

**Results of Operations for the First Half of
the Fiscal Year Ending March 31, 2021 (Fiscal 2021)**



November 18, 2020

DAIKEN CORPORATION

(Security Code: 7905)

Contents

1. Impact of the Spread of COVID-19 Infections and Status of Our Response

- Impact of the Spread of COVID-19 Infections and Status of Our Response 4

2. First Half of Fiscal 2021 Financial Results

- 1H Fiscal 2021 Market Environment 6
- 1H Fiscal 2021 Financial Results 7
- 1H Fiscal 2021 Business Segment Results 8
- 1H Fiscal 2021 Changes in Operating Profit 9
- 1H Fiscal 2021 Market Category Sales 10
- 1H Fiscal 2021 Business Segment Performance in Three Priority Markets 11

3. Fiscal 2021 Forecast

- Fiscal 2021 Forecast 13
- Fiscal 2021 Forecast of Changes in Operating Profit 14
- Fiscal 2021 Business Segment Forecasts 15
- Fiscal 2021 Forecast of Market Category Sales 16
- Fiscal 2021 Forecast for Business Segment Performance in Three Priority Markets 17

4. Activities in Priority Markets

- Overseas Activities in North America 19
- Japan More Non-combustible Products 20
- Japan More Virus-resistant Building Materials 21
- Market Composition of Sales (Medium-term management plan portfolio goal) 22

5. Financial Information

- 1H Fiscal 2021 Consolidated Balance Sheet 24
- 1H Fiscal 2021 Consolidated Statement of Income 25
- 1H Fiscal 2021 Consolidated Statement of Cash Flows 26

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

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

	1Q	2Q
Corporate level	<ul style="list-style-type: none"> ◆ 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. ◆ Since April (state of emergency in Japan): Used teleworking to reduce by 80% people working at Daiken business sites. After the end of the state of emergency, this ratio was about 50% at the Tokyo, Osaka and other business sites. Operations returned to almost normal at business sites other than in major metropolitan areas. ◆ After the end of the state of emergency, showrooms reopened but require reservations. 	Continued these activities →
		Continued these activities →
		Continued these activities →
Domestic production bases	<ul style="list-style-type: none"> ◆ Okayama plant, Takahagi plant, Mie plant, Inami plant, other group factories - Continuing operations after production adjustments at some locations. 	Continued these activities →
Overseas production bases	<ul style="list-style-type: none"> ◆ Malaysia: Operated two MDF plants with 50% workforce reduction; since mid-May, operating consistently with about 90% of the workforce. ◆ New Zealand: Two MDF plants are operating normally following the April lockdown. ◆ North America: The Canada veneer plant is continuing to operate normally; the U.S. LVL plant cut output 60% in April-May but then slowly raised output and has been operating normally since July. ◆ China: Suspended operations after the spring festival until Feb. 17; resumed operations with 70% capacity utilization and returned to normal operations in June. ◆ Indonesia: Suspended operations in May and resumed operation in early June after the Lebaran holidays. 	Normal operations →
		Normal operations →
		Normal operations →
		Normal operations →
		Normal operations →
Response to risks	<ul style="list-style-type: none"> ◆ Capital expenditure freeze: Stopped investments based on the outlook for sales growth. ◆ Thorough review and careful selection of expenses. ◆ Increased cash and deposits (liquidity) because of the uncertain outlook for market conditions. 	Continued these activities → As of September 30, 2020, liquidity ¥24.0 billion (up ¥2.1 billion from the end of March) Cash and deposits were ¥19.0 billion and there was an unused committed credit line of ¥5.0 billion

First Half of Fiscal 2021

Financial Results

1H Fiscal 2021 Market Environment

Domestic home market

- ◆ The downturn after the October 2019 consumption tax hike and the COVID-19 crisis have held down housing starts and home renovations.

Housing starts in Japan (1H Fiscal 2021)

(Unit: 10,000)	Jan.-Jun. 2019	Jan.-Jun. 2020	YoY change	Apr.-Sep. 2019	Apr.-Sep. 2020	YoY change
Housing starts (total)	44.9	39.8	- 11.4%	46.7	41.4	- 11.3%
Owner-built homes	14.4	12.4	- 13.7%	15.3	13.1	- 14.2%
Rental properties	16.7	14.9	- 11.0%	17.5	15.7	- 10.8%
Built-for sale homes	7.2	6.7	- 7.4%	7.5	6.4	- 14.5%

Public and commercial buildings (non-housing sector)

- ◆ Shutout of foreign tourists had a big negative impact due to commercial building and hotel construction suspensions and postponements.
- ◆ Overall construction demand is low because the Tokyo Olympics/Paralympics were scheduled for 2020.

Cost of raw materials and logistics

- ◆ Prices of imported plywood and crude oil/naphtha declined, resulting in lower prices of energy and of plastics and other chemical products.
- The negative effect of the upturn in logistics expenses in the prior fiscal year has ended.

The MDF market

- ◆ Still very challenging due to the continuing downturn from the prior fiscal year, chiefly in Asia, because of U.S.-China trade friction and other reasons, and to lower furniture and building material demand as economic activity plunged because of COVID-19.

Recent U.S. home market

- ◆ In the 1Q, a big negative impact of the drop in demand caused by construction suspensions due to COVID-19. In the 2Q and afterward, housing starts recovered rapidly.

Month	Apr. 2020	May 2020	Jun. 2020	Jul. 2020	Aug. 2020	Sep. 2020
Housing starts (10,000, annualized)	93.4	101.1	122.0	149.2	138.8	141.5
YoY change	- 27.1%	- 20.1%	- 1.7%	+22.8%	+0.1%	+11.8%

1H Fiscal 2021 Financial Results

Net sales: Four subsidiaries (two North America subsidiaries and renovation and solid wood flooring businesses) newly consolidated in 2Q Fiscal 2020 contributed to sales, but first half sales were down 5.0% because of lower sales of products in existing businesses. (Sales were down 10.5% after excluding the four newly consolidated subsidiaries.)

Operating profit: Earnings benefited from measures to streamline operations and cut costs including SG&A expenses as well as from the four newly consolidated subsidiaries. But operating profit fell 24.6% as these positive effects were outweighed by lower sales of products in existing businesses.

Vs. initial forecast: Sales and earnings exceeded the 1H forecast because the U.S. home market recovered faster than expected.

(Unit: million yen)	1H Fiscal 2020 (Result)	1H Fiscal 2021 (Result)	YoY change		1H Fiscal 2021 (Forecast on Aug. 7)	Vs. 1H results
			Amount	%		
Net sales	97,548	92,671	-4,876	-5.0%	89,000	+3,671
Operating profit	3,790	2,857	-932	-24.6%	2,000	+857
Operating profit ratio	3.9%	3.1%	-0.8pt	-	2.2%	+0.9pt
Ordinary profit	4,197	3,371	-825	-19.7%	2,200	+1,171
Profit attributable to owners of parent	2,087	1,986	-100	-4.8%	1,400	+586
Earnings per share (yen)	80.21	76.29	-3.92	-4.9%	53.77	+22.52

1H Fiscal 2021 Business Segment Results

Industrial Materials Business: Sales increased because of the two North America subsidiaries newly consolidated in 2Q Fiscal 2020 but earnings were down due to lower MDF, tatami and other sales in existing businesses due to COVID-19.

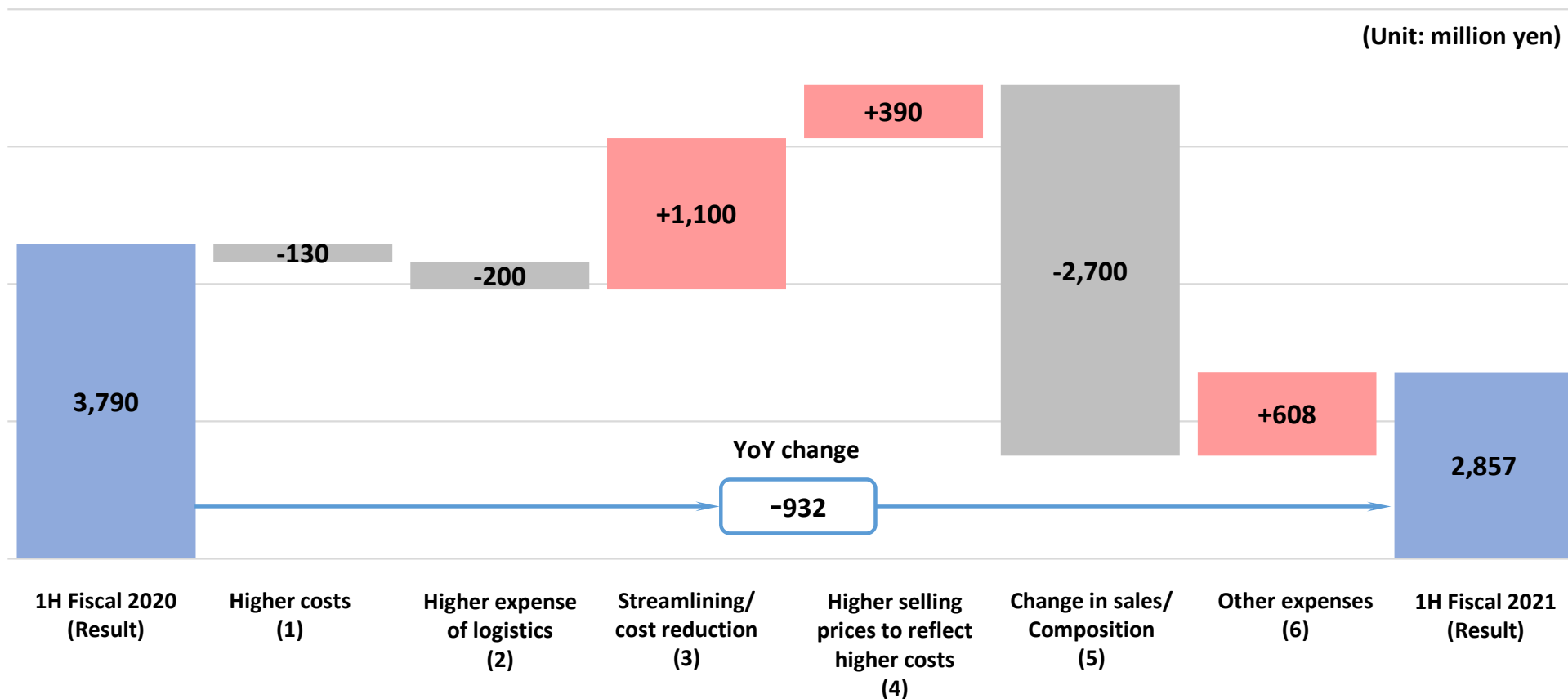
Building Materials Business: Sales increased for public-sector projects and commercial buildings, but sales in the new home and renovation categories decreased due to the downturn following the October 2019 consumption tax hike and to COVID-19. The result was lower sales and earnings.

Engineering Business: The renovation and solid wood flooring businesses newly consolidated after 2Q Fiscal 2020 increased sales, but sales and earnings decreased because of lower demand for interior finishing work at office and other buildings.

(Unit: million yen)	1H Fiscal 2020 (Result)		1H Fiscal 2021 (Result)					
	Net sales	Operating profit	Net sales	YoY change		Operating profit	YoY change	
				Amount	%		Amount	%
Industrial Materials Business	36,365	1,129	36,660	+294	+0.8%	889	-240	-21.3%
Building Materials Business	46,652	2,226	42,309	-4,342	-9.3%	1,497	-729	-32.8%
Engineering Business	10,152	329	9,415	-736	-7.3%	253	-75	-23.1%
Others	4,376	104	4,285	-91	-2.1%	217	+112	+108.2%
Total	97,548	3,790	92,671	-4,876	-5.0%	2,857	-932	-24.6%

1H Fiscal 2021 Changes in Operating Profit

- 1) Higher costs: Only a small effect because prices of raw materials started to decline
- 2) Higher expense of logistics: The negative effect of the increase in Fiscal 2020 has ended
- 3) Streamlining/cost reduction: Cut fixed manufacturing expenses, reexamined purchased products, decline in prices of imported plywood
- 4) Higher selling prices to reflect higher costs: Increased to reflect big increase in logistics expenses that started late in 1Q Fiscal 2020
- 5) Change in sales/composition: Big decrease in existing product sales in the industrial materials and building materials businesses
- 6) Other expenses: Decreased due to the decline in business activity caused by COVID-19 and to a thorough review and careful selection of expenses

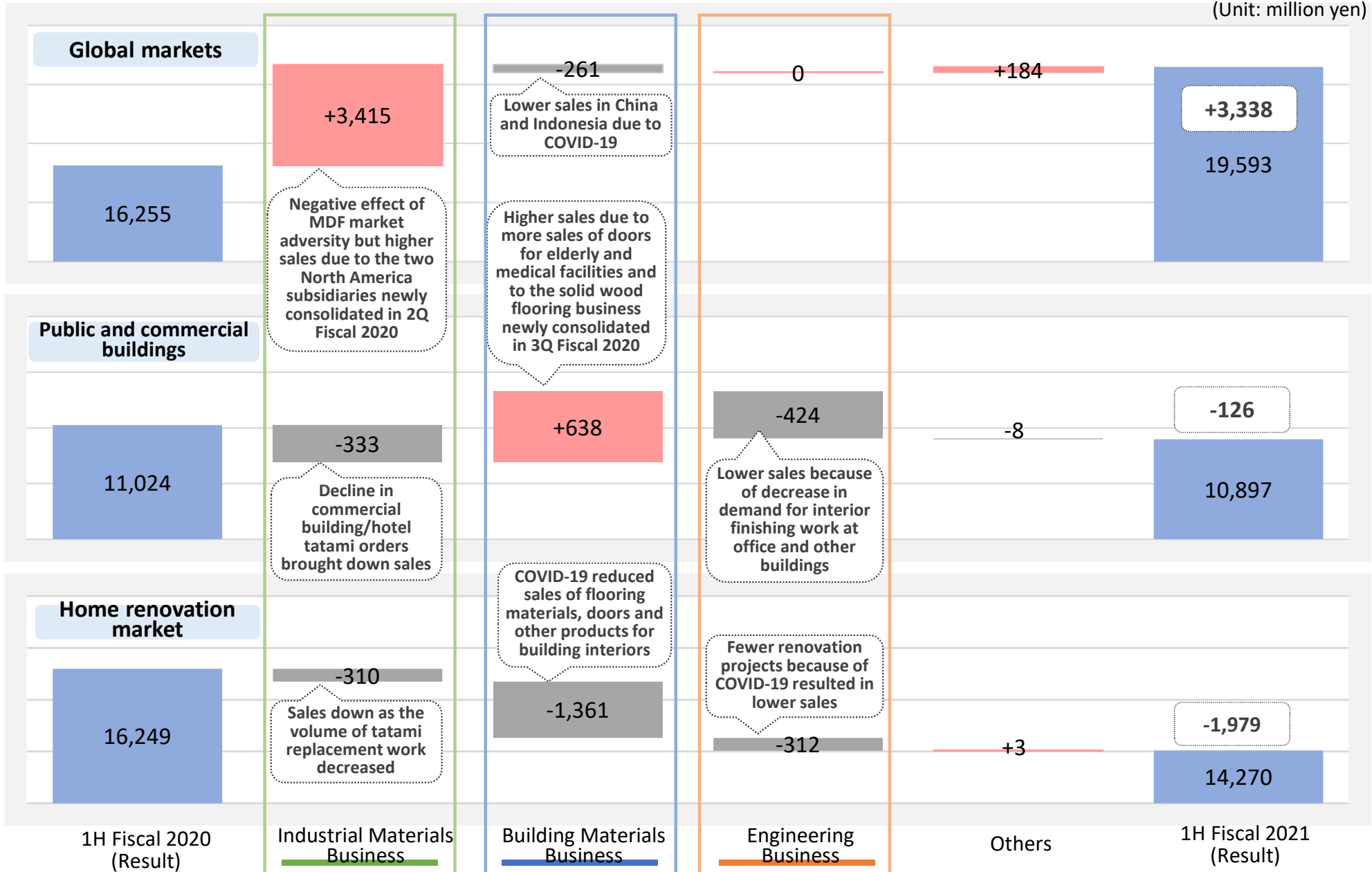


1H Fiscal 2021 Market Category Sales

(Unit: million yen) Upper: sales Lower: composition	1H Fiscal 2020 (Result)	1H Fiscal 2021 (Result)	YoY change	
			Amount	%
Global markets	16,255	19,593	+3,338	+20.5%
	16.7%	21.1%	+4.4pt	-
Public and commercial buildings	11,024	10,897	-126	-1.1%
	11.3%	11.8%	+0.5pt	-
Industrial materials	14,174	12,201	-1,972	-13.9%
	14.5%	13.2%	-1.3pt	-
Home renovation market	16,249	14,270	-1,979	-12.2%
	16.7%	15.4%	-1.3pt	-
Domestic new home market	39,447	35,502	-3,945	-10.0%
	40.4%	38.3%	-2.1pt	-
Others	400	209	-192	-47.9%
	0.4%	0.2%	-0.2pt	-
Domestic market	81,293	73,078	-8,215	-10.1%
	83.3%	78.9%	-4.4pt	-
Total	97,548	92,671	-4,876	-5.0%
	100.0%	100.00%	-	-

1H Fiscal 2021 Business Segment Performance in Three Priority Markets

(Unit: million yen)



Fiscal 2021

Forecast

Fiscal 2021 Forecast

Forecast assumptions: Expect Japan housing starts to remain mostly at the 2Q level and a small downward correction of U.S. housing starts due to the overheated market caused by the rapid recovery.

Net sales: Contributions from the four subsidiaries newly consolidated in 2Q Fiscal 2020, but forecast a 6.2% decrease because of lower sales of products in existing businesses. (8.8% decrease after excluding the four newly consolidated subsidiaries.)

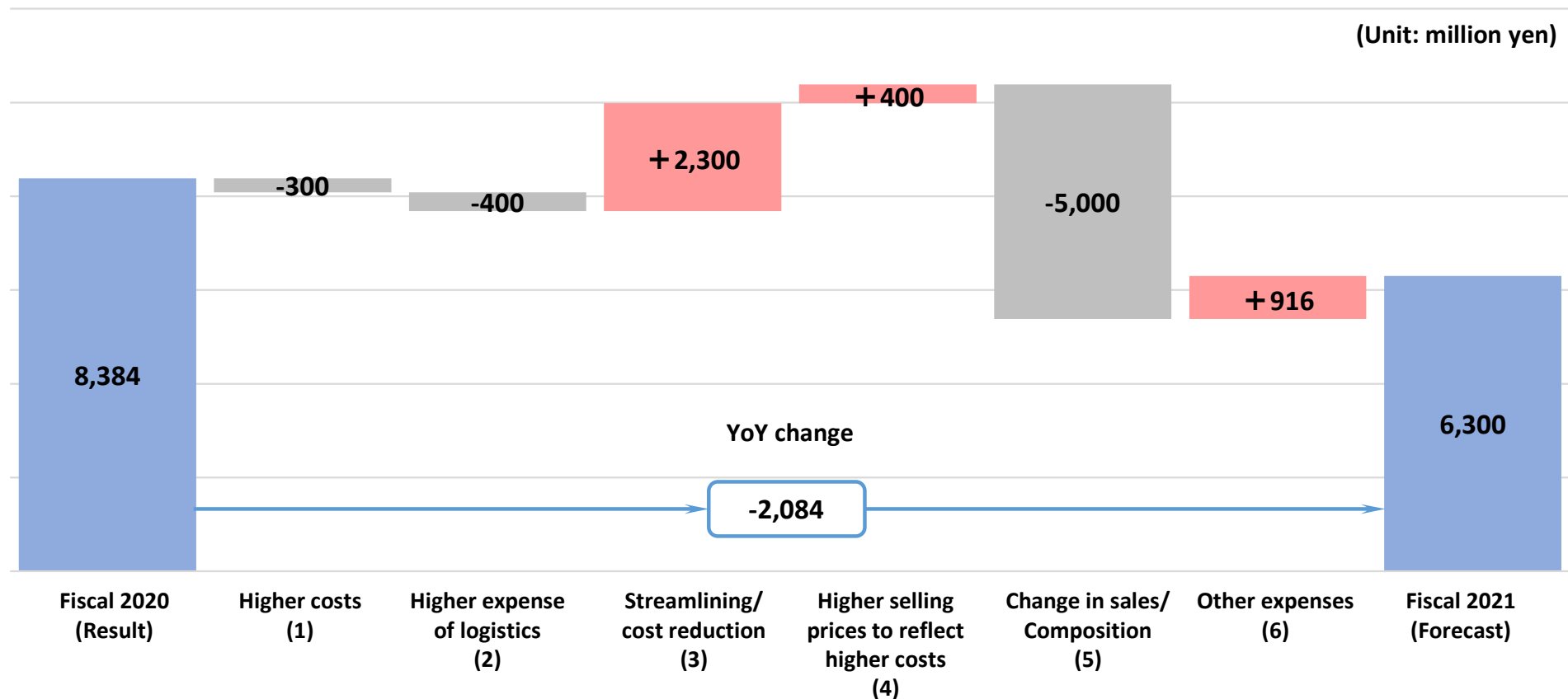
Operating profit: Streamlining/cost reduction measures will continue, but forecast a 24.9% decrease because of lower sales.

Shareholder returns: Due to priority on dividend stability as for the interim dividend, forecast a year-end dividend of ¥30. (FY dividend of ¥60)

(Unit: million yen)	Fiscal 2020 (Result)	Fiscal 2021 (Forecast)	YoY change	
			Amount	%
Net sales	202,481	190,000	-12,481	-6.2%
Operating profit	8,384	6,300	-2,084	-24.9%
Operating profit ratio	4.1%	3.3%	-0.8pt	-
Ordinary profit	9,108	7,000	-2,108	-23.2%
Profit attributable to owners of parent	5,447	4,000	-1,447	-26.6%
Earnings per share (yen)	209.32	153.61	-55.71	-
Dividend per share (yen)	70 (Interim 35, Year-end 35)	60 (Interim 30, Year-end 30)	-10	-
Dividend payout ratio	33.4%	39.1%	+5.7pt	-
ROE	9.5%	6.9%	-2.6pt	-

Fiscal 2021 Forecast of Changes in Operating Profit

- 1) Higher costs: Only a small effect because of downturn in prices of raw materials
- 2) Higher expense of logistics: The increase that occurred in Fiscal 2020 has ended
- 3) Streamlining/cost reduction: Cut fixed manufacturing expenses, reexamine purchased products, decline in prices of imported plywood
- 4) Higher selling prices to reflect higher costs: Prices raised due to a big increase in logistics expenses starting in late 1Q Fiscal 2020; contribution to earnings growth ended in 1H Fiscal 2021
- 5) Change in sales/composition: Big decrease in existing product sales in the industrial materials and building materials businesses
- 6) Other expenses: Decrease due to thorough review and careful selection of expenses



Fiscal 2021 Business Segment Forecasts

Industrial Materials Business: Sales down 1.6%. The two North America subsidiaries newly consolidated in 2Q Fiscal 2020 will contribute to sales growth, but anticipate lower MDF, tatami and other sales in existing businesses.

Building Materials Business: Sales down 8.6%. Forecast higher sales in the public-sector projects and commercial buildings and an upturn after the 2Q, when sales were down YoY in due to the surge in 2Q Fiscal 2020 sales prior to the consumption tax hike. But expect lower segment sales because of the big impact of declines in sales in the new home and renovation categories.

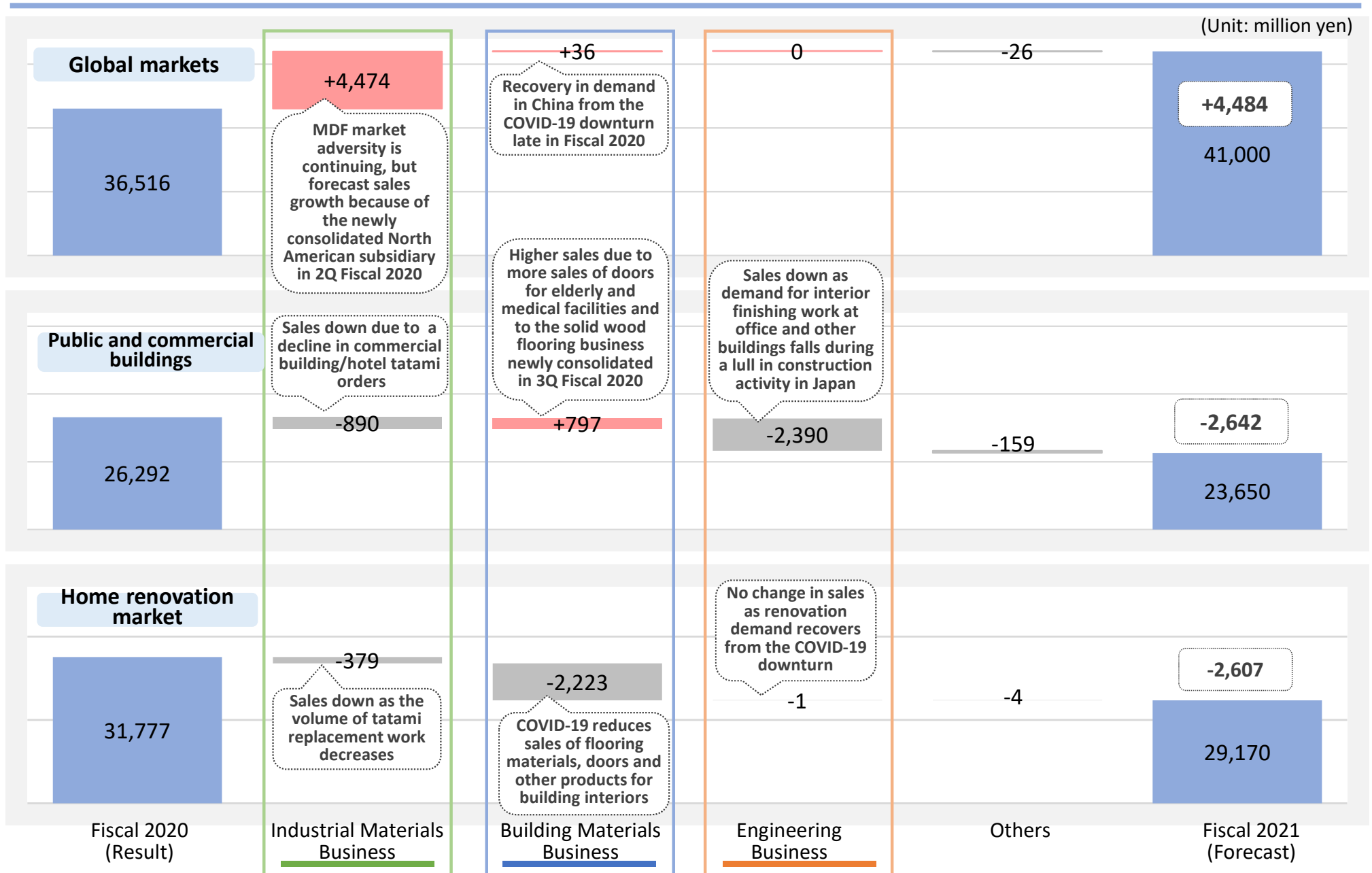
Engineering Business: Sales down 10.1%. Anticipate contributions to sales from a recovery in the renovation business and from the solid wood flooring business (construction) newly consolidated in 3Q Fiscal 2020. But expect a substantial decrease in interior finishing work because the volume of construction work in Japan is low in Fiscal 2020.

(Unit: million yen)	Fiscal 2020 (Result)	Fiscal 2021 (Forecast)	YoY change	
			Amount	%
Industrial Materials Business	76,589	75,380	-1,209	-1.6%
Building Materials Business	94,938	86,770	-8,168	-8.6%
Engineering Business	21,713	19,520	-2,193	-10.1%
Others	9,240	8,330	-910	-9.9%
Total	202,481	190,000	-12,481	-6.2%

Fiscal 2021 Forecast of Market Category Sales

(Unit: million yen) Upper: sales Lower: composition	Fiscal 2020 (Result)	Fiscal 2021 (Forecast)	YoY change	
			Amount	%
Global markets	36,516	41,000	+4,484	+12.3%
	18.0%	21.6%	+3.6pt	-
Public and commercial buildings	26,292	23,650	-2,642	-10.0%
	13.0%	12.4%	-0.6pt	-
Industrial materials	28,483	24,350	-4,133	-14.5%
	14.1%	12.8%	-1.3pt	-
Home renovation market	31,777	29,170	-2,607	-8.2%
	15.7%	15.4%	-0.3pt	-
Domestic new home market	78,630	71,430	-7,200	-9.2%
	38.8%	37.6%	-1.2pt	-
Others	783	400	-383	-48.9%
	0.4%	0.2%	-0.2pt	-
Domestic market	165,965	149,000	-16,965	-10.2%
	82.0%	78.4%	-3.6pt	-
Total	202,481	190,000	-12,481	-6.2%
	100.0%	100.00%	-	-

Fiscal 2021 Forecast for Business Segment Performance in Three Priority Markets



Activities in Priority Markets

Overseas Activities in North America

Two goals to aim for more growth. Build a stronger foundation for operations by maintaining a stable supply of wood, using a warehouse for more cooperation among group companies and taking other actions. Become more profitable by increasing the number of products with substantial added value.

Veneer **Canada**

CIPA Lumber Co. Ltd. (CIPA)



A consistent supply of wood



LVL **U.S.**

PACIFIC WOODTECH CORPORATION (PWT)



Use veneer warehouse for more group cooperation

Major current products



Structural LVL



Wood scaffold panels



J-joint



LVL

Products with more added value



LVL with a preservative





A deck made of antiseptic LVL

Japan More Non-combustible Products

Non-combustible products incorporate Dai-Lite, an exclusive Daiken material that will not burn. These products have the fire-resistant properties required by public-sector and commercial buildings as well as ease of processing and a finish that is ideal for creating attractive interior spaces. Activities are way to enlarge the lineup of these products.

Ceiling using eaves



Ceiling materials



Wall materials



Louver materials



Dai-Lite is an exclusive Daiken material that incorporates volcanic ash



Shirasu (volcanic ash) and rock wool



Dai-Lite

Japan More Virus-resistant Building Materials

Functional building materials are increasingly used in doors for elderly and medical facilities and other components of public-sector and commercial buildings. Daiken is expanding the lineup of products with BIOTASK, an antiviral function developed by Daiken. These products help create safe, healthy and comfortable interior spaces.

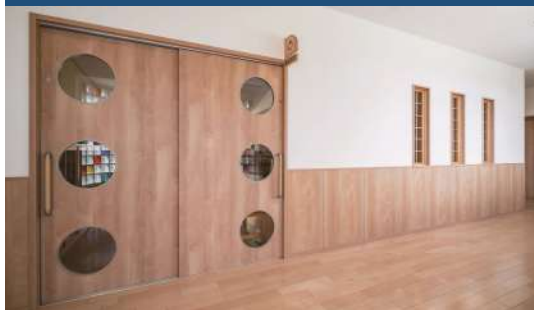
Doors for elderly facilities



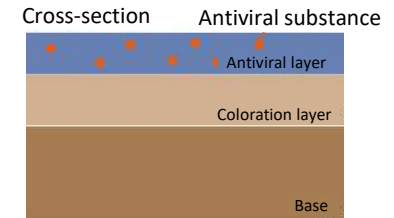
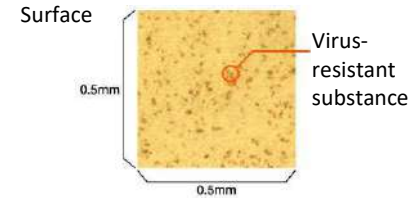
Doors for medical facilities



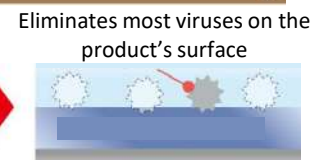
Doors for kindergartens/childcare facilities



Antiviral function BIOTASK



BIOTASK protection



Immediately after application of BIOTASK

After 24 hours

*BIOTASK is a registered trademark of Daiken for its antiviral function.

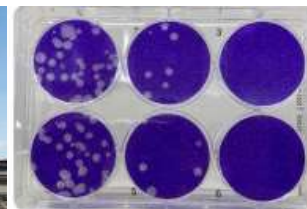
Examples of surfaces using BIOTASK



Research and development activities



The Daiken R&D center

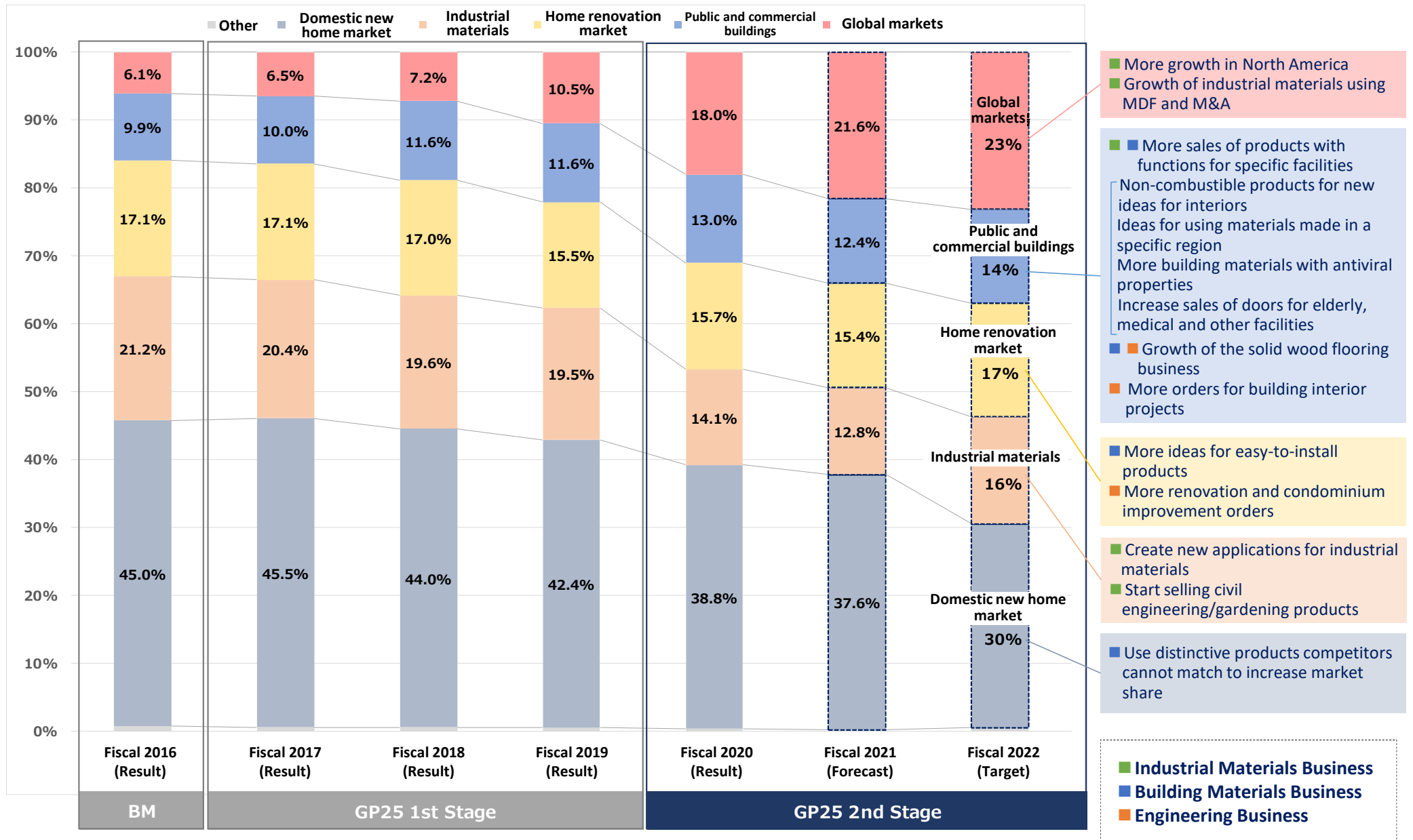


A viral plaque assay



Evaluating antiviral properties

Market Composition of Sales (Medium-term management plan portfolio goal)



Financial Information

1H Fiscal 2021 Consolidated Balance Sheet (Major components)

(Unit: million yen)	Fiscal 2020 (Result)	2Q Fiscal 2021 (Result)	YoY change
Cash and deposits	16,839	19,011	+2,172
Notes and accounts receivable-trade	42,092	37,515	-4,577
Inventories	27,010	27,453	+443
Other current assets	1,990	2,058	+68
Total current assets	87,934	86,038	-1,896
Property, plant and equipment	51,426	51,069	-357
Intangible assets	14,834	14,624	-210
Investments and other assets	16,351	16,759	+408
Total assets	170,638	168,562	-2,076
Notes and accounts payable-trade	26,846	24,164	-2,682
Interest-bearing debt	43,876	45,071	+1,195
Other current/non-current liabilities	36,940	31,930	-5,010
Total liabilities	107,662	101,165	-6,497
Total shareholders' equity	57,059	58,164	+1,105
Total net assets	62,975	67,397	+4,422
Total liabilities and net assets	170,638	168,562	-2,076
Shareholders' equity ratio	32.7%	35.3%	+ 2.6pt
Debt-equity ratio (multiple)	0.79	0.76	-0.03
Net debt-equity ratio (multiple)	0.48	0.44	-0.04

◆ **Cash and deposits** **+2,172**
 <Major factors>
 Increased liquidity +2,172
 *Separate unused credit facility 5,000

◆ **Inventories** **+443**
 <Major factors>
 Finished goods and merchandise, raw materials and others +189
 Work in process +254

◆ **Property, plant and equipment** **-357**
 <Major factors>
 Acquisition/construction in progress +1,693
 Depreciation -2,321
 Exchange rate changes, etc. +271

◆ **Interest-bearing debt** **+1,195**
 <Major factors>
 Increase in borrowings (ensure liquidity) +1,177

◆ **Total net assets** **+4,422**
 <Major factors>
 Foreign currency translation adjustment +1,327
 Valuation difference on available-for-sale securities +708
 Non-controlling interests +668

1H Fiscal 2021 Consolidated Statement of Income

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

(Unit: million yen)	1H Fiscal 2020 (Result)	1H Fiscal 2021 (Result)	YoY change
Net sales	97,548	92,671	-4,876
Gross profit	24,289	23,169	-1,120
SG&A expenses	20,499	20,311	-187
Operating profit	3,790	2,857	-932
Non-operating profit (expenses)	+407	+514	+107
Ordinary profit	4,197	3,371	-825
Extraordinary income (losses)	-433	+235	+668
Profit before income taxes	3,764	3,607	-157
Total income taxes	1,223	1,025	-198
Profit	2,541	2,581	+40
Profit attributable to non- controlling interests	453	595	+141
Profit attributable to owners of parent	2,087	1,986	-100

◆ Non-operating profit (expenses) +107

<Major factors>

COVID-19 subsidies	+170
Dividend income	+12
Interest expenses	-7
Foreign exchange losses	-71

◆ Extraordinary income (losses) +235

<Major factors>

Gain on sales of non-current assets	+369
Loss on retirement of non-current assets	-73
Loss on disaster	-62

Exchange rate (yen)	1H Fiscal 2020 (Result)	1H Fiscal 2021 (Result)	YoY change
USD	107.29	106.82	-0.47
CAD	81.25	78.62	-2.63
NZD	71.20	68.32	-2.88
MYR	26.12	25.06	-1.06

1H Fiscal 2021 Consolidated Statement of Cash Flows (Major components)

(Unit: million yen)	1H Fiscal 2020 (Result)	1H Fiscal 2021 (Result)
Operating cash flow	+7,435	+3,640
Investing cash flow	-15,612	-1,827
Free cash flow	-8,177	+1,813
Financing cash flow	+5,490	+217
Cash and cash equivalents at end of period	13,955	19,011
Capital expenditures	2,353	1,571
Depreciation	2,353	2,744

◆ Operating cash flow **+3,640**

<Major factors>

Profit before income taxes	+3,607
Depreciation	+2,744
Changes in trade receivables/payables	-913
Changes in Inventories	-269
Income taxes paid	-1,748

◆ Investing cash flow **1,827**

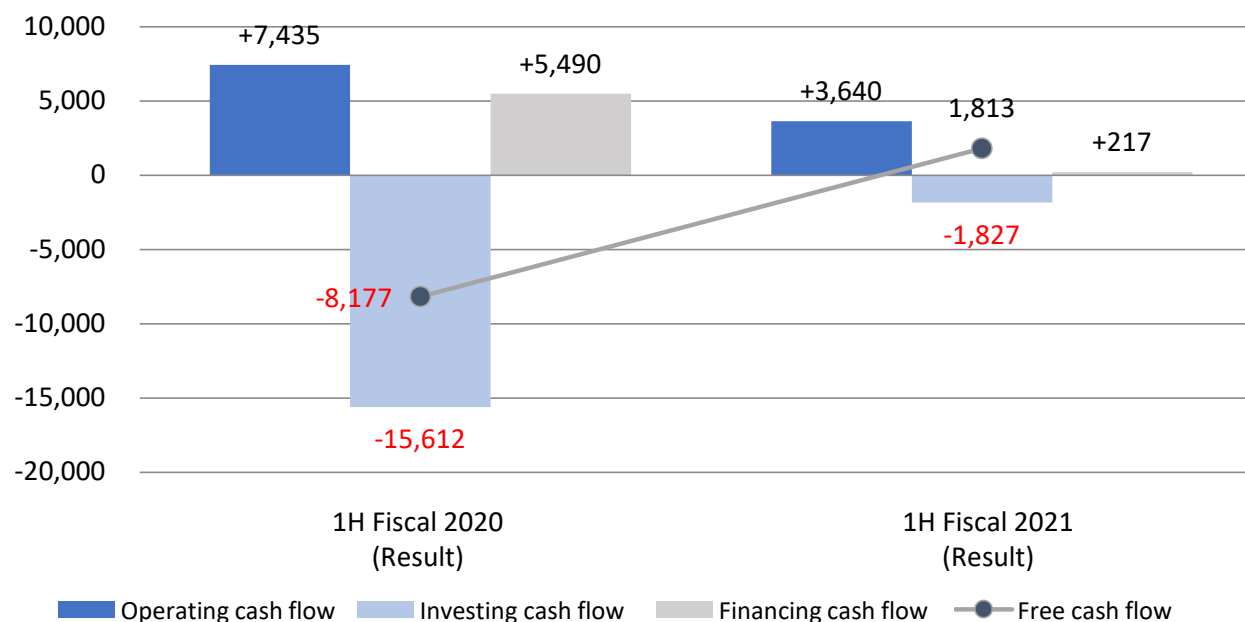
<Major factors>

Purchase of property, plant and equipment	-1,824
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◆ Financing cash flow **+217**

<Major factors>

Increase in long- and short-term borrowings	+1,215
Dividends paid	-910



Toward the future going beyond the functions of yesterday

DAIKEN

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