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Sangetsu Corporation

Q2 Financial Results Briefing for the Fiscal Year Ending March 2021

November 19, 2020

Event Summary

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[Participants]		
[Number of Speakers]	2	
	Shosuke Yasuda	President, CEO
	Tatsuo Sukekawa	General Manager of Financing & Accounting Division

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Presentation

Yasuda: This is Yasuda. Thank you very much for today.

Before explaining the financial results for the first half of the current fiscal year in detail, this is my own perception as a review of the first half. The first half was slightly better than the forecast for the fiscal year that we announced at the beginning of the fiscal year. It has already been six and a half years since I became president and I intended to work out a series of measures to strengthen the Sangetsu Group's business over the past six and a half years.

However, despite the implementation of these various measures, we were significantly affected by COVID-19. In terms of our consolidated financial results and the financial results of each segment, I wonder if we could not have achieved even better results in terms of absolute values. We also do not believe that we have a better financial performance when compared to other companies in the same industry.

I am aware that measures to strengthen our business have not been sufficiently implemented. I recognize the need to steadily and promptly implement the measures to strengthen our business, which we have announced in our medium-term management plan.

決算のPOINT

- 1 売上高 695.4億円 : 前期比▲105.2億円(▲13.1%)**
 - ・インテリアセグメント : 前期比▲75.2億円 (▲12.5%)
 - ・海外セグメント : 前期比▲22.3億円 (▲22.3%)
 - ・エクステリアセグメント : 前期比▲10.7億円 (▲12.9%)
 - ・スペースクリエーションセグメント : 前期比+5.4億円 (+33.0%)
- 2 売上総利益 227.0億円 : 前期比▲36.9億円(▲14.0%)**
 - ・インテリアセグメント : 前期比▲27.8億円 (▲13.3%)
 - ・海外セグメント : 前期比▲9.8億円 (▲24.4%)
- 3 販売費及び一般管理費 201.6億円 : 前期比▲16.9億円(▲7.8%)**
 - ・インテリアセグメント : 前期比▲10.1億円 (▲6.2%)
 - ・海外セグメント : 前期比▲8.7億円 (▲19.8%)
- 4 営業利益 25.4億円 : 前期比▲20.0億円 (▲44.1%)**
 - ・インテリアセグメント : 前期比▲17.6億円 (▲39.2%)
 - ・海外セグメント : 前期比▲1.0億円 (-)
- 5 当期純利益 19.7億円 : 前期比▲16.6億円(▲45.7%)**

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Next, I would like to explain the specific financial results.

Sales were JPY69.54 billion, a decrease of 13.1% from the previous fiscal year. The most significant decrease was in the Overseas segment, which accounted for 22.3%.

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Gross profit was JPY22.7 billion, a decrease of 14%. The Overseas segment accounted for 24.4% of the total, showing the greatest decline here as well.

Selling, general and administrative (SG&A) expenses decreased by JPY1.69 billion or 7.8% to JPY20.16 billion. In the Overseas segment, SG&A expenses declined in line with the decrease in gross profit and the like, a decrease of JPY870 million or 19.8% compared with a decrease of JPY980 million in gross profit. As I will explain later, the significant reduction in depreciation of Koroseal in North America and other factors had an impact.

Operating income decreased by JPY2 billion or 44% to JPY2.54 billion.

Net income declined 45.7% to JPY1.97 billion.

第2四半期決算 連結売上高・総利益の推移



Looking at this over the long term, we had continued to increase sales for a long time since the fiscal year ended September 2009, but in the first half of this fiscal year, we experienced a decline in sales for the first time since the fiscal year ended September 2009.

Gross profit had also increased since the fiscal year ended September 2007, but it declined sharply in this term.

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決算のPOINT

インテリアセグメント

4-6月期には、新型コロナウイルス感染症の影響は着工と内装の時間差により新築住宅では限定的であったが、昨年7月以降の新設住宅着工戸数の減少に加え、リフォーム工事の忌避により売上減。7-9月期には、新型コロナウイルス感染症の影響が拡大した。

これにより、前年同期比営業利益は大幅減も、近年の壁紙を中心とする総利益改善ならびに販管費の抑制努力により、2017年度・2018年度上期を上回る営業利益を確保。

エクステリアセグメント

前年度上期には消費税増税前の仮需・自然災害による復旧需要があったが、これが剥落、さらに新型コロナウイルス感染症の影響が7月以降本格化。

売上高は前年同期比12.9%減の72.3億円となったが、2016年度上期（72.5億円）・2017年度上期（74.5億円）とほぼ同等の結果となった。

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I would like to explain a detailed view on each segment.

Regarding the Interiors segment, in which Sangetsu's non-consolidated business is the main business, in the April to June quarter, in addition to the impact of COVID-19 that we have always stated, the decline in new housing starts had an impact from July last year though limited due to the time difference between construction starts and interior finish, and renovation work was avoided due to the fear of COVID-19 contagion. As a result, sales declined. The impact of the outbreak of COVID-19 has been expanding since July.

This resulted in a substantial decrease in operating income in the Interiors segment. In recent years; however, we have worked to improve our gross profit margin, centered on wallpaper, over the past two years or so. In addition to this, efforts to curb SG&A expenses in the first half of the fiscal year resulted in operating income exceeded the levels of FY2017 and the first half of FY2018 though significantly declining YoY.

In the Exteriors segment, there were temporary demand prior to the consumption tax hike in the first half of the previous fiscal year, as well as recovery demand due to natural disasters and other factors. In addition to this, there was the impact of COVID-19 in the current fiscal year from July. Sales decreased 12.9% to JPY7.23 billion, almost on a par with the results of JPY7.25 billion in the first half of FY2016 and JPY7.45 billion in the first half of FY2017.

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海外セグメント

(連結累計期間は2020年1月～2020年6月)

北米/Koroseal

新型コロナウイルスの影響は3月下旬より深刻化。厳しい状況となる中、前年度ののれん・無形資産の減損によるのれん償却の解消に加え、新設備・工場統合による生産コストの減、人員削減により赤字拡大回避。

中国/山月堂（上海）、Goodrich中国

1-3月は旧正月と新型コロナウイルスの影響で大幅な落ち込みとなったが、4月以降回復途上にある。

東南アジア/Goodrich

新型コロナウイルスの影響はタイやベトナムにおいては4月より緩和。マレーシアでは感染症拡大が止まらず、シンガポールでは施工人員の不足により売上低迷

スペースクリエーションセグメント

非住宅新築の内装工事業は予定通り進捗、リニューアル工事は5月以降に新型コロナウイルスの影響顕在化。一方、非住宅リニューアルの元請事業に関しては、規模拡大に向けた取り組み強化。

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As for Overseas, Koroseal in North America, including its subsidiary Metro, performed well until January, February, and March, but the impact of COVID-19 worsened from late March.

Due to the significant amortization of goodwill and intangibles of Koroseal in the previous fiscal year, amortization of goodwill and the like became only a small amount. In addition, production costs decreased due to the new facility launched last fiscal year. In addition, production costs decreased due to the consolidation of two factories into one factory. We also reduced the number of employees in response to the impact of COVID-19. As a result, we were able to avoid a substantial increase in the operating loss.

Our business in China is operated by Sangetsudo Shanghai and Goodrich China. Although January to March saw a substantial drop due to the impact of COVID-19, the situation has been recovering since April. As for Goodrich in Southeast Asia, the situation with Vietnam has improved since April. In Malaysia, the spread of the infection has not stopped, and in Singapore, overseas workers from Malaysia and other countries are in charge of construction, and sales continue to slump due to the shortage of these construction workers.

We established Space Creation segment this fiscal year. In this regard, we have two businesses: FAIRTONE, which mainly carries out interior finishing, and the Space Creation Division, which is located within Sangetsu and is engaged in a non-residential renovation contracting business.

FAIRTONE's interior finish work business for new non-residential construction performed well, but the impact of a decline in renovation work from May onwards was evident. However, as I mentioned earlier, sales in the Space Creation segment increased.

I will skip the income statement.

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連結売上高・営業利益・当期純利益推移



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These figures are consolidated sales, net income, and operating income that I mentioned earlier.

As I mentioned earlier, the non-consolidated operating income was higher than that for FY2017 and FY2018. On a consolidated basis, operating income, JPY2.54 billion was higher in the first half of FY2017 and the first half of FY2018 due to the strong performance on a non-consolidated basis. Similar results are reflected in consolidated net income.

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セグメント別売上高と営業利益

(億円、%)

事業セグメント	2020年3月期		2021年3月期			
	第2四半期 実績	第2四半期 期初計画	第2四半期 実績	構成比	前期比(%)	計画比(%)
インテリアセグメント 売上高	604.0	500.0	528.7	76.0%	▲75.2(▲12.5%)	28.7(+5.7%)
壁 装 材	298.8	—	267.5	50.6%	▲31.2(▲10.5%)	—
床 材	219.0	—	192.5	36.4%	▲26.5(▲12.1%)	—
ファブリック	41.2	—	36.0	6.8%	▲5.1(▲12.6%)	—
その他	44.8	—	32.5	6.2%	▲12.3(▲27.5%)	—
営業利益	45.1	—	27.4	107.8%	▲17.6(▲39.2%)	—
エクステリアセグメント 売上高	83.0	70.0	72.3	10.4%	▲10.7(▲12.9%)	2.3(+3.4%)
営業利益	3.8	—	2.3	9.3%	▲1.4(▲38.3%)	—
海外セグメント 売上高	100.3	75.0	77.9	11.2%	▲22.3(▲22.3%)	2.9(+4.0%)
営業利益	▲4.0	—	▲5.0	▲20.1%	▲1.0(—)	—
スペースクリエーションセグメント 売上高	16.6	15.0	22.0	3.2%	5.4(+33.0%)	7.0(+47.3%)
営業利益	0.5	—	0.8	3.3%	0.2(+49.6%)	—
セグメント間取引調整(売上高)	▲3.4	▲5.0	▲5.7	▲0.8%	▲2.3(—)	▲0.7(—)
セグメント間取引調整(営業利益)	0.0	—	▲0.0	▲0.3%	▲0.0(—)	—
連結売上高	800.6	655.0	695.4	100%	▲105.2(▲13.1%)	40.4(+6.2%)
連結営業利益	45.4	—	25.4	100%	▲20.0(▲44.1%)	—

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On page 10, I would like to explain more detailed results of the segments.

The Interior segment includes three products: wall materials, flooring materials, and fabrics. Sales for wall materials in the Interior segment were JPY26.75 billion, a decrease of 10.5% from the previous fiscal year. Sales of flooring materials decreased by 12.1% to JPY19.25 billion. Fabric sales decreased 12.6% to JPY3.6 billion. As for the Interiors segment, operating income decreased 39.2% to JPY2.74 billion.

Sales in the Exterior segment decreased 12.9% and operating income decreased 38.3%.

As I mentioned earlier, the Overseas segment posted an operating loss of JPY400 million in the previous fiscal year after the amortization of goodwill and the like and it increased by JPY100 million to a loss of JPY500 million in the current fiscal year.

In the Space Creation segment, sales increased 33% to JPY2.2 billion. Operating income also rose 49.6% to JPY80 million.

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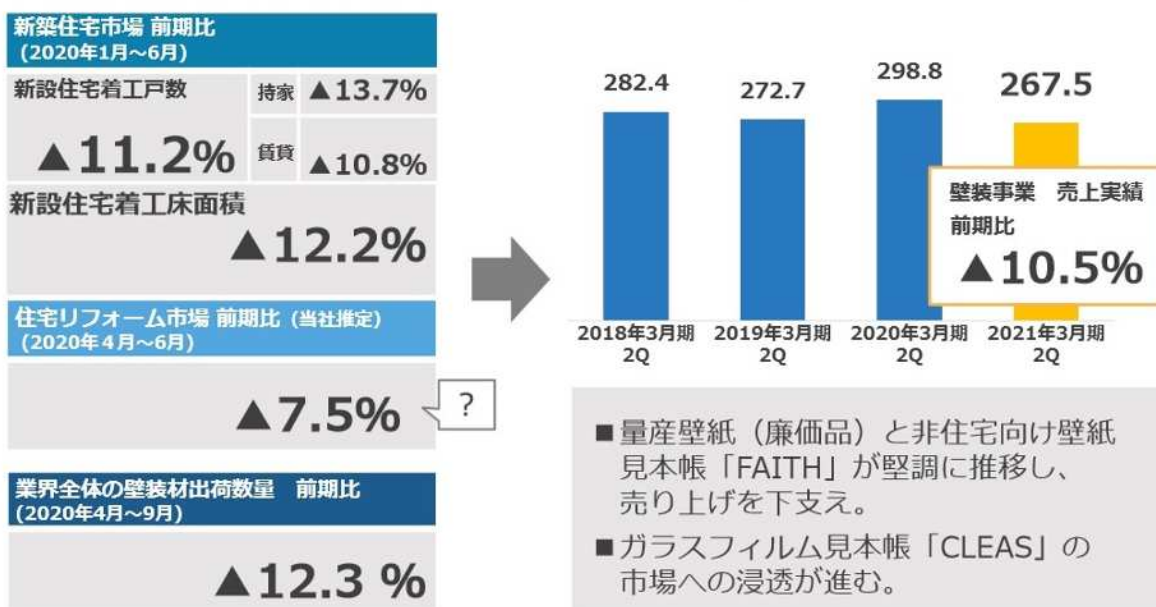
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インテリアセグメント 壁装材の状況

壁装材 関連市場の状況 (カッコ内は業績に影響を与える対象期間) (億円)



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I would like to explain each of the Interior segment in more detail, with wall materials first.

It is the housing market which has the greatest impact on wall materials. Regarding new construction starts in the new housing market, which affect interior work, we believe that January to June of this year has an impact on our results from April to September. The floor area of housing starts from January to June was negative 12.2%. On the other hand, for the home renovation market, some institutions announced a 7.5% YoY decline in renovations from April to June. We believe there has been a larger contraction in the home renovation market than this. The decline in sales of renovation-related products, in which we are involved, suggests a larger decline.

This is the total shipment volume of wall materials, and according to figures announced by an industry association, there was a 12.3% decrease in volume in the first half. Meanwhile, sales in our wall-material business declined 10.5% YoY. Prices have declined slightly. The result is that there was a slight decline in prices. In light of this result, 10.5% suggests that the decline was less than 10% on a volume basis. We believe that our market share has risen steadily.

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インテリアセグメント 床材の状況

床材 関連市場の状況

民間非居住建築物着工床面積 前期比 (用途別,倉庫・工場を除く)		
2018年度	2019年度	
▲0.7%	▲3.3%	
民間非居住建築物着工床面積(用途別) 前期比		
	2019年度	2020年4~9月
卸売業、小売業用	▲19.7%	▲21.1%
宿泊業、飲食・サービス業用	▲9.7%	▲33.7%
医療・福祉用	+5.6%	▲16.7%
その他のサービス業用	▲5.7%	+6.8%
業界全体の商材別出荷数量 前期比		
タフテッドカーペット	▲24.0% (4-8月)	
カーペットタイル	▲17.4% (4-8月)	
長尺シート	▲18.1% (4-9月)	
フロアタイル	▲9.0% (4-9月)	



- 通期では10期連続増収であった床材も、今期は厳しい状況
- 宿泊やオフィスなどを中心とした非住宅市場の縮小や工事の中止・延期の影響に加え、大型プロジェクト案件の獲得不足も影響し、カーペットタイルは不調。また、非住宅向け長尺シート床材は新見本帳発刊前の落ち込みにより低迷。

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Next, I would like to look at the situation of flooring materials. The construction situation of non-residential buildings most affects flooring materials. Trends in the floor area of non-residential buildings are shown in the green section. This figure excludes warehouses and factories. As I have explained, since FY2018, the floor area of buildings, excluding non-residential warehouses and factories, has been on a downward trend, and this trend has intensified even in April to September of this year.

Meanwhile, an industry association announced a YoY comparison of shipment volumes of flooring materials, partly only for April to August, and these figures represents a substantial drop. In contrast, sales in our flooring business decreased 12.1% from the previous year's level. Including a slight decline in prices, we believe that the decline in our flooring materials was in line with that in the industry and in terms of volume.

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インテリアセグメント ファブリックの状況

(億円)



カーテン見本帳「コントラクトカーテン」PK9003



- カーテン見本帳「AC」が前年度に引き続き売り上げを牽引。
また、9月に医療福祉施設に最適な抗ウイルス商品等を収録した見本帳「コントラクトカーテン」を発刊。
- 椅子生地見本帳「UP」の市場浸透。機能性の高いビニルレザーが好評。
- EC事業「WARDROBE sangetsu」が伸長。

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Then, as the situation is for fabrics used in curtains and other applications, sales decreased 12.6%. There are reports that some curtain sales via the Internet and other channels, and ready-made curtains at mass merchandisers are expanding as people stay home or work from home. With respect to our ecommerce curtain business, which we began last year, sales have been growing, but sales of curtains on other regular channels have declined significantly.

On the other hand, sales of non-curtain chair fabrics are expanding.

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海外セグメント Koroseal社の状況 (ターンアラウンドプラン進捗状況)

昨年度実行した新鋭設備の稼働が安定し、生産コストが改善。
また、新型コロナウイルスに伴うレイオフ等コストダウンに努める。

1. コスト削減

- ・昨年度導入した新鋭設備の稼働安定化、工場統廃合による生産コスト低減
- ・スクラップレートの改善
2019年→2020年で5.6%の改善



2. 新設備によるデザイン性の向上

- ・新設備による正確かつ微細なデザインの新商品を2021年初めより発売開始

3. ホスピタリティーマーケット集中からの転換

- ・Healthcare市場および教育市場に対する営業強化

4. サンゲツ・Koroseal間の商品連携の強化

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As I said a little earlier, we have stabilized the operation of a state-of-the-art facility of Koroseal in the US, which began operations last year. As a result, we are improving production costs for films and other items. In addition, by consolidating two factories into a single factory, various costs have been improved and reduced. This have become visible in the form of cost reductions. As for the scrap rate, which has been a major problem, traditionally the scrap rate was large, over 18%. This has improved to around 13%. The figure is still inadequate, and I think it is necessary to continue to improve the scrap rate further.

In addition, precise and fine designs, as well as multicolor printing have become possible with state-of-the-art equipment. Accordingly, we plan to launch new products with multicolor printing next year, from the beginning of the year. In addition, there is the hospitality market, which has been one of Koroseal's areas of expertise. The hotel and accommodation market is the market that has been affected most by COVID-19. In this regard, we are currently strengthening sales in Healthcare market and educational business.

In addition, a part of our efforts to expand sales of Sangetsu's products in the US, is Reatec, wood-patterned PVC films. When you put this on an item, it looks like an actual wood. In the US, demand for renovation of doors is increasing. Demand for renovations at low prices is rising and we are working to expand sales of Reatec to renovate doors, and sales of this product are expanding.

In addition, we are selling Japan-made material-type wallpapers. We are preparing to expand in this area, and plan to launch them at the beginning of next year.

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海外セグメント Koroseal社の状況

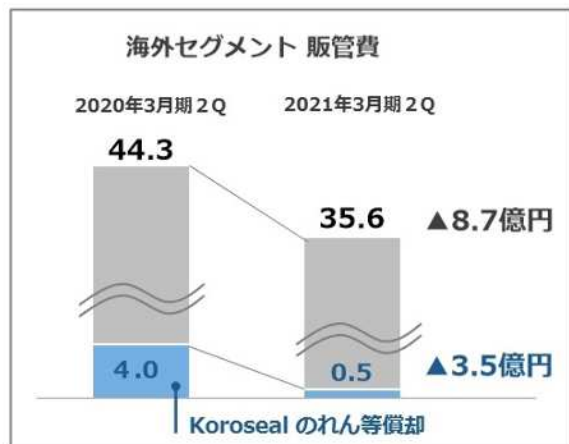
販管費削減

・減損影響

▲3.5億円は、昨年度末に実施したのれんおよび無形資産の減損による改善

・人員削減

2019年12月末 **556名** ➡ 2020年9月末 **471名**
工場人員57名減、営業人員微減 計85名削減



人員数推移	2019/12末	2020/3末	2020/6末	2020/9末
Koroseal	495	434	409	420
工場	244	191	173	187
営業	97	96	96	92
その他	154	147	140	141
Metro	61	55	50	51
合計	556	489	459	471

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のれん等償却 = 子会社取得に伴うのれん・無形資産・有形固定資産償却費

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In addition, as I explained a little bit about the improvement in costs, as for the Overseas segment as a whole, SG&A expenses decreased by JPY870 million.

Of this amount, JPY350 million was the decrease in amortization of Koroseal's goodwill and the like, which accounted for a large portion. The remaining JPY520 million was a reduction in normal SG&A expenses. In this respect, the reduction the number of employees at Koroseal and measures such as the reduction of bonuses contributed greatly. Together with its subsidiary Metro, we have reduced the number of employees by 85, from 556 from the end of last year to 471 as at the end of September. Of these, the number of factory workers and customer-service employees declined significantly. As for sales personnel, sales activities are the core of Koroseal and Metro. As it is their mainstay function, we limited the reduction to a slight level.

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海外セグメント Goodrich社の状況

Goodrichシンガポール

【人員削減計画】

2020期初 116名 ➡ 2021期初 108名 ➡ 2022期初 96名

Goodrichマレーシア

【人員削減計画】

2020期初 68名 ➡ 2021期初 53名

【拠点再編】

4拠点 ➡ 2拠点へ コタキナバル、ジョホールバル拠点閉鎖

戦略市場への注力

- ・ **Goodrich中国** : 山月堂（上海）との統合・人員削減
- ・ **Sangetsu Goodrich ベトナム** : サンゲツとGoodrichの共同出資で4月1日営業開始
- ・ **Sangetsu Goodrichタイランド** : 100%出資会社として11月2日営業開始

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Meanwhile, our Southeast Asia and China businesses have also been affected by COVID-19, and we are reducing the number of employees in Southeast Asia and China in order to create a more effective management structure.

It is not possible to take the form of layoff as in the US, so it will take time. In Singapore, we have reduced the number of employees from 116 at the beginning of the period to 108 currently, and we plan to reduce to 96 over the next year.

In Malaysia, we had four bases: Kota Kinabalu and Johor Bahru, as well as Kuala Lumpur and Puting. Of these, we have closed two of our bases in Kota Kinabalu and Johor Bahru and are working to reduce the number of employees.

In this way, in both the US and Southeast Asia, we are lowering our break-even point.

Meanwhile, we are strengthening our presence in the market. We currently have two Chinese companies, Goodrich China and Sangetsudo Shanghai and we are currently working to integrate them in January to March next year. Accordingly, we plan to reduce the number of employees. Meanwhile, in Vietnam, Sangetsu Goodrich Vietnam commenced operations in April. In Thailand, we had previously operated through a 49% subsidiary. However, we established a 100% subsidiary, Sangetsu Goodrich Thailand, which commenced operations in November. The previous 49% subsidiary is scheduled to be transferred to a local partner.

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連結キャッシュ・フロー計算書



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I would like to explain our consolidated cash flows.

At the beginning of the fiscal year or at the end of the previous fiscal year, we had cash and cash equivalents of JPY36.81 billion. Net cash was JPY16.34 billion, and cash flow from operating activities was an inflow of JPY5.01 billion in the first half of the fiscal year under review. Cash decreased by JPY2.44 billion due to investing activities. Meanwhile, we borrowed JPY7 billion in May as it became possible to borrow money at low interest rates, resulting in net cash provided by financing activities of JPY4.7 billion.

Consequently, the balance of cash equivalents was JPY37.15 billion and net cash was JPY18.97 billion at the end of September. In the past, we held JPY20 to JPY25 billion as cash and cash equivalents. I have mentioned keeping the net cash positive, but the balance has increased significantly compared to this. We will be repaying a large amount of just under JPY12 billion at the end of December. We recognize that this is within an appropriate range considering the need for cash thereafter.

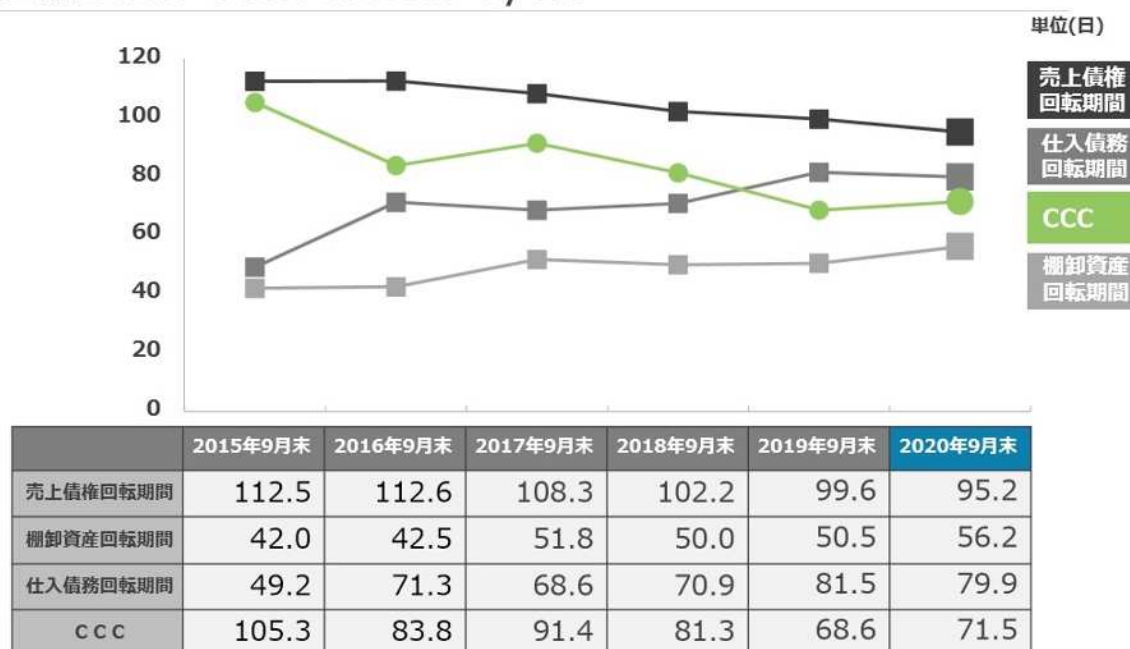
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連結Cash Conversion Cycle



※2017年9月末(期間2016年10月1日～2017年9月30日)は、Koroseal社のP/L連結前期間の数値を連結後期間(2017年1月1日～2017年6月30日)の業績と同額と見なして加算し、計算しています。

※2018年9月末(期間2017年10月1日～2018年9月30日)は、Goodrich社のP/L連結前期間の数値を連結後期間(2018年1月1日～2018年6月30日)の業績と同額と見なして加算し、計算しています。

※2017年9月末及び2018年9月末に係る各数値は、暫定的な会計処理の確定の内容を反映させております。

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Finally, Cash Conversion Cycle increased by a little less than 3 days compared to the end of September of the previous year. This was affected significantly by the inventory turnover, which increased just under six days.

With regard to inventories, we reduced the amount of purchases in order to reduce inventories amid a rapid decrease in sales, but this did not lead to a sufficient decrease in inventories, resulting in a slight increase in inventories. In contrast, although the total purchase amount, which is the denominator, decreased slightly, it did not decrease significantly, resulting in an increase of six days.

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新型コロナウイルス感染症への対応

【基本方針】

お客様・社員の安全を最優先とし、
“品切れなく受注”し、“全国に出荷する”体制を維持する。

【対策】

- ①IT環境整備によるテレワークの推進 最大時：7割
- ②ロジスティクス関連社員、商品開発担当者、ショールーム担当者を中心に出勤業務継続
- ③社内分散勤務の実施
- ④WEB会議システムの活用
- ⑤直行直帰による営業活動
- ⑥ショールーム オンラインコンサルテーションの実施
- ⑦WEBセミナーの開催

(トレンドセミナー、新見本帳セミナー、抗ウイルス対策セミナー)



WEBセミナー（トレンドセミナー）

➡ **直接面談が基本の内装業界において、感染拡大防止策を講じながら、
テレワークを活用しつつ、効率的で・効果的な営業活動を試行**

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Next, I would like to briefly explain the impact of COVID-19, its impact in the first half, and its outlook for the future.

As our activities in the first half of the fiscal year, we have about a 50% share of the market for interior materials in Japan, including wallpaper and flooring materials. Interior materials are used in all the final stages of construction. If they do not reach on-time, the building will not be habitable or be able to be used, even if it is completed. Our first priority has been to receive orders even in the face of the impact of COVID-19, and to maintain a system for nationwide shipments without delay.

However, the interior industry is a very conservative industry and direct face-to-face negotiations are fundamental. While direct negotiations are difficult, we have worked to maintain sales activities and other activities more than in the past by going online, using the web. At the peak, 70% of employees worked from home via teleworking, we must admit that our business activities have been affected.

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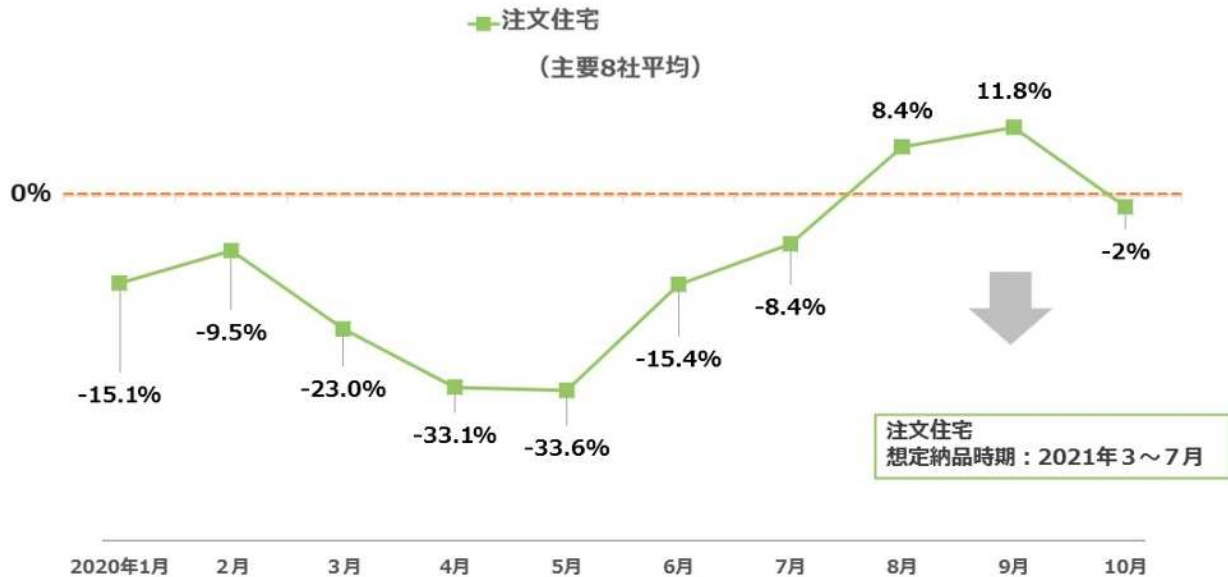
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(参考) 住宅市場／新築 注文住宅

注文住宅 ハウスメーカー受注速報値 (前年同月比)



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Amid this situation, as for the impact on the housing-related business, I would like you to see the situation of the custom-built houses first, and this is simple average of the preliminary order values for custom-built houses that eight major house builders have announced.

As you can see, orders fell sharply in from March onward, in March, April, and May, but have been on a recovery trend since June, with orders from August exceeding the previous year's level. Although it was slightly weaker in October due to the strong performance in and August to September, it has been favorable since August. However, considering the time lag between orders for custom-built homes and the actual interior construction, we expect that the effects of orders for custom-built homes from August onward will be seen in interior delivery from March next year onward.

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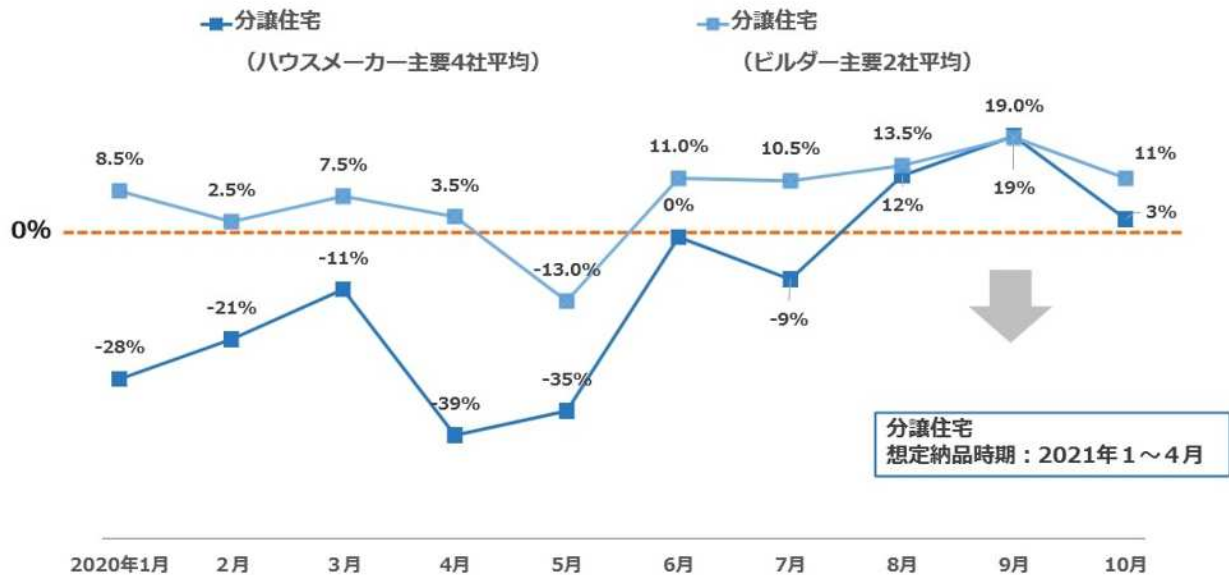
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(参考) 住宅市場／新築 分譲住宅

分譲住宅 ハウスメーカー・ビルダー受注速報値（前年同月比）



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Meanwhile, this is the average values of orders for housing for sale, announced by four house builders and two major builders.

Although the figures for four house builders are similar to those for custom-built houses, orders for the two builders fell in May, but from June onward they have exceeded the previous year's figures. The results were favorable in August, September, and October. We believe that orders for houses for sale in August, September and October will affect the delivery of interiors from January to April next year.

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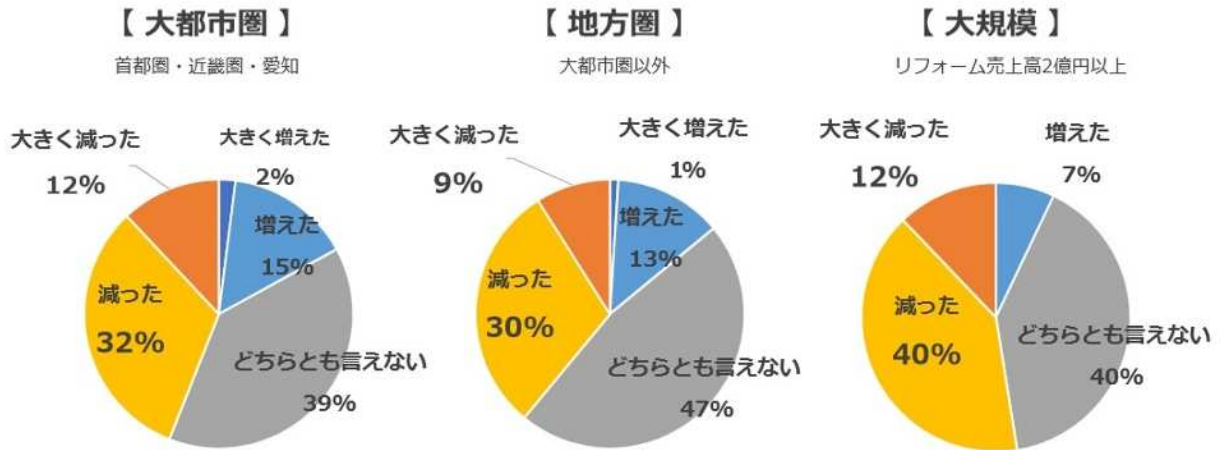
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(参考) 住宅市場／リフォーム

コロナ禍による、前年と比べたリフォーム売上高の影響



一般財団法人住まいづくりナビセンター実施 (回答数: 180社 実施期間: 2020年8月31日~9月14日)
「コロナ禍によるリフォーム需要の変化と事業者のIT活用状況に関するアンケート」より

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Meanwhile, as for renovation, these are the results of a questionnaire survey with renovation companies conducted by a foundation from the end of August to the beginning of September. Although renovation work has increased due to working from home, we feel that [Inaudible] renovation is recovering. When we look at the shipments of products used in renovation in which we are involved, we feel that renovation is recovering.

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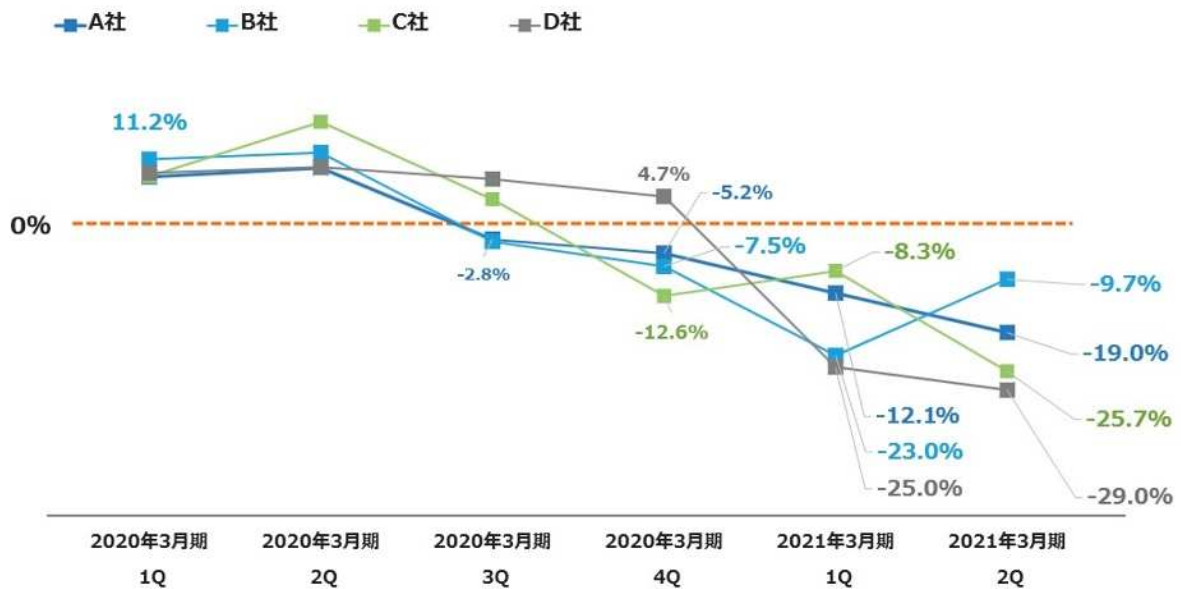
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(参考) 非住宅市場

大手ゼネコン建設事業売上高実績（前年同期比）



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Next, regarding non-residential, these are the YoY changes of sales in the construction business announced by four major general contractors in the non-residential market.

Here, we are seeing declines in the first and second quarters of this year, but we believe that the decline in the floor area of new non-residential construction starts from each country, rather than the impact of COVID-19, is manifesting itself in sales in this way. As for non-residential, we do not expect to see an early recovery.

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リーマンショック時との比較

インテリアセグメント 売上高推移イメージ (市場成り行きベース)

- 新型コロナウイルス：2019年度上期／2019年度下期をそれぞれ100とし、上下同半期を比較
- リーマンショック：2007年度下期／2008年度上期をそれぞれ100とし、上下同半期を比較



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Considering all these together, this graph shows our forecast for the trend in sales in the future.

This is not just a forecast for our sales, but for the market scenario. The blue line shows trends during the global financial crisis after Lehman Brothers' bankruptcy. In our case, the first and second half of the business are of the second-half fluctuation type, so the first half and the second half of the fiscal year were compared with the first half and the second half, respectively, for the trend during the global financial crisis after Lehman Brothers' bankruptcy as well. Although the global financial crisis occurred on September 15, 2008, the impact of the global financial crisis materialized in the second half of FY2008. It shows how much the second half of FY2008 fell compared to the second half of FY2007.

In the first half of FY2009, there was an even greater decline than in the second half of FY2008. However, we have compared it to the first half of FY2008. The second half of FY2007 and the first half of FY2008 are the basis of this comparison.

As you can see, during the period of the global financial crisis, sales fell to 88% in the second half of FY2009, the largest decline in the second half. In Sangetsu's non-consolidated sales results, [Inaudible] is expected to decrease 10.8% in the Interior segment, but it is expected to recover compared to the first half of the fiscal year. Looking ahead, if we divide these forecasts into four categories: new construction and renovation for home and new construction and renovation for non-residential, we believe that the figures for the first half of FY2020 will exceed that for the first half of FY2019 at the earliest. If it takes more time, we expect the figures will exceed those for the first half of FY2019 in the first half of FY2023.

However, as I mentioned earlier, this is based on the course of the market. We are taking various measures in the area of interior materials. We are taking measures to expand our market share and increase sales of our products. In addition, we will continue to implement measures to improve the gross profit margin. We

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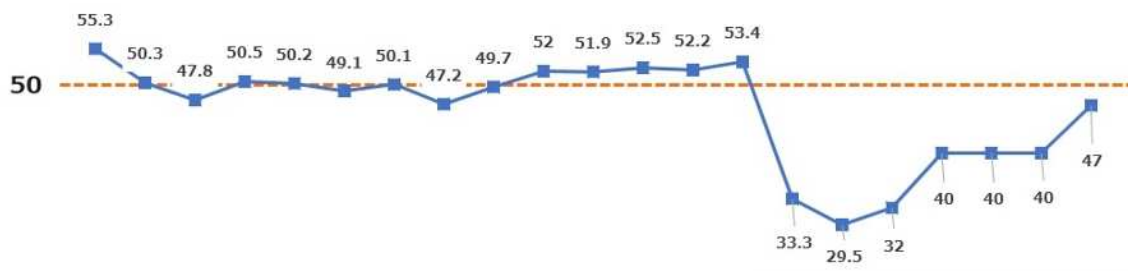
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are now preparing to do so. Through these means, we would like to produce results that exceed those shown in this orange graph, both in terms of sales and profits.

(参考) 米国 非住宅市場

非住宅建設ABI指標の推移

非住宅建設ABI指標（Architecture Billings Index）とは、The American Institute of Architects(米国建築家協会：AIA)が発表する指標で、非住宅部門（ホテル、オフィスビル、学校、病院など）の建築活動の先行指標。米国の建築家への調査に基づき算出され、**9～12カ月後**の建築活動を示す先行指標とされ、50を分岐点に上回れば建築活動の拡大、下回ると縮小を示す。



Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	July	Aug	Sept
2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2019	2020	2020	2020	2020	2020	2020	2020	2020	2020

新型コロナウイルス感染症の影響により2020年3月より急激に悪化、4月をボトムに9月より回復傾向。海外事業（北米市場）の回復は、来期以降を予想

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For Overseas, in the US, an index called Architecture Billings Index has been announced. As in the case of conventional indexes, when it exceeds 50%, related parties recognize that building activity is active. They recognize that it is shrinking when it is 50% or less. This is an indicator of the outlook for this building activity in nine to twelve months.

Until February of this year, the figure had been over 50%, but in March, it fell sharply to 33.3%. Then, it was 40% from June onward. [Inaudible]. As COVID-19 is again spreading, we will keep an eye on the future figures.

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海外セグメント 地域別状況

海外セグメント 地域別の売上高推移（前年同期比）



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Meanwhile, these are actual sales results of our overseas subsidiaries. We consolidate the results of our overseas subsidiaries three month ago. In other words, the figures for overseas subsidiaries for the January to March period are consolidated to April to June. The results for the July to September period [Inaudible] July to September period recovered to a 25% decrease. In China, in July to September, we surpassed 100% of the previous year, but we do not expect [Inaudible] in the Chinese market.

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連結業績予想

単位(億円、%)

	2020年3月期	2021年3月期				
	通期実績	通期 期初計画	通期 修正計画	上期実績	対通期 期初計画 進捗率	対通期 修正計画 進捗率
売上高	1,612.6	1,350.0	1,400.0	695.4	51.5%	49.7%
売上総利益	529.2	—	460.0	227.0	—	49.4%
販売費及び 一般管理費	436.5	—	406.0	201.6	—	49.7%
営業利益	92.6	42.0	54.0	25.4	60.6%	47.1%
経常利益	98.4	45.0	58.0	27.8	62.0%	48.1%
親会社株主に 帰属する 当期純利益	14.3	23.0	35.0	19.7	85.9%	56.4%

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Based on the recognition of the status as described above, we have changed the full-year forecasts.

As we have already announced, we have changed the initial plan of JPY135 billion for sales to JPY140 billion. Operating income of JPY4.2 billion to JPY5.4 billion. We also revised the profit attributable to owners of parent from JPY2.3 billion to JPY3.5 billion.

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連結セグメント別業績計画

単位(億円、%)

		2020年3月期			2021年3月期					
		上期実績	下期実績	通期実績	通期修正計画	上期実績	下期計画		通期計画進捗率	
							前期比	前期比		
インテリア	売上高	604.0	616.9	1,220.9	1,075.0	528.7	▲12.5%	546.2	▲11.5%	49.2%
	営業利益	45.1	48.1	93.2	58.0	27.4	▲39.2%	30.5	▲36.5%	46.5%
エクステリア	売上高	83.0	77.7	160.8	140.0	72.3	▲12.9%	67.6	▲13.0%	51.6%
	営業利益	3.8	2.6	6.4	4.0	2.3	▲38.3%	1.6	▲36.9%	78.6%
海外	売上高	100.3	97.6	198.0	145.0	77.9	▲22.3%	67.0	▲31.4%	53.8%
	営業利益	▲4.0	▲5.2	▲9.3	▲9.5	▲5.0	—	▲4.4	—	—
スペース クリエーション	売上高	16.6	25.0	41.6	50.0	22.0	+33.0%	27.9	+11.6%	44.2%
	営業利益	0.5	1.2	1.8	1.5	0.8	+49.6%	0.6	▲48.5%	55.4%
セグメント 間取引調整	売上高	▲3.4	▲5.3	▲8.7	▲10.0	▲5.7	—	▲4.2	—	—
	営業利益	0.0	0.4	0.4	—	▲0.0	—	0.0	—	—
合計	売上高	800.6	812.0	1,612.6	1,400.0	695.4	▲13.1%	704.5	▲13.2%	49.7%
	営業利益	45.4	47.2	92.6	54.0	25.4	▲44.1%	28.5	▲39.5%	47.1%

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I would like for you to see a breakdown of this by segment. In the Interior segment, a 11.5% decrease, while the sales in the first half that were JPY52.87 billion, decreasing 12.5% from a year earlier.

For the Overseas segment, JPY 6.7 billion, with respect to the sales in the first half that fell 22.3% to JPY7.79 billion. We expect a 31.4% decrease, a larger decrease than in the first half of the fiscal year. This is most affected from Koroseal in the US and Metro in Canada, which have the largest sales in the Overseas segment. These two companies were roughly the same as the previous year in January and March, but for the three months of the October-December period, we believe that the decline will be naturally larger than in the January-March period. Based on this, we expect that the decline in the second half will be larger than that in the first half. This is the outlook for the full fiscal year.

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資本政策・株主還元（配当）

中期経営計画（2020-2022）D.C.2022資本政策

1. 自己資本を **900～950億円** の範囲で維持する。
2. 3年間の総額ベースで **総還元性向を略100%** とする。
3. 自己株式取得および配当に関しては、安定増配を念頭に、新型コロナウイルス感染症の業績に与える影響を見極め都度決定する。

■一株当たり配当額推移



➡ **2021年3月期の配当額は58.0円、7期連続増配を予定**

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Lastly, I would like to explain our capital policy and shareholder returns.

According to the medium-term management plan, D.C. 2020, announced in May, our capital policy is as follows. To maintain shareholders' equity within the range of JPY90 billion to JPY95 billion. Achieve a total return ratio of almost 100% on a three-year total basis. With regard to acquisition of own shares and dividends, we will decide on a case-by-case basis while assessing the impact COVID-19 on the business results, under the basic policy of stable dividend increase.

In terms of shareholders' equity, the amount of JPY93.9 billion at the end of September was close to JPY95 billion. Regarding dividends, we announced a total annual dividend of JPY58 per share, with an interim dividend of JPY29 per share and a year-end dividend of JPY29 per share when we announced our financial results for the first quarter. As a result, we will increase dividends for the seventh consecutive fiscal year.

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株主還元実績

自己株式取得の状況		
取得期間	取得株式総数	取得総額
自己株式取得は行っていません。	0株	0円

自己株式消却の状況		
消却日	消却株式総数	消却後の発行済株式総数
2020年6月30日	60万株	6,115万株

中間配当金			株主還元総額
基準日	一株当たり配当額	配当金総額	
2020年9月30日	29.00円	17.5億円	

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As described above, we will finally pay JPY1.75 billion as the base amount for total shareholder returns as of the end of September. On June 30, we cancelled 600,000 shares of treasury stock, bringing the total number of issued shares after the cancellation to 61,150,000 shares.

That is all for my presentation about the financial results for the first half and the outlook for the full fiscal year.

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Question & Answer

Shirato: Then, we will start a question-and-answer session. I will read out the questions we have received from question-and-answer during the course of the presentation.

In May, you announced a new medium-term management plan. Here, the quantitative targets for the fiscal year ending March 2023 are set as JPY172 billion for sales and as JPY12 billion for operating income. Do you have revisions to the plan based on the current status of COVID-19?

Yasuda: Yes, I will answer. The medium-term management plan calls for consolidated net sales of JPY172 billion and operating income of JPY12 billion as the targets for the final year of the plan, FY2022. Of these, the major portion is accounted for by Sangetsu's non-consolidated business, the Interior segment.

As a result, we have set JPY127 billion for sales and JPY10.5 billion for operating income. The figure for the previous fiscal year was JPY122.1 billion, so JPY127 billion represents a sales increase of JPY5 billion. Operating income was JPY9.25 billion in the previous fiscal year, so JPY10.5 billion calls for an increase of JPY1.25 billion.

Regarding this, as I mentioned earlier, the general market environment has been slow to recover and the impact from COVID-19 is delayed. In addition, the overall state of the economy will have a significant impact. As I mentioned earlier, we are expanding our market share, particularly in wallpaper and flooring materials. To this end, we are currently preparing a variety of measures, including the aspects of product, sales, and delivery. By implementing these measures, we believe it is fully possible to raise sales to nearly JPY127 billion.

Meanwhile, we will improve operating income in other areas. By doing so, we intend to increase operating income. I mentioned earlier sales that are close to JPY127 billion. In light of the current situation, we would like to move forward with a bigger goal of steadily achieving operating income rather than steadily achieving sales.

In addition, the Overseas Segment will have a major impact. The results for the previous fiscal year were an operating loss of JPY930 million in the Overseas segment. Under the current medium-term management plan, we aim to bring this to operating loss of JPY400 million. In other words, we plan to improve operating income by around JPY1.3 billion. Of these 1.3 billion improvements, in Koroseal, amortization of goodwill and intangibles has decreased to a small amount, compared with JPY700 million in the previous fiscal year. Including this decrease in amortization, which was close to JPY700 million, an improvement of JPY1.3 billion in profit is sufficiently possible by reduction in production costs, streamlining, and other cost reductions such as selling, general and administrative expenses as I explained earlier, as well as expansion of sales.

As described above, we intend to firmly maintain our consolidated sales target of JPY172 billion and operating income target of JPY12 billion announced in May of this year.

Shirato: Then, Mr./Ms. Yoshimura, please.

Yoshimura: My name is Yoshimura from Sumitomo Mitsui DS Asset. Thank you in advance. Let me ask you two questions.

The first issue is your plan for the current fiscal year. Since there is a large gap between ordinary income and net income, it seems that some extraordinary losses are included. If so, what kind of expenses are you expecting? For example, will there be restructuring-related expenses overseas? Or will there be something else coming from Japan? I would like to ask about this first point. Thank you very much.

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Yasuda: I will answer this question first. As you said, we expect some extraordinary losses during this period. However, in this regard, these extraordinary losses will not be related to overseas operations. We currently believe that we will be able to [Inaudible] any further extraordinary losses or impairments Overseas. However, we expect extraordinary losses from some new projects in Japan that may result in extraordinary losses, although it is not certain whether the new projects will be executed by the end of March. This is also [Inaudible] between ordinary income and net income.

Yoshimura: I see. Thank you very much.

For the second point, please tell us your thoughts for next term and beyond. I would like to ask what kind of story you can draw when you look after next period or after COVID-19. For example, in the next fiscal year, I think that demand will rebound from the decline this year due to COVID-19. Please tell us what measures you will take to grow in addition to that. For example, you have found some new business opportunity amid the COVID-19 crisis. Or some issues are becoming apparent due to the outbreak and you would like to make efforts to improve them. Please tell us about measures for the next fiscal year and beyond.

Yasuda: Our work involves very steady efforts. In terms of this new business opportunity, we are thinking of sales via ecommerce, for curtain and the like, but we do not expect this to grow in a manner that will have an extremely large impact on sales and profits. For curtains, we are currently preparing to expand not only ecommerce but also retail channels for e small and medium-sized end users, but we do not envision a picture that this will significantly contribute to earnings.

The Interior materials business in Japan, including wallpaper and flooring materials, will still be the business that will have an immediate and major impact. In order to expand the volume and market share in this area, we will improve our products, strengthen our sales capabilities, and strengthen our delivery capabilities. We believe it is important to further enhance our strength other than the price by these efforts.

Operating income for interior materials has steadily risen over the past six or seven years. Again, our position is strong. Delivery services, finishing services, et cetera, for which our functions are strong. And by using the attractiveness of our sample books, we will increase our profit by expanding volume and sales. We believe that this is our best path for improving profitability.

Yoshimura: I see. Thank you very much.

Shirato: Thank you very much. Are there any other questions?

There seems to be no more questions, so we will conclude the financial results briefing now. I am very sorry that there was a disturbance in the sound during the session. Video recording of today's briefing will also be posted an archive on our website in at a later date. I hope you will check it over there later.

Thank you very much for participating in our web briefing today.

Yasuda: Thank you very much.

[END]

Document Notes

1. *Portions of the document where the audio is unclear are marked with [Inaudible].*
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