



Representative Director, President

Masahori Okuda



## Interview with Top Management

### Accelerate the transformation to sustainability and improve the resilience of corporate management

**Q** Fiscal year (FY) 2022 was the final year of the medium-term management plan GP25 2nd Stage. What were the achievements and issues over the past three years?

In 2015, the 70th anniversary of the foundation of the company, we formulated the long-term vision, GP25 for 2025, 10 years after 2015, and announced our goal to become an all-embracing company for building materials. The reason behind the formulation of GP25 was that we were a housing materials manufacturer back then, and most of our sales came from products for the domestic new housing market; therefore, revising our business and market portfolio was a huge management challenge for us since new housing starts would decrease because of the declining population in the future. Thus, we decided to strive to become an all-embracing company for building materials by expanding our business domains from building materials to the supply of industrial materials and installation and construction. We also decided to make proposals not only for the new housing market but also for remodeling and renovation of public and commercial buildings with those industrial materials and expand into global markets.

FY 2022 was the final year of the medium-term management plan GP25 2nd Stage, the second phase of the plan to achieve the long-term vision by dividing the 10 years until FY 2026 into three phases. When we look back on the past three years when we promoted a variety of different measures to accelerate the growth strategies and enhance the management foundation as specified in the basic policy, we appreciate the fact that we made steady progress toward achieving the long-term vision and advanced the stage transition in the midst of unexpected changes in the environment due to the COVID-19 crisis.

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We achieved good results, especially in the expansion into global markets, mainly the North American market. To expand into the North American housing market, which is the world's largest wooden housing market and about

four times larger than the Japanese market due to the number of housing starts and vast floor area and where continuous population growth is expected in the medium and long term, we merged and acquired a veneer plant in Canada and an LVL plant in the United States in FY 2020. Subsequently, the external environment provided a boost. A wood shock, which was a rise in wood product prices caused by a combination of strong demand due to the growing needs for suburban housing during the COVID-19 crisis and supply chain disruptions, has continued to date, and the North American business fully capitalized on that demand and significantly contributed to the company's profits. In addition, there was an increase in demand for MDF, the primary product in the industrial materials segment along with LVL in North America, as the base material for furniture and buildings. The overseas sales ratio in FY 2022 was 32%, a significant increase from the 6% in FY 2016 when the long-term vision was formulated.

[Results of the Strategies by Business Segment and Market](#) ▶P.31-32

In the domestic market, we were able to capture new opportunities related to the securing of workspaces and sound proofing because of the steady increase in demand for building materials for new houses and home renovations due to the growing needs for more comfortable living environments caused by staying at home and teleworking that had prevailed during the COVID-19 crisis. On the other hand, for public and commercial buildings, we failed to achieve the sales expansion target because of the rapid decrease in demand for building materials for accommodation facilities and commercial facilities caused by the COVID-19 crisis. Thus, we still have issues to solve. We have already started to make proposals tailored to the needs of the new normal by strengthening our sales structure for public and commercial buildings, and we will expand and improve the items that incorporated new ideas developed through collaborations with other companies. We expect that our proposals will bear fruit as the construction projects that were suspended or postponed resume. In the second half of FY 2022, the delay in the delivery of some products in the building materials business was caused by a greater-than-expected increase in orders



and maritime transportation disruptions; therefore, we had no choice but to limit the number of orders, which caused significant inconvenience to our customers and business partners. Though we no longer limit the number of orders, we realize the major impact that our supply chain has on the entire industry and will make every effort to prevent it from happening again.

### Initiatives for Priority Markets

Global Markets ▶P.39-40

Public and Commercial Buildings ▶P.41-42

As for performance, we failed to achieve the final year sales target specified in GP25 2nd Stage. However, our operating profit was 17.3 billion yen, which far exceeded the target of 12 billion yen, and we exceeded all profit targets. We appreciate the fact that we were able to consistently accelerate our growth by achieving significant results as reflected in the major financial indicators of an ROE of 10.9%, an ROA of 10.5%, and an equity ratio of 41.7%.

In addition, as initiatives related to ESG and sustainability become increasingly more important each year, we have set nonfinancial goals and worked on them. As for the environment, we were able to decrease CO<sub>2</sub> emissions by 36%, exceeding the total domestic CO<sub>2</sub> emissions reduction goal of 26% (compared to FY 2014) and achieved the goals we set based on our original indicators to raise the level of our initiatives related to diversity. On the other hand, though the degree of penetration of the group corporate philosophy developed on governance improved by five points compared to FY 2018, we failed to achieve our goal of a ten-point increase. We will consistently work to disseminate the Group Corporate Philosophy by continuously implementing penetration programs so that all group employees can relate to the philosophy and perform their daily work according to it.

Medium-Term Management Plan GP25 2nd Stage ▶P.30

Medium-Term ESG Plan (Fiscal 2020-2022) ▶P.69

## Q Material issues to cope with (materiality) were redefined when the new medium-term management plan GP25 3rd Stage was formulated.

### What is the reason behind it?

Since we have four years left before the deadline for the achievement of the long-term vision GP25 formulated in 2015, we are receiving many inquiries from our investors about our next long-term vision following GP25. Though we have the option of launching our next long-term vision in advance, we would like to prioritize the completion of our initiatives to achieve our goal as set in GP25.

In 2020, the Japanese government announced its goal to achieve carbon neutrality by 2050. To further strengthen our initiatives to tackle environmental issues from a long-term perspective, we formulated the Daiken global environment vision 2050 (hereinafter called the "environment vision") in October 2021 and defined our

policy and long-term goals to achieve the three zeroes by 2050: net zero greenhouse gas emissions, zero final landfill disposal of waste, and zero use of natural lauan wood made from lauan trees found in Southeast Asia. Because we have grown by doing business with a focus on the effective use of limited resources, including wood resources, since the foundation of the company, sustainability is one of the strengths directly connected to our businesses. Though we set the bar high, we will make consistent efforts to achieve our goals throughout the entire value chain by setting greenhouse gas emission reduction goals for our overseas businesses since we set our goals only for our domestic businesses, including Scope 3 emissions as well.

Environmental Strategy ▶P.47-50

The external environment surrounding us has drastically changed because of the pandemic that we did not anticipate when we formulated the long-term vision GP25 in 2015, in addition to the higher geopolitical risks. With these changes and the issues we identified in the GP25 2nd Stage in mind, we need to formulate the GP25 3rd Stage as a concrete action plan to achieve our group corporate philosophy and environment vision. Therefore, we decided to review the megatrends and our strengths, looking ahead to 2035 beyond 2025, and to redefine materiality in terms of priority and the coping mechanism. Specifically, we identified three material issues: realization of resource circulation and a recycling-based society, user needs in the new normal, and human resource base diversification by improving the work environment and job satisfaction.

Risks and Opportunities/Materiality ▶P.21-22

Realization of resource circulation and a recycling-based society shows our determination to actively take part in the realization of resource circulation and contribute to resolving social and global environmental issues. We have always put the harmonization of an affluent society and the environment first and created values that exceeded the expectations of society by effectively using limited resources. As for wood resources, we have created products from raw materials as a manufacturer and then focused on establishing the circulation system so that as many waste materials as possible, such as timber taken from demolished buildings, would not be disposed of or incinerated and could be used as materials for an extended period of time. Though our key business is materials development, such as insulation boards made from timber taken from demolished buildings and MDF using offcuts from timber production as a main raw material, which demonstrates that we use timber with no waste, we are also advancing our initiatives to use woody fibers for soil improvement additive and as a wood culture medium to promote plant growth. As for mineral resources, we focused our attention on unused resources and worked to effectively use them. We have developed DAILITE, our original noncombustible, lightweight, high-strength material that uses volcanic ash as a raw material. We will pay attention not only to the wood resources that are



Human Resource Strategies ▶P.51-52

When we redefined those three material issues to cope with, we also updated how we should be in 2025 as set in the long-term vision and made it more specific, taking possible changes in the business environment in 2035 into consideration.

Long-Term Vision GP25 ▶P.4

## Q What are the key points in the GP25 3rd Stage?

We formulated the GP25 3rd Stage using a backcasting method that started from the updated version of how we should be in 2025 and the goals set in our environment vision. The revision reflects our focus on sustainability more clearly than the GP25 2nd Stage. Because it is the final stage in establishing our company as an all-embracing company for building materials as specified in the long-term vision, we set two items in the basic policy: implementation of the growth strategies and enhancement of the management foundation centered on sustainability. We will advance our growth strategies with a focus on our contribution to a recycling-based society and the fulfillment of user needs in the new normal in tandem with materiality. As for the management foundation that supports the growth strategies, we will improve the resilience of corporate management in an uncertain business environment from the four perspectives of the human resource base, business foundation, financial foundation, and governance. We will accelerate our initiatives to pursue the sustainability of raw materials and promote DX for the business foundation. Since timber is one of the main raw materials that we use, sustainable procurement of timber leads directly to corporate sustainability. We will advance our initiatives to stop using lauan wood and aim to improve the level of sustainability of timber procurement in the medium and long term. In addition, we will not only advance investments in mission-critical systems and the rationalization and streamlining of the logistics system but also promote DX tailored to the new normal by using a variety of digital tools and enhancing digital marketing to strategically approach customers.

As for numerical targets, the objective will be to achieve 250 billion yen in sales, 15 billion yen in operating profit, and 10 billion yen in profit attributable to owners

Summary of the strategies of the new medium-term management plan GP25 3rd Stage

\*If excluding the decrease in sales by 21.2 billion yen associated with the change in PWT in the U.S., which is our special subsidiary

Market	Domestic market				Global markets
	Domestic new home market	Home renovation market	Public and commercial buildings	Industrial materials	
	Securing of the revenue base (An increase in the share of new housing, shifting to housing stock and non-housing, and material utilization development)				Growth driver
Sales by Market	Sales: 223.3 → 250 billion yen (+26.6 billion yen) ↑ [+47.8 billion yen]* ↑				
	+5.1 billion yen ↑	+6.9 billion yen ↑	+13.8 billion yen ↑	+7.2 billion yen ↑	-5.6 billion yen ↓ [+15.6 billion yen]* ↑
Composition Ratio	34 → 32%	15 → 16%	10 → 15%	9 → 11%	32 → 27%
Market Environment	Gradually decreasing trend in domestic new housing starts Penetration of working at home and remote work	Distribution of secondhand housing and revitalization of condominium renovations	Changes in how an office space should be Redevelopment project Recovery in inbound demand	New/alternative utilization development (From plywood and plastics to wood fiberboard)	The U.S.A.: Medium- to long-term stable housing demand Southeast Asia: Recovery/growth
Execution of the Growth Strategy	<b>Building materials business</b> An increase in share by functional products that correspond to the needs of users in the new normal era Corresponding to remote work, improvement of the sound environment, and antiviral functions Expansion of the products that save construction time and work. Proposals of the improvement of the thermal environment Expansion of condominium renovations in the Tokyo metropolitan area. Expansion of the interior projects in the redevelopment projects Engineering business Industrial materials business in Japan Acquisition of alternative demand, capacity expansion, and development of new materials			<b>Industrial materials business in North America</b> Capacity expansion Consideration of the introduction of new products using the sales channels Industrial materials business: MDF Structural reform and capacity expansion Improvement of the ratio of the products with high added value Building materials business Supply expansion to Europe and Asia	
Sales by Business	Industrial materials business +3.8 billion yen ↑ [+25 billion yen]* ↑ Building materials business +12 billion yen ↑ Engineering business +13.2 billion yen ↑				
Enhancement of the Management Foundation	<b>Business Foundation</b> Optimization of the logistics system Enhancement of cooperation in the group and optimization of the production system Operational efficiency and productivity improvement using digital technology and restructuring of the core system Pursuit of the sustainability of raw materials / Initiatives for eliminating the use of lauan wood (tropical natural wood) Reduction of greenhouse gas emissions in the supply chain				
	<b>Human Resource Foundation</b> Promotion of diversity and flexible work styles Optimization of the sales structure and personnel (Shift to the prioritized markets) / Prioritized market enhancement program				
	<b>Financial Foundation</b> Investments in growth and foundation enhancement, financial soundness, and cash flow allocation that optimizes the improvement of shareholder return				

of the parent in FY 2026, the final year of the GP25 2nd Stage, by tackling the rise in raw material costs caused by global inflation resulting from the rise in resource prices, along with structural reform and cost reduction efforts to maintain profitability as improved in the GP25 2nd Stage while taking into consideration the fact that the market prices of wood products in North America will be adjusted.

**The New Medium-Term Management Plan GP25 3rd Stage** ▶P.35-36

**Strategies by Business Segment and Market** ▶P.37-38

**Q What kind of approach is taken concerning investments for future growth and management resource allocation?**

We will continue active growth investments at the right time in the GP25 3rd Stage as well, taking into consideration the geopolitical risks, the rise in resource prices, and exchange rate movements. As for management resource allocation, we will set a strategic investment ceiling of 40 billion yen using the operating cash flow that is expected to reach approx. 70 billion yen in four years and the cash obtained by improving asset efficiency from the reduction of cross-shareholdings as capital and allocate it to growth investments as the top priority. The core element of growth

investments is reinforcement of the industrial materials business, our growth driver, overseas. As for areas, we will place greater importance on efficiency and focus on North America. Additionally, we will concentrate on Asia and Oceania with a focus on strengthening the MDF business. Furthermore, we will advance the investments necessary to strengthen our foundation, such as investments related to rationalization and streamlining of our domestic businesses and R&D/human resource/environmental investments, as our ESG investments. Since R&D is the core element of value creation, we underwent an organizational change in FY 2023 to shape new businesses for the next generation and strengthen the system of linking the intellectual property strategy to R&D. Furthermore, we intend to gradually raise R&D investments to about 2% of sales with a view to strengthening the development of technologies that enable global expansion. As for environmental investments, we increased the renewable energy utilization ratio to 50% in Japan by using wood biomass boilers that have synergies with the industrial materials business. We will consider introducing other types of renewable energy to reduce our greenhouse gas emissions both in Japan and overseas. In addition, as the effects of environmental investments cannot be measured only by returns, we will consider introducing internal carbon pricing. Forty billion



yen, which is our strategic investment ceiling, and 20 billion yen for ordinary investments in BCP and safety measures, for a total of 60 billion yen, will be allocated to investments for growth and foundation enhancement. At the same time, we will promote the penetration of ROIC (return on invested capital), the new internal management index the company has adopted, to pursue asset efficiency in the entire management.

As for shareholder returns over the four years of the GP25 3rd Stage, the company paid dividends with the goal of achieving a dividend payout ratio of 35% and DOE (dividend on equity) of 3.5% with a focus on the enhancement of returns linked to business performance and the stable payment of dividends that is unlikely to be influenced by short-term profit fluctuations. The company revised its policy so that shareholders who would stably continue holding shares in our company for a long period of time could sit down and invest in the company.

**Research and Development** ▶P.45-46  
**Financial Strategies** ▶P.53-56

**Q What are the key points in medium- to long-term value creation and the direction of management?**

The key point in value creation is to harmonize the promotion of resource circulation, climate change mitigation, and coexistence with nature, the three themes specified in the environment vision, with our growth strategies.

The global environment is seriously deteriorating at the global level with problems of resource depletion, increasing waste, climate change, loss of biodiversity due to deforestation, and other issues. These are the urgent issues we need to work on. Daiken Corporation was founded immediately after the war with an eye to effectively using timber as valuable resources and contributing to society through postwar reconstruction. Since then, with the goal of using timber with no waste, Daiken focused on the advantages and disadvantages of timber as a sustainable resource and brought out its full potential as a material by developing technologies that can overcome its weak points and bring out the best in the resource. In that way, Daiken created new values for society. One of the biggest features and strengths is that Daiken has grown

through businesses that contribute to the sustainability of the global environment with a focus on wood resources.

When it comes to the initiatives to address environmental issues, Daiken tends to look at risks in terms of whether there is a tradeoff between business growth and such initiatives because costs precede in the short term. However, from a medium- to long-term perspective, tackling environmental issues provides new business opportunities that enable the company to create lasting value. We will achieve the stage transition to establish a new growth path by changing our perspective and turning a tradeoff into a trade-on and risks into opportunities.

As for the promotion of resource circulation, in addition to the unused resources of volcanic ash used in the aforementioned DAILITE, even resources that are disposed of today have the potential to generate unprecedented value through the use of company technologies. When it comes to the climate change mitigation, Daiken can contribute to carbon neutrality by establishing technologies to create new renewable materials that include cellulose nanofibers and by creating a new standard that can replace petrochemical resources. In addition, Daiken will strengthen its initiatives to make wood resource procurement, which is vital in our businesses, sustainable.

Linking the growth strategies to the environment vision is to link the sustainability of businesses to social and global environmental sustainability and then improve competitiveness and the resilience of corporate management. In order to do this, it is necessary to review and reestablish how the entire value chain should work from the perspective of sustainability, looking beyond R&D, raw material procurement, production activities at the plants, and the delivery of our products to our customers, their use, and their end of life. With these concerns in mind, we revised and evolved the traditional CSR basic policy and developed the Daiken sustainability basic policy. As an executive in charge of managing the company in times of uncertainty, I am determined to improve sustainable corporate value by bringing together the group's technologies, ideas, and passion and strongly promoting sustainability transformation (SX). We sincerely ask for your continued support.

**Our Sustainability Goals** ▶P.5-6