

**Results of Operations for the First Half of  
the Fiscal Year Ending March 31, 2020 (Fiscal 2020)**



**November 20, 2019  
DAIKEN CORPORATION  
(Security Code: 7905)**

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# First Half of Fiscal 2020

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## Financial Results

# 1H Fiscal 2020 Market Environment

## Domestic home market

- ◆ Housing starts in 1H fiscal 2020 (Apr. to Sep.) were down 5.0% overall due to a sharp decline (15.7%) in the residential rental property category. But there were increases of 4.4% for owner-built homes and 4.0% for built-for-sale homes due to the increase in demand prior to the October 2019 consumption tax hike.

## Public and commercial buildings (non-housing sector)

- ◆ Construction demand remained firm because of projects involving the Tokyo Olympics/Paralympics and redevelopment projects, mainly in the Tokyo metropolitan area. However, the cost of labor remains high because of the shortage of skilled construction workers.
- ◆ More opportunities to supply functional building materials for specific types of buildings, a product category that was expanded during the previous medium-term management plan.

## High cost of raw materials and logistics

- ◆ Prices of imported plywood, wood chips and other raw materials are rising, with some exceptions, and the cost of energy is increasing. The rising cost of logistics is also exerting downward pressure on earnings.

## Effects of global events

- ◆ Overseas market conditions worsened because of sluggish demand, chiefly for MDF in Asia, caused by the U.S.-China trade friction, U.S. economic sanctions on Iran and other events.

# 1H Fiscal 2020 Financial Results

- ◆ Sales increased 11.9% because of increasing use of Daiken building materials for construction companies, an increase in orders for materials used at public and commercial building projects, and newly consolidated subsidiaries. MDF sales were below the first half forecast due to sluggish overseas demand, mainly in Asia.
- ◆ Operating profit increased 22.9% because of the newly consolidated subsidiaries and other reasons. This was below the first half forecast due mainly to intense competition in the MDF market and the decrease in residential rental property construction starts in Japan.

| (Unit: million yen)                     | 1H Fiscal 2019<br>(Result) | 1H Fiscal 2020<br>(Result) | YoY change |        | 1H Fiscal 2020<br>(Initial forecast) | Vs. 1H results |
|---|----------------------------|----------------------------|------------|--------|--------------------------------------|----------------|
|   |                            |                            | Amount     | %      |                                      |                |
| Net sales                               | 87,203                     | 97,548                     | +10,345    | +11.9% | 99,000                               | -1,452         |
| Operating profit                        | 3,083                      | 3,790                      | +707       | +22.9% | 4,600                                | -810           |
| Operating profit ratio                  | 3.5%                       | 3.9%                       | +0.4pt     | -      | 4.6%                                 | -0.7pt         |
| Ordinary profit                         | 3,660                      | 4,197                      | +537       | +14.7% | 5,000                                | -803           |
| Profit attributable to owners of parent | 2,446                      | 2,087                      | -359       | -14.7% | 2,700                                | -613           |
| Earnings per share (yen)                | 100.15                     | 80.21                      | -19.94     | -19.9% | 103.78                               | -23.57         |

# 1H Fiscal 2020 Business Segment Results

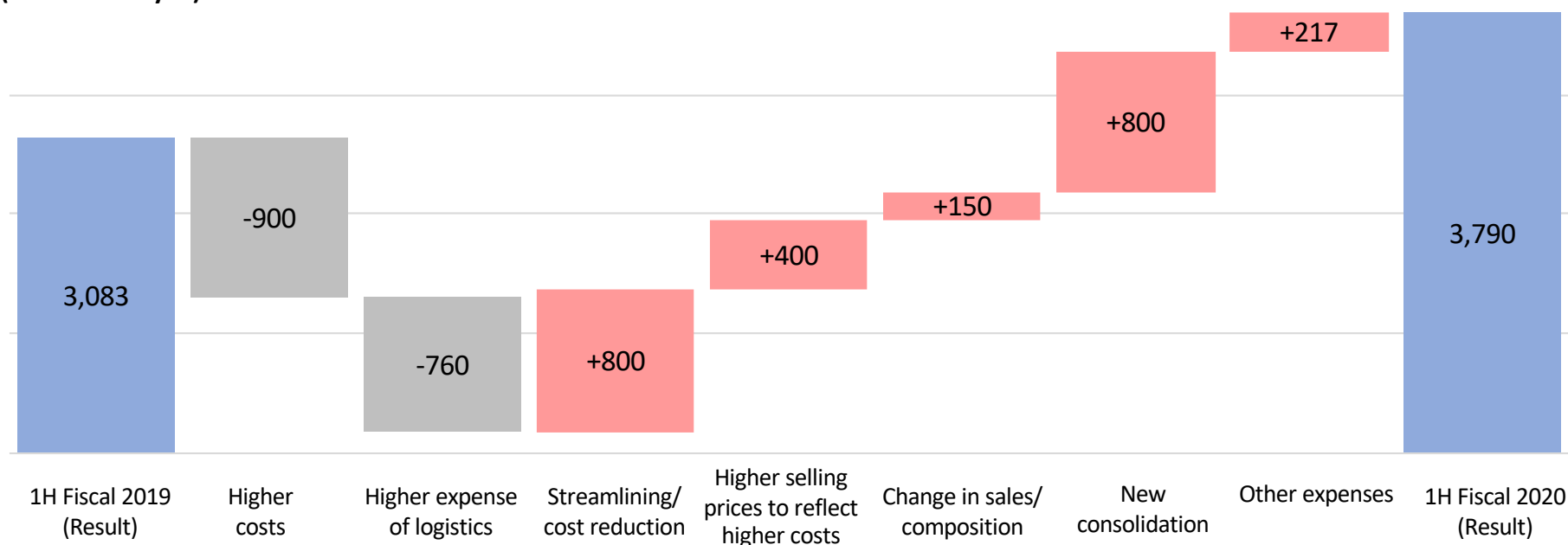
- ◆ **Industrial Materials Business:** Sales and earnings increased as higher sales of tatami facing and the newly consolidated subsidiaries more than offset weak MDF sales and the slow recovery of Dai-Lite following the problem that occurred in fiscal 2019.
- ◆ **Building Materials Business:** Sales and earnings increased because of growth in orders for floor materials, doors, cabinets and other products in the domestic home market and public and commercial building sectors and price increases to reflect the higher cost of imported plywood and other raw materials and of logistics.
- ◆ **Engineering Business:** Sales increased as orders were higher for interior finishing work at office and other buildings but earnings decreased because the rising cost of labor caused by the shortage of skilled construction workers and other factors reduced the profitability of building interior projects.

| (Unit: million yen)                  | 1H Fiscal 2019 |                  | 1H Fiscal 2020 |            |        |                  |            |        |
|--------------------------------------|----------------|------------------|----------------|------------|--------|------------------|------------|--------|
|                                      | Net sales      | Operating profit | Net sales      | YoY change |        | Operating profit | YoY change |        |
|                                      |                |                  |                | Amount     | %      |                  | Amount     | %      |
| <b>Industrial Materials Business</b> | 30,281         | 842              | 36,365         | +6,084     | +20.1% | 1,129            | +287       | +34.1% |
| <b>Building Materials Business</b>   | 42,301         | 1,513            | 46,652         | +4,351     | +10.3% | 2,226            | +713       | +47.1% |
| <b>Engineering Business</b>          | 8,073          | 458              | 10,152         | +2,079     | +25.8% | 329              | -129       | -28.2% |
| <b>Others</b>                        | 6,546          | 269              | 4,376          | -2,170     | -33.1% | 104              | -164       | -61.2% |
| <b>Total</b>                         | 87,203         | 3,083            | 97,548         | +10,345    | +11.9% | 3,790            | +707       | +22.9% |

# 1H Fiscal 2020 Changes in Operating Profit

- ◆ Higher costs: Increase in prices of imported plywood, wood chips and other raw materials and cost of energy
- ◆ Higher expense of logistics: Higher cargo transportation rates and storage fees
- ◆ Streamlining/cost reduction: Reexamination of all categories of items purchased; effect of exchange rate changes on overseas manufacturing subsidiaries in the industrial materials business
- ◆ Higher selling prices to reflect higher costs: Mainly in the building materials business to offset the higher costs and a rise in cost of logistics
- ◆ Change in sales/composition: A net contribution to earnings as building materials business sales growth offset declines in the profitability of MDF in the industrial materials business and building interior projects in the engineering business
- ◆ New consolidation: A wood industrial materials company in North America and a renovation company were newly consolidated in the second quarter of fiscal 2020

(Unit: million yen)



# 1H Fiscal 2020 Market Category Sales

| (Unit: million yen)<br>Upper: sales Lower: composition | 1H Fiscal 2019<br>(Result) | 1H Fiscal 2020<br>(Result) | YoY change     |               |
|--|----------------------------|----------------------------|----------------|---------------|
|  |                            |                            | Amount         | %             |
| <b>Global markets</b>                                  | 9,959                      | <b>16,255</b>              | <b>+6,296</b>  | <b>+63.2%</b> |
|  | 11.4%                      | <b>16.7%</b>               | <b>+5.3pt</b>  | -             |
| <b>Public and commercial buildings</b>                 | 9,122                      | <b>11,024</b>              | <b>+1,901</b>  | <b>+20.8%</b> |
|  | 10.5%                      | <b>11.3%</b>               | <b>+0.8pt</b>  | -             |
| Industrial materials                                   | 16,469                     | 14,174                     | -2,296         | -13.9%        |
|  | 18.9%                      | 14.5%                      | -4.4pt         | -             |
| <b>Home renovation market</b>                          | 14,081                     | <b>16,249</b>              | <b>+2,167</b>  | <b>+15.4%</b> |
|  | 16.1%                      | <b>16.7%</b>               | <b>+0.6pt</b>  | -             |
| Domestic new home market                               | 37,039                     | 39,447                     | +2,407         | +6.5%         |
|  | 42.5%                      | 40.4%                      | -2.1pt         | -             |
| Others   | 532                        | 400                        | -132           | -24.7%        |
|  | 0.5%                       | 0.3%                       | -0.2pt         | -             |
| Domestic market  | 77,244                     | <b>81,293</b>              | <b>+4,049</b>  | <b>+5.2%</b>  |
|  | 88.6%                      | <b>83.3%</b>               | <b>-5.3pt</b>  | -             |
| Total  | 87,203                     | <b>97,548</b>              | <b>+10,345</b> | <b>+11.9%</b> |
|  | 100.0%                     | 100.0%                     | -              | -             |



# Start of North American Wood Industrial Materials Business

Daiken made CIPA, which operates a Canadian veneer factory and was an Itochu consolidated subsidiary, and PWT, which operates a U.S. LVL factory, subsidiaries on June 28, 2019. This established a base to start a wood industrial materials business in North America to serve the North American wood home market, the largest in the world. The two companies contributed to the consolidated performance as they were added to the consolidated balance sheet at the end of the first quarter and to the consolidated income statement at the beginning of the second quarter.



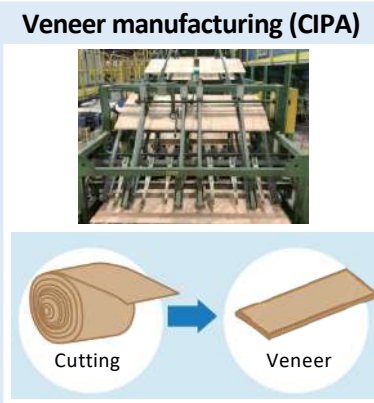
## CIPA Lumber Co. Ltd. (CIPA)

Established: April 30, 1968  
 Location: Delta, British Columbia, Canada  
 Capital: 23,000 thousand CAD (1,955 million yen)  
 Exchange rates: JPY85/CAD  
 Business: Manufacture of veneers

## PACIFIC WOODTECH CORPORATION (PWT)

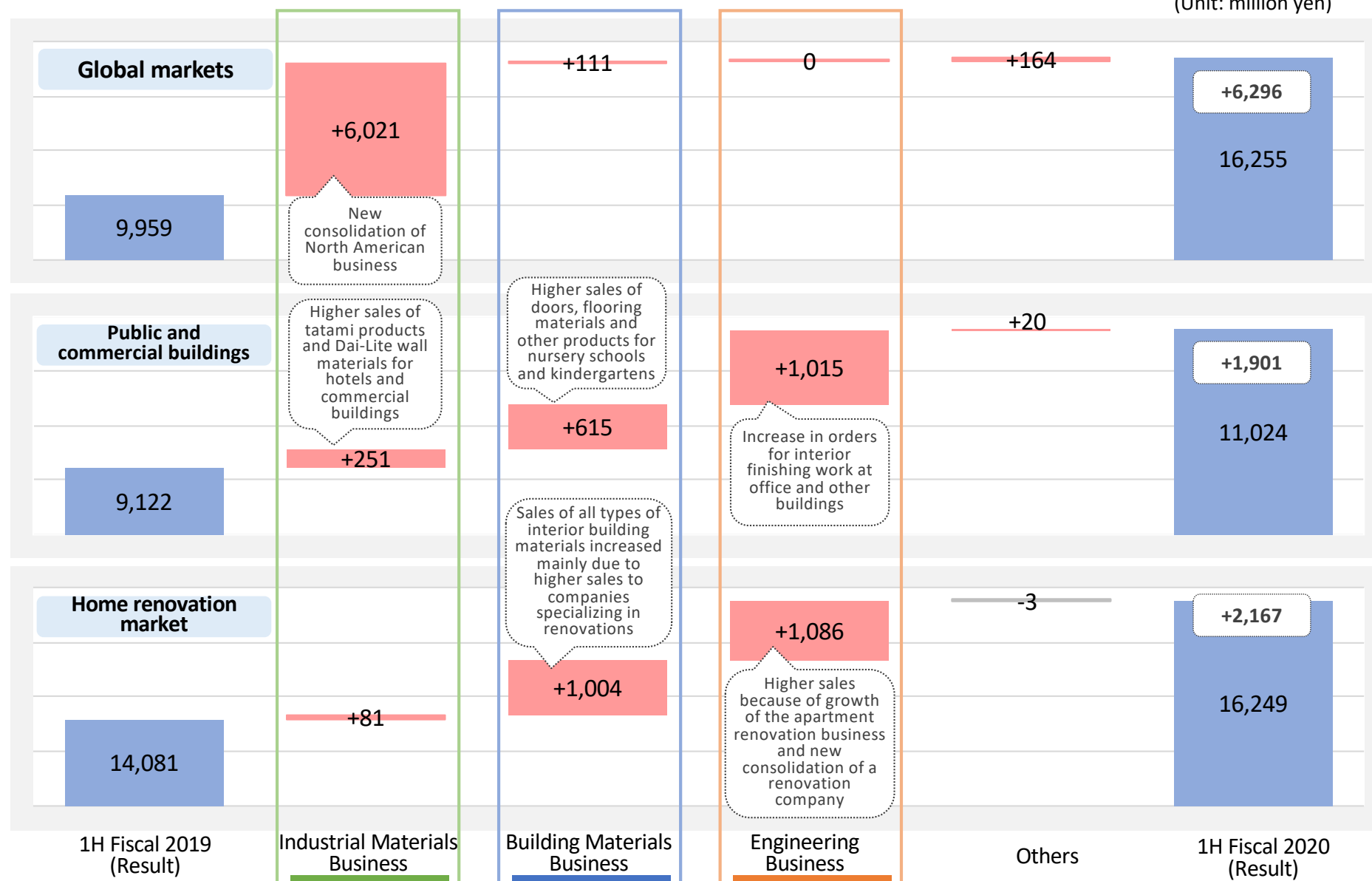
Established: January 7, 1998  
 Location: Burlington, Washington, USA  
 Capital: 26,000 thousand USD (2,860 million yen)  
 Exchange rates: JPY110/USD  
 Business: Manufacture and sales of structural LVL and wood I-joists

## Business flow



# 1H Fiscal 2020 Market Category Sales and Changes for Business Segments

(Unit: million yen)



# Acquisition of ReformQ CO.,Ltd.

Daiken acquired ReformQ CO.,Ltd., building renovation company, in July 2019. This company gives Daiken more construction skills and access to more categories of the construction market. The resulting strengthening of renovation activities in the Tokyo metropolitan area is expected to contribute to growth of the entire engineering business.

Profile of ReformQ CO.,Ltd.

|                         |  |
|-------------------------|--|
| Business                | Renovations, including planning and designs, of buildings, apartments and houses |
| Established             | April 1, 2004  |
| Capital                 | 20 million yen   |
| Net sales               | 1,566 million yen (Fiscal 2019)  |
| Acquisition date        | July 1, 2019   |
| Daiken investment ratio | 100% (consolidated subsidiary)   |

Renovations done by ReformQ CO.,Ltd.



# Fiscal 2020

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## Forecast (Revised)

# Fiscal 2020 Forecast (Revised)

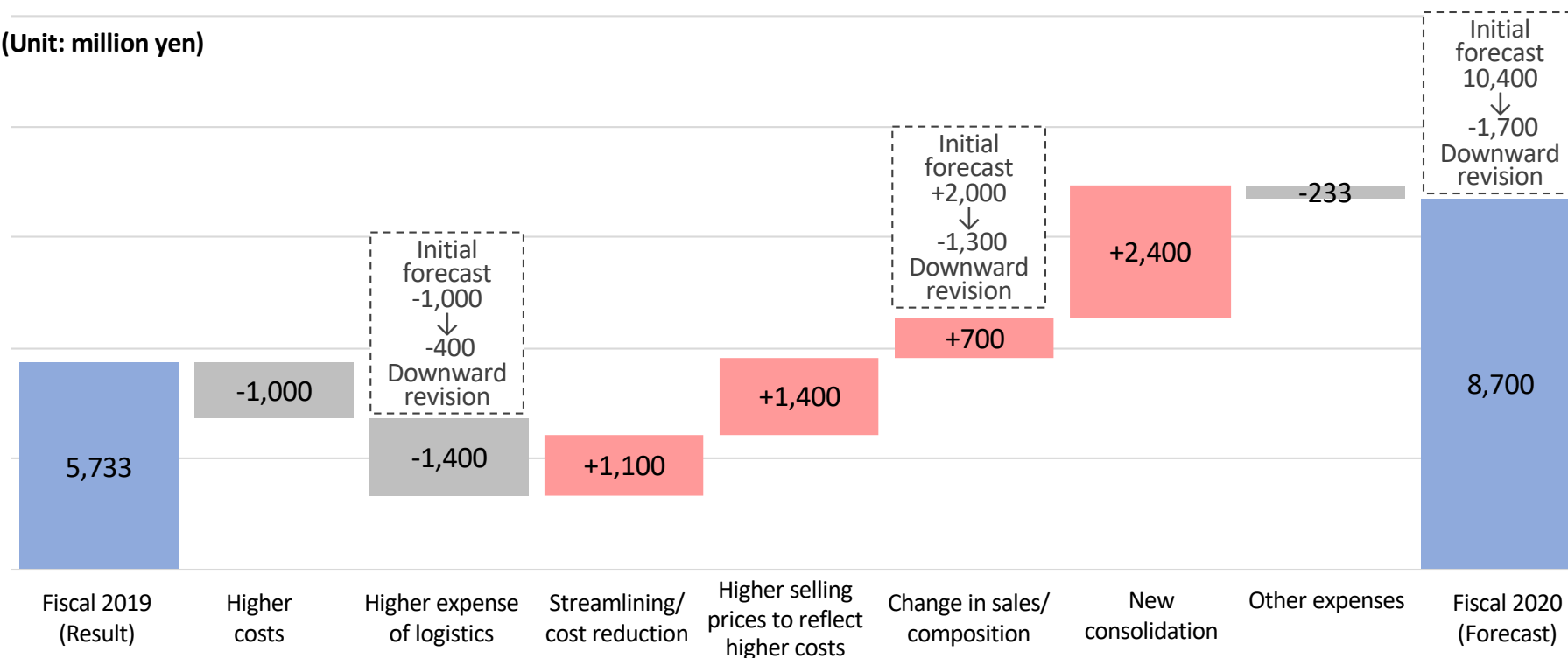
- ◆ Forecast 10.4% sales growth in part because of the new consolidations. Reduced the initial forecast due to the outlook for the continuation of negative effects of the MDF market downturn and decrease in residential rental property construction starts in Japan
- ◆ Forecast 51.8% operating profit growth as streamlining/cost reduction, higher selling prices and the new consolidations offset the higher cost of raw materials and logistics. Earnings will also benefit from the end of problems that occurred in fiscal 2019.  
However, the initial forecast was reduced because of the higher than expected decline in profitability of MDF and cost of logistics.

| (Unit: million yen)                        | Fiscal 2019<br>(Result) | Fiscal 2020<br>(Initial forecast<br>announced on May 10) | Fiscal 2020<br>(Forecast revised on<br>Nov. 8) | Difference | YoY change |        |
|--|-------------------------|--|--|------------|------------|--------|
|  |                         |  |  |            | Amount     | %      |
| Net sales                                  | 182,962                 | 210,000  | 202,000  | -8,000     | +19,038    | +10.4% |
| Operating profit                           | 5,733                   | 10,400   | 8,700  | -1,700     | +2,967     | +51.8% |
| Operating profit ratio                     | 3.1%                    | 5.0%   | 4.3%   | -0.7pt     | +1.2pt     | -      |
| Ordinary profit                            | 6,838                   | 11,100   | 9,400  | -1,700     | +2,562     | +37.5% |
| Profit attributable to<br>owners of parent | 4,402                   | 6,000  | 5,000  | -1,000     | +598       | +13.6% |
| Earnings per share (yen)                   | 174.55                  | 230.62   | 192.12   | -38.50     | +17.57     | +10.1% |
| Dividend per share (yen)                   | 74                      | 70   | 70   | ±0         | -4         | -      |
| Dividend payout ratio                      | 42.4%                   | 30.4%  | 36.4%  | +6.0pt     | +6.0pt     | -      |
| ROE  | 7.8%                    | 9.8%   | 8.5%   | -1.3pt     | +0.7pt     | -      |

# Fiscal 2020 Forecast of Changes in Operating Profit (Revised)

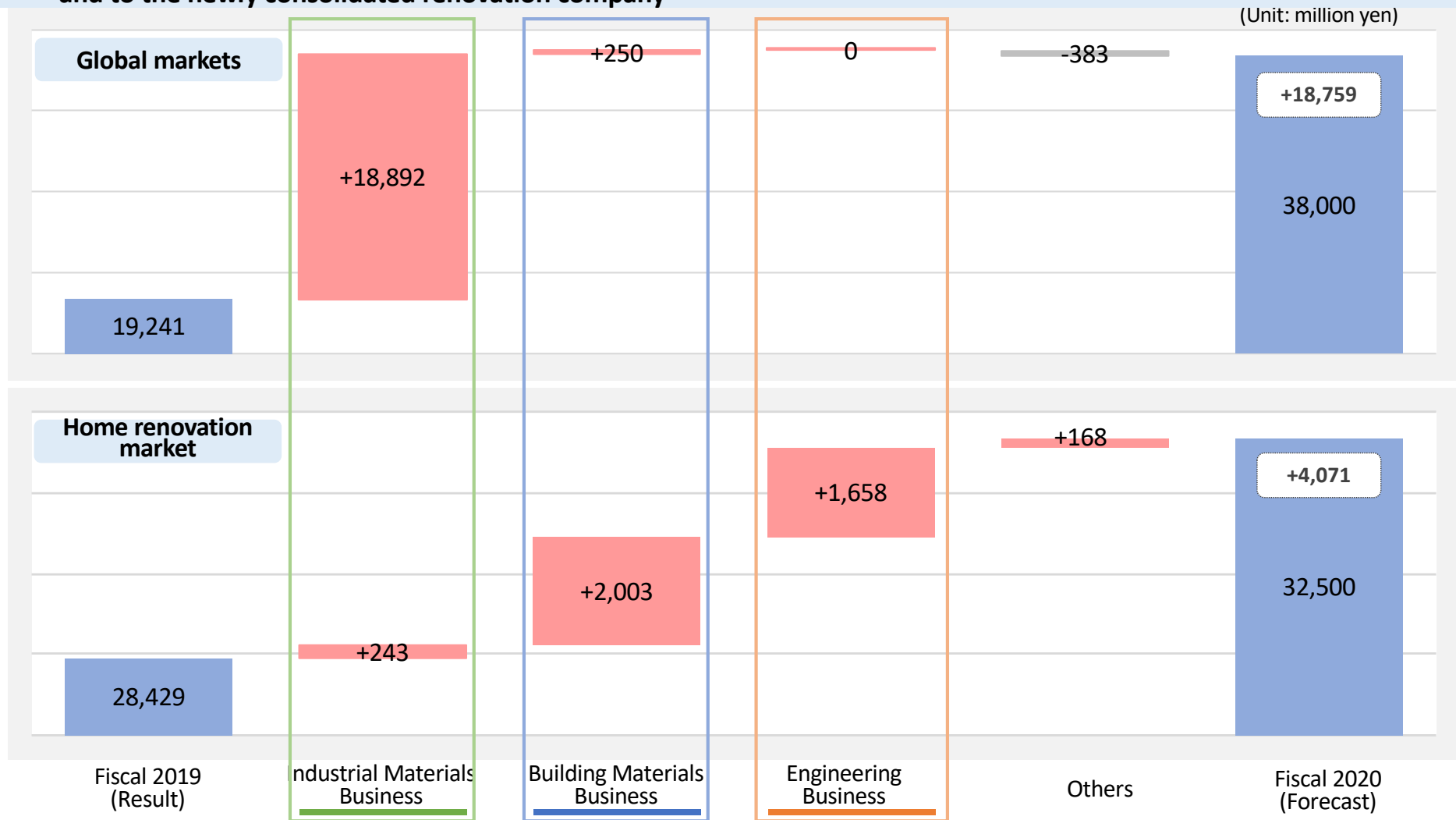
- ◆ Higher costs: Increase in prices of imported plywood, wood chips and other raw materials and cost of energy
- ◆ Higher expense of logistics: Larger than expected increases in cargo transportation rates and storage fees decreased the operating profit forecast significantly
- ◆ Streamlining/cost reduction: Reexamination of all categories of items purchased
- ◆ Higher selling prices to reflect higher costs: Mainly in the building materials business to offset the higher cost of raw materials and logistics
- ◆ Change in sales/composition: Benefit from the end of one-time problems in fiscal 2019, but a downward revision of operating profit forecast due to the outlook for the continuation of negative effects of the MDF market downturn and decrease in residential rental property construction starts in Japan
- ◆ New consolidation: Overseas industrial materials business, solid flooring materials business in Japan, renovation business

(Unit: million yen)



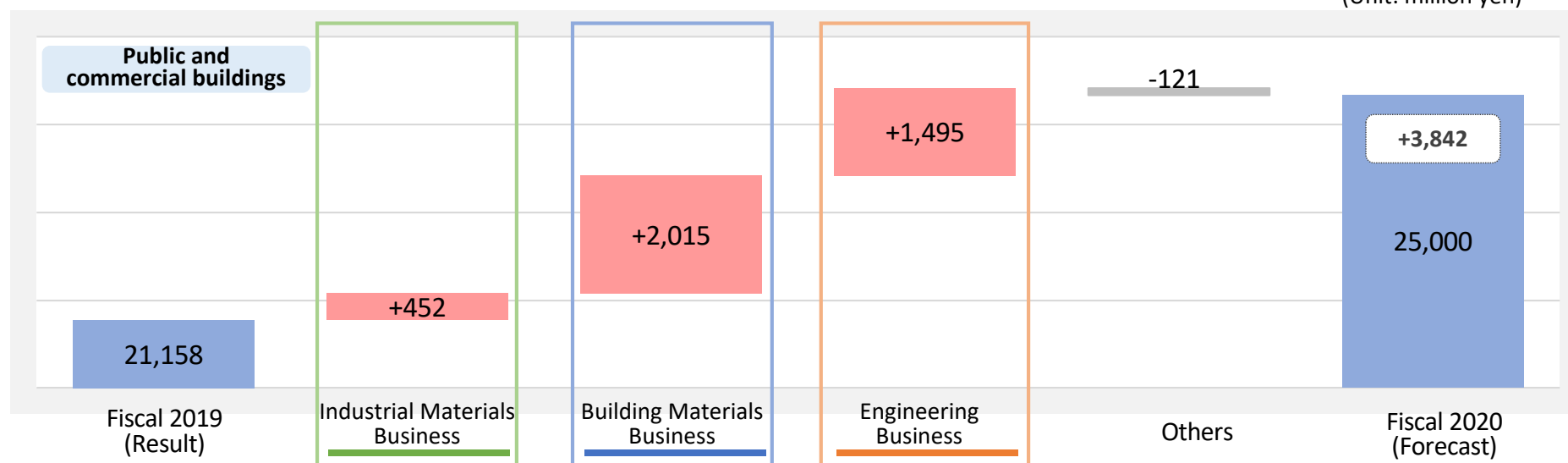
# Fiscal 2020 Forecast of Market Category Sales and Changes for Business Segments (1)

- ◆ Global markets: Downturn in MDF market is continuing but higher sales due to new consolidation of the North American wood industrial materials business
- ◆ Home renovation market: Higher sales due to growth of sales of easy-to-install products and apartment renovations and to the newly consolidated renovation company



## Fiscal 2020 Forecast of Market Category Sales and Changes for Business Segments (2)

(Unit: million yen)



### Acquisition of T.O FLOORING CO., LTD. to start the solid flooring materials business

In November 2019, Daiken completed procedure to make T.O FLOORING CO., LTD., which is jointly owned by Daiken and T.O. Holdings, a subsidiary in order to start a solid flooring materials business. Demand for these materials is strong for cultural buildings, schools and other types of buildings. Expansion of the solid material product lineup is expected to make Daiken's flooring business even stronger.

|                  |   |                    |   |
|------------------|---|--------------------|---|
| Business         | Flooring business – Manufacture, sale and installation of solid and thick veneer flooring materials | Start of operation | November 1, 2019  |
| Location         | Nerima-ku, Tokyo  | Capital            | 10 million yen  |
| Manufacture base | Yubari Plant (Yubari City, Hokkaido)  | Investment ratio   | DAIKEN CORPORATION: 50% (consolidated)<br>T.O. Holdings CO.,LTD.: 50% |



# Financial Information

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# 1H Fiscal 2020 Consolidated Balance Sheet (Major components)

| (Unit: million yen)                     | Fiscal 2019<br>(Result) | 2Q Fiscal 2020<br>(Result) | YoY change     |
|---|-------------------------|----------------------------|----------------|
| Cash and deposits                       | 16,865                  | 14,087                     | -2,778         |
| Notes and accounts receivable-trade     | 50,511                  | 44,234                     | -6,277         |
| Inventories                             | 21,363                  | 26,857                     | +5,494         |
| Other current assets                    | 2,795                   | 2,179                      | -616           |
| <b>Total current assets</b>             | <b>91,553</b>           | <b>87,358</b>              | <b>-4,195</b>  |
| Property, plant and equipment           | 41,321                  | 51,853                     | +10,532        |
| Intangible assets                       | 6,375                   | 16,308                     | +9,933         |
| Investments and other assets            | 20,831                  | 19,698                     | -1,133         |
| <b>Total assets</b>                     | <b>160,158</b>          | <b>175,332</b>             | <b>+15,174</b> |
| Notes and accounts payable              | 30,573                  | 28,274                     | -2,299         |
| Bonds and borrowings                    | 30,682                  | 46,643                     | +15,961        |
| Other current/non-current liabilities   | 37,154                  | 36,841                     | -313           |
| <b>Total liabilities</b>                | <b>98,416</b>           | <b>111,765</b>             | <b>+13,349</b> |
| <b>Total shareholders' equity</b>       | <b>53,460</b>           | <b>54,609</b>              | <b>+1,149</b>  |
| <b>Total net assets</b>                 | <b>61,741</b>           | <b>63,566</b>              | <b>+1,825</b>  |
| <b>Total liabilities and net assets</b> | <b>160,158</b>          | <b>175,332</b>             | <b>+15,174</b> |
| Shareholder equity ratio                | 36.8%                   | 32.7%                      | -4.1pt         |
| Debt-equity ratio (multiple)            | 0.52                    | 0.81                       | +0.29          |

## ◆ Notes and accounts receivable -6,277

<Major factors>

|  |        |
|--|--------|
| New consolidation                        | +1,617 |
| End of fiscal 2019 was on a Sunday, etc. | -7,894 |

## ◆ Inventories +5,494

<Major factors>

|  |        |
|--|--------|
| New consolidation                          | +2,986 |
| Finished goods and merchandise inventories | +1,706 |
| Work in process                            | +703   |

## ◆ Property, plant and equipment +10,532

<Major factors>

|                                      |         |
|--------------------------------------|---------|
| New consolidation                    | +11,283 |
| Acquisition/construction in progress | +2,438  |
| Depreciation                         | -1,979  |
| Exchange rate changes, etc.          | -1,210  |

## ◆ Intangible assets +9,933

<Major factors>

|   |         |
|---|---------|
| Increase in goodwill due to new consolidation | +10,833 |
|---|---------|

## ◆ Bonds and borrowings +15,961

<Major factors>

|   |         |
|---|---------|
| Bond issuance                                   | +10,000 |
| Increase in borrowings due to new consolidation | +7,360  |

## ◆ Total net assets +1,825

<Major factors>

|   |        |
|---|--------|
| Non-controlling interests               | +3,375 |
| Foreign currency translation adjustment | -1,830 |

# 1H Fiscal 2020 Consolidated Statement of Income

(Information about non-operating profit (expenses) and extraordinary income (losses))

| (Unit: million yen)                                  | 1H Fiscal 2019<br>(Result) | 1H Fiscal 2020<br>(Result) | YoY change  |
|--|----------------------------|----------------------------|-------------|
| Net sales  | 87,203                     | 97,548                     | +10,345     |
| Gross profit   | 21,604                     | 24,289                     | +2,685      |
| SG&A expenses  | 18,521                     | 20,499                     | +1,978      |
| Operating profit                                     | 3,083                      | 3,790                      | +707        |
| <b>Non-operating profit<br/>(expenses)</b>           | <b>+577</b>                | <b>+407</b>                | <b>-170</b> |
| Ordinary profit                                      | 3,660                      | 4,197                      | +537        |
| <b>Extraordinary income<br/>(losses)</b>             | <b>-81</b>                 | <b>-433</b>                | <b>-352</b> |
| Profit before income taxes                           | 3,579                      | 3,764                      | +185        |
| Total income taxes                                   | 1,042                      | 1,223                      | +181        |
| Profit   | 2,537                      | 2,541                      | +4          |
| Profit attributable to non-<br>controlling interests | 91                         | 453                        | +362        |
| Profit attributable to owners<br>of parent           | <b>2,446</b>               | <b>2,087</b>               | <b>-359</b> |

◆ **Non-operating profit (expenses) -170**

<Major factors>

|                         |     |
|-------------------------|-----|
| Foreign exchange losses | -54 |
| Interest expenses       | -54 |
| Dividend income         | -13 |

◆ **Extraordinary income (losses) -433**

<Major factors>

|   |      |
|---|------|
| Provision for loss on litigation              | -166 |
| Loss on valuation of investment<br>securities | -134 |
| Loss on retirement of non-current assets      | -75  |

| Exchange rate (yen) | 1H Fiscal 2019<br>(Result) | 1H Fiscal 2020<br>(Result) | YoY change |
|---------------------|----------------------------|----------------------------|------------|
| USD                 | -                          | 107.29                     | -          |
| CAD                 | -                          | 81.25                      | -          |
| NZD                 | 75.64                      | 71.20                      | -4.44      |
| MYR                 | 27.40                      | 26.12                      | -1.28      |

# 1H Fiscal 2020 Consolidated Statement of Cash Flows (Major components)

| (Unit: million yen)                                   | 1H Fiscal 2019<br>(Result) | 1H Fiscal 2020<br>(Result) |
|---|----------------------------|----------------------------|
| <b>Operating cash flow</b>                            | +3,990                     | <b>+7,435</b>              |
| <b>Investing cash flow</b>                            | -12,340                    | <b>-15,612</b>             |
| <b>Free cash flow</b>                                 | -8,350                     | -8,177                     |
| <b>Financing cash flow</b>                            | +10,990                    | <b>+5,490</b>              |
| <b>Cash and cash equivalents<br/>at end of period</b> | 13,385                     | <b>13,955</b>              |
| <b>Capital expenditures</b>                           | 3,738                      | 2,353                      |
| <b>Depreciation</b>                                   | 1,999                      | 2,353                      |

## ◆ Operating cash flow **+7,435**

<Major factors>

|                                       |        |
|---------------------------------------|--------|
| Profit before income taxes            | +3,764 |
| Depreciation                          | +2,353 |
| Changes in trade receivables/payables | +1,737 |
| Increase in inventories               | -1,821 |
| Income taxes paid                     | -1,956 |

## ◆ Investing cash flow **-15,612**

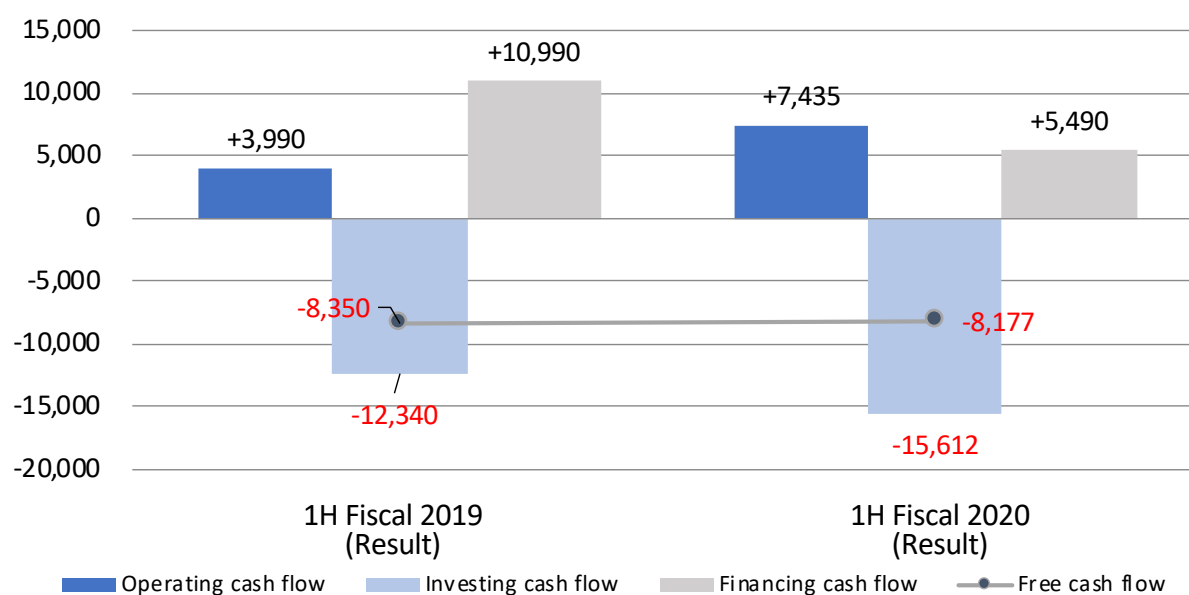
<Major factors>

|   |         |
|---|---------|
| Purchase of property, plant and equipment   | -2,890  |
| Purchase of shares of subsidiaries resulting<br>in change in scope of consolidation | -12,778 |

## ◆ Financing cash flow **+5,490**

<Major factors>

|                                 |        |
|---------------------------------|--------|
| Proceeds from issuance of bonds | +9,949 |
| Decrease in borrowings          | -3,424 |
| Dividends paid                  | -962   |



# Sale of Green Bonds in September 2019

In September 2019, Daiken became the first building materials company in Japan to issue green bonds. The proceeds will be used for new investments and the refinancing for renovation at the Okayama Plant and Takahagi Plant. These two plants manufacture industrial materials (Dai-Lite, Dai-Lotone, Insulation boards) made primarily of unused resources, recycled resources, wood resources that can be recycled, and other materials.

## Summary of the Green Bonds

|               |  |
|---------------|--|
| Name          | DAIKEN CORPORATION First Unsecured Bonds (bonds rank pari passu with each other) (Green Bonds) |
| Amount        | 5 billion yen  |
| Maturity      | September 20, 2022 (3 years)   |
| Yield         | 0.20%  |
| Underwriter   | Daiwa Securities Co. Ltd.  |
| Credit rating | BBB+ (Japan Credit Rating Agency, Ltd.)  |

The green bonds have received a “Green1” rating from Japan Credit Rating Agency, which is this agency’s highest green bond rating.

Note: Daiken procured a total of 10 billion yen by selling its second issue of unsecured bonds (straight bonds) concurrently with the green bonds.  
 Amount: 5 billion yen; Maturity: September 20, 2024 (5 years);  
 Yield: 0.280%

■ **Dai-Lite:** Effective utilization of unused resources and improves anti-seismic performance



■ **Dai-Lotone:** Effective utilization of recycled resources



■ **Insulation boards:** Recycling of wood resources



Toward the future going beyond the functions of yesterday

# DAIKEN

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