

Investment for Growth and Enhancement of the Foundation

GP25 2nd Stage

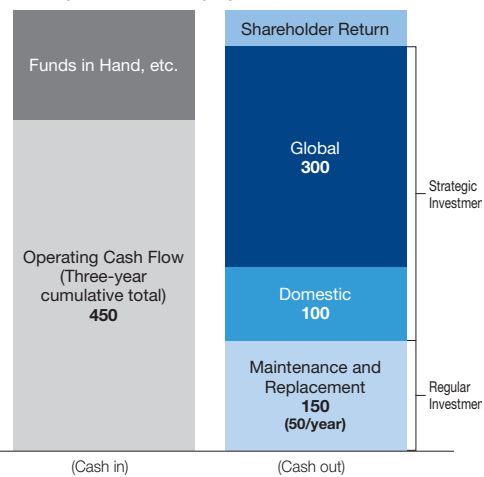
- Medium-Term Management Plan (Three-Year) Target
- Make it a top priority implement growth investments toward the realization of the long-term vision GP25
 - Select investments by reflecting risk and return as well as the cost of capital
 - Aggressively utilize advanced technologies such as AI and IoT, and lead to the improvement and efficiency of productivity

Strategic Investments

Global North American business: 200
Industrial materials business: 100 (¥100 million)

Domestic New business: 30
Expanding market: 30
Infrastructure: 40

- Research and development
- Operational efficiency system
- Ordering and order receiving/logistic systems



Results from Fiscal 2020 to Fiscal 2022 (Three years)

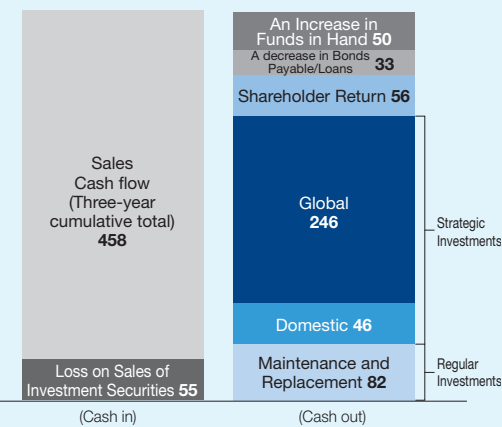
- Aggressive investments in the three markets that are positioned as focused markets in the long-term vision GP25
- Stringent selection by evaluating the investment effect based on the consistency and synergy with the growth strategies, as well as the capital cost (We responded to the uncertainty of the COVID-19 crisis and reduced investments in fiscal 2021.)
- Expansion of IT investments toward the improvement of efficiency and productivity

Strategic Investments

Global M&A of wood industrial materials business in North America
Enhancement of cooperation in the business group after M&A in North America and productivity improvement
Productivity improvement of the MDF business: 246

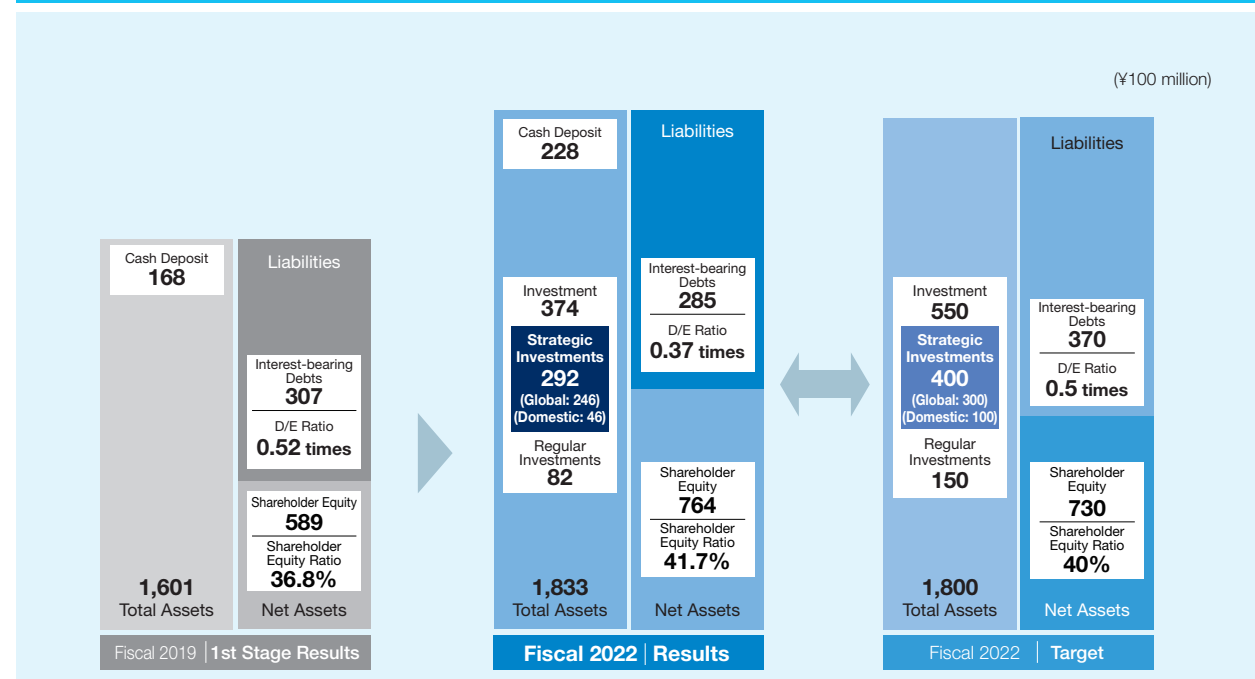
Domestic M&A of solid wood flooring business and renovation business
Productivity improvement of industrial materials business and building materials business
Investment in the IT system: 46

*M&A investments include interest-bearing debt of the acquiring company, but not cash or deposits.



Target Balance Sheet

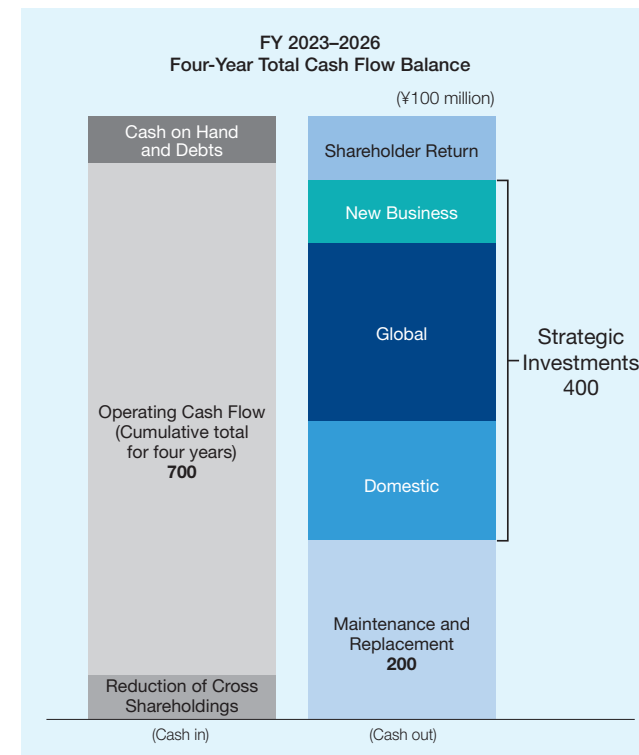
GP25 2nd Stage



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Medium-Term Management Plan (Four-Year) Goals

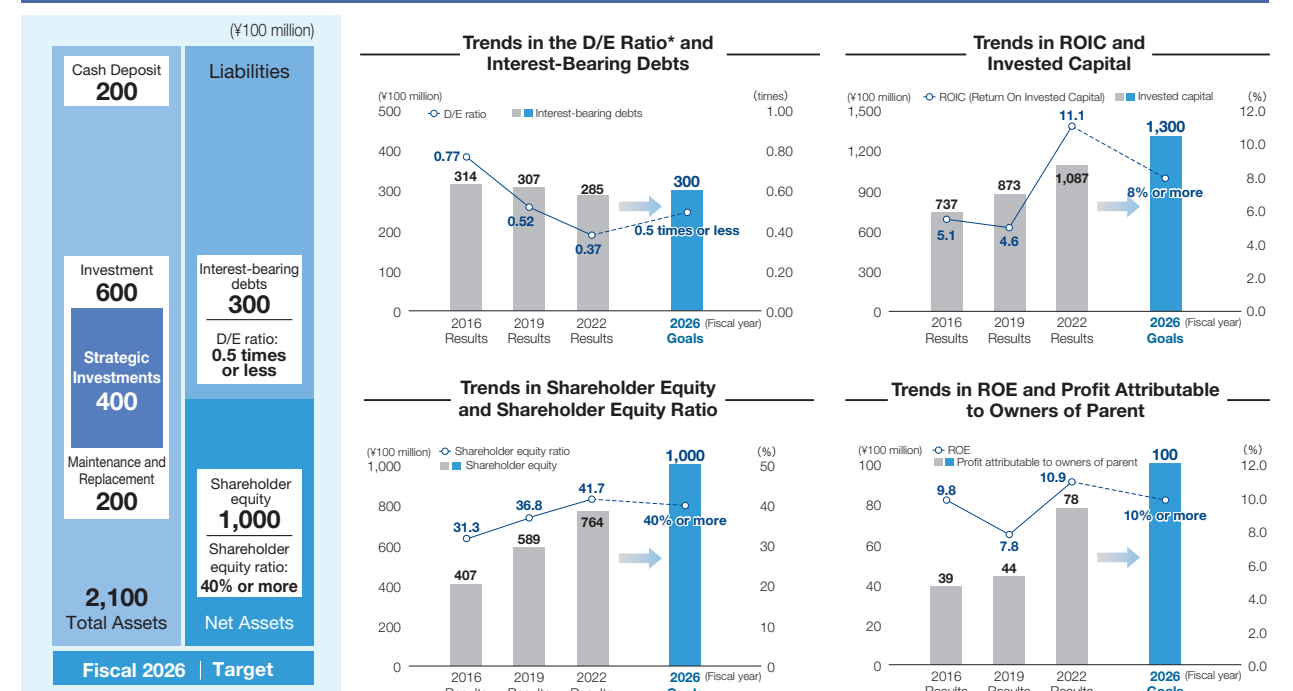
- Continue the aggressive investment stance that gives consideration to the risk and return as well as the capital cost toward the realization of the long-term vision GP25
- Implement the cash allocation to optimize the aggressive investments for the growth strategy and enhancement of the foundation, financial soundness, and the improvement of the shareholder return



Overview of the Key Strategic Investments

- Common**
- Enhancement of the R&D structure (Development of new industrial materials and measurement of the spatial environment)
 - Expansion into new business areas (Including M&A)
 - Reduction of environmental burden in the production activities
- Global**
- Expansion and improvement of the supply and sales structure for the areas of high demand
 - Development of new industrial materials and expansion into new markets and areas
- Domestic**
- Restructuring of the product supply network according to demand
 - Enhancement of the order-taking system for materials and construction to improve spatial performance
 - Reform of the ordering system and operational efficiency

GP25 3rd Stage



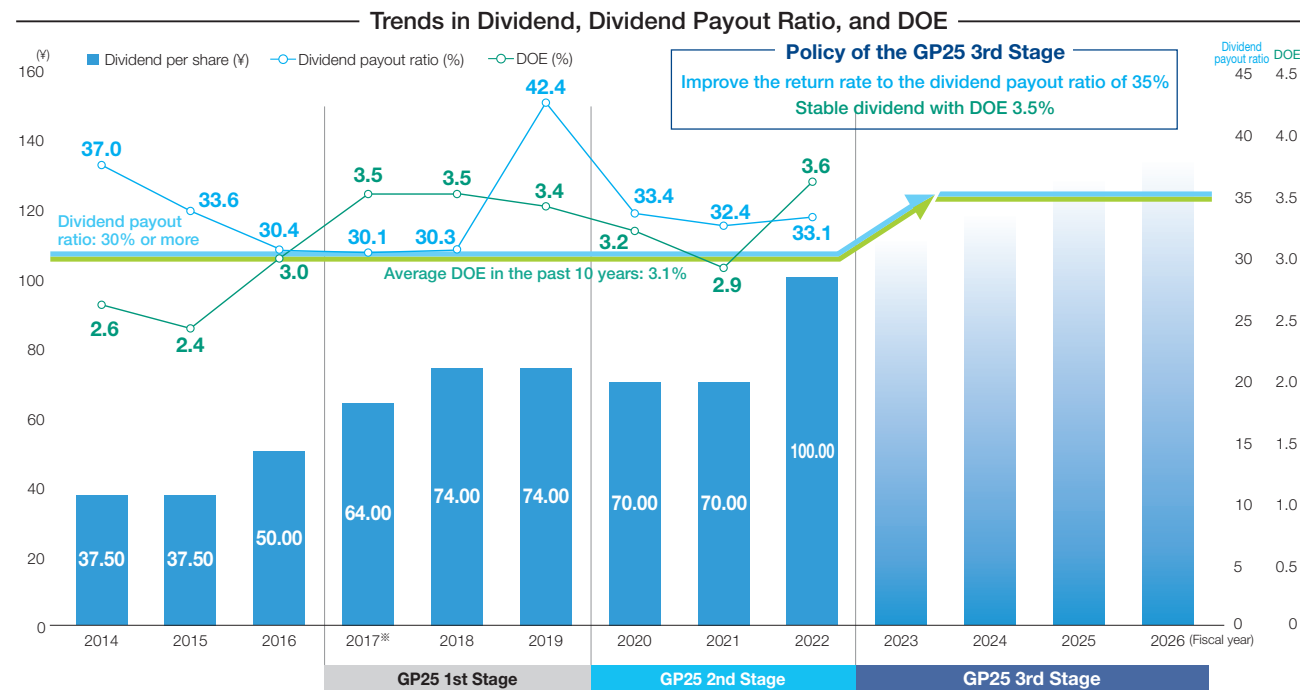
Capital Policy/Shareholder Return

Basic policies for capital and shareholder distributions

- Our capital policy is based on striving for effective management that places emphasis on return on equity (ROE) while being aware of the capital cost and improving corporate value by improving shareholder return and optimizing the balance between financial soundness and strategic investments.
- For shareholder return, while aiming for the distribution of earnings linked with results of operation, strive to maintain a stable dividend.
- Decisions about the repurchase of stock will be made based on the current level of capital, the market environment and other applicable considerations.
- Shareholders' equity will be effectively used for the improvement of production, sales and construction systems as well as for new businesses, global operations and other activities in order to achieve medium- and long-term growth and build a solid foundation for business operations.

Shareholder Return Policy in the Medium-Term Management Plan GP25 3rd Stage

- Shareholder return in the medium-term management plan GP25 3rd Stage for four years (FY 2023–2026) puts emphasis on the improvement of profit return linked with the results of operations and the maintenance of a stable dividend that is less affected by the short-term profit fluctuation and we implement the dividend payment with goals of the dividend payout ratio at 35% and DOE (Dividend On Equity ratio) at 3.5%.



*The company consolidated shares at a rate of one share per five as of October 1, 2016. The past figures were also consolidated retrospectively for ease of comparison.

Initiatives for reduction of cross-shareholdings

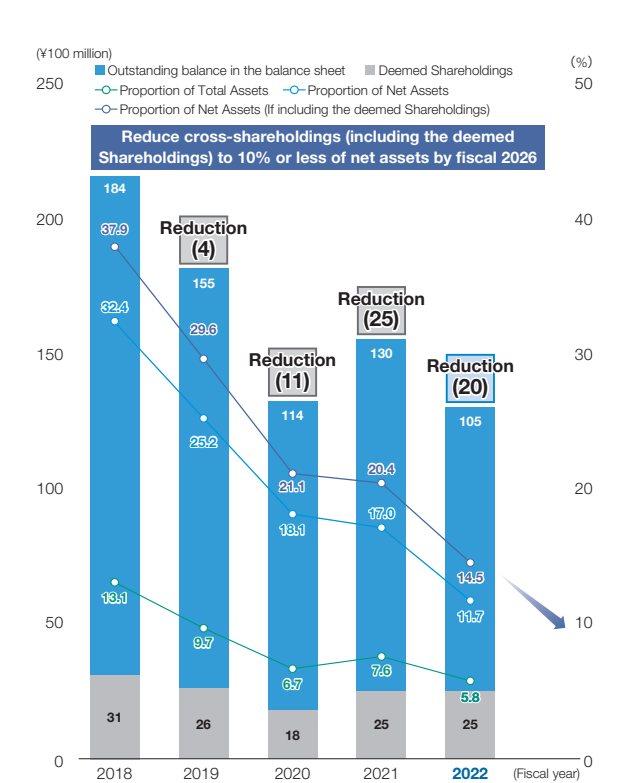
Policy for Cross-Shareholdings

- Regarding the shares held for the purpose other than the investment purpose (cross-shareholdings), targeting the companies with which synergy creation can be expected by maintaining and enhancing the business alliance or business relationship shall be the basic policy and shares that are judged to be insufficient in terms of the significance of holding shall be serially sold.
- To verify the effect and the rationality that are in line with the holding purpose, scrutinize whether or not the benefits and risks associated with holding are commensurate with the cost of capital from the qualitative and quantitative aspects and conduct a review by reporting the annual review results to the Board.
- Regarding the voting right, exercise the voting right on the assumption of contributing to the improvement of our corporate value.
- When exercising the voting right, comprehensively make a judgment from the perspective of the medium- to long-term improvement of our and the investment destination company's corporate value, instead of uniformly judging pros and cons based on the quantitative standards.

Trends in Cross-Shareholdings

(¥100 million)

	Fiscal 2018	Fiscal 2019	Fiscal 2020	Fiscal 2021	Fiscal 2022	
Outstanding balance in the balance sheet	Listed	183	154	112	129	104
	Unlisted	1	1	1	1	1
	Total	184	155	114	130	105
Deemed Shareholdings	31	26	18	25	25	
Total of the outstanding balance in the balance sheet and deemed Shareholdings	216	182	133	156	131	
Sale Value	0	(4)	(11)	(25)	(20)	
Acquisition Cost	0	0	0	0	0	
Reduction	0	(4)	(11)	(25)	(19)	
Number of Stock Names	Listed	25	24	19	18	17
	Unlisted	25	24	24	22	23
	Deemed Shareholdings	3	3	3	2	2
	Total	53	51	46	42	42
	Decrease	0	(2)	(6)	(4)	(1)
	Increase	1	0	1	0	1
Reduction	1	(2)	(5)	(4)	0	
Total Assets	1,407	1,601	1,706	1,725	1,833	
Proportion of Total Assets	13.1%	9.7%	6.7%	7.6%	5.8%	
Net Assets	569	617	629	767	905	
Proportion of Net Assets	32.4%	25.2%	18.1%	17.0%	11.7%	
Proportion of Net Assets (if including the deemed Shareholdings)	37.9%	29.6%	21.1%	20.4%	14.5%	



Message from the executive officer in charge of business management



Implementation of the financial measures suitable for the realization of the growth strategies

Tetsuo Harima
Message from the executive officer in charge of business management

The improved capability to generate cash advanced the reinforcement of the financial structure.

Over the three years of the previous medium-term management plan GP25 2nd Stage, we identified the Target Balance Sheet and then implemented a variety of different measures to implement more balance sheet-based management. We achieved improvement of the ability to generate cash and the steady reduction of cross-shareholdings. As for improvement of the capability to generate cash, operating cash flow increased to approximately 45 billion yen, a 1.5-fold increase from the accumulated total of approximately 30 billion yen during the three-year period of the GP25 1st Stage until FY 2019. In addition, since we consistently worked to reduce cross-shareholdings as one of the most important management challenges, the proportion of cross-shareholdings (including deemed holdings) to net assets decreased to less than 15% in FY 2022 compared to the approximately 30% in FY 2019. As a result, in FY 2022, the final year of the GP25 2nd Stage, we are proud to have significantly advanced the reinforcement of the financial structure by achieving all the targets set in the 2nd Stage with an ROE of 10.9%, an ROA of 10.5%, an equity ratio of 41.7%, and a D/E ratio of 0.37.

Firmly maintaining the basic stance with a focus on growth investments

On the other hand, there remains an issue. We failed to make investments exactly as planned, and the actual total investment was 37.4 billion yen compared to the original plan to invest 55 billion yen in total. We have to say that we could have done better and had to carefully select where to invest, even though we experienced a huge impact from the uncertainties, the restrictions on activities, and the inflation resulting from the rise in resource prices in the COVID-19 crisis. However, we have not discarded our active investment policy. In the new four-year medium-term management plan GP25 3rd Stage that starts in FY 2023, we will steadily advance growth investments that are essential to achieving the long-term vision based on the capability to generate cash and the financial structure that were strengthened in the 2nd Stage. Specifically, we expect the total investment over the four years of the 3rd Stage to be 60 billion yen, which includes strategic investments of 40 billion yen while the operating cash flow is expected to be 70 billion yen over the term. We will allocate capital to optimize financial soundness, improve shareholder returns, and make growth investments as our top priority.

Aiming for an A rating* by implementing the financial strategies of 3rd Stage

As for growth investments, we will pursue efficient investments to strengthen the industrial materials business overseas with a focus on the return on invested capital (ROIC) that has been set as a new management goal and make investments to reinforce the business foundation and reduce greenhouse gas emissions with a focus on sustainability. As for financial soundness, our goal is to achieve an equity ratio of 40% and above and a D/E ratio of 0.5 and below, as well as flexibly make use of financial leverage. In addition, we will improve shareholder returns in the 3rd Stage with the goal of achieving a dividend payout ratio of 35% and DOE (dividend on equity) of 3.5%. We will continue working to reduce cross-shareholdings as we did in the 2nd Stage with a specific numerical target of decreasing the proportion of cross-shareholdings, including deemed holdings, to net assets to 10% or below. By implementing these well-balanced financial strategies, we will obtain A long-term issuer rating* as early as possible.

*BBB+ long-term issuer rating assigned by Japan Credit Rating Agency, Ltd., (JCR) as of June 30, 2022