



Medium Term Business Plan (2017-2019) “PLG 2019”

May 24th 2017

President,CEO Shosuke Yasuda

First sections of the Tokyo and Nagoya
Stock Exchanges (Code:8130)



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Corporate Philosophy

Overall picture

Quantitative Goals

- 1) Business Strategy for Growth
- 2) Enhance Human Resources
- 3) Bolster profit management system
- 4) ESG and CSR Policies
- 5) Capital strategy

Quantitative target

/accompanying target

I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

1) Measures

Implemented measures

1. Accelerated the pace of promotions with transparency. Introduced the merit system for the HR and salary management.
2. Improved the offices and company dormitory, and improved the pension system.
3. Increased the mid-term hiring.
4. Clarified internal regulations and strengthened risk management.
5. Undertook organizational reform to respond to diversity and specialty of products and market.
6. Prepared for the introduction of the new core system, and used Business Process Outsourcing (BPO) for partial business.
7. Established new facilities for logistics and showroom or combined or reorganized old facilities.
8. Renewed products, design and samples.
9. Strengthen the connection with the major suppliers.
10. Established an installation structure.
11. Purchased an American wall material company and established a new company in China.
12. Rebranded.
13. Strengthened governance.
14. Implemented the new capital policy.

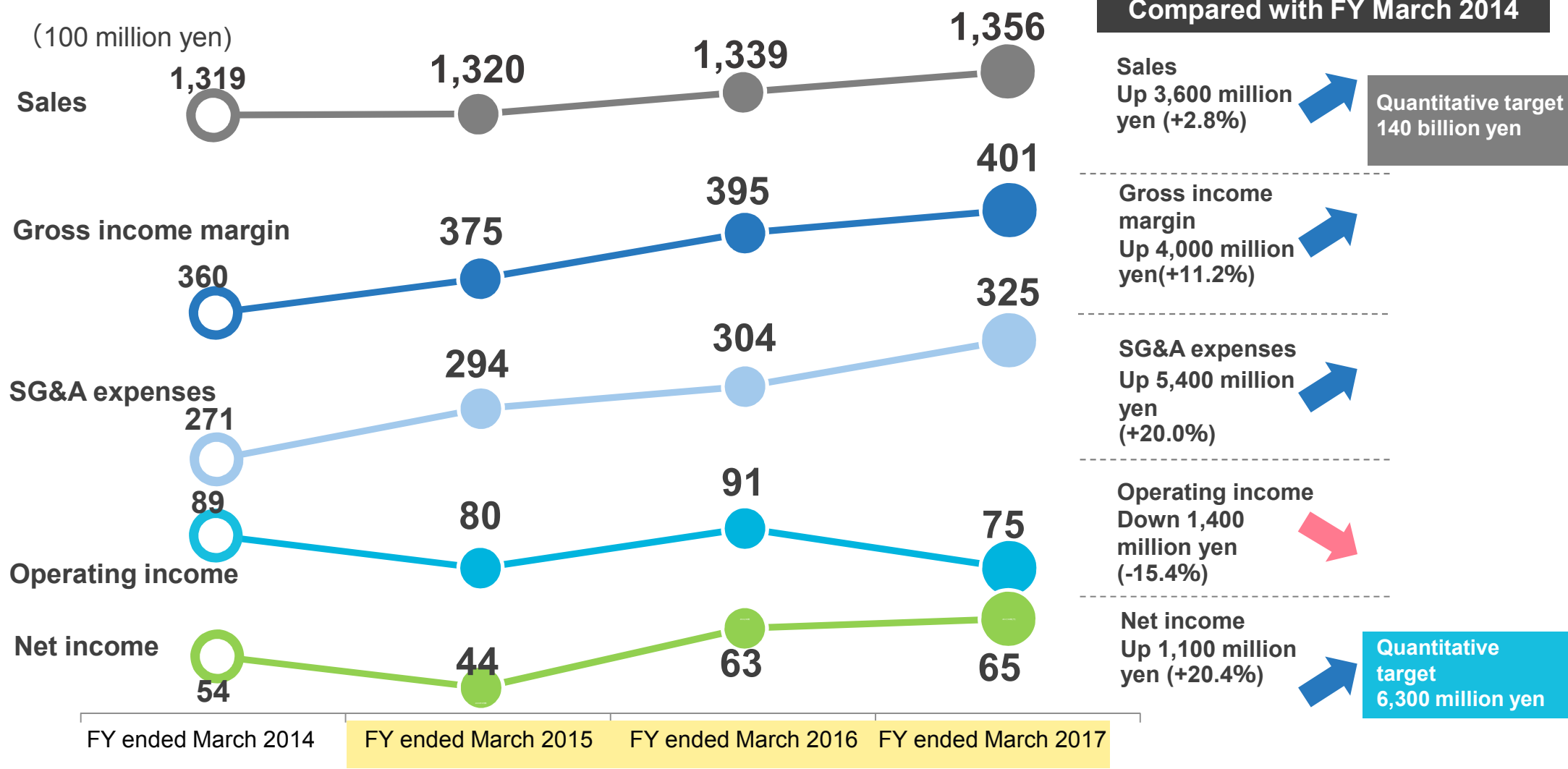
Not implemented or not completely implemented.

1. To enhance “awareness as the key players” among the employees.
2. To reform the working style (overtime, paid leave)
3. OJT, education, training
4. To work on the “Environment” and “Society” measures among ESG.
5. To make SG&A management stricter.
6. To improve the efficiency of transportation.
7. To strengthen the marketing front.
8. To improve and expand business performance of the affiliates.
9. To establish a new core system.

I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

2) Results

1-1. Profitability (Consolidated)



I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

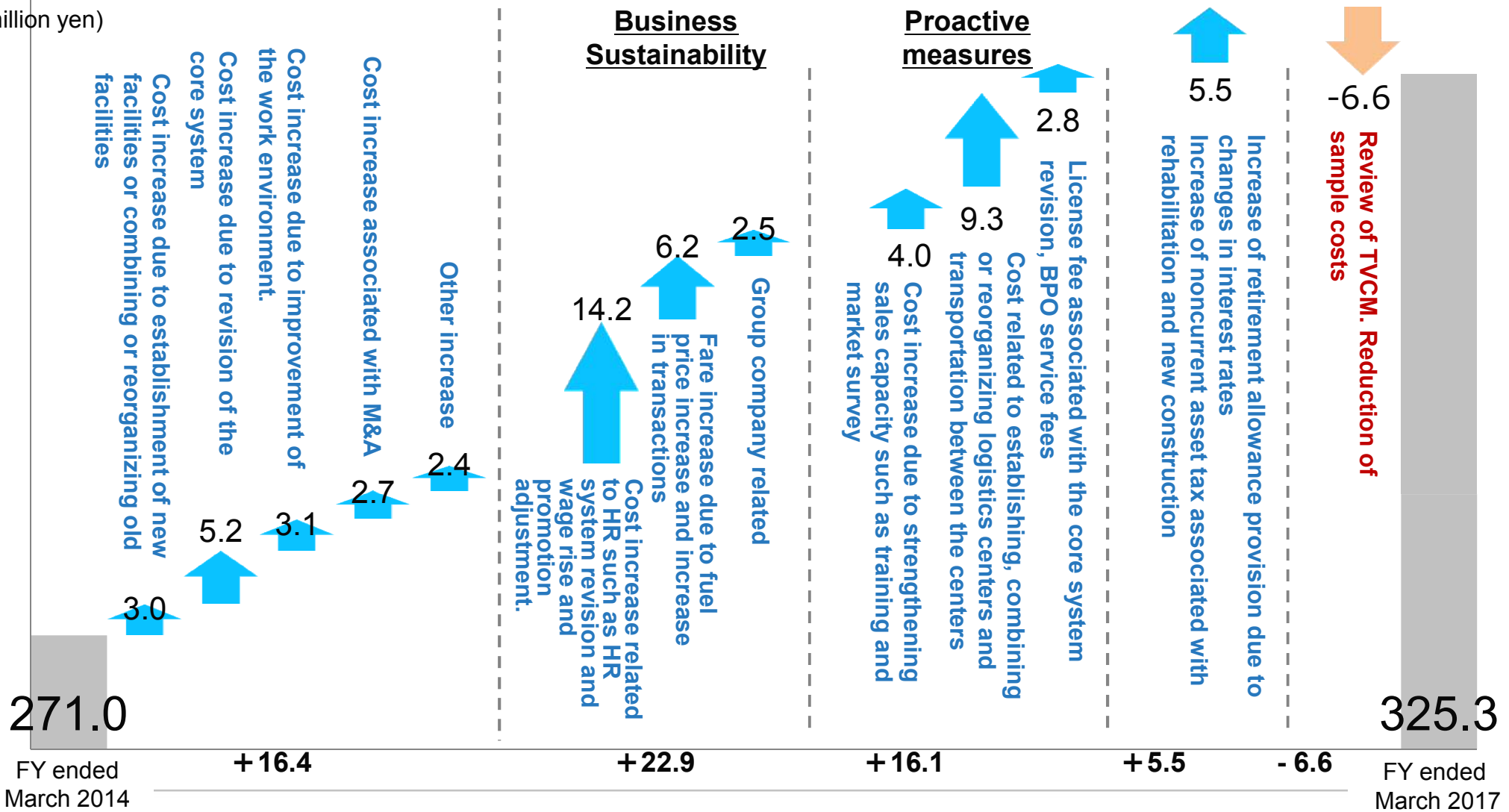
2) Results

1-2.Changes of SG&A Expenses (Consolidated) (Comparison between 2013 and 2016)

Temporary factors **+16.4**

Structural factors **+37.9**

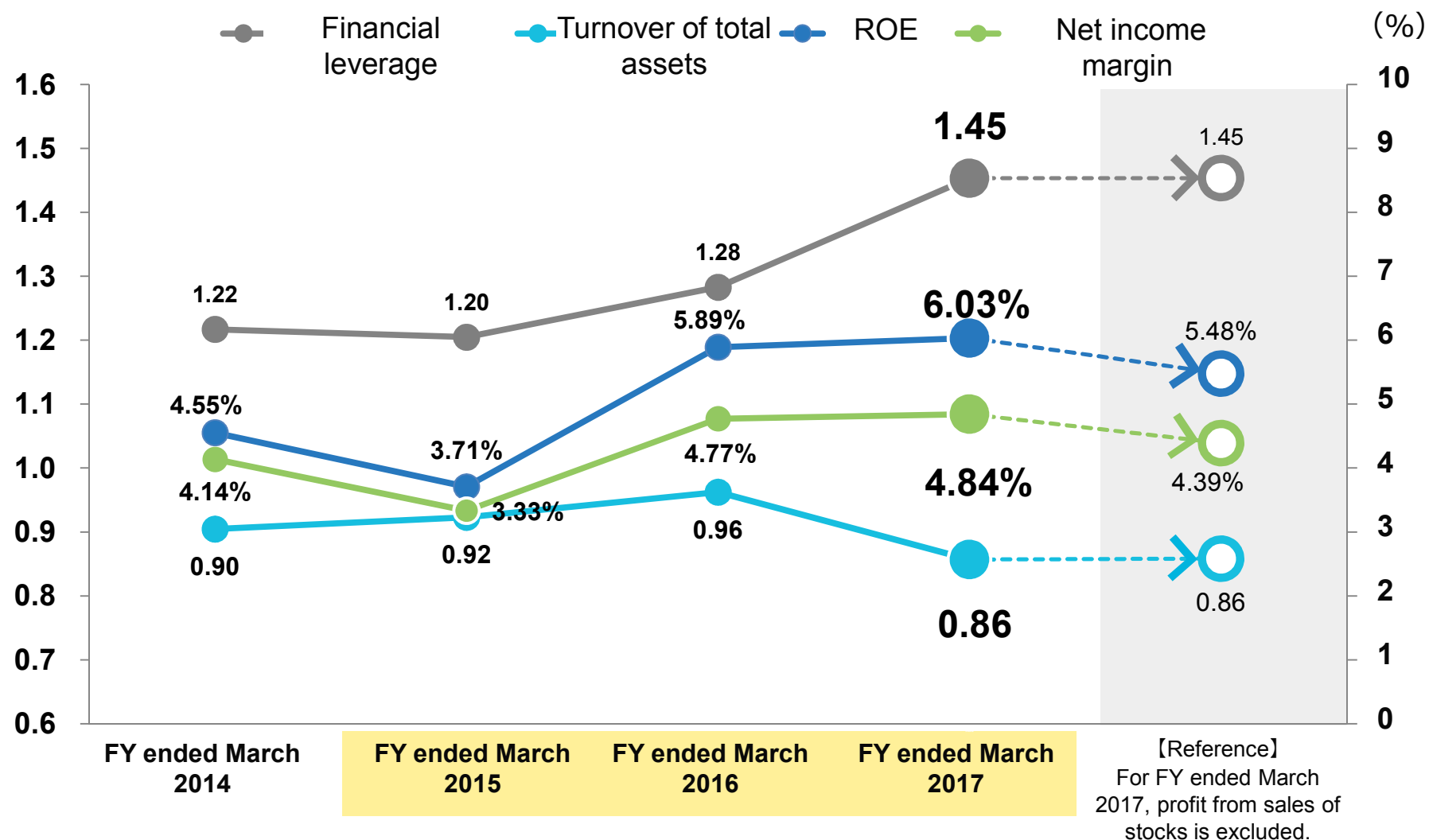
(100 million yen)



I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

2) Results

1-3. Efficiency indicators (Consolidated)

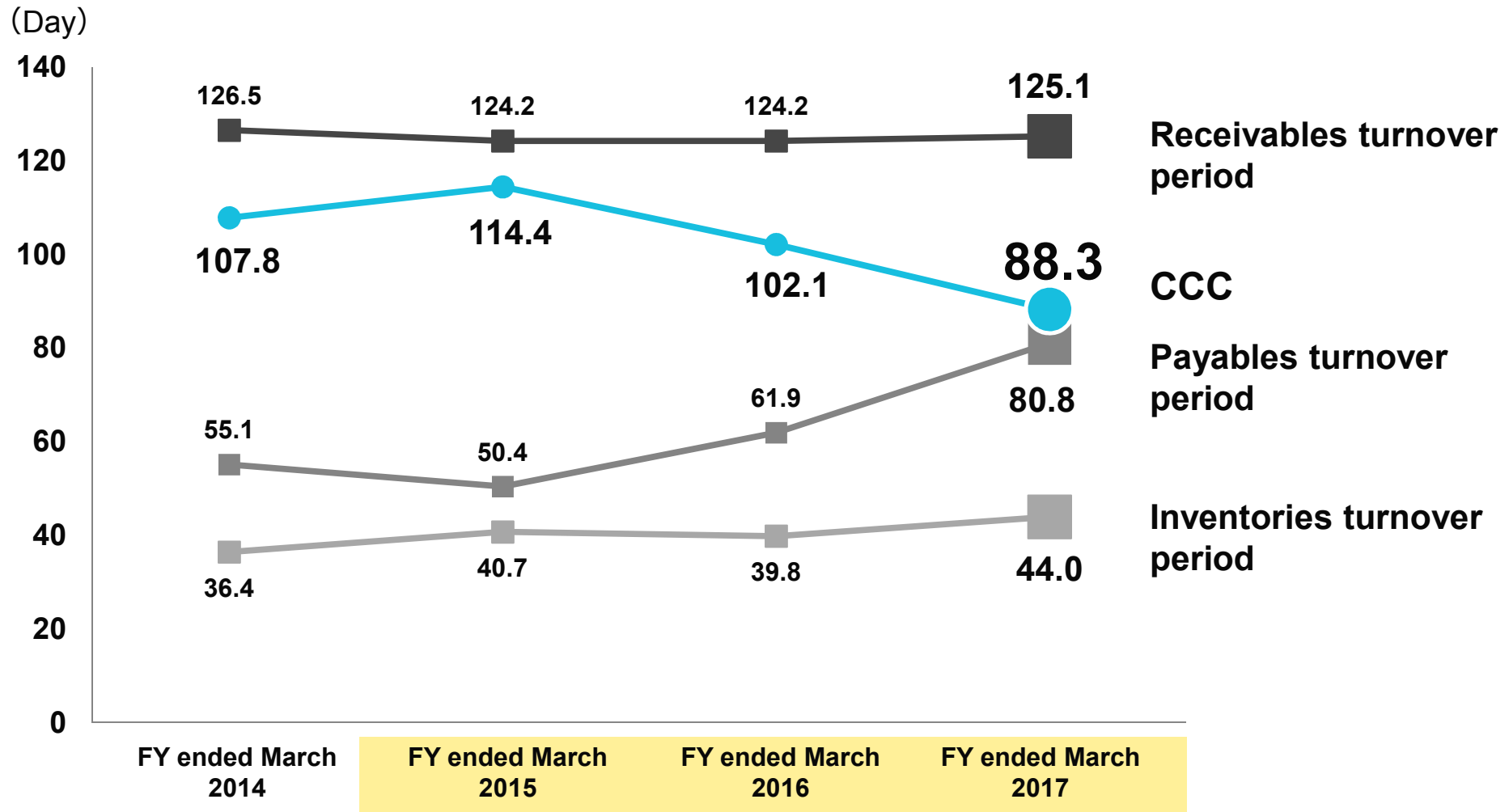


*For the FY ended March 2017, the total asset before consolidation of Koroseal was used for calculation.

I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

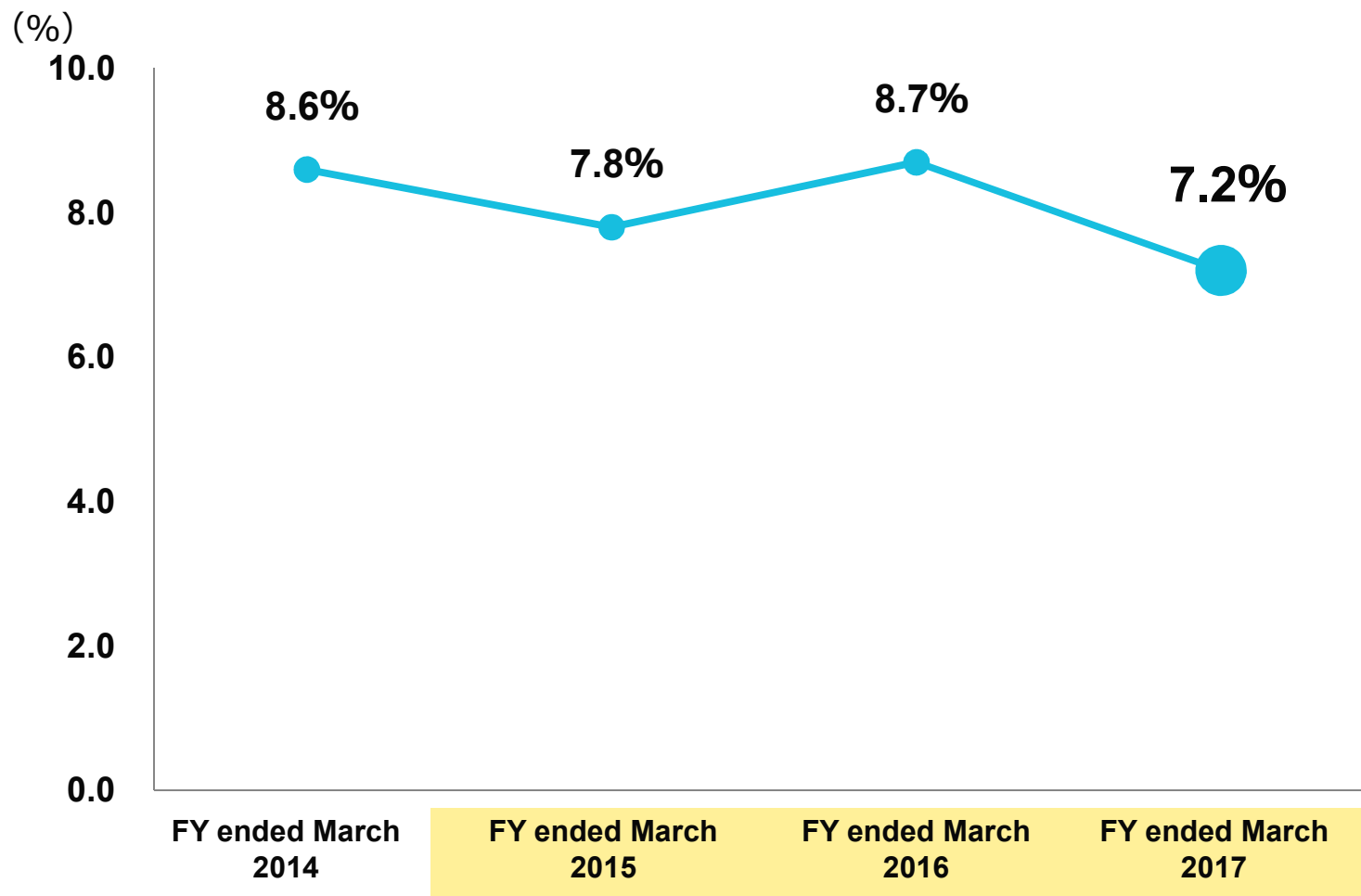
2) Results

1-4. Efficiency indicators (Consolidated) Cash Conversion Cycle



I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G” 2) Results

1-5. Efficiently indicators (Consolidated) ROIC



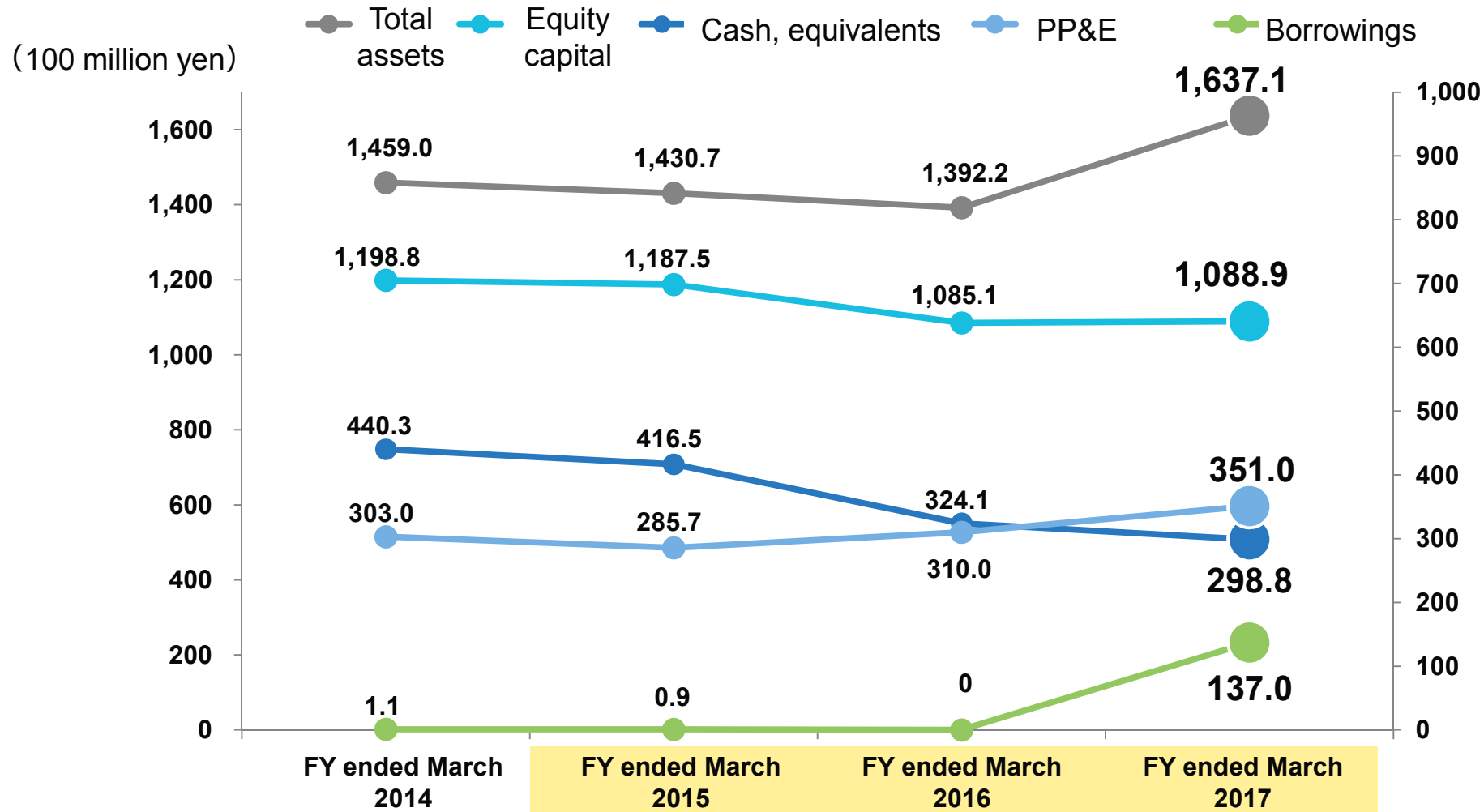
*For the FY ended March 2017, the total asset before consolidation of Koroseal was used for calculation.

*Operating income after tax/(Operating capital + Tangible assets + Intangible assets)

I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

2) Results

1. Balance sheet



*Cash, equivalents = Cash+ securities/investment securities (excluding shares)

I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

2) Results

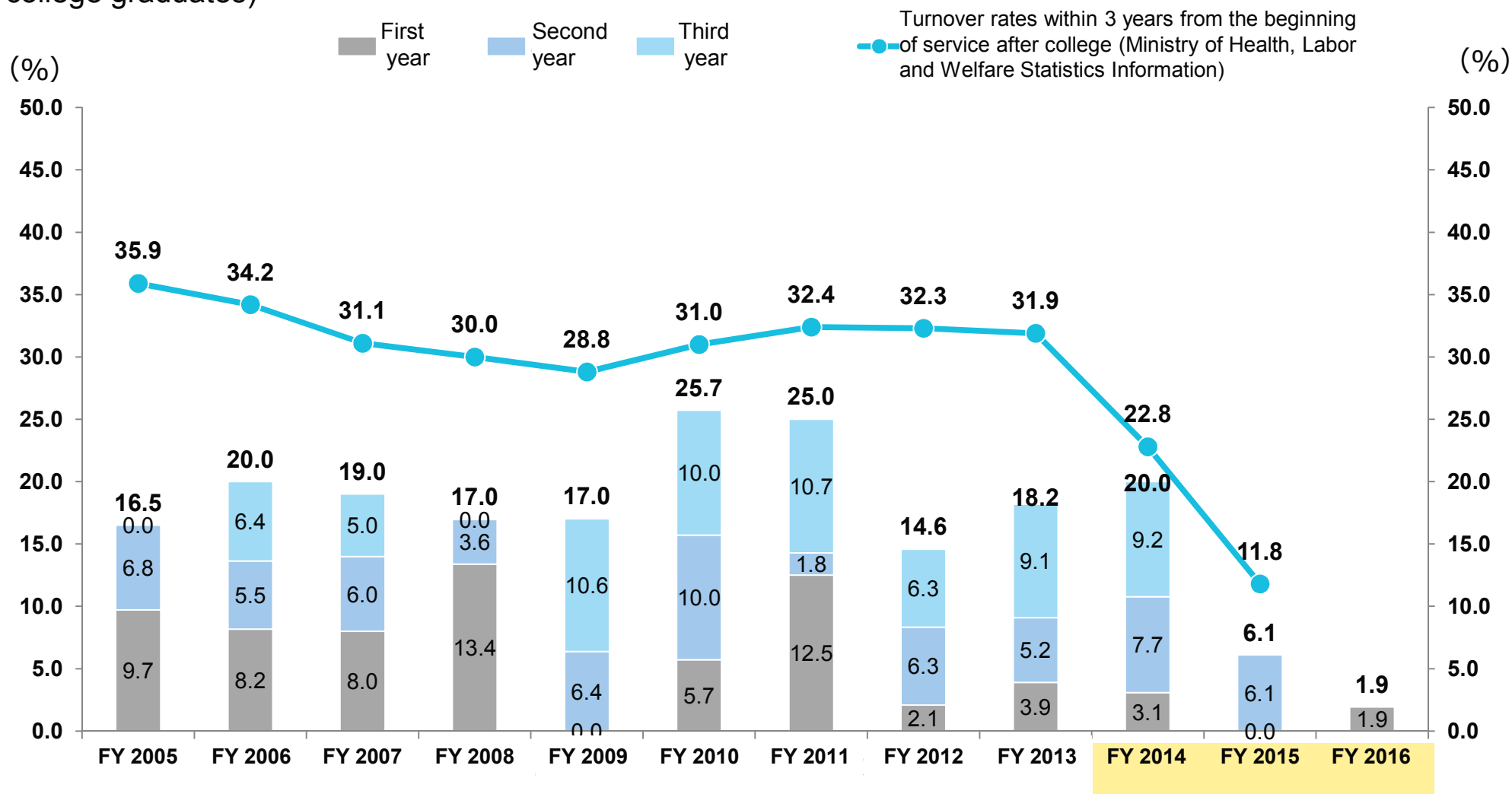
Shareholder return

	FY ended March 2014	FY ended March 2015	FY ended March 2016	FY ended March 2017	Total in 3 years
Dividend per share	37.5 yen	41.3 yen	47.5 yen	52.5 yen	–
Total dividend	2.9 billion yen	3.1 billion yen	3.3 billion yen	3.5 billion yen	9.9 billion yen
Payout ratio	52.3%	70.7%	52.8%	53.8%	59.1% (3-year average)
Number of acquired treasury shares	0	3.13 million shares	4.76 million shares	1.28 million shares	9.17 million shares
Amount to acquire treasury shares	0	4.8 billion yen	10.1 billion yen	2.5 billion yen	17.4 billion yen
Total return amount	2.9 billion yen	7.9 billion yen	13.5 billion yen	6.0 billion yen	27.4 billion yen
Total return ratio	52.3%	178.5%	210.6%	91.4%	157.4% (3-year average)
End-of-term shares (including treasury)	80.38 million shares	74.10 million shares	69.17 million shares	68.07 million shares	–
EPS	71.7 yen	58.4 yen	89.8 yen	97.5 yen	–

I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

2) Results

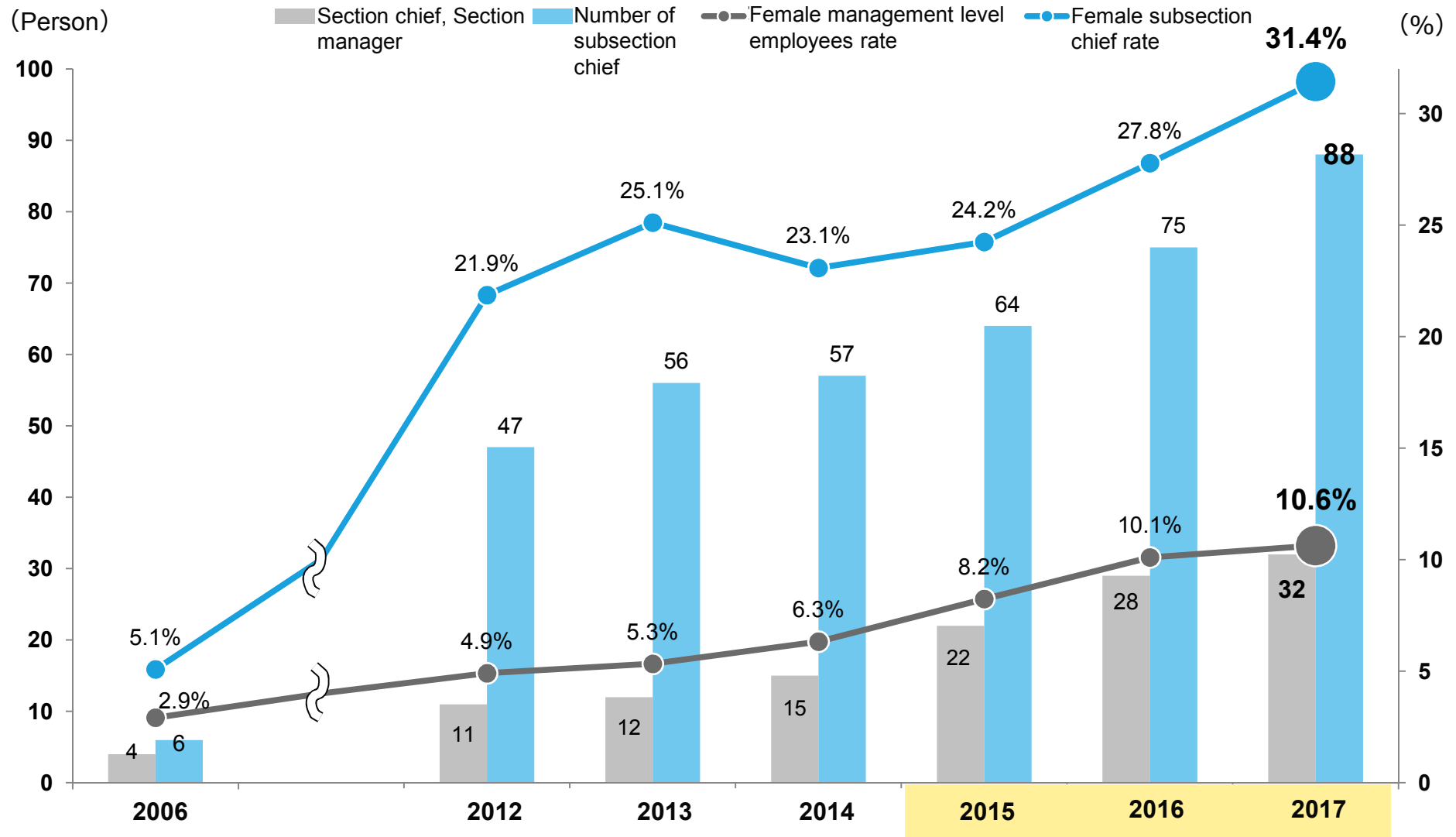
4-1. Turnover rates within 3 years from the beginning of service (including high school and college graduates)



*From FY 2015, because the employment period is less than 3 years, only the number of passed years was used for calculation.

I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G” 2) Results

4-2. Number of female management level employees (As of April 1)



I. Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

3) Summary

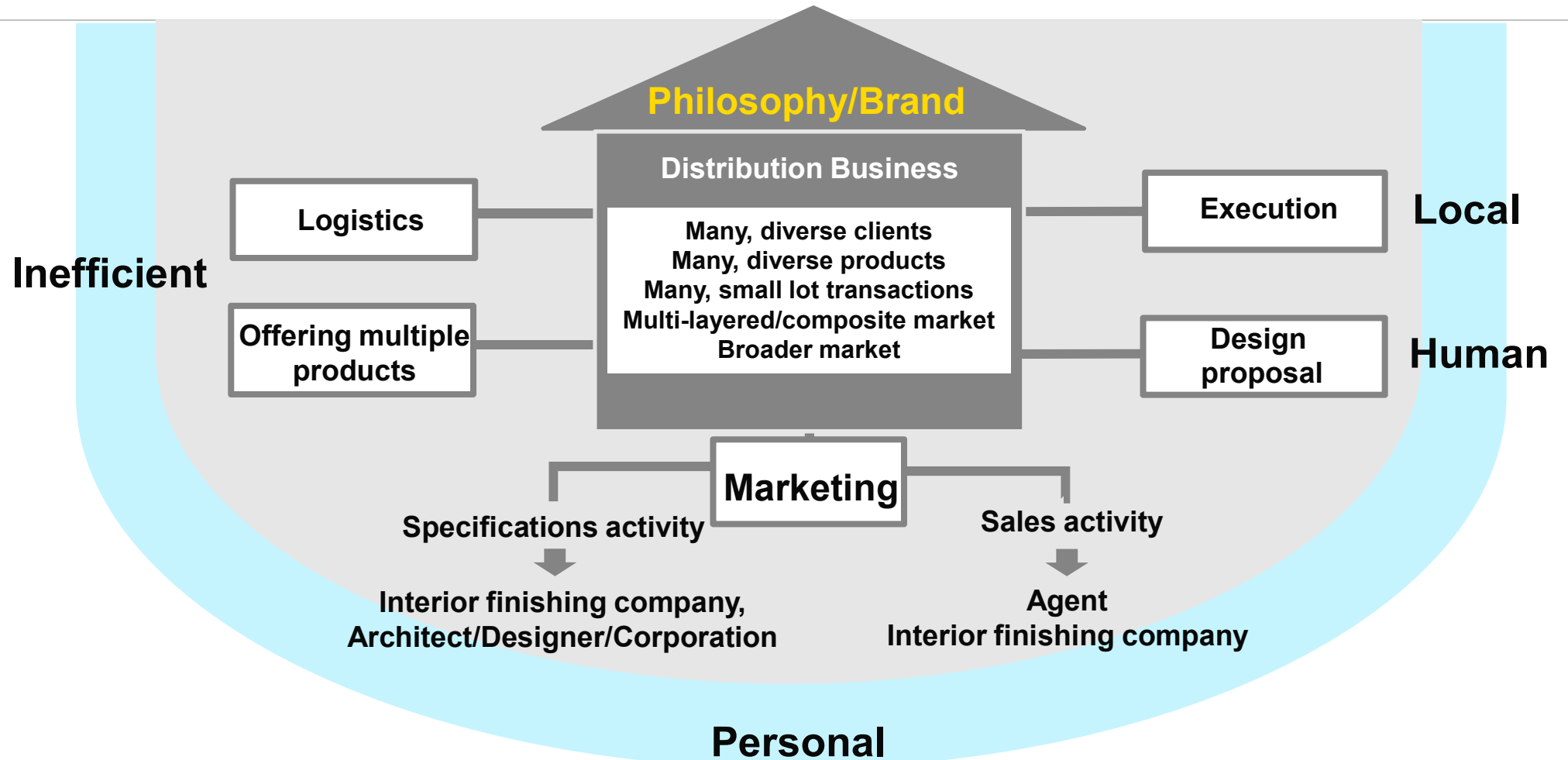
Fundamental Measures	Results	Issues
1) Facilitation of Business Foundations	<ul style="list-style-type: none"> Implementation of reviews and improvements in logistics, offices, showroom and other facilities, organizational structure, regulations 	<ul style="list-style-type: none"> Introduce new core system Maintain the logistics structure in Western Japan Reform awareness, strengthen capabilities of employees
2) Restructuring of Business Strategy	<ul style="list-style-type: none"> Alliances for product development, procurement, measures to strengthen organizational structure, construction capability, and branding Established local companies in China Acquired Koroseal of the United States 	<ul style="list-style-type: none"> Facilitate a consolidated management structure Expand earnings of the overseas business
3) Improving Stakeholders Evaluation	<ul style="list-style-type: none"> Fortify returns to shareholders Employee societal contribution 	<ul style="list-style-type: none"> Create, implement clearly defined environmental policy
4) Quantitative <ul style="list-style-type: none"> Growth Profitability 	Achieved record high profits in FY2015	<ul style="list-style-type: none"> Initial sales target of ¥140.0 billion, actual sales of ¥135.6 billion Increase in SG&A (Compared with FY2013, temporary and structural factors: ¥0.6, ¥3.8 billion)
<ul style="list-style-type: none"> Efficiency 	CCC improvements	<ul style="list-style-type: none"> Accounts payable, inventory turnover period improvement

steadily implemented “the preparation for future growth”

II . Business Recognition

II . Business Recognition

1) Interior Business Characteristics

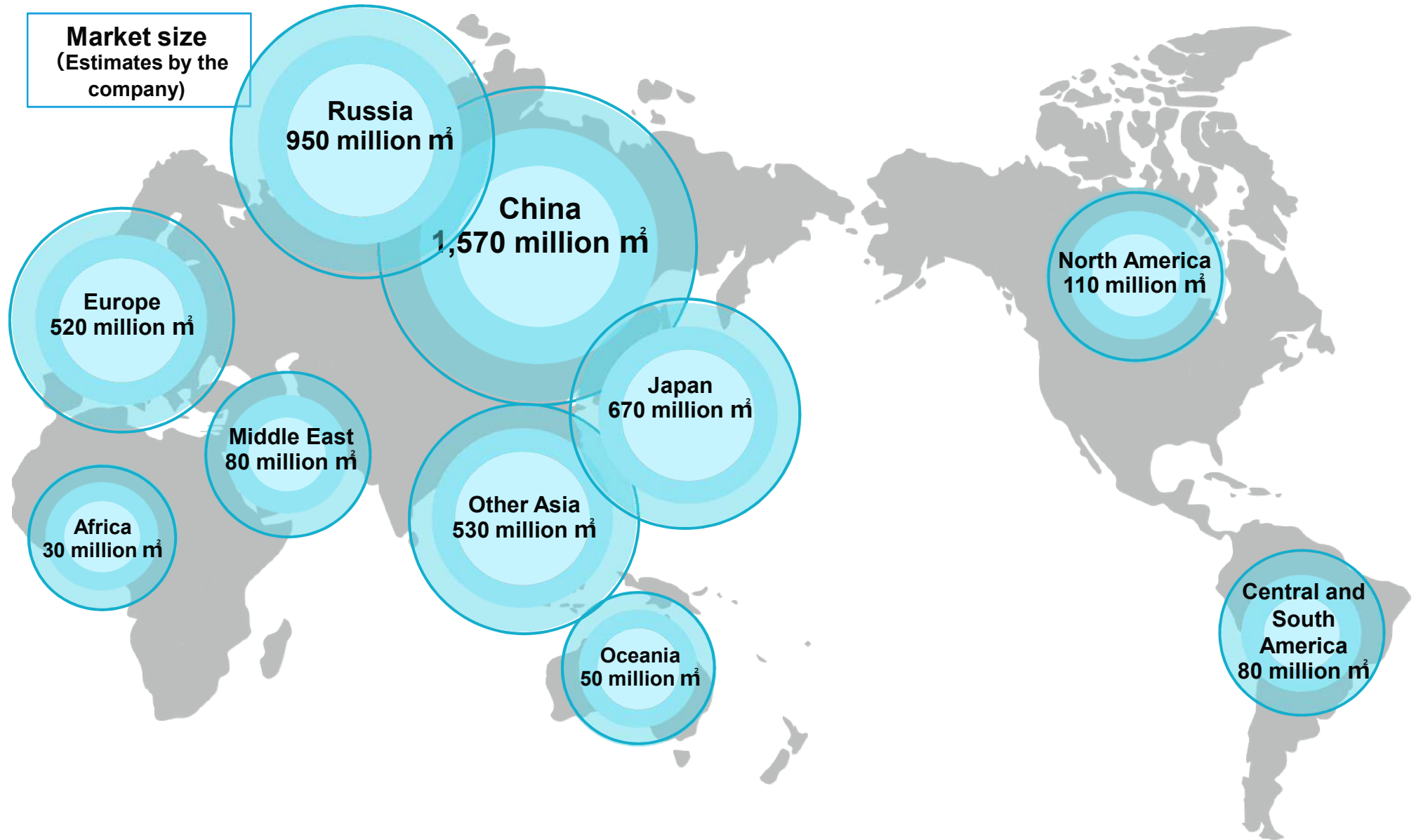


Barrier to entry and scale merit

LOW RISK/MIDDLE RETURN

II . Business Recognition

2) The Worldwide Wallcovering Market



II . Business Recognition

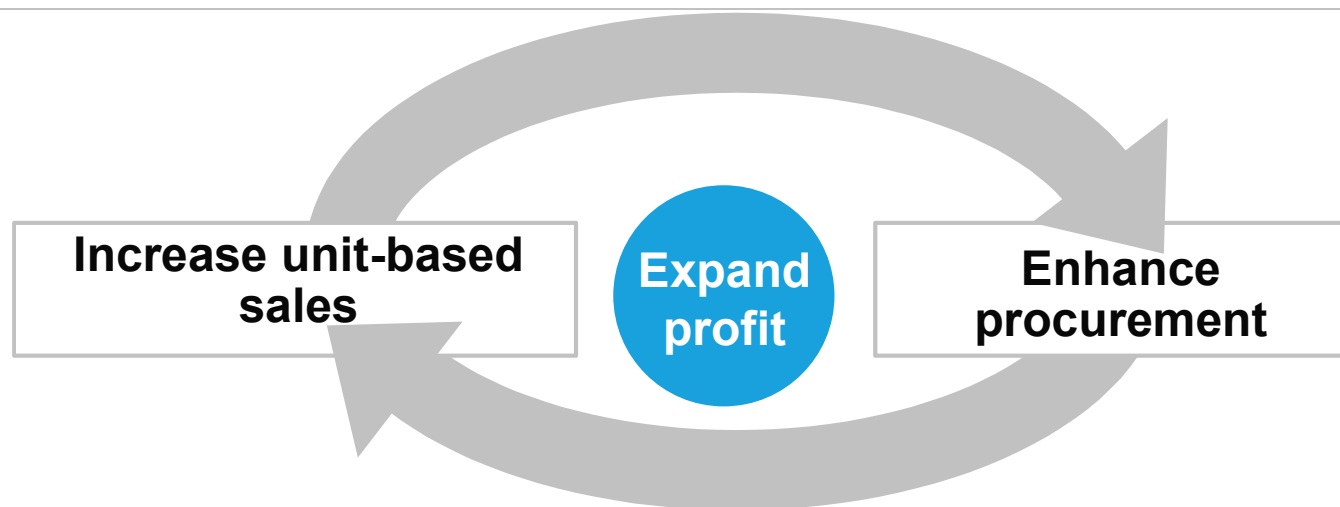
3) Forecast of Growth Rate of Construction Investment by Country (2017 to 2019)

Name	Estimated growth rate
Japan Residential Non-residential	-1 to 0% 3 to 5%
USA Non-residential	5 to 7%
China	3 to 5%
Hong Kong	2 to 3%
Taiwan	2%
Indonesia	7%
Singapore	4 to 5%
Malaysia	5%
Thailand	4 to 5%
Viet Nam	6 to 7%
India	8%

(Estimates by the Company
based on the market situation)

II . Business recognition

4) Growth trajectory and new direction



		Region	Position in the value chain	Product and Sales method	Suppliers
Sangetsu Second Stage 1953-2014	Trajectory of our period of growth To the early 1990s	Tokai region ↓ Nationwide	Limited B to B positioning (mainly through dealerships)	Wallcoverings, flooring materials, fabric ↓ Total interior business model	Numerous Japanese manufacturers
	Tasks in the period of stability To the late 1990s	Nationwide expansion ↓ Dissolution of frontiers	Diversified and direct markets Expansion in B to C market	Demerits of “Total/Comprehensive” business model Sales to support dealerships and interior construction companies	Intensified competition in the Japanese market Transformation of overseas manufactures into major concerns
Sangetsu Third Stage 2014 onwards		Expanding into wider including overseas markets	Seeking a position with greater depth and scope	Pursuit of expertise and comprehensive capabilities	Stronger alliances with leading manufacturers in Japan and overseas

Ⅲ. Medium Term Business Plan (2017-2019) “PLG 2019”

Corporate Philosophy

【Company Creed】

Sincerity

【Brand Statement】

Joy of Design

We provide the joy of design to those who create
new spaces.

We provide interior products that are used in various spaces and the joy of design to those who create spaces.
Sangetsu will act as a corporation and contribute to the people and society. It is the value and role of Sangetsu.

Ⅲ. Medium Term Business Plan (2017-2019) “PLG 2019” Vision

Mid-term Business Plan (2017–2019): PLG 2019

We seek to build a corporate group with a solid market position in Japan and overseas by offering diverse products and functions as well as advanced expertise.

Personal
Local
Global '2019

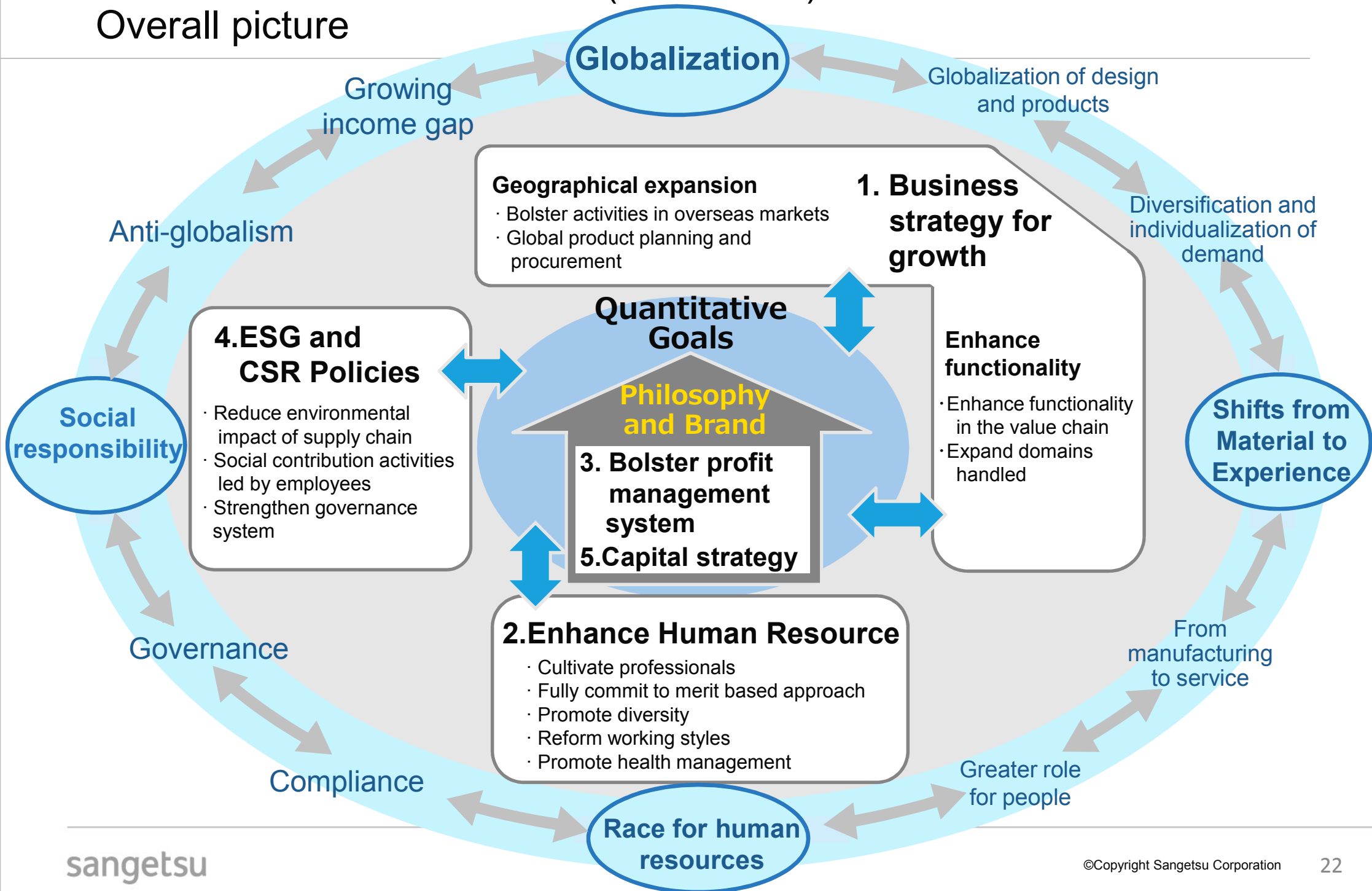
Personal : Professionals with high levels of expertise, powerful relationships with external human resources

Local : Solid position in each regional market

Global : Products and designs that connect regional markets

III. Medium Term Business Plan (2017-2019) "PLG 2019"

Overall picture



Ⅲ. Medium Term Business Plan (2017-2019) “PLG 2019” Quantitative goal

Goals for Fiscal 2019 (Final Year)

ROE **8%~10%**

Supplementary Goals

- Net Sales 165–175 billion yen
- Net Income 8–10 billion yen
- Owned Capital 105–100 billion yen
- CCC 75-60 days
(Cash Conversion Cycle)

Ⅲ. Medium Term Business Plan (2017-2019) “PLG 2019”

1) Business strategy for growth

【Basic Policy】

Geographical expansion and functionality enhancement of the interior materials business (planning, procurement, logistics and sales)

【 Five Basic Policies 】

- A. Realize stable profit growth by enhancing functionality in the value chain and expanding domains handled in the Japanese market, a stable and basic source of profit.
- B. Strengthen activities in overseas markets with growth potential, pursue geographical expansion and enhance products and functionality.
- C. Global utilization between local bases (construct a planning and procurement system for global products in response to globalization of design and manufacturers).
- D. Strengthen the consolidated management structure for generating comprehensive synergies by implementing integrated management of affiliated companies in the areas of regional operations, functionality and specialized markets.
- E. Continue experimenting with business model transformation in anticipation of the next mid-term business plan.

III. Medium Term Business Plan (2017-2019) “PLG 2019”

1) Business Strategy for Growth

A. Strengthen the Value Chain Function and Expand the Fields of Business in the Japanese Market

- A. Product development and procurement of materials and raw materials
Alliance with domestic major suppliers.
- B. To strengthen sub-functions (i.e. capacity to propose interior coordination and execute the proposals)
- C. To strengthen network and collaboration with dealerships.
- D. To review the internal sales structure
- E. To pursue group synergy
- F. To implement brand development more deeply and thoroughly
- G. To review logistics (collection, delivery)

Ⅲ. “PLG 2019” Medium Term Business Plan (2017~2019)

1) Business strategy for growth

B. Expansion of geographical development in overseas markets, expansion of products, enhancement of functions

Position North America (US / Canada) and Asia (China / Southeast Asia) as a priority focus market, and enhance and strengthen the local logistics / sales organization in each market.

A. North American Market

- Expansion of interior materials product lineup
- Expansion of design function • distribution function

B. Chinese Market

- Increase Chinese and Japanese employee
- Improve specification and sales force
- Enhancement of installation

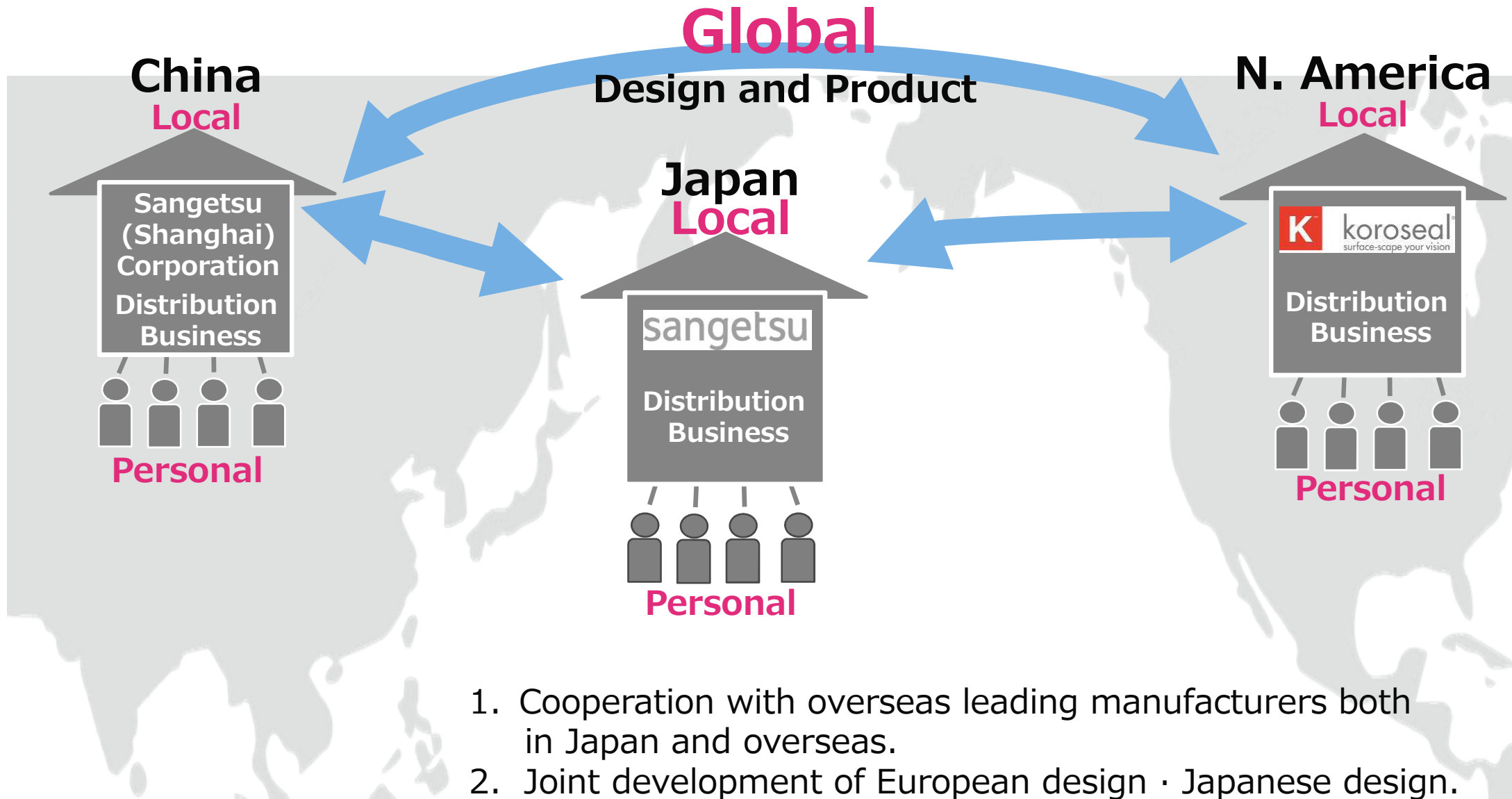
C. Southeast Asian Market

- Distribution structure construction

III. Medium Term Business Plan (2017-2019) “PLG 2019”

1) Business Strategy for Growth

C. Global operation between local bases



1. Cooperation with overseas leading manufacturers both in Japan and overseas.
2. Joint development of European design · Japanese design. co-marketing of products

III. Medium Term Business Plan (2017-2019) “PLG 2019”

1) Business Strategy for Growth

D. Strengthen consolidated management structure

A. Strengthen consolidated business management structure

- **Main Department System**

Maximize business synergies, responsibility for profit management

- **Cross checking and support system by management department**

Expertise of each department of the management department

- **Establishing consolidated management section**

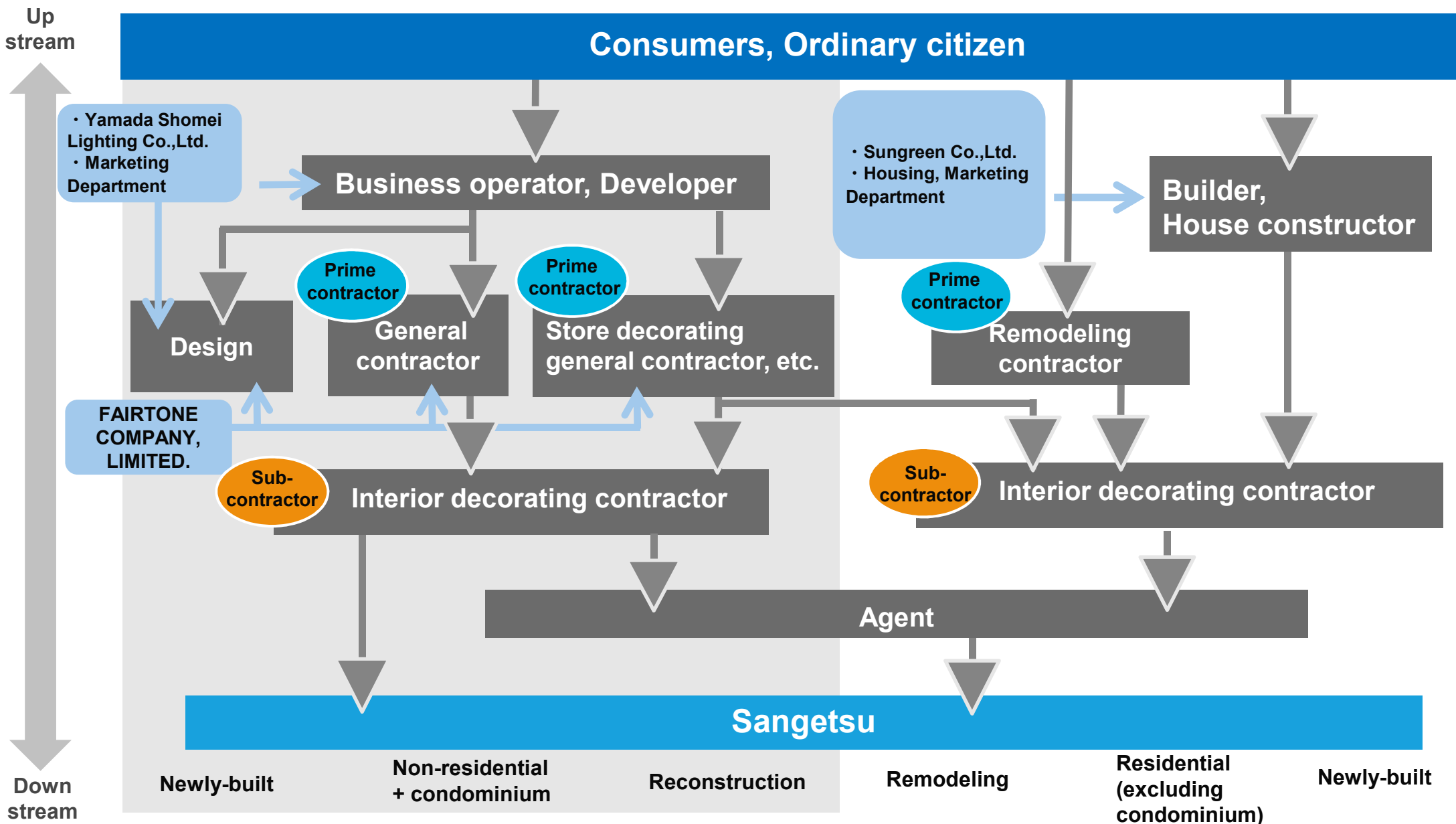
Overall management, check function

B. Periodic monitoring, dialogue system

III. Medium Term Business Plan (2017-2019) “PLG 2019”

1) Business Strategy for Growth

E. Business Format Conversion



Ⅲ. Medium Term Business Plan (2017-2019) “PLG 2019” 2) Enhance Human Resources

Measures for cultivating professionals

Group companies, organizations of Sangetsu

- A. Cultivate professionals**
- B. Fully commit to merit-based approach**
- C. Promote diversity**
- D. Reform working styles**
- E. Promote health management**

Ⅲ. Medium Term Business Plan (2017-2019) “PLG 2019”

3) Bolster profit management system

A. Reduction in SG&A and thorough management

1. **Assign a Chief Cost Controller**

2. Establish SG&A management method

3. Reduce total number of employees (Sangetsu Corporation)

4. Reduce nonessential costs

B. Set targets for ROE and Cash Conversion Cycle on a consolidated basis and monitor progress

C. Introduce cash conversion cycle in each Group company

D. Organize dialogue with the Interior Business Unit and branch offices about targets based on **cash conversion cycle** and operating profit

E. **Set net sales and total income targets** for each branch office based on their respective number of employees

III. Medium Term Business Plan (2017-2019) “PLG 2019”

4) ESG and CSR Policies

	5 Groups	Mid-term Policy	Activities
Environment	Environment	Monitor the environmental impact of the Sangetsu Group as a whole and construct a system for preventing global warming and encouraging the sustainable use of resources.	<ul style="list-style-type: none"> · Systematically reduce GHG emissions, energy consumption and waste and promote recycling in every business activity. · Monitor GHG emissions from the Sangetsu Group’s business activities and create plans for ultimately achieving zero emissions.
Social	Environmental Protection and Human Rights and Working Environment	Support the careers of diverse employees at each Group company and help provide jobs for socially disadvantaged people.	<ul style="list-style-type: none"> · Provide equal opportunity to diverse employees regardless of their employment status and maintain favorable working environments and develop programs for maintaining and improving employee health. · Promote respect for human rights and diversity in step with the globalization of the Sangetsu Group. · Raise the ratio of female managers to 15% or higher in Japanese operations by 2020. · Promote expansion in job positions for persons with disabilities and raise employment ratio from the current 2.3% to 3.0%.
	Business Practices and Consumer Issues	Promote social responsibility in the supply chain.	<ul style="list-style-type: none"> · Formulate procurement guidelines and conduct surveys for improving the entire supply chain from suppliers to installation. · Develop products that meet customer needs and provide solutions to their problems.
	Social Contribution Activities	Expand social contribution activities led by employees.	<ul style="list-style-type: none"> · Support refurbishment of child welfare facilities in Japan (20 or more projects per year). · Create a system that enables employees to participate in social contribution activities using free time during weekdays and carry out matching donations by the company according to the amount of employees’ social contribution activities
Governance	Corporate Governance	Maintain and enhance transparency of corporate governance and practice thorough compliance.	<ul style="list-style-type: none"> · Maintain full compliance with the Corporate Governance Code and seek further improvements in content. · Enhance opportunities for communicating with stakeholders (shareholders, investors, business partners, employees and others). · Ensure Group-wide compliance, including thorough adherence to fair competition, prevention of bribery and protection of intellectual property.

Ⅲ. Medium Term Business Plan (2017-2019) “PLG 2019”

5) Capital strategy

Financial Policy for Enhancing Capital Efficiency

We intend to reduce **owned capital to between 105 billion and 100 billion yen** by continuing to buy back treasury shares and paying stable dividends while closely following circumstances in the capital markets.

Shareholder Return Strategy for the Period Covered by the Mid-term Business Plan

- **Comprehensive shareholder return of 100% or more over the entire three year period**
- **Maintain stable increase in dividends based on the Basic Policy of steadily increasing dividends over the long term**
- **Buy back treasury shares by responding flexibly to market conditions**

III. Medium Term Business Plan (2017-2019) “PLG 2019”

5) Capital strategy

capital allocation in the medium-term management plan

● Capital Creation, Sourcing

Cash, Equivalents as of End FY3/17	30.0 billion yen	
		+
Operating CF (Medium Term Plan)	31.0-38.0 billion yen	
		+
Debt (Medium Term Plan)	0-22.0 billion yen	

● Capital Allocation

LT Investments	10.0-25.0 billion yen	
		+
Shareholder Returns	25.0-33.0 billion yen	
		+
Term End Cash, Equivalents	25.0-30.0 billion yen	

【 Reference 】 Review of the Previous Medium Term Business Plan (2014-2016) “Next Stage Plan G”

● Capital Creation, Sourcing

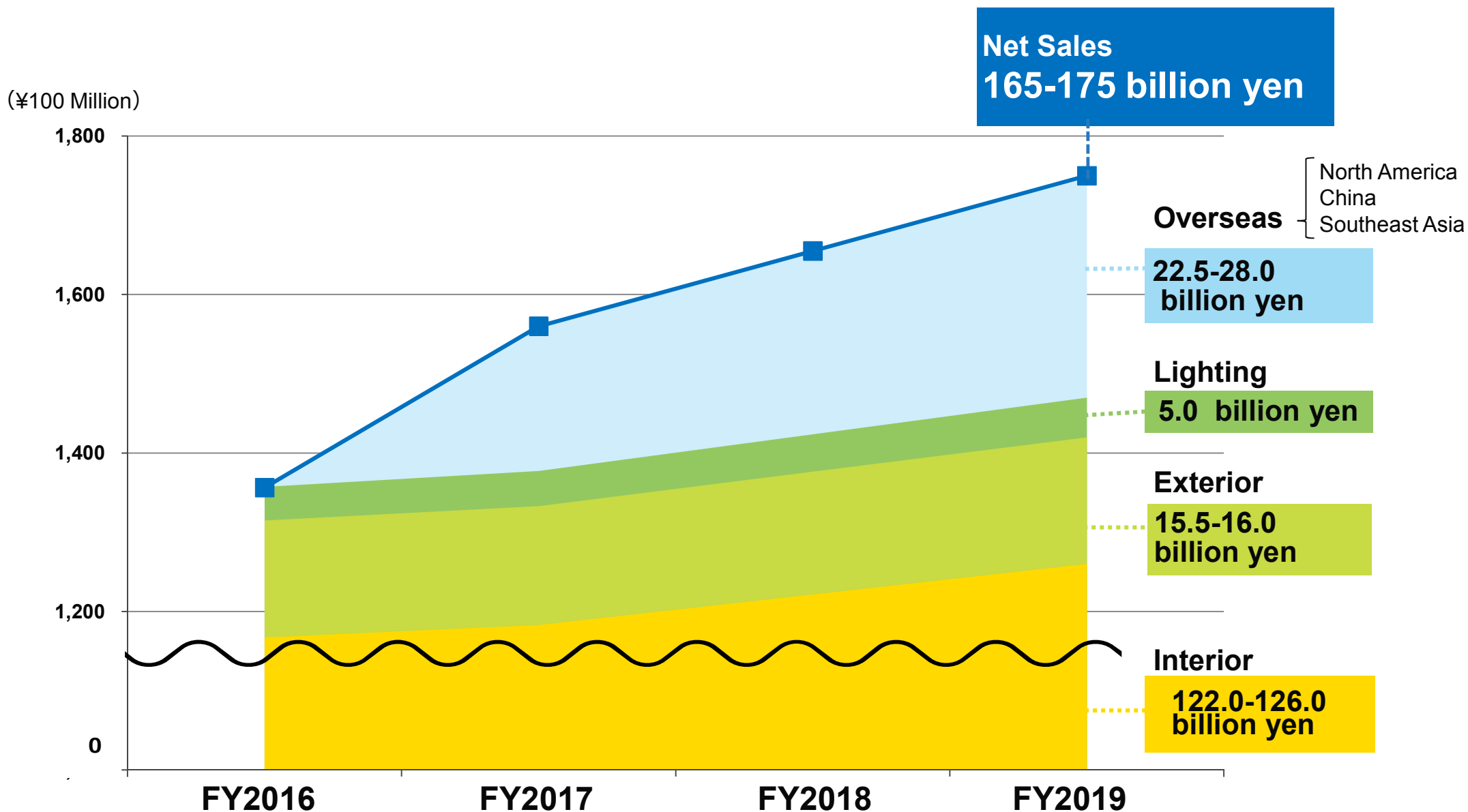
Cash, Equivalents as of End FY3/14	44.0 billion yen	
		+
Operating CF (Medium Term Plan)	25.6 billion yen	
		+
Debt (Medium Term Plan)	13.3 billion yen	

● Capital Allocation

LT Investments	26.2 billion yen	
		+
Shareholder Returns	26.9 billion yen	
		+
Term End Cash, Equivalents	29.8 billion yen	

Ⅲ. Medium Term Business Plan (2017-2019) “PLG 2019”

Quantitative target /accompanying target



Joy of Design