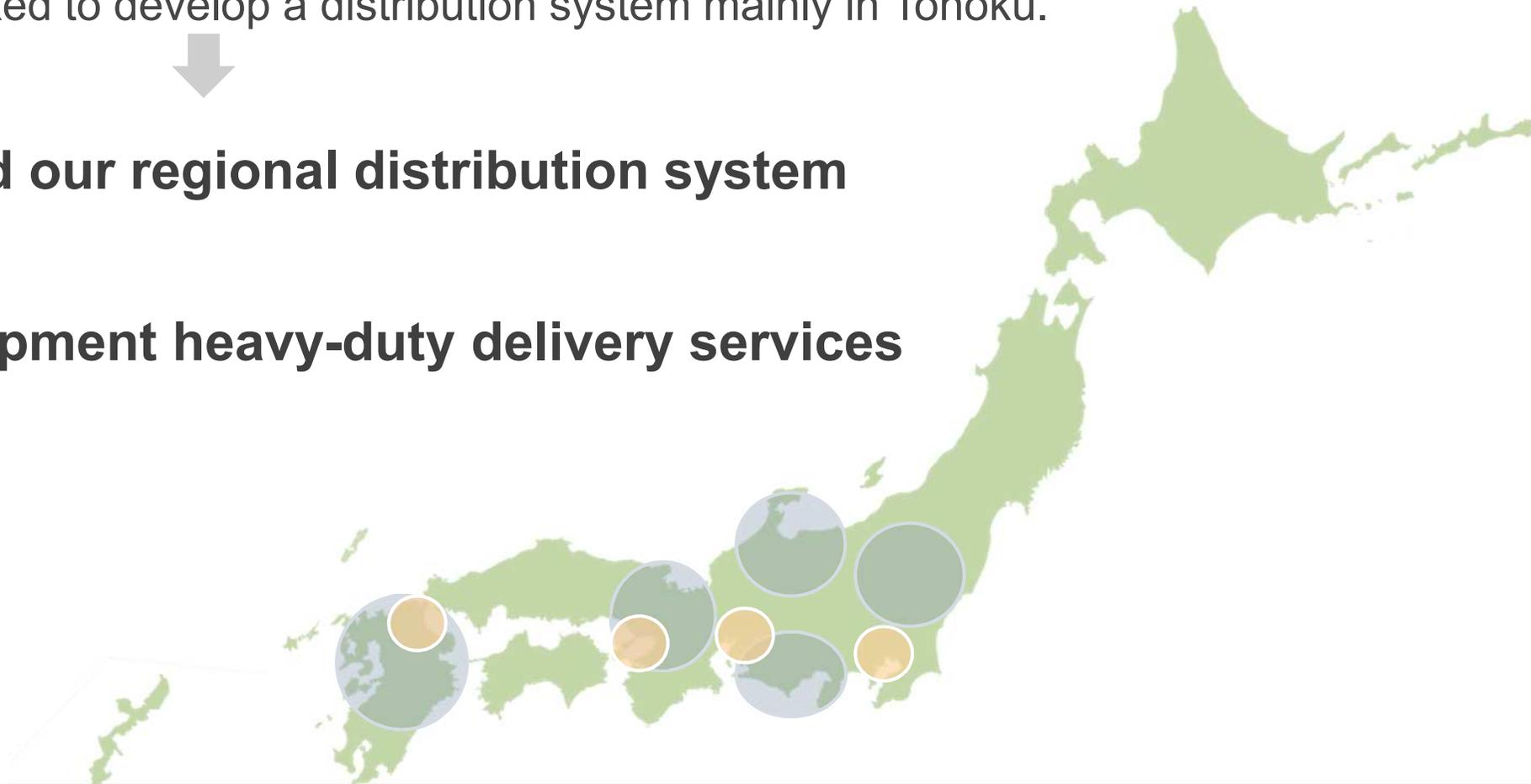
### ■ **Delivery:** Expand our regional distribution system

During the previous medium-term business plan:  
we worked to develop a distribution system mainly in Tohoku.



### ● **Expand our regional distribution system**

### ● **Development heavy-duty delivery services**



1. **Earnings expansion from qualitative growth  
of our core businesses**  
(2) Expansion and Upgrading of our Service functions

Interior Segment

(In Japan)

## Construction

March.2020

### Structure of Interior installation tradesmen

<b>Fairtone Co., Ltd.</b>	<b>About 650</b> people
<b>Sangetsu</b>	<b>180</b> people
<b>Partner of Interior installation tradesmen</b>	<b>170</b> people

---

**Total About 1,000** people



**Expand this number and our construction capabilities**  
**Strengthen our comprehensive construction capabilities**  
**Expand our construction network**

## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

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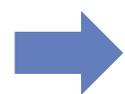
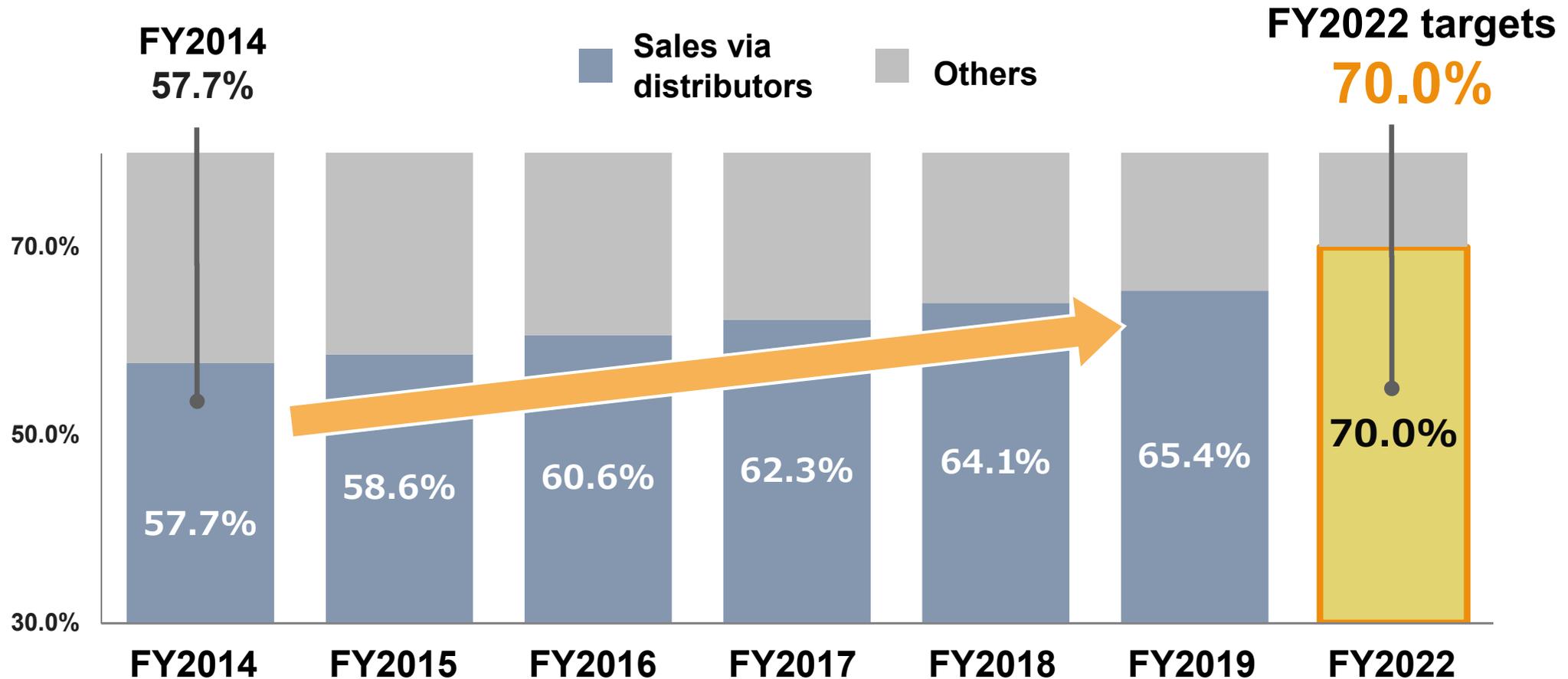
# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

(3) Deepening collaboration with distributors and strengthening sales structure

(In Japan)

**Strengthening our collaboration with distributors both quantitatively and qualitatively (Non-consolidated)**



**By sharing and utilizing information and data, we intend to make our operations more efficient and promote greater division of labor.**

# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

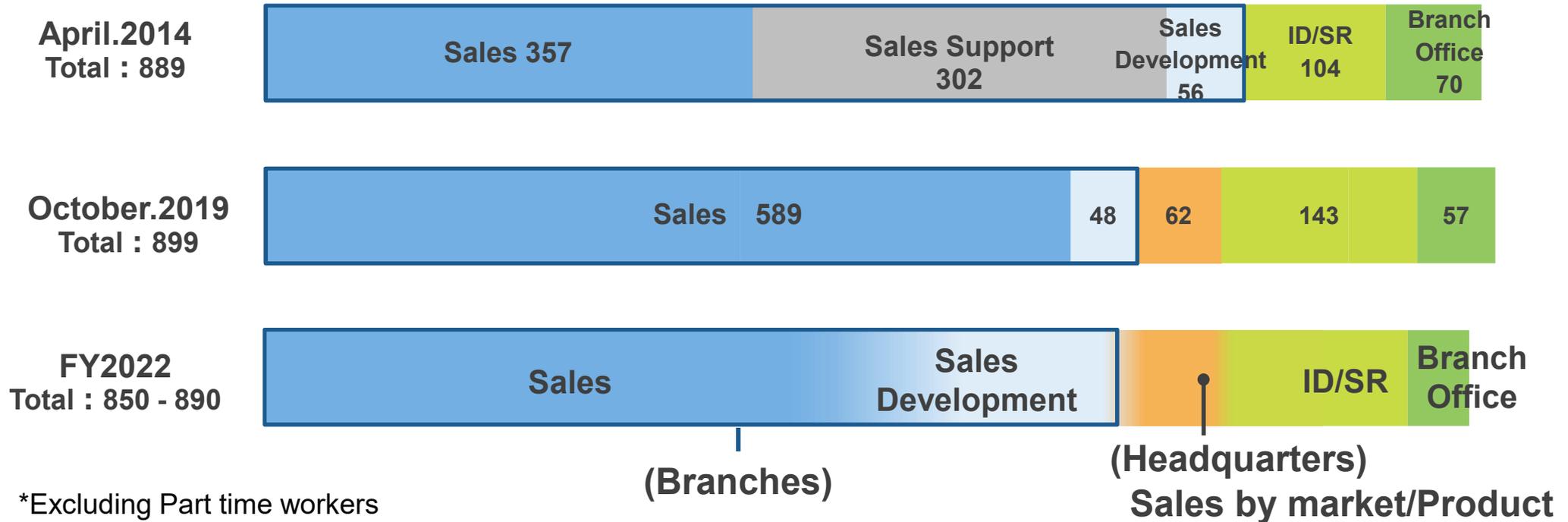
(3) Deepening collaboration with distributors and strengthening sales structure

(In Japan)

## Strategic allocation of employee (Non-consolidated)

- Interior Design Staff
- Showroom Staff
- Branch Office
- Sales Development :  
Sales for Architect/Designer/Owner
- Non-Residential · Residential Sales Dept.  
Film Sales Dept./Upholstery

### Changes in the number of sales staff by charge



**➡ Focus on Non-Residential market / Specification activity**

# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

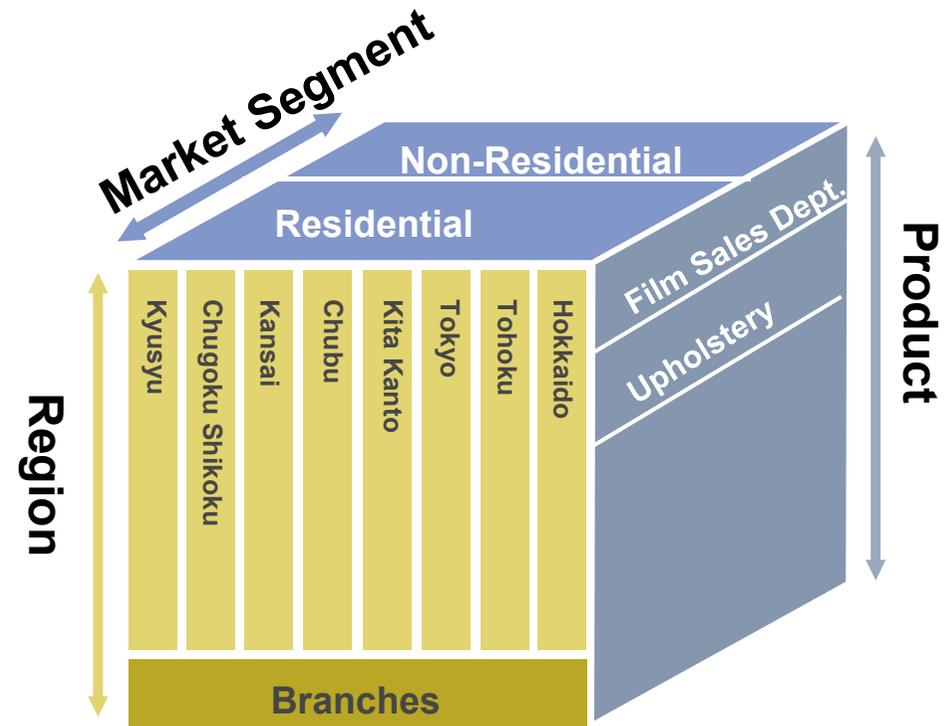
(3) Deepening collaboration with distributors and strengthening sales structure

(In Japan)

## Allocation of sales activity (Non-consolidated)

		Customer		Specification activity			Market		
		Distributor	Region	Nationwide	Scale			Contract	Contract Non-
					L	M	S		
Region	Branches	○	○		○	○	○		
Market Segment	Residential market /Unit			○	○	○	○		
	Non-Residential /Unit			○	○	○	○		
Product	Film Sales Dept.			○	○	○		○	
	Upholstery			○	○	○		○	

Strategic allocation of resources



# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

(3) Deepening collaboration with distributors and strengthening sales structure

(In Japan)

## Design Sales of Interior design room / Showroom

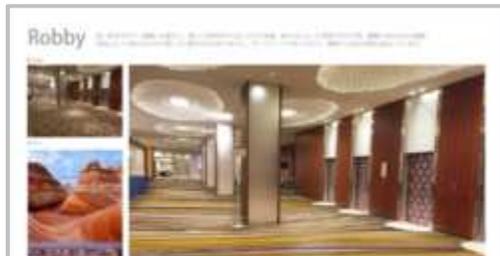


### Interior Design room

Design space for Non-residential / Proposal Custom made design



Base of Design sales for Non-Residential customer



### Showroom

Interior coordination for Residential

Base of Design sales for Builders, Housemakers, Reformers



# 1. Earnings expansion from qualitative growth of our core businesses

Interior Segment

(3) Deepening collaboration with distributors and strengthening sales structure (In Japan)

## Assessing and addressing changes in market structure due to COVID-19

- Direct impact due to fears of COVID-19 infection
- Impact on new housing and renovation demand due to a decrease in personal income
- Impact on the hospitality industry due to restrictions and avoidance of travel
- Impact on restaurant business due to self-restraint in leaving the home and a new normal for daily life
- Impact due to expanded tele-working on office demand
- Impact due to economic recession

## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

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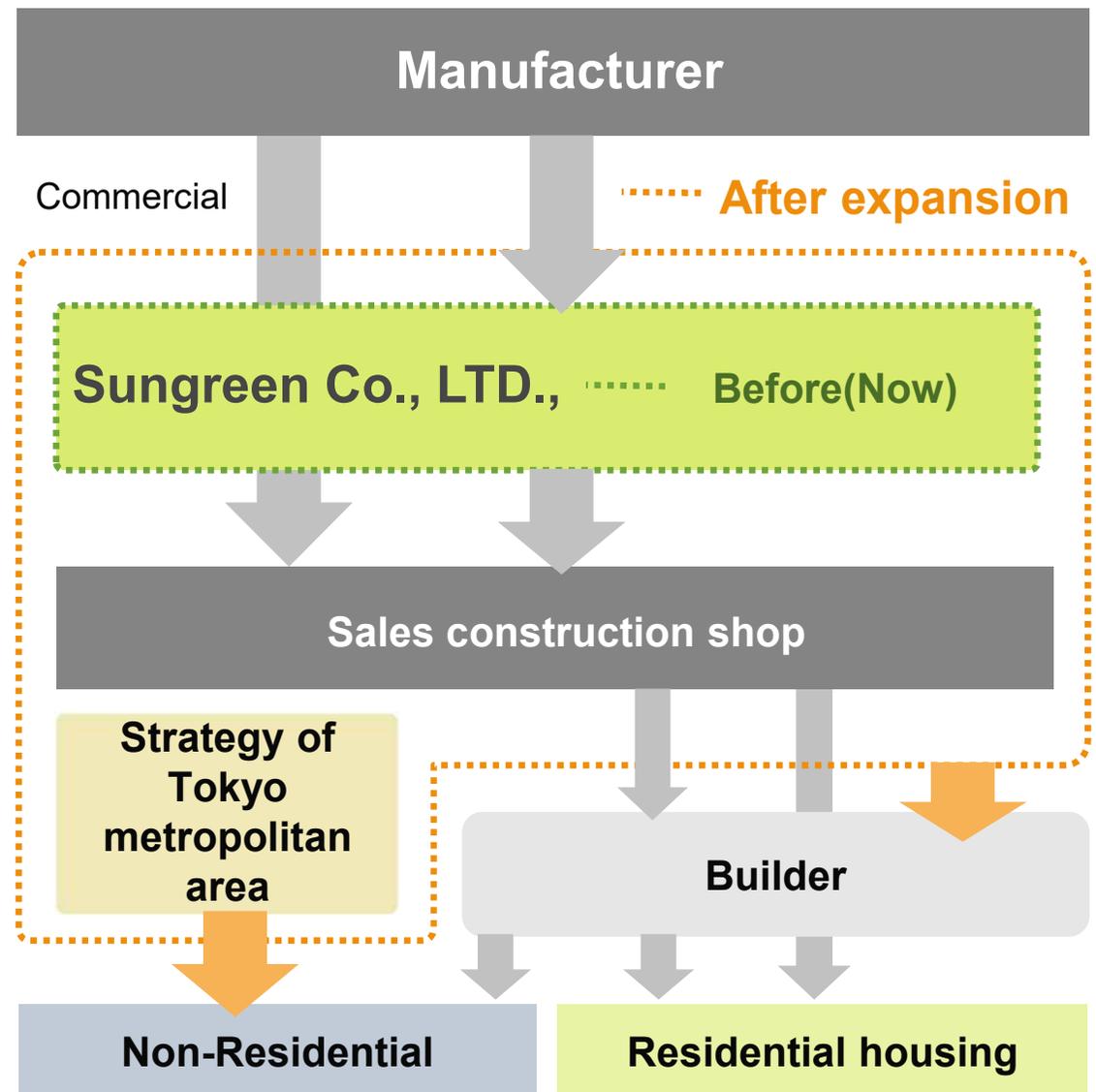
# 1. Earnings expansion from qualitative growth of our core businesses

Exterior Segment

## (4) Qualitative and regional expansion in exterior business

(In Japan)

- **Expand our business field**  
Expand sales activities in the downstream market
- **Expand our business in the Tokyo metropolitan area / Entering landscape construction**
- **Strengthen basis of existing businesses**  
Strengthen the delivery system mainly for heavy items and its construction work



## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

1. Expand earnings through qualitative growth of core business

Interior Segment

Exterior Segment

**2. Growth of profitability in next-generation businesses  
based on resources of the core businesses**

Overseas Segment

Space Creation Segment

3. Strengthen management and business foundations

4. Realize social value

5. Quantitative target (KPI) / Capital Policy

## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

## 2. Growth of profitability in next-generation businesses based on resources of the core businesses

### Overseas Segment

In each market globally

- (1) Build a solid management foundation in the market in each country
- (2) Pursuit of the optimal business model and full commitment to localization
- (3) Strengthening branding and product portfolio

### Space Creation Segment

- (4) Spread of Space creation business by expanding professional ability

## 2. Growth of profitability in next-generation businesses based on resources of the core businesses

Overseas Segment

Strengthening Asia and North America basin business

### (1) Build a solid management foundation in the market in each country

North America	United States	<b>Koroseal</b>	New CEO and executive
	Canada	<b>Metro</b>	
China	China	<b>Sangetsu (Shanghai) Corp.</b>	Integrate Sangetsu(Shanghai) Corp. and Goodrich China
		Goodrich	Adjust appropriate staff organization
Southeast Asia	Hong Kong	Goodrich	New GM in Goodrich Hong Kong
	Vietnam	Goodrich	Establish Sangetsu Goodrich Vietnam and firm foundation of Sales team
	Thailand	Goodrich	Establish Sangetsu Goodrich Thailand 100% subsidiary
	Malaysia	Goodrich	Enhance employee capability and strengthen sales team in Goodrich Malaysia
	Singapore	Goodrich <b>(HQ)</b>	Enhance employee capability and strengthen sales team in Goodrich Singapore

## 2. Growth of profitability in next-generation businesses based on resources of the core businesses

Overseas Segment

Strengthening Asia and North America basin business

(2) Pursuit of the optimal business model and full commitment to localization

(3) Strengthening branding and product portfolio

North America	United States	<b>Koroseal</b>	Strengthening design of own-brand products as a manufacturer Expanded sales of own-brand products
	Canada	<b>Metro</b>	Aim for 60% share of the wallcovering market, expanding product line up
China	China	<b>Sangetsu (Shanghai) Corp.</b>	Focus on sales of competitive Japanese products and differentiated US products
		Goodrich	
Southeast Asia	Hong Kong	Goodrich	Expanding product lineup for hotel market and strengthening ability to address the non-hotel market
	Vietnam	Goodrich	Expand sales of Japanese wallpaper for the residential market and of flooring materials for the non-residential market
	Thailand	Goodrich	Adding products made in Thailand to those made in the United States and Japan
	Malaysia	Goodrich	Inventory strategy to maximize the benefits of free trade agreements and expansion of inventory of Japanese products
	Singapore	Goodrich (HQ)	Strengthen inventory strategy with a view toward growth markets

## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

## 2. Growth of profitability in next-generation businesses based on resources of the core businesses

### Overseas Segment

In each market globally

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- (4) Spread of Space creation business by expanding professional ability

## 2. Growth of profitability in next-generation businesses based on resources of the core businesses

Space Creation Segment

(4) Spread of Space creation business by expanding professional ability

(In Japan)

### Business development in Non-residential renovation market

#### Know-how and strength of our core business

Customer base : Business owners (Hotels/Offices/Retails/Healthcare)

Design : 60 staff member in the Interior design section

+ Out-Sourced Designers

Installation Resources : Interior-finishing capabilities



#### Professional ability to be further acquired

Conceptual, Proposal, Consulting capabilities, Space design

Comprehensive construction capabilities (Woodworks, Lighting and Electricity)

Construction management capabilities

## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

1. Expand earnings through qualitative growth of core business
2. Growth of profitability in next-generation business  
based on resources of core business
- 3. Strengthen management and business foundations**
  - (1) Strengthening business execution capabilities and efficiency
  - (2) The establishment of a system for the advanced utilization of data
4. Realize social value
5. Quantitative target (KPI) / Capital Policy

### 3. Strengthening management and business foundations

(1) Strengthening business execution capabilities and efficiency (Non-consolidated)

#### Strengthening business execution capabilities at the front lines and building expert capabilities

- Enhancing education and training and implementing planned job rotations
- Expanded recruitment of high-level expert talent and enhancing compensation schemes
- Carefully tailored human resources management
- Promoting diversity in recruiting Promoting the advancement of women / increasing the number of non-Japanese employees

#### Enhancing efficiency in business execution Achieving efficient work styles

- Business process reform and changes to internal rules and regulations, improving offices
- Implementing tele-working as a business as usual option
- Close communication internally on a regular basis

#### Enhancing internal systems to strengthen capabilities and improve efficiency

- Revisions to HR and remuneration systems to emphasize roles and responsibilities
- Promoting healthy management
- Improved Work Engagement
- Promoting hiring system to do away with all discrimination

## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

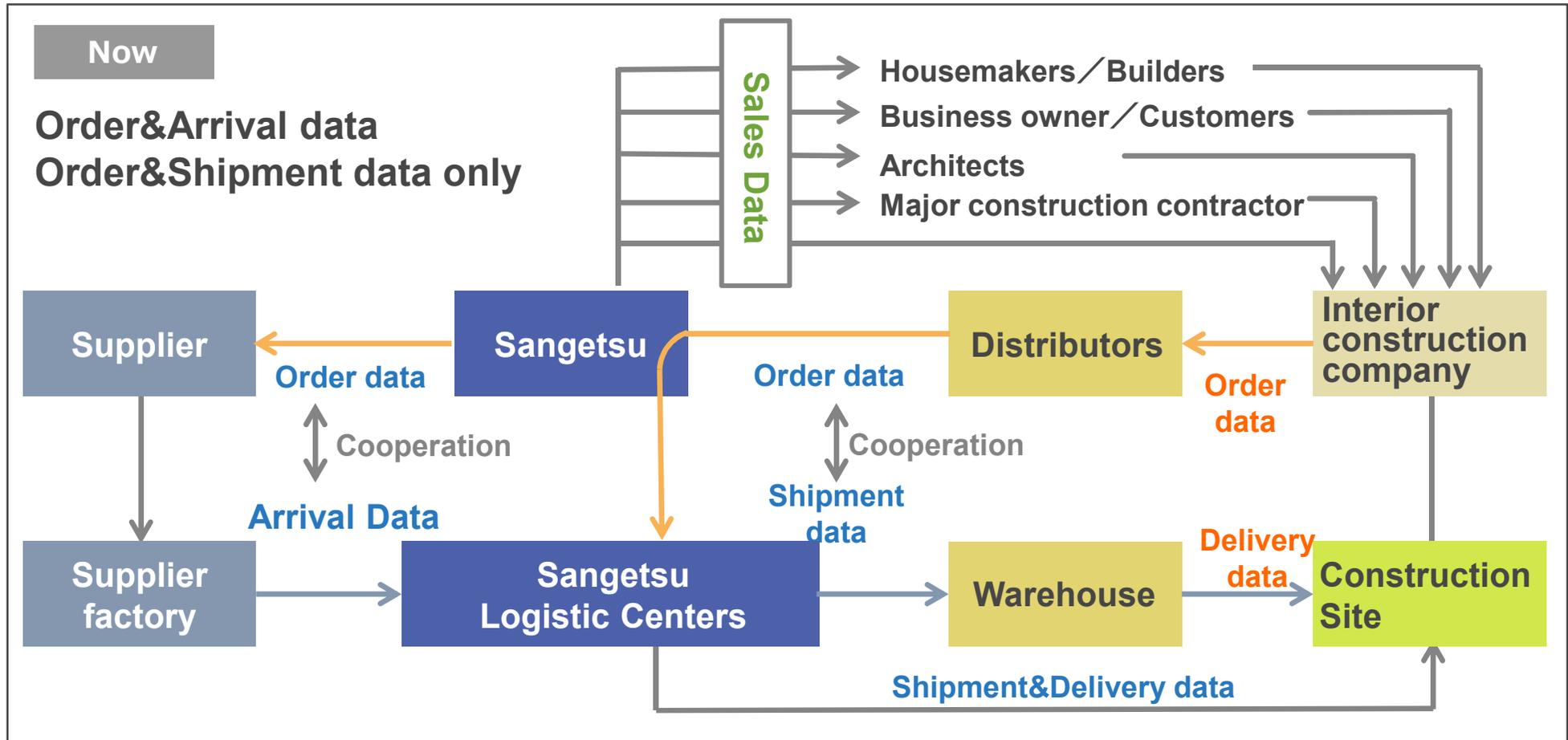
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### 3. Strengthening management and business foundations

(2)The establishment of a system for the advanced utilization of data (Non-consolidated)

#### Collection, acquisition, analysis and usage of Data

- structured data
- unstructured data
- unavailable data



**Future** We believe it is important to link and analyze a variety of data by obtaining unavailable data through a variety of efforts. For example, we will make our sales data, which is unstructured data, as a structured data and qualitative data.

## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

1. Expand earnings through qualitative growth of core business
2. Growth of profitability in next-generation business  
based on resources of core business
3. Strengthen management and business foundations
- 4. Realize social value**
  - (1) Global environment
  - (2) Human capital
  - (3) Social capital
  - (4) Governance
5. Quantitative target (KPI) / Capital Policy

# 4. Achieving social value (Consolidated)

Company as a whole

## Global environment

- Reducing the environmental impact of business activities
- Understanding and reducing the environmental impact of the supply chain
- Expansion of long-lasting products
- Expanded collection and recycling of sample books

## Human capital

- Developing employees' health and skills
- Promoting diversity and inclusion

## Social capital

- Improving product safety
- Improving the stability of quality
- Promotion of purchasing activities that consider the environment, human rights, and labor safety and hygiene
- Work style reform in tandem with business partners
- Proactive participation in local communities
- Enhancing interior culture and supporting the arts

## Governance

- Enhancing the effectiveness of the Board of Directors
- Enhancing the effectiveness of the Nomination and Compensation Committee
- A thorough commitment to compliance
- Implementing responsible dialog with stakeholders

## Achieving social value

**Inclusive**

**Sustainable**

**Enjoyable**

## 4. Achieving social value (Consolidated)

### (1) Global environment

#### Reduce environmental impact

##### ① Reduce impact on global environment

- Reduce GHG emissions
- Reduce Energy consumption
- Reduce Total waste emissions
- Improve Recycling rate

##### ② Understanding and reducing the environmental impact of the supply chain

Understanding GHG basic unit for each supplier, and taking it into consideration during purchasing activities

##### ③ Expansion of long-lasting products

Developing the high durability product and expansion of the long-term continuation product

##### ④ Expanded collection and recycling of sample books

Building and expanding the collection and recycling system.

## 4. Achieving social value (Consolidated)

### (2) Human capital

#### The organization where various human resources are active

##### ① Promote employee health and skills

- Developing employees' health and skills
- Promoting of improving work style by Business process reform
- Developing skills based on carefully tailored human resources management
- Improving employee engagement

##### ② Promote diversity & inclusion

- Promoting diversity
- Promoting of Hiring of disabled persons
- Increasing the number of non-Japanese employees including personal exchange in Sangetsu group

## 4. Achieving social value (Consolidated)

### (3) Social capital

#### Improving the reliable, safe and attractive supply chain

##### ① Improving product safety

Review of raw materials

##### ② Improving the stability of quality

Reduction of the quality claim

##### ③ Promotion of purchasing activities that consider the environment, human rights, and labor safety and hygiene

Building the long-term and stable business relationship with supplier

##### ④ Work style reform in tandem with business partners

Reform and improve work system through value chain

## 4. Achieving social value (Consolidated)

### (3) Social capital

## Participation in local communities

### ⑤ Proactive participation in local communities

- Space creation in children's home renovations  
Results on 2019 20 cases → Targets on 2022 30 cases/year
- Work on the support for the children of developing countries
  - ・Participate in the Table For Two program  
(The activity to fund school meals to children of the developing country)
  - ・ Participate in delivering picture books to children in Asian countries
- Active employee participation  
Matching gift :  
Results on 2019 4,800 S-mile → Targets on 2022 7,000 S-mile

**Smile**  
|| ||  
Sangetsu Milage



### ⑥ Enhancing interior culture and supporting the arts

- Continued holding of Sangetsu Wallpaper Design Award
- Support various art events

## 4. Achieving social value (Consolidated)

### (4) Governance

#### Strengthen Corporate governance

##### ① Enhancing the effectiveness of the Board of Directors

- Promoting diversity of the Board of Directors
- Securing the independence of the Board of Directors

##### ② Enhancing the effectiveness of the Nomination and Compensation Committee

- Consideration of nomination method for candidates of directors based on timeline and clarified qualification requirements
- Ensuring objectivity in the process of determining director compensation and disclosing its content

##### ③ A thorough commitment to compliance

##### ④ Implementing responsible dialog with stakeholders

## II . Medium-term Business Plan 【 D.C.2022 】

### Specific measures

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2. Growth of profitability in next-generation business  
based on resources of core business
3. Strengthen management and business foundations
4. Realize social value
5. **Quantitative target (KPI) / Capital Policy**
  - (1) Economic value
  - (2) Social value
  - (3) Capital policy

## 5. Quantitative target (KPI)

(1) Economic value (Consolidated)

### Economic value

#### Targets for fiscal year ending March 31, 2023

1. Consolidated net sales	*1USD=110JPY <b>JPY 172.0 billion</b> <b>USD 1,563 million</b>
2. Consolidated operating income	<b>JPY 12.0 billion</b> <b>USD 109 million</b>
3. Consolidated net income	<b>JPY 8.5 billion</b> <b>USD 77 million</b>
4. ROE	<b>9.0%</b>
5. ROIC	<b>9.0%</b>
6. CCC	<b>65 days</b>

As of the end of March 2020, the cost of shareholders' equity is 5.13% and WACC is 4.32%

## 5. Quantitative target (KPI)

### (2) Social value (Non-consolidated)

#### Social value

### Targets for fiscal year ending March 31, 2023

#### 1. Global environment

##### (1) Reduce environmental impact in business activities (Scope 1 and 2)

##### 1. GHG emissions

\*Target for fiscal year

ending March 31, 2031

**SBT : Achievement of standard WB2°C**  
30% reduction (from FY2018)

##### 2. Energy consumption

4.0% reduction (from FY2018)

##### 3. Total waste emissions

4.0% reduction (from FY2018)

##### 4. Recycling rate

At least 83%

## 5. Quantitative target (KPI)

### (2) Social value (Non-consolidated)

#### Social value

## 2. Human capital

### (1) Promote employee health and skills

1. Improve rates of specific health guidance provision, cancer screening, findings, and metabolic syndrome

\*Plan to set targets after August 2020 when health insurance association data is available

2. Non-smoking rate : At least 80%

### (2) Promote diversity & inclusion

1. Ratio of female managers : At least 20%
2. Ratio of employees with disabilities : At least 4.0%

## 3. Social capital

### Participation in local communities

1. Space creation in children's home renovations : 30 per year
2. Active employee participation in matching gift : 7,000 S-mile

## 5. Quantitative target (KPI)

### (3) Capital policy (Consolidated)

#### Capital policy

1. Maintain the equity to the range of **JPY90.0 billion to JPY95.0 billion**
2. Based on the total return amount of the Medium-term Business Plan (3 years), Maintaining a total return ratio of approximately 100% on a three-year average.
3. After assessing the impact of COVID-19 on the business results, we will make decisions about dividends and acquisition of own shares under the basic policy of stable dividend increase.

#### Capital allocation policy

##### **Undetermined**

To be determined once three-year business results outlook is clear

# Joy of Design