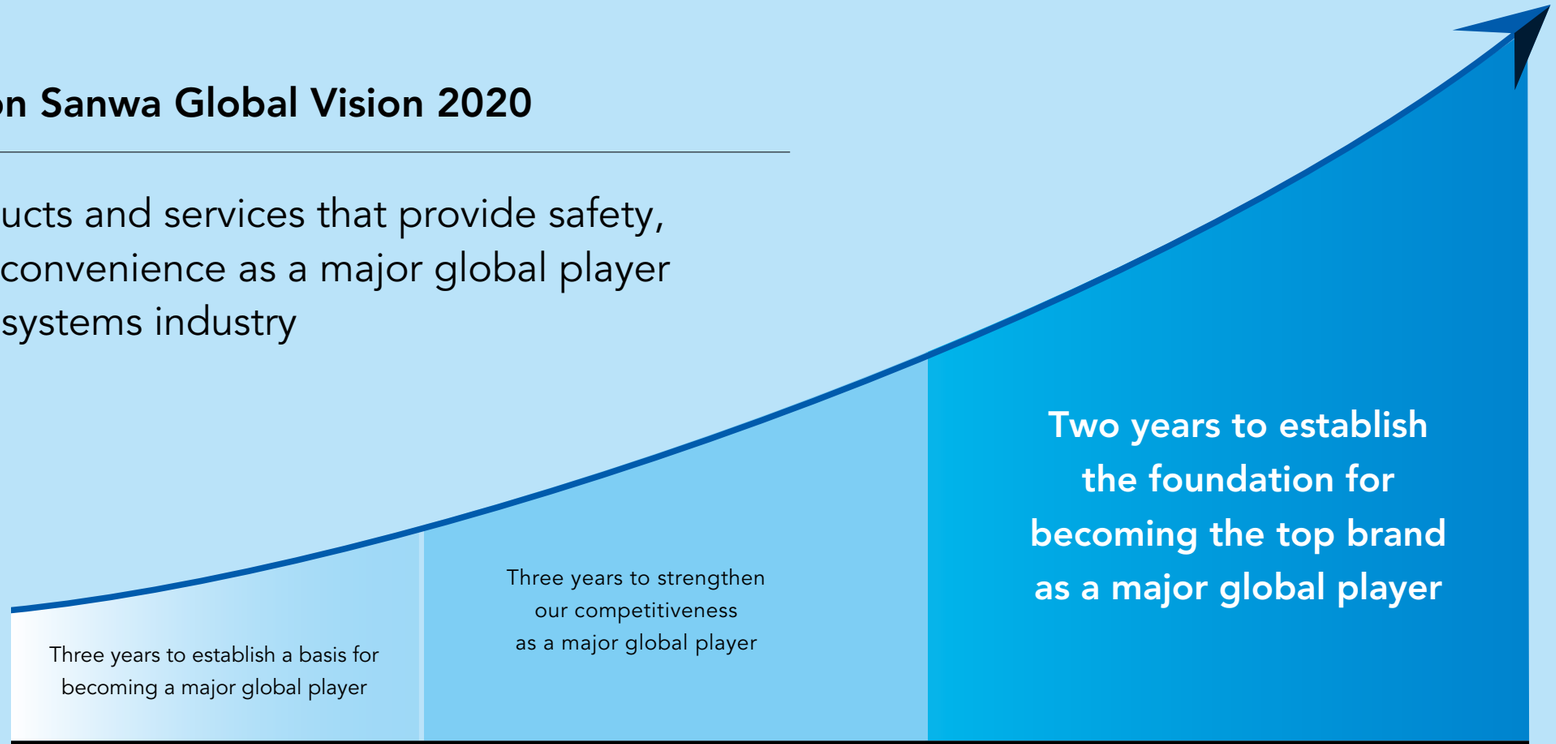
Long-Term Vision and Mid-Term Management Plan

Reflections on Sanwa Global Vision 2020

To offer products and services that provide safety, security, and convenience as a major global player in the access systems industry



	First Three-Year Plan (FY2013-FY2015)		Second Three-Year Plan (FY2016-FY2018)		Third Mid-Term Management Plan (FY2019-FY2020)		
	FY2015 Targets	FY2015 Actual	FY2018 Targets	FY2018 Actual	FY2019 Actual	FY2020 Forecast	FY2020 Targets
Net Sales	¥325.0 billion	¥365.6 billion	¥410.0 billion	¥410.0 billion	**¥440.2 billion**	**¥390.0 billion**	**¥450.0 billion**
Operating Income	¥23.00 billion	¥26.87 billion	¥37.00 billion	¥31.59 billion	**¥34.20 billion**	**¥22.00 billion**	**¥37.50 billion**
Operating Income Ratio	7.1%	7.3%	9.0%	7.7%	**7.8%**	**5.6%**	**8.3%**
ROE	11.7%	11.4%	15.0%	13.5%	**13.3%**	**7.5%**	**14.1%**
D/E Ratio	0.61 times	0.54 times	0.40 times	0.38 times	**0.38 times**	**0.36 times**	—
SVA	¥5.0 billion	¥8.2 billion	¥12.8 billion	¥12.7 billion	**¥14.0 billion**	**¥5.4 billion**	**¥15.9 billion**
Reflections	• The domestic business drove performance, and the targets for the First Three-Year Plan were met one year ahead of schedule. • Sanwa Shutter Corporation achieved an operating income ratio of 10%.		• While the European and U.S. businesses recovered, domestic business stagnated, and the Second Three-Year Plan targets were not met. • Profitability increased on the back of "NF3.0" of the European business.		• The domestic business was the driver in fiscal 2019, and achieved its best performance figures ever. • Sanwa Shutter Corporation recovered an operating income ratio of 10%. • In fiscal 2020, revenues and profits are expected to fall short of the targets for the Mid-Term Management Plan, due to the novel coronavirus (COVID-19).		
Tasks	• Promote the multi-product sales in the domestic business • Deploy new ERP and implement a downstream strategy at ODC • Boost profitability by restructuring NF Group • Get the Asia business into the black		• Increase the production, logistics, and installation capabilities of the domestic business • Pass on sale prices and manage costs in the domestic business • Deploy new ERP and promote multi-product sales at ODC • Have ODC expand into adjacent fields • Establish the foundation for the Asia business		• Respond to the coronavirus crisis in each area • Promote AI/IoT adoption • Strengthen the service business as a Group • Establish the foundation for the Asia business • Deploy new ERP • Promote ESG		

Vision 2010: Outcomes and Issues

Achievements
- Globalize
- Strengthen multi-product sales

Remaining tasks
- Expand the foundation of the Asia business
- Reinforce global synergies
- Strengthen the service business

Sanwa Global Vision 2020

Outline

Promote global management, from the initial phase to the development phase

Targets

(1) Become definite No. 1 brand in Japan, the U.S. and Europe

(2) Establish a business model for service business

(3) Expand shutter & door business in emerging markets, spotlighting Asia, and make them grow to be top brands

(4) Promote realization of Group synergy in global markets

In fiscal 2013, we launched our long-term management vision, "Sanwa Global Vision 2020." This vision is built upon the achievements of "Sanwa Vision 2010" (fiscal 2001 to fiscal 2012), evolving from the initial phase of corporate value creation through global group management to a new phase of growth and success. We are now implementing the Third Mid-Term Management Plan (fiscal 2019 to fiscal 2020), the declared objective of which is to establish a foundation for becoming the top brand as a major global player.

Progress of the Third Mid-Term Management Plan

Fiscal 2019 was unaffected by the coronavirus disease, and the domestic business drove both sales and profits to record levels.

Two years to establish the foundation for becoming the top brand as a major global player

▶ Core Business

1. Expand and strengthen business areas in core businesses in Japan, the U.S. and Europe

▶ Growing Business

2. Strengthen service segments and expand business model
3. Enhance operation bases of China business and Asia business

▶ Reinforcing Business Foundation

4. Reform work styles and improve productivity
5. Promote ESG to develop a corporate structure that is more trusted by society

▶ Core Business

Basic Strategies 1

Expand and strengthen business areas in core businesses

Japan

Grow as an access system company by establishing our position in each business field

Core Business
- Ensure the profitability of shutters and doors

Multi-Product Sales Strategy
- Expand sales of partitions, entrances, waterproof products, etc. through Group cooperation

Service Business
- Expand orders received in response to new legal requirements for inspections, and respond to demand for post-disaster restoration work

Strengthening Supply Capabilities
- Secure production, logistics, and installation capacity during busy periods

In fiscal 2019, although we received a record number of orders in Japan, we were able to complete the work with no major difficulties by boosting productivity and strengthening internal cooperation.

This was due to successfully passing on increases in installation expenses and logistics costs to customers in the form of higher sale prices, as well as strengthening supply capability by expanding production capacity for doors and other products, and enhancing efficiency in logistics and installation.

In addition, orders received also rose steadily in the service business, as customers complied with new legal requirements to perform inspections, or asked us to repair installations that had been damaged as a result of natural disasters. This increase in orders also contributed to our strong domestic operating performance.

North America

ODC: Strengthening core business segments while entering adjacent business fields

Door Business
- Step up residential retrofitting
- Expand sales of commercial doors

Door Opener Business
- Expand the development of new products such as Wi-Fi-enabled products
- Expand our retail strategy
- Transfer door opener manufacturing to Mexico

In North America, although we struggled somewhat in the first half of fiscal 2019, there was a recovery in the second half, particularly in the residential market. This was thanks to the implementation of a channel strategy, especially in large urban areas, as well as the running of promotions targeting end users. Meanwhile, in the non-residential segment, although market conditions were soft throughout the year, we endeavored to maintain and enhance our market share through strategic pricing.

As for the door opener business, performance held steady as a result of launching new products, expanding our retail strategies through such measures as reinforcing sales at home centers, and increasing productivity by moving production to our Mexico Plant.

Europe

NF Group: Further strengthen the industrial segment, and promote digitalization through NF4.0

Industrial Business
- Improved productivity as a result of expansion of Alpha Deuren International's plant

Hinge Door Business
- Leverage the acquisition of Robust AB in order to expand sales in Sweden and the U.K.

Garage Door Business
- Strengthen sales operations in the U.K.

The industrial business remains the main performance driver in Europe. Productivity improved thanks to Alpha Deuren International's expansion of its plant, which also enabled us to keep up with booming demand. Measures to boost dock leveler output capacity also proceeded smoothly.

Meanwhile, in the hinge door business, the newly-acquired Robust AB played a central role in enabling us to expand our sales in Sweden, the U.K., and beyond.

Regarding the garage door business, although we faced intensifying competition, the improved operational efficiency resulting from the NF4.0 digitalization drive contributed to the performance of the Europe business as a whole, which held steady.

▶ Growing Business

Basic Strategies 2

Strengthen service segments and expand business model

- **Provide service businesses that meet the needs of customers in various regions to cultivate new customers and expand our business model**
- **Enhance Synergies from the addition of Suzuki Shutter Corporation to the Group**

In fiscal 2019, we were able to substantially increase consolidated service business net sales, from ¥47.6 billion in fiscal 2018 to ¥54.2 billion.

This was largely due to a substantial increase in sales at Sanwa Shutter Corporation maintenance service, stemming from an expansion in legally-required inspections of fireproof equipment, as well as solid performance from the newly acquired Suzuki Shutter Corporation, which contributed to the growth of the domestic business.

We have also introduced field service systems and improved productivity in both North America and Europe. In Europe, we are pursuing integration synergies via Novoferm UK, which was made subject to consolidation in 2017, and BGS, which we acquired in 2018.

Basic Strategies 3

Enhance operation bases of Asia business

- **From fiscal 2019, four companies were brought into the scope of consolidation. In addition, Suzuki Shutter (HK) will be brought into the scope of consolidation from fiscal 2020.**
- **Bring about recovery by further localizing operations**

Starting in fiscal 2019, Shanghai Baosteel-Sanwa Door, An-Ho Metal Industrial (Taiwan), Sanwa Shutter (H.K.) and Vina-Sanwa (Vietnam) were brought into the scope of consolidation. However, due to recent market changes and delays in localization, net sales were ¥6.4 billion, and we incurred an operating loss of ¥0.35 billion.

In fiscal 2020, we will be aiming to get into the black in Asia by achieving a recovery through a further localization of operations, and by bringing Suzuki Shutter (HK) into the scope of consolidation.

▶ Reinforcing Business Foundation

Basic Strategies 4

Reform work styles and improve productivity

- **Enhance operational efficiency using the latest information systems, such as AI and IoT**
- **Improve productivity through work-style reforms**

We are pursuing various methods to improve productivity in each region. For example, in fiscal 2019, we introduced mobile PCs and updated our teleconferencing system in Japan. As a result, this contributed substantially to efforts to promote teleworking in response to the spread of the coronavirus.

In North America, we improved both productivity and quality by promoting production automation in the door division. Meanwhile, in Europe we optimized our production and supply systems, and transformed our business processes by pushing forward with digitalization through NF4.0.

Basic Strategies 5

Promote ESG to develop a corporate structure that is more trusted by society

- **Future: Expand the range of products that are adapted to climate change**
- **People: Take measures to foster new value and competitive strength**
- **Manufacturing: Provide important protection for daily life through a diverse range of products**
- **Reliable Management (governance, stronger compliance, risk management)**

Japan has recently been hit by a series of large-scale disasters. This has continued in fiscal 2019, with Chiba and other Eastern Japan areas being struck by large-scale typhoons. As our mission is to provide infrastructure that protects people's lives and property from such disasters, including typhoons and water damage, we will continue to offer products that guard against damage from natural disasters.

In fiscal 2020, we will need to re-acknowledge viruses as a new threat, and take actions, going forward to address risks from external factors.

Financial Strategy

The Company will prioritize strategic investments for growth when allocating its free cash flows, and enhance our corporate value by steadily expanding SVA and ROIC. As part of such strategic investment, we estimate a total of ¥30 billion to be used for capital investments and M&As over the two fiscal years of 2019 and 2020. In fiscal 2019, approximately ¥15 billion was invested, including about ¥10.6 billion for M&As of SUZUKI SHUTTER CORPORATION, Robust AB, and other companies, and about ¥4.3 billion for strategic capital investments. In fiscal 2020, we will continue to make proactive investments that contribute to long-term growth.

	FY2019 Actual	FY2020 Forecast	
SVA (Effective corporate tax rate: 33%)	¥14.0 billion	¥5.4 billion	SVA and ROIC for fiscal 2020 are expected to decline due to a decrease in operating income.
ROIC (WACC: 6%)	15.4%	9.5%	
ROE (Cost of capital: 8%)	13.3%	7.5%	ROE for fiscal 2020 is expected to fall to the level of the cost of shareholders' equity.
Payout Ratio	35.0%	60.1%	Due to dividends that are forecast to be the same amount as in the previous fiscal year, a temporary increase is anticipated.
Free Cash Flow	¥15.6 billion	¥10.2 billion	Free cash flows will be allocated preferentially to strategic investments.
D/E Ratio	0.38 times	0.36 times	D/E ratio and shareholders' equity ratio are expected be maintained at a level sufficient for safety, in light of ratings and interest conditions.
Shareholders' Equity Ratio	46.3%	46.9%	

Major revisions were made for fiscal 2020 due to the impact of COVID-19.

Approach to cash flows and allocation of strategic investments

First Three-Year Plan Actual (Three-year total)	Second Three-Year Plan Actual (Three-year total)	Third Mid-Term Management Plan Forecast (Two-year total)
Cash dividends ¥10.5 billion	Cash dividends ¥19.0 billion	Cash dividends ¥15.5 billion
Share buybacks ¥10.0 billion	Share buybacks ¥5.0 billion	
M&A ¥14.0 billion	M&A ¥5.8 billion	M&A ¥20.0 billion
Strategic investments ¥10.0 billion	Strategic investments ¥11.8 billion	Strategic investments ¥10.0 billion
Capital investments: ¥13.0 billion	Capital investments: ¥20.0 billion	Capital investments: ¥9.0 billion
Repayment of interest-bearing debt, etc.: ¥8.9 billion	Repayment of interest-bearing debt, etc.: ¥12.9 billion	Repayment of interest-bearing debt, etc.: ¥6.7 billion
Operating cash flow: ¥66.4 billion	Operating cash flow: ¥74.5 billion	Operating cash flow: ¥61.2 billion (Forecast)

Strategic Investment Policy of the Third Mid-Term Management Plan

We expect to allocate approximately ¥30 billion to capital investments and M&As over the two-year period, focusing on investments for promoting multi-product sales and in growth sectors where synergy effects are anticipated.

FY2019 Actual Approximately ¥15.0 billion

(Breakdown)

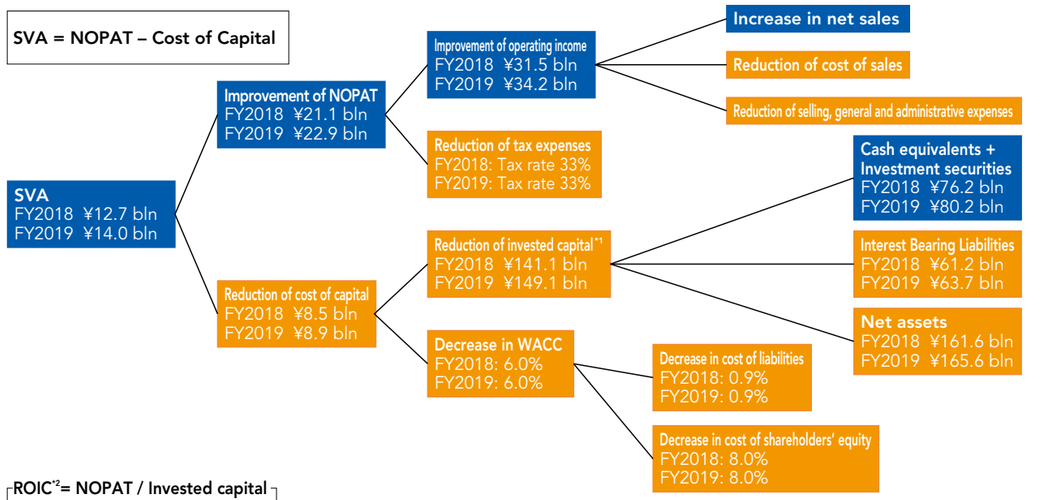
M&As Approximately ¥10.6 billion
(SUZUKI SHUTTER CORPORATION and Robust AB)

Strategic capital investments Approximately ¥4.3 billion
(New CAD system, new ERP system, new production line at the Mexico plant, etc.)

Management with an awareness of the cost of capital

1. SVA as a management indicator

Since fiscal 2001, the Company has adopted SVA (Sanwa Value Added) as a management indicator, and uses it as an indicator for making decisions regarding M&As, and as an indicator for evaluating the business performance of each Group company.



ROIC*2 = NOPAT / Invested capital

ROIC = NOPAT / Invested capital

*1 Invested capital = working capital + noncurrent assets
= Shareholders' Equity + Interest Bearing Liabilities – (cash equivalents + investment securities)

*2 The invested capital used in the Company's ROIC has been calculated excluding cash and cash equivalents as well as investments in securities.

2. Cost of capital

· Cost of shareholders' equity and ROE

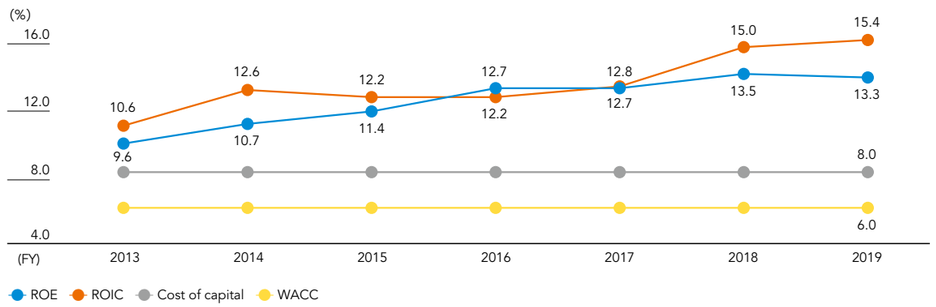
The Company aims for a cost of shareholders' equity of roughly 8.0%.

The breakdown includes a beta of 1.0 to 1.5, an equity risk premium of 5.0 to 6.0, and a risk-free rate of 0.5 to 1.5 times. By referring to each of these items, the Company recognizes the cost of shareholders' equity to be around 8.0%. Meanwhile, ROE has been maintained at 10% or higher since 2014, which exceeds the level of the cost of shareholders' equity (8.0%), thereby leading to an increase in corporate value.

· WACC and ROIC

The Company recognizes its weighted average cost of capital (WACC) to be 6.0%, which is calculated with a cost of shareholders' equity of 8.0% and a cost of liabilities of 0.5 to 1.0.

Due to a steady increase in net operating profit after tax (NOPAT), ROIC has been 10% or higher since fiscal 2014, significantly exceeding the WACC.



Capital Policy

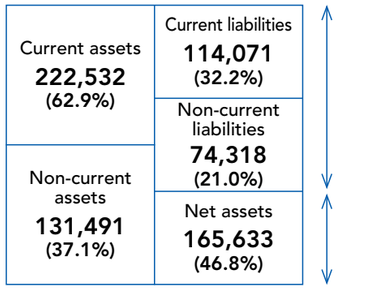
1. Financial foundation

· Optimal capital structure

The shareholders' equity ratio was 46.3% as of March 31, 2020 (shareholders' equity: ¥164,065 million). In the Third Mid-Term Management Plan, it was estimated to be 47.8%, and has maintained a level in excess of 45% since fiscal 2017. The Company's basic approach to its financial strategy is that it does not excessively use financial leverage.

As of March 31, 2020

Total assets **354,023** (Millions of yen)



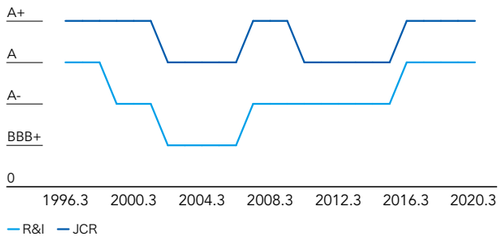
Percentage figures in parentheses show composition ratios.

· Ratings

A stable financial foundation is essential in order to safely return profits and repay debts to stakeholders, including shareholders and creditors. To this end, the Company has obtained issuer ratings of A+ from Japan Credit Rating Agency, Ltd. (JCR) and A from Rating and Investment Information, Inc. (R&I), as objective indicators (both ratings are as of March 2020).

Japan Credit Rating Agency, Ltd. (JCR)	Rating and Investment Information, Inc. (R&I)
A+	A

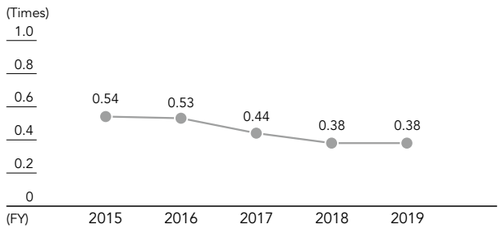
Trends in ratings



2. Financing and D/E ratio

The D/E ratio was 0.38 times as of March 31, 2020. The revised forecast for D/E ratio in the Third Mid-Term Management Plan was 0.36 times, and we are moving closer to this forecast. However, because the Company places the highest priority on future growth, it will proactively pursue M&As. If our funds on hand are insufficient to successfully carry out M&As, the Company will consider increasing its interest-bearing debt.

D/E ratio



Shareholder Returns

In order to further promote management aimed at increasing corporate value while also improving the corporate culture and strengthening the management foundation, the Company's basic policy is to maintain a stable dividend payout ratio and distribute profits based on consolidated performance, targeting a payout ratio of 35%.

For fiscal 2019, we paid an annual dividend of ¥34 per share (¥17 per share for both the interim and year-end dividends), as planned. For fiscal 2020, while the performance outlook predicts significant decreases in both revenue and profits, our forecast is to pay an annual dividend of ¥34 per share (¥17 per share for both interim and year-end dividends), For fiscal 2019, we paid an annual dividend of ¥34 per share (¥17 per share for both the interim and year-end dividends), as planned. For fiscal 2020, while the performance outlook predicts significant decreases in both revenue and profits, our forecast is to pay an annual dividend of ¥34 per share (¥17 per share for both the interim and year-end dividends), which is the same amount as in fiscal 2019, in light of our cash flows and capital position.

In terms of share buybacks, ¥5.0 billion of shares were purchased and cancelled in fiscal 2019. In fiscal 2020, we will carry out comprehensive shareholder returns while considering investments and funds on hand.

Dividends

· FY2019 dividend
Forecast an annual dividend of ¥34 per share, with an increase of ¥2 (interim dividend of ¥17 and year-end dividend of ¥17)
Note: Payout ratio target of 35%

· FY2020 dividend (forecast)
Forecast an annual dividend of ¥34 per share, the same amount as in fiscal 2019

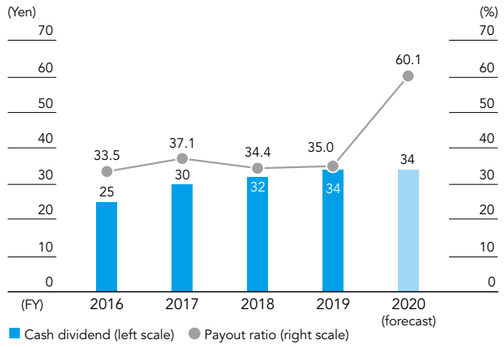
Share buybacks

· Announced share buybacks on July 31, 2019
Amount of buybacks: ¥5 billion
The number of shares acquired: 4,133 thousand shares
Buyback period: August 1, 2019 to November 27, 2019

4,000 thousand shares out of those acquired were cancelled on February 19, 2020.

Note: Share buybacks are carried out flexibly while considering the Company's cash position, in order to prioritize strategic investments.

Cash dividend / Payout ratio



Outlook for Fiscal 2020

Our outlook is based on the assumption that the impact of COVID-19 on each sector will continue at least throughout fiscal 2020. We expect consolidated net sales to decrease 11.4% year on year to ¥390.0 billion. A decrease of 10.6% is expected in the first half of the fiscal year, while a decrease of 12% is expected in the second half, with the greatest decrease expected in the second quarter. Operating income is expected to decrease 35.7% year on year to ¥22.0 billion.

This outlook will be revised, as necessary, depending on the situation.

Full-year consolidated forecast

(Billions of yen, %)

	FY2020 Forecast	FY2020 First half	FY2020 Second half	FY2019 actual	Year-on-year change (amount)	Year-on-year change (%)
Net sales	**390.0**	178.0	212.0	440.2	(50.2)	(11.4)
Operating income	**22.0**	5.1	16.9	34.22	(12.22)	(35.7)
Profit attributable to owners of the parent company	**12.5**	2.3	10.2	21.65	(9.15)	(42.3)