

**Results of Operations  
for the Fiscal Year Ended March 31, 2020 (Fiscal 2020)**



**May 22, 2020**

**DAIKEN CORPORATION**

**(Security Code: 7905)**

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# **Impact of the Spread of COVID-19 Infections and Status of Our Response**

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# Impact of the Spread of COVID-19 Infections and Status of Our Response (As of May 18, 2020)

## Status of operations at major production centers

All activities at Daiken involving the COVID-19 crisis are overseen by the New Coronavirus Response Headquarters, which is supervised by the president of Daiken. The goal is to continue conducting business operations as much as possible while implementing numerous measures for protecting the health of employees and preventing the spread of infections.

### ◆ Domestic production centers

Okayama plant, Takahagi plant, Mie plant, Inami plant, other group factories - Continuing operations after production adjustment at some locations

### ◆ Overseas production centers

Malaysia: Two MDF plants are operating; workforce has been reduced by 50%

New Zealand: Two MDF plants suspended operations from March 23 to April 28 due to a government stay-at-home order and has subsequently resumed operations

North America: The Canada veneer plant is continuing to operate while taking actions to prevent COVID-19 infections. The U.S. LVL plant is continuing to operate while lowering capacity utilization by about 60%

China: Suspended operations up to February 17 for the spring festival, then resumed while lowering capacity utilization by 30%

Indonesia: Plans to resume operation in early June after the Lebaran holidays

### ◆ Sales locations

All administrative staff at Tokyo, Osaka and other sales locations shifted to telework from home from April 1



◆ Although there were only small declines in sales and orders as of April because of this crisis, a steep downturn in demand is expected. Preparations are under way for ensuring that manufacturing operations have the flexibility to adapt to upcoming changes in demand as much as possible

## Measures for liquidity

◆ As of March 31, 2020, cash and deposits were ¥16.8 billion and there was an unused committed credit line of ¥5.0 billion

◆ Since April, liquidity has been further increased by using loans from the company's primary banks and other sources of funding due to the uncertain outlook

# **Fiscal 2020**

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# **Financial Results**

# Fiscal 2020 Market Environment (Excluding the impact of COVID-19 pandemic)

## Domestic home market

- ◆ Housing starts in fiscal 2020 were down 7.3%. Demand for owner-built homes and built-for sale homes was strong in the first half due to a spike in demand prior to the October 2019 consumption tax hike. However, in the residential rental property category housing starts were down 14.2% from a year earlier. In addition, there were slowdowns in the owner-built homes and built-for sale homes categories in the second half.

## 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

- ◆ The increase in prices of imported plywood, and other raw materials is slowing, with some exceptions, but the cost of raw materials such as wood chips and the cost of energy overseas is on the rise. The rising cost of logistics is also exerting downward pressure on earnings.

## Effects of global events

- ◆ Overseas market conditions continued to worsen 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.

# Fiscal 2020 Financial Results

- ◆ Sales were sluggish due to deteriorated MDF market conditions. On the other hand, we strived to assure stable supply in response to the increasing use of Daiken building materials by construction companies and an increase in orders for materials used at public and commercial building projects. Subsidiaries newly acquired through M&A for strengthening our business in target markets and included in the consolidation also contributed to the sales gains. Accordingly, sales increased 10.7%, achieving the sales forecast (announced on Nov. 8) for the fiscal year.
- ◆ Operating profit increased 46.3% because of streamlining and cost reduction, contribution of the newly consolidated subsidiaries and other reasons. However, profit fell short of our November 8 fiscal year forecast due to substantial impact of higher prices of raw materials in the wood industrial materials business in North America.

| (Unit: million yen)                     | Fiscal 2019<br>(Result) | Fiscal 2020<br>(Result) | YoY change     |               | Fiscal 2020<br>(Forecast on Nov. 8) | Vs. results   |
|---|-------------------------|-------------------------|----------------|---------------|-------------------------------------|---------------|
|   |                         |                         | Amount         | %             |                                     |               |
| Net sales                               | 182,962                 | <b>202,481</b>          | <b>+19,518</b> | <b>+10.7%</b> | 202,000                             | +481          |
| Operating profit                        | 5,733                   | <b>8,384</b>            | <b>+2,651</b>  | <b>+46.3%</b> | 8,700                               | <b>-316</b>   |
| Operating profit ratio                  | 3.1%                    | <b>4.1%</b>             | <b>+1.0pt</b>  | -             | 4.3%                                | <b>-0.2pt</b> |
| Ordinary profit                         | 6,838                   | 9,108                   | +2,270         | +33.2%        | 9,400                               | <b>-292</b>   |
| Profit attributable to owners of parent | 4,402                   | <b>5,447</b>            | <b>+1,045</b>  | <b>+23.7%</b> | 5,000                               | +447          |
| Earnings per share (yen)                | 174.55                  | 209.32                  | +34.77         | +19.9%        | 192.12                              | +17.20        |
| Dividend per share (yen)                | 74                      | <b>70</b>               | -4             | -             | 70                                  | ±0            |
| Dividend payout ratio                   | 42.4%                   | 33.4%                   | -9.0pt         | -             | 36.4%                               | <b>-3.0pt</b> |
| ROE                                     | 7.8%                    | <b>9.5%</b>             | <b>+1.7pt</b>  | -             | 8.5%                                | +1.0pt        |

# 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, soundproofing and other products in the domestic home market and public and commercial building sectors, and by increasing selling prices to reflect higher logistics cost.
- ◆ **Engineering Business:** Sales increased as orders were higher for interior finishing work, inclusion of the renovation subsidiary into the consolidation and the solid flooring materials business. However, earnings decreased due to lower profitability mainly because of the rising cost of labor.

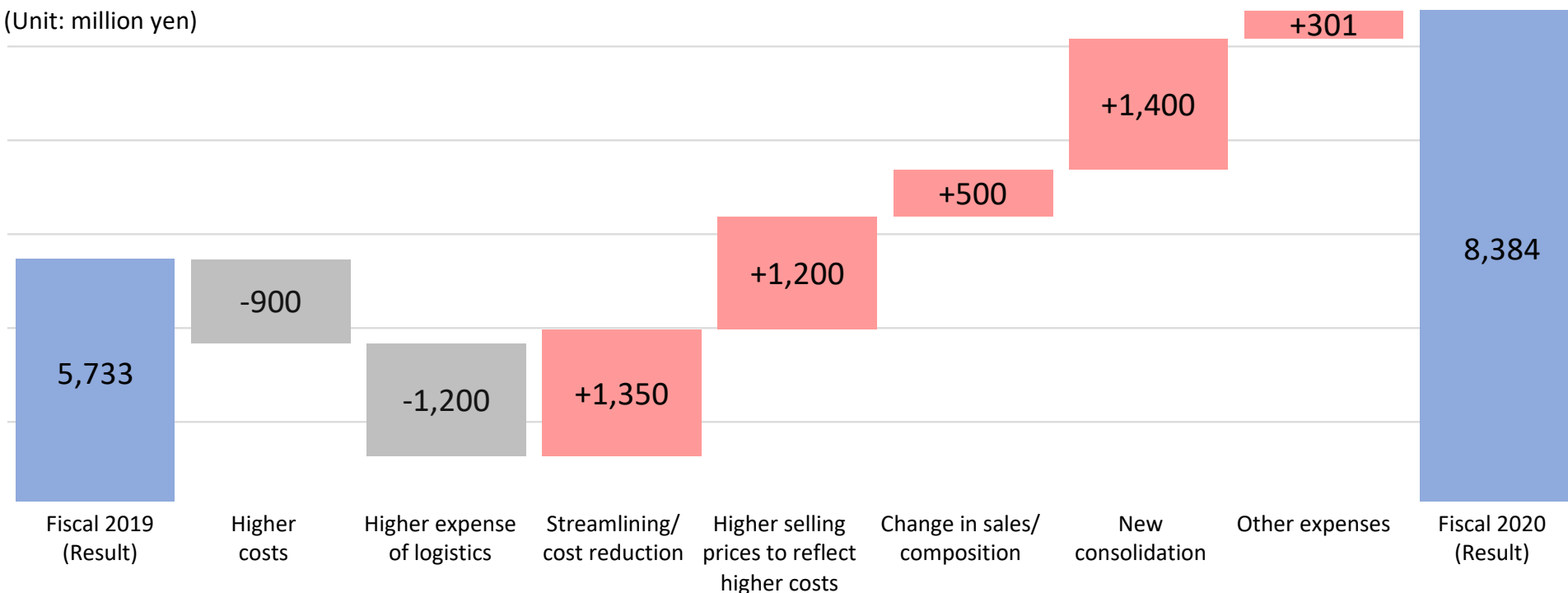
| (Unit: million yen)           | Fiscal 2019<br>(Result) |                  | Fiscal 2020<br>(Result) |            |        |                  |            |         |
|-------------------------------|-------------------------|------------------|-------------------------|------------|--------|------------------|------------|---------|
|                               | Net sales               | Operating profit | Net sales               | YoY change |        | Operating profit | YoY change |         |
|                               |                         |                  |                         | Amount     | %      |                  | Amount     | %       |
| Industrial Materials Business | 61,843                  | 1,132            | 76,589                  | +14,745    | +23.8% | 2,503            | +1,371     | +121.1% |
| Building Materials Business   | 89,485                  | 3,189            | 94,938                  | +5,453     | +6.1%  | 4,955            | +1,766     | +55.4%  |
| Engineering Business          | 18,063                  | 1,015            | 21,713                  | +3,649     | +20.2% | 613              | -402       | -39.7%  |
| Others                        | 13,569                  | 395              | 9,240                   | -4,329     | -31.9% | 312              | -83        | -21.1%  |
| Total                         | 182,962                 | 5,733            | 202,481                 | +19,518    | +10.7% | 8,384            | +2,651     | 46.3%   |



# Fiscal 2020 Changes in Operating Profit

- ◆ Higher costs: Increase in prices of wood chips and other raw materials, higher energy and fixed manufacturing costs.
- ◆ 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 and building interior projects
- ◆ New consolidation: A wood industrial materials company in North America and a renovation company were newly consolidated in the second quarter and solid flooring materials business was newly consolidated in the third quarter of fiscal 2020

(Unit: million yen)

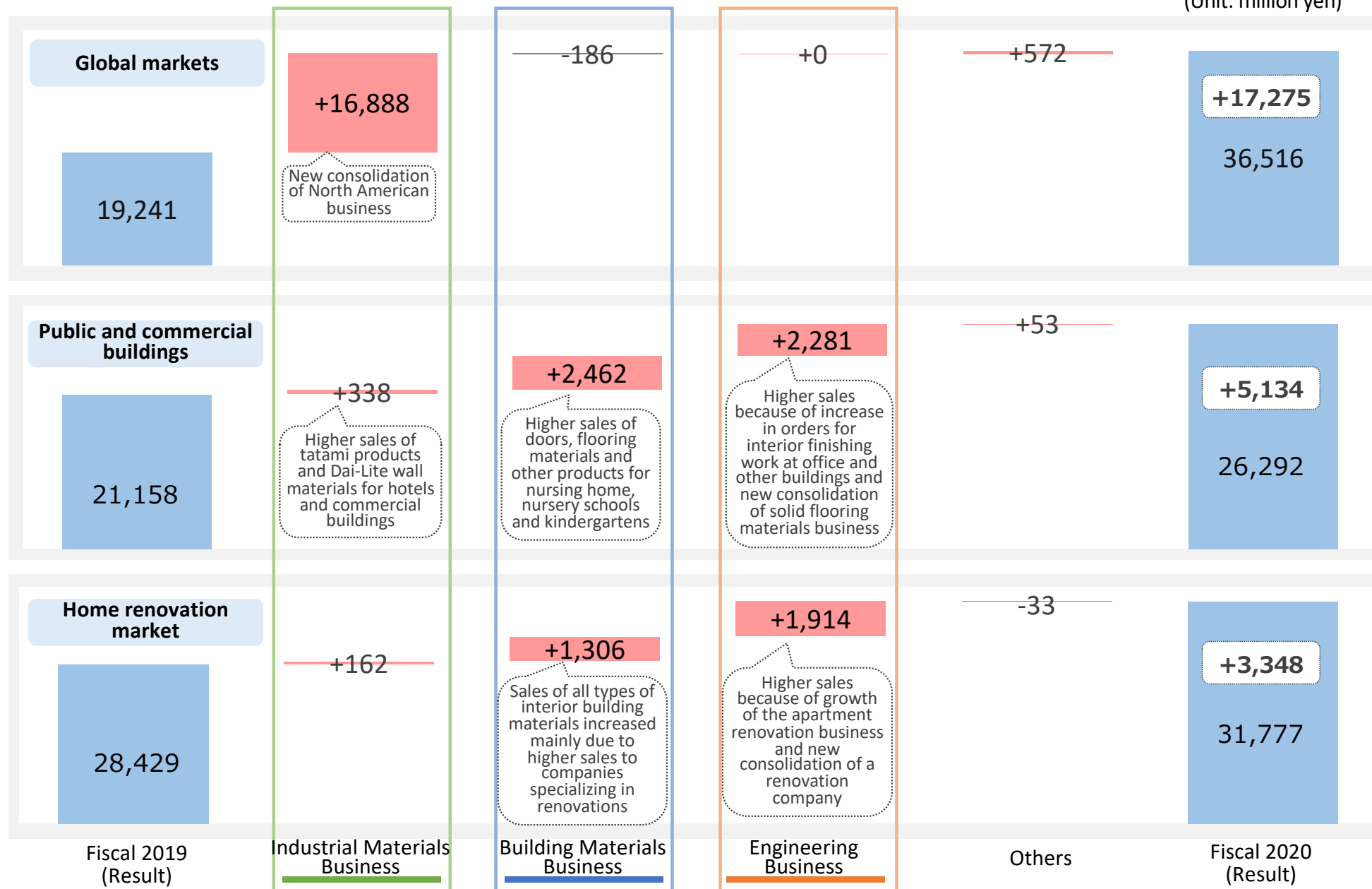


# Fiscal 2020 Market Category Sales

| (Unit: million yen)<br>Upper: sales Lower: composition | Fiscal 2019<br>(Result) | Fiscal 2020<br>(Result) | YoY change     |               |
|--|-------------------------|-------------------------|----------------|---------------|
|  |                         |                         | Amount         | %             |
| <b>Global markets</b>                                  | 19,241                  | <b>36,516</b>           | <b>+17,275</b> | <b>+89.8%</b> |
|  | 10.5%                   | <b>18.0%</b>            | <b>+7.5pt</b>  | -             |
| <b>Public and commercial buildings</b>                 | 21,158                  | <b>26,292</b>           | <b>+5,134</b>  | <b>+24.3%</b> |
|  | 11.6%                   | <b>13.0%</b>            | <b>+1.4pt</b>  | -             |
| Industrial materials                                   | 35,590                  | 28,483                  | -7,106         | -20.0%        |
|  | 19.5%                   | 14.1%                   | -5.4pt         | -             |
| <b>Home renovation market</b>                          | 28,429                  | <b>31,777</b>           | <b>+3,348</b>  | <b>+11.8%</b> |
|  | 15.5%                   | <b>15.7%</b>            | <b>+0.2pt</b>  | -             |
| Domestic new home market                               | 77,522                  | 78,630                  | +1,108         | +1.4%         |
|  | 42.4%                   | 38.8%                   | -3.6pt         | -             |
| Others   | 1,023                   | 783                     | -240           | -23.5%        |
|  | 0.5%                    | 0.4%                    | -0.1pt         | -             |
| Domestic market  | 163,721                 | <b>165,965</b>          | <b>+2,244</b>  | <b>+1.4%</b>  |
|  | 89.5%                   | <b>82.0%</b>            | <b>-7.5pt</b>  | -             |
| Total  | 182,962                 | <b>202,481</b>          | <b>+19,518</b> | <b>+10.7%</b> |
|  | 100.0%                  | 100.0%                  | -              | -             |

# Fiscal 2020 Market Category Sales and Changes for Business Segments

(Unit: million yen)



# Fiscal 2021

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## Forecast

## Announcement of Fiscal 2021 Forecast

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**As was announced the results of operations on May 12, 2020, the forecast for the fiscal year ending March 31, 2021 has not been determined at this time because it is difficult to reasonably predict the impact of the spread of the COVID-19 pandemic. We will carefully assess the impact of the COVID-19 pandemic on our business performance and promptly announce the forecast as soon as it is determined.**

# Responses Going Forward

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# Major Actions (1)

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## Risk recognition

- **The spread of COVID-19 pandemic will have an extremely significant and long-term impact on social and economic activities. This is an important risk factor which may drastically push down demand for residential housing and construction materials.**  
→ In response, we will take necessary actions in a timely and appropriate manner.



## Response to risks

- **Freezing capital investment plans: Investments, excluding highly important and urgent investments, will be frozen**
- **Thorough review and careful selection of expenses: Expenses will be carefully selected on the basis of urgency and medium- to long-term competitiveness**
- **Speed up work-style reforms: Build a flextime system in which diverse human resources can play active roles**
- **Pursue asset utilization efficiency: Strengthen balance sheet and cash flow management; continue to reduce cross shareholdings**

# Major Actions (2)

## Strengthen governance

- Increase the number of outside directors to 3 (three out of eight: more than one third) to strengthen the supervisory function
- Increase involvement of the board in group risk management
- Strengthen monitoring of important investment projects

## Reaffirm Daiken's strengths and pursue solutions to social issues

- Amid growing uncertainty, pursuing contribution to the resolution of social issues through essential business activities
  - ◆ Contributing to a sustainable society through effective use of limited resources
  - ◆ Creating a safe, secure, healthy, and comfortable space

Social issues and needs

×

Daiken's strengths

=

Proposed solutions



# **Financial Information**

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## **(Reference Materials)**

# Fiscal 2020 Consolidated Balance Sheet (Major components)

| (Unit: million yen)                     | Fiscal 2019<br>(Result) | Fiscal 2020<br>(Result) | YoY change     |
|---|-------------------------|-------------------------|----------------|
| Cash and deposits                       | 16,865                  | 16,839                  | -26            |
| Notes and accounts receivable           | 50,511                  | 42,092                  | -8,419         |
| Inventories                             | 21,363                  | 27,010                  | +5,647         |
| Other current assets                    | 2,810                   | 1,990                   | -820           |
| <b>Total current assets</b>             | <b>91,553</b>           | <b>87,934</b>           | <b>-3,619</b>  |
| Property, plant and equipment           | 41,321                  | 51,426                  | +10,105        |
| Intangible assets                       | 6,375                   | 14,834                  | +8,459         |
| Investments and other assets            | 20,831                  | 16,351                  | -4,480         |
| <b>Total assets</b>                     | <b>160,158</b>          | <b>170,638</b>          | <b>+10,480</b> |
| Notes and accounts payables             | 30,573                  | 26,846                  | -3,727         |
| Bonds and borrowings                    | 30,682                  | 43,539                  | +12,857        |
| Other current/non-current liabilities   | 37,153                  | 37,268                  | + 115          |
| <b>Total liabilities</b>                | <b>98,416</b>           | <b>107,662</b>          | <b>+9,246</b>  |
| <b>Total shareholders' equity</b>       | <b>53,460</b>           | <b>57,059</b>           | <b>+3,599</b>  |
| <b>Total net assets</b>                 | <b>61,741</b>           | <b>62,975</b>           | <b>+1,234</b>  |
| <b>Total liabilities and net assets</b> | <b>160,158</b>          | <b>170,638</b>          | <b>+10,480</b> |
| Shareholder equity ratio                | 36.8%                   | 32.7%                   | -4.1pt         |
| Debt-equity ratio (multiple)            | 0.52                    | 0.79                    | +0.27          |

◆ **Notes and accounts receivable -8,419**  
 <Major factors>  
 New consolidation +2,489  
 End of fiscal 2019 was on a Sunday, etc. -10,908

◆ **Inventories +5,647**  
 <Major factors>  
 New consolidation +4,154  
 Finished goods and merchandise inventories, and others +1,493

◆ **Property, plant and equipment +10,105**  
 <Major factors>  
 New consolidation +10,736  
 Acquisition/construction in progress +4,506  
 Depreciation -3,650  
 Exchange rate changes, etc. -1,487

◆ **Intangible assets +8,459**  
 <Major factors>  
 Increase in goodwill due to new consolidation +9,267

◆ **Bonds and borrowings +12,857**  
 <Major factors>  
 Bond issuance +10,000  
 Increase in borrowings due to new consolidation +6,547  
 Repayment of borrowings, etc. -3,690

◆ **Total net assets +1,234**  
 <Major factors>  
 Non-controlling interests +4,360  
 Foreign currency translation adjustment -3,317

# Fiscal 2020 Consolidated Statement of Income

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

| (Unit: million yen)                                  | Fiscal 2019<br>(Result) | Fiscal 2020<br>(Result) | YoY change    |
|--|-------------------------|-------------------------|---------------|
| Net sales  | 182,962                 | 202,481                 | +19,518       |
| Gross profit   | 43,673                  | 51,038                  | +7,365        |
| SG&A expenses  | 37,940                  | 42,653                  | +4,713        |
| Operating profit                                     | 5,733                   | 8,384                   | +2,651        |
| <b>Non-operating profit<br/>(expenses)</b>           | <b>+1,105</b>           | <b>+724</b>             | <b>-381</b>   |
| Ordinary profit                                      | 6,838                   | 9,108                   | +2,270        |
| <b>Extraordinary income<br/>(losses)</b>             | <b>+463</b>             | <b>-237</b>             | <b>-700</b>   |
| Profit before income taxes                           | 7,301                   | 8,871                   | +1,570        |
| Total income taxes                                   | 2,703                   | 2,359                   | -344          |
| Profit   | 4,597                   | 6,512                   | +1,915        |
| Profit attributable to non-<br>controlling interests | 195                     | 1,064                   | +869          |
| <b>Profit attributable to owners<br/>of parent</b>   | <b>4,402</b>            | <b>5,447</b>            | <b>+1,045</b> |

◆ **Non-operating profit (expenses)** **-381**

<Major factors>

|                         |      |
|-------------------------|------|
| Interest expenses       | -130 |
| Foreign exchange losses | -120 |

◆ **Extraordinary income (losses)** **-237**

<Major factors>

|  |      |
|--|------|
| Gain on sales of investment securities   | +345 |
| Provision for loss on litigation         | -184 |
| Loss on retirement of non-current assets | -157 |
| Loss on sales of investment securities   | -148 |

| Exchange rate (yen) | Fiscal 2019<br>(Result) | Fiscal 2020<br>(Result) | YoY change |
|---------------------|-------------------------|-------------------------|------------|
| USD                 | -                       | 108.29                  | -          |
| CAD                 | -                       | 81.57                   | -          |
| NZD                 | 75.45                   | 70.39                   | -5.06      |
| MYR                 | 27.18                   | 26.10                   | -1.08      |

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

| (Unit: million yen)                                   | Fiscal 2019<br>(Result) | Fiscal 2020<br>(Result) |
|---|-------------------------|-------------------------|
| <b>Operating cash flow</b>                            | +10,052                 | <b>+16,807</b>          |
| <b>Investing cash flow</b>                            | -15,079                 | <b>-17,863</b>          |
| <b>Free cash flow</b>                                 | -5,027                  | -1,056                  |
| <b>Financing cash flow</b>                            | +11,165                 | <b>+1,468</b>           |
| <b>Cash and cash equivalents<br/>at end of period</b> | 16,865                  | <b>16,839</b>           |
| <b>Capital expenditures</b>                           | 6,586                   | 5,490                   |
| <b>Depreciation</b>                                   | 4,134                   | 5,079                   |

## ◆ Operating cash flow +16,807

<Major factors>

|                                       |        |
|---------------------------------------|--------|
| Profit before income taxes            | +8,871 |
| Depreciation                          | +5,079 |
| Amortization of goodwill              | +1,315 |
| Changes in trade receivables/payables | +2,916 |
| Income taxes paid                     | -3,185 |

## ◆ Investing cash flow -17,863

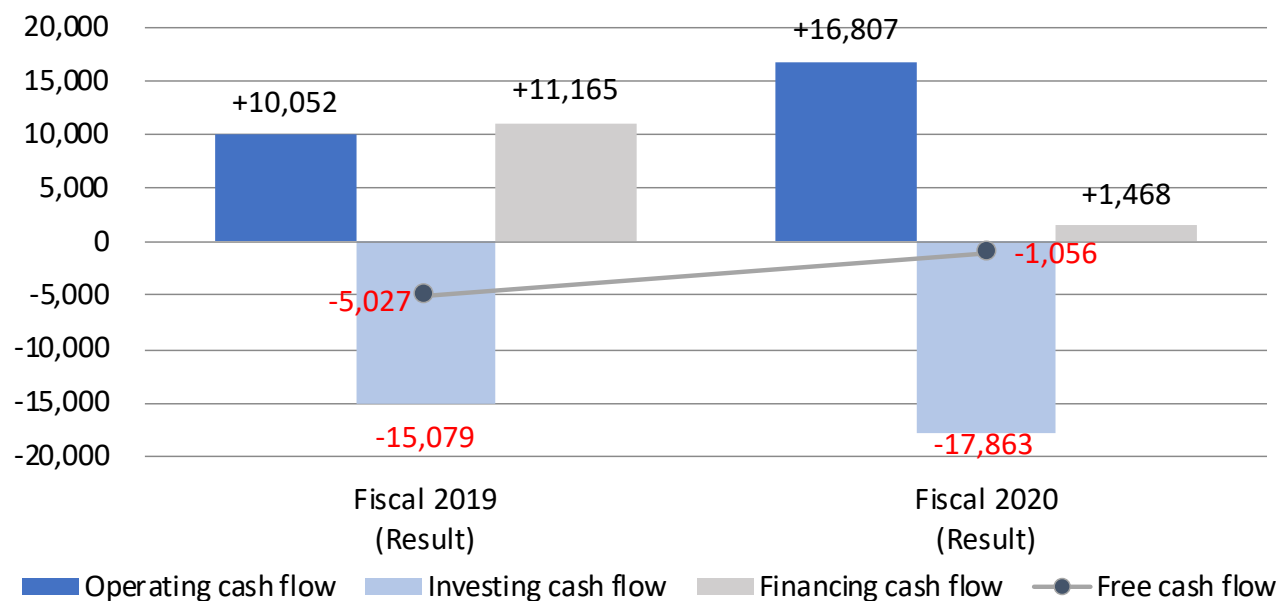
<Major factors>

|  |         |
|--|---------|
| Sales of investment securities   | +1,183  |
| Purchase of property, plant and equipment  | -5,526  |
| Purchase of shares of subsidiaries resulting in change in scope of consolidation | -13,279 |

## ◆ Financing cash flow +1,468

<Major factors>

|                                  |        |
|----------------------------------|--------|
| Issuance and redemption of bonds | +9,475 |
| Decrease in borrowings           | -5,952 |
| Dividends paid                   | -1,873 |



Toward the future going beyond the functions of yesterday

# DAIKEN

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