

Medium-Term Management Plan GP25 2nd Stage

Basic policy and management goals

Basic policy

Based on firm management foundation, pursue the resolution of social issues through our business, thereby accelerating growth strategies toward becoming an all-embracing company for building materials.

I. Accelerating growth strategies

Domestic: Review of the business (market) portfolio
Global: Expand the business through aggressive investments and entry into new markets

II. Enhancement of the management foundation

- 1 Optimize our financial foundation
- 2 Restructure firm and flexible business infrastructure
- 3 Practice of ESG management

Management goals

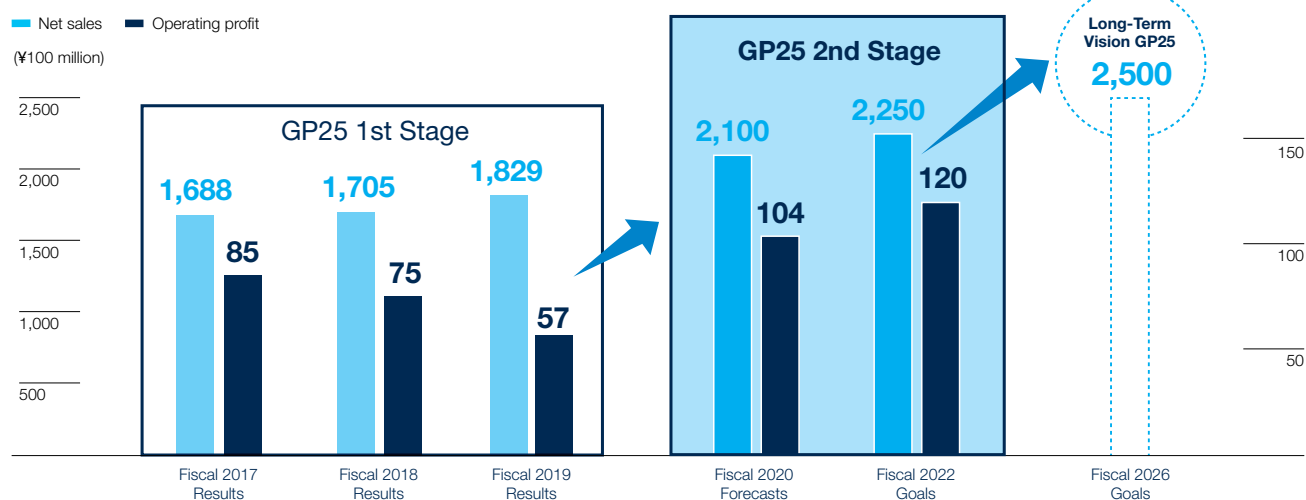
I. Accelerating growth strategies

	Benchmark Fiscal 2019	Forecast Fiscal 2020	Goal Fiscal 2022	Increase / Decrease
Net sales	1,829	2,100	2,250	+421
Domestic market	1,637	1,720	1,730	+93
Global market	192	380	520	+328
Operating profit	57	104	120	+63
Operating profit ratio	3.1%	5.0%	5.3%	+2.2pt
Profit attributable to owners of parent	44	60	70	+26

II. Enhancement of the management foundation

Financial indices	Goal Fiscal 2022	Non-financial indices	Goal Fiscal 2022
Efficiency		E Total CO₂ emissions in Japan¹	(26%)
ROE	10%	S Total diversity index²	+20pt
ROA	7%	S Serious quality accidents and violations	0
Soundness		G Degree of penetration of the group corporate philosophy³	+10pt
Shareholder equity ratio	40%		
Shareholder return			
Dividend payout ratio	30% or more		

¹: Compared to fiscal 2014 ²: Our own indices in which the eight diversity items, such as the female manager ratio, were indexed as compared to fiscal 2019 ³: Our own indices in which employees' understanding, sharing, and practice of the group corporate philosophy were indexed as compared to fiscal 2018



I. Accelerating growth strategies

Business and market strategies

Strategies and goals by business segment

Industrial materials business

Globally expand the markets and applications by taking advantage of sustainability and functionality and maximize the fixed asset efficiency

- Invest in the North American wood industrial materials business (LVL/veneer) and expand into the North American market
- Pursue optimization of the production system
- Accelerate application development centering on the resolution of social issues
 - Start the non-combustible business for wood materials
 - Consider commercialization of wood material use for the agricultural and gardening markets
 - Consider commercialization of new wood materials

Building materials business

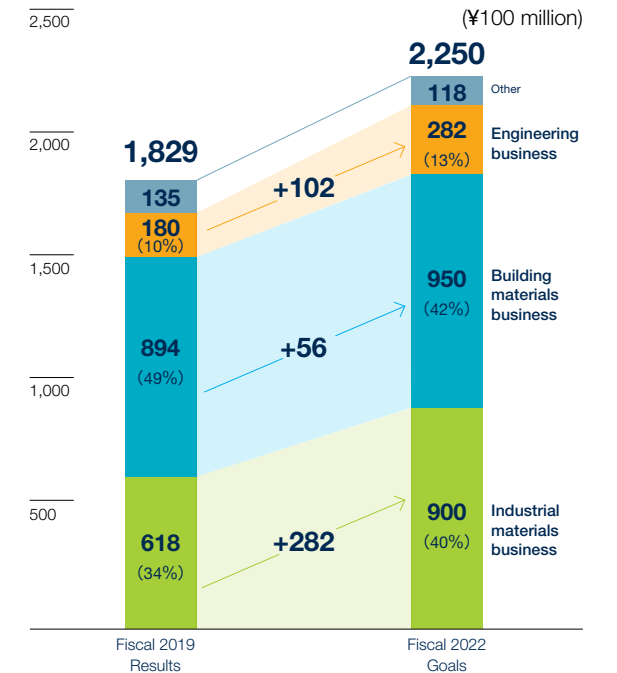
By taking advantage of the industrial materials business and functional and construction saving-type building materials, increase our share in the housing market and expand in the public and commercial building fields

- Further expand the differentiated products that can keep getting chosen
- Expand the product/sales networks by actively utilizing M&A and external resources

Engineering business

Expand the construction domains, areas, and order sources by M&A and cooperation with other companies

- Expand the construction company's business targeting the priority markets (public and commercial buildings, remodeling, and renovation)



Market strategies and goal

Global market

Accelerate global expansion with a focus on the industrial materials business through aggressive investments

- Invest in the North American wood industrial materials business (LVL/veneer) and expand into the North American market
- Continuously expand wood industrial materials with a focus on MDF
- Put the Chinese and Indonesian building materials businesses on a path toward stable growth and shift to the growth strategy

Public and commercial buildings

Expand investments including M&A and accelerate growth

- Expand the product lineup (The medical field will be the new focused target)
- Improve infrastructure for the expansion of the markets, such as logistics, correspondence of drawings, and the sales structure
- Expand the product and sales networks, including cooperation with other companies and M&A

Industrial materials

Cover the decrease in these for housing with application development and expand industrial materials business

- Focus on application development for the new markets and fields
- Promote the development of and search the applications of new materials and R&D products

Home renovation market

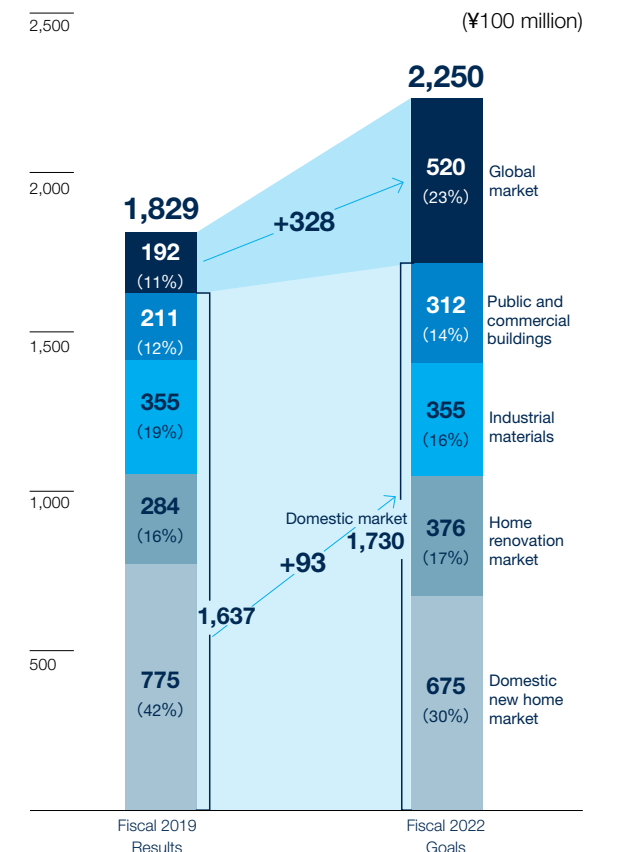
Expand in the renovation market from a perspective of development of functional products and methods

- Expand the renovated properties and renovation work in the Tokyo metropolitan area
- Focus on the expansion of the products for renovation, such as construction savings and waste savings

Domestic new home market

Restructure the sales structure in response to changes in the market and customer needs, and increase our share

- Continuously enhance the products and proposals from the perspective of functionality, such as soundproofing and construction work saving
- Enhance the collaborative system with key distribution companies as well as a system to make proposal to key customers



Development into North American wood industrial materials business

Objectives and background

With a view to expansion in the global market and enhancement of industrial materials business aimed in the long-term vision GP25, our company respectively acquired a 51% stake in CIPA Lumber Co. Ltd. (CIPA), which is a veneer plant in British Columbia, Canada, and is a consolidated subsidiary of ITOCHU Corporation that we are in the capital and business alliance with and PACIFIC WOODTECH CORPORATION (PWT), which is an LVL plant in Washington, U.S.A., and added them as our group companies in June 2019. CIPA was established as a saw-mill in 1968, which was a joint venture between ITOCHU Corporation and the local capital. Later, it became a 100%-owned company of ITOCHU Corporation in 1978 and started the current veneer business in 1993 after the transformation of business. PWT was established in 1998 as the LVL manufacturing base to effectively use the veneers manufactured by CIPA. ITOCHU Corporation's policy to want to enhance the production and development aspects in order to expand profits by further expanding CIPA's and PWT's businesses and improving productivity and our policy that we have been considering to acquire new products to expand global business and expand into a new market matched, and we have decided to proceed with joint business development in the North American market.



CIPA Lumber Co. Ltd. (CIPA)

Founding April 30, 1968
 Location Delta City, British Columbia, Canada
 Capital 23 million Canadian dollars (1,995 billion yen) (At a rate of 85 yen per Canadian dollar)
 Business Veneer manufacturing and wood description material sorting



PACIFIC WOODTECH CORPORATION (PWT)

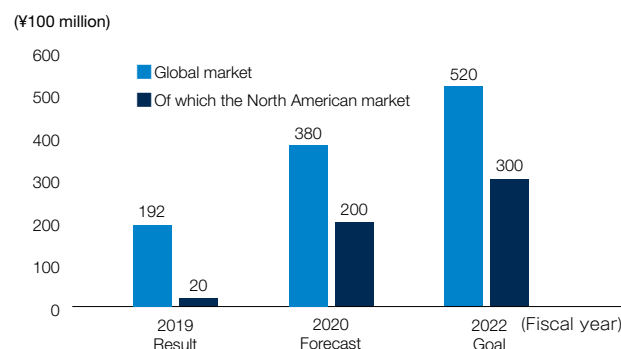
Founding January 7, 1998
 Location Burlington City, Washington, U.S.A.
 Capital 26 million U.S. dollars (2.86 billion yen) (At a rate of 110 yen per U.S. dollar)
 Business Manufacturing and sale of structural LVL and Wood I-Joist

Business description and future development

CIPA manufactures LVL made from high-strength Douglas fir (Oregon pine) and veneer for plywood. PWT purchases veneer from CIPA and other companies, and manufactures LVL. Furthermore, they manufacture I-Joist, a structural material made by processing LVL, and these products are widely used for wooden houses in North America and Australia, such as being used for flooring for wooden construction, joists, and bridging joists that support ceilings. Our company has an advantage that we will be able to expand into the North American wooden housing market where we can expect stable growth while controlling the investment risk because of the joint business development with ITOCHU Corporation that had managed both companies for years. Because of the addition of CIPA and PWT in our group this time, a new product of LVL is added and we will expand into the trading area, the North American market, which is the world's largest wooden housing market. We will set these businesses as the point of origin in expanding in the North American market and by conducting active business development, we will drastically proceed with the globalization of the industrial materials business and the sales expansion in the global market.

We will take advantage of our strengths that we have expanded businesses by introducing technologies in industrial materials and increasing added value, increase added value in the North American industrial materials business as well, take advantage of the affinity with interior building materials for wooden houses that we have worked in Japan, and by eyeing the development into building materials business, we will pursue the possibility of business expansion in the future.

Sales goals in the global market and North American market

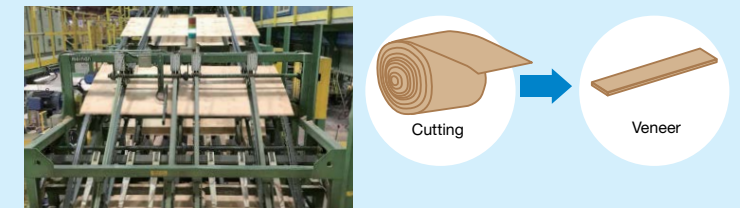


Business flow

Veneer manufacturing (CIPA)

Veneer: Thin wood board made by cutting a log in manner of rotary cutting (Thin board that is 2-4 mm thick: veneer) This is used for manufacturing plywood and surface decorative materials for furniture and building materials. Douglas fir (Oregon pine) hewed out from forest that is appropriately managed to ensure sustainable wood supply is used as the raw material. It is rich in cumulative dosage, the trunk is straight grain, and it offers excellent uniformity and high durability; therefore, manufacturing LVL with high strength will become possible.

Veneer manufacturing process



LVL manufacturing (PWT)

Laminated Veneer Lumber (LVL): A fabricated wood product manufactured by laminating veneers all parallelized in the fiber direction and gluing them together. It has advantages, such as dimensional stability, being excellent in accuracy, being able to obtain long size materials, stable quality, and being able to offer products in dimensions according to use applications, and is used for posts and beams of a house, frame materials for furniture, staircase set, door frames, and door cores.

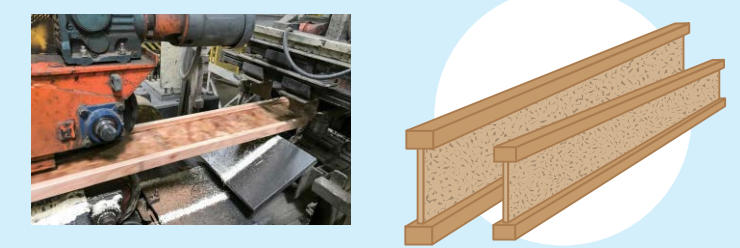
LVL manufacturing process



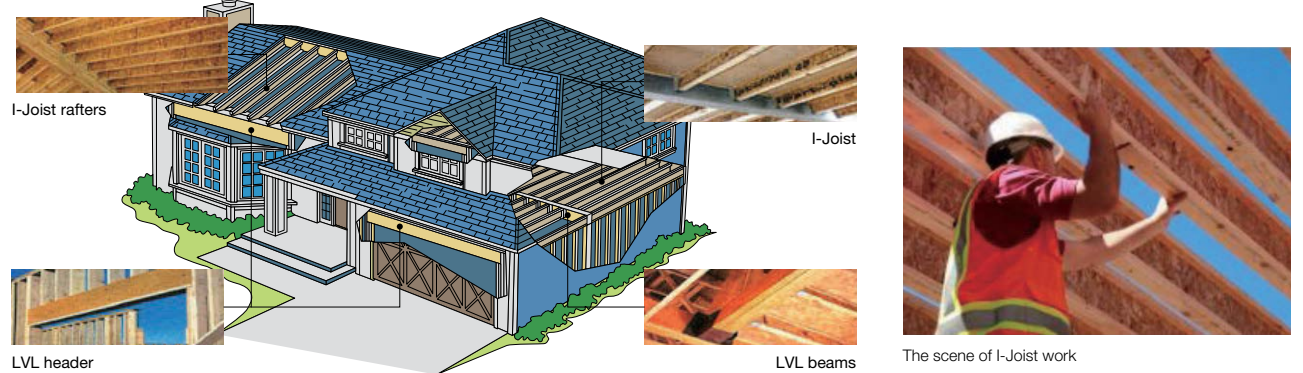
I-Joist manufacturing (PWT)

I-Joist: A structural material, which is a composite material of Oriented Strand Board (OSB): A structural wooden board made by laying a thin rectangular wood piece cut from raw wood upon another in a way that the surface layer and core layer cross at right angles in the fiber direction and compressed at high temperature, LVL, and lumber. Its structure is that square logs are combined on the both edges of an OSB reinforcing board and PWT uses LVL that they manufacture as square logs. By making it a composite member, it will have higher strength and accuracy than solid wood with the same dimensions. It is lightweight, offers excellent workability, and is used as the structural material mainly for floor framing and roof framing.

I-Joist manufacturing process



Major applications in the North American housing market



Research & Development

Core mission

- Create new business that will become the fourth pillar after industrial materials, building materials, and engineering using new technology development focusing primarily on the resolution of social issues
- Develop the existing businesses and newly conduct advanced R&D to use as the driving force for business expansion
- Embody the product strategies fused together with each business' strengths

<Focused measures>

- Utilize R&D center and promote co-creation with those outside the company (Open innovation)
- Expand investments in R&D
- With the company-wide medium- to long-term development direction, promote company-wide product development



Industrial materials

Further improvement of the existing industrial materials and development of industrial materials that will become a key to capturing new markets

- High functionality of the wooden boards and inorganic boards
- Wood building material utilization development in the new field
- Technology development to use unused resources
- R&D of industrial materials for new markets other than building materials

Building materials

Development of new secure and safe building materials that will be needed by society in the future

- Development of environment-conscious building materials
- Development of new construction technique for building materials
- Development of high functional paints and painting technology
- Adding a high value to wood building materials

R&D theme

Promote R&D that will contribute to a sustainable society by working on Ecology and Qualitative improvement of a space

Spatial environment

Development of spaces and building materials that will realize a comfortable life

- Development of energy-saving and indoor environment improvement technologies
- Simulation of the thermal, humidity, and cross-ventilation environment
- Development of the indoor air quality improvement technology

Assay evaluation

Various measurements and analyses of spaces and building materials using the expertise cultivated in R&D

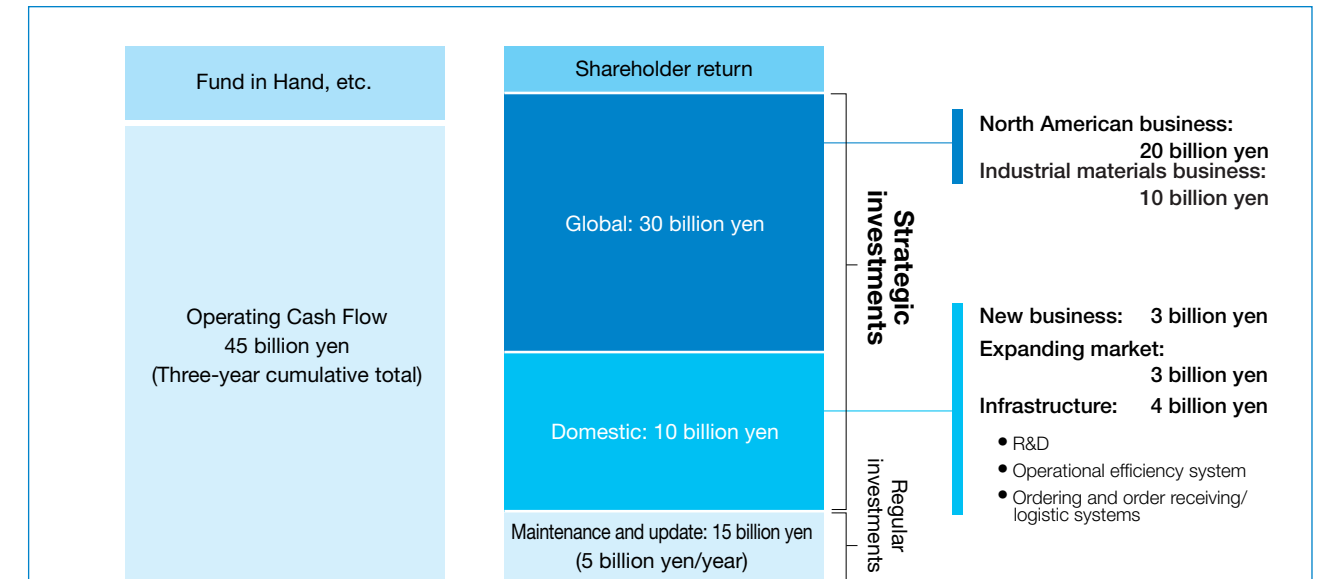
- Measurement of air quality
- Building materials' heat generation test
- Sound insulation performance evaluation
- Asbestos analysis
- Measurement of ticks and fungi

II. Enhancement of the management foundation

Optimize our financial foundation

Investments toward the enhancement of growth and foundation

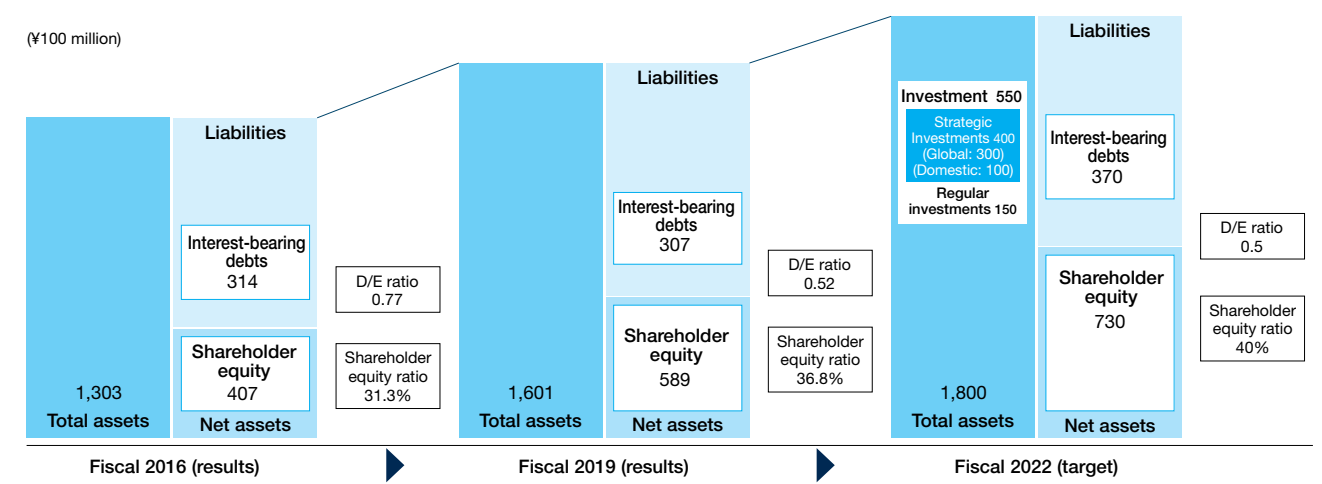
- Make it a top priority implement growth investments toward the realization of the long-term vision GP25
- Select investments by reflecting risk and return as well as the cost of capital
- Aggressively utilize advanced technologies such as AI and IoT, to lead for improvements in efficiency and productivity



Optimize our financial foundation

Efficiency goal	Soundness goal
<p>ROA: 7% ROE: 10%</p> <ul style="list-style-type: none"> • Improvement of the fixed asset turnover ratio (Reduction in inefficient assets and stringent selection of capital investment) • Improvement of the working capital turnover ratio (Inventory optimization that gives consideration to BCP) 	<p>Shareholder equity ratio: 40% D/E ratio: 0.5 times</p> <ul style="list-style-type: none"> • Balance sheet management to maintain the optimum balance • Procurement of funds for investment that will support growth

Target balance sheet



Practice of ESG management

The background and idea of the formulation

In formulating the medium-term management plan GP25 2nd Stage, we determined the areas and themes of ESG that are particularly considered to be important in achieving management strategies through deliberations in various projects and the CSR committee while being based on the expectations from stakeholders, our vision, and values that we consider important. For each theme, we set specific goals toward fiscal 2022, which is the final fiscal year of the medium-term management plan, will proceed with our efforts, and lead to the enhancement of the management foundation. To further improve the linkage, we set important items in each ESG theme as the non-financial management goals for the medium-term management plan GP25 2nd Stage.



CSR (ESG)-related policy structure Policies established and revised in fiscal 2019

Field	Policy
CSR (ESG)	CSR Basic Policy
E Environment	Daiken Group Environment Policy
Product quality and safety	Basic Policy on Product Safety
Fair transactions	Daiken Procurement Policy Group Conduct Guidelines (item 2)
S Social	Daiken Diversity Promotion Policy (Established)
	Daiken Workstyle Reform Promotion Policy (Established)
	Daiken Human Resource Development Policy (Established)
	Daiken Safety Basic Policy (Revised)
Human rights	Daiken Human Rights Policy (Established)
Coexistence with local communities	Daiken Social Contribution Activity Policy (Established)
G Governance	The Basic Policy on Corporate Governance The Basic Policy on the Building of the Internal Control System

Medium-Term ESG Plan

Field	Area and theme	Focused points in management strategies	
E Environment	Realization of low-carbon society	Aggressive approach to greenhouse gas reductions	
	Contribution for a recycling-oriented society	Pursuit of the material and thermal recycle of woody resources	
	Reduction of environmental burden	Reduction of environmental burden in business processes	
	Consideration of biodiversity	Promoting the use of domestically produced wood	
	Environment management	Continuous improvement of the environmental management system	
S Social	Product quality and safety	Quality and technological capabilities to keep responding to confidence	
	Fair transactions	Promotion of CSR procurement Ensuring fair competition and transactions	Maximization of added value by collaborating with suppliers
	Human resources	Promotion of diversity Promotion of workstyle reform Enhancement of the human resources development Enhancement of the occupational safety and health	Fusion of diverse skills and ideas Pursuit of highly productive job performance Development of human resources who will play roles in the new market expansion and medium- to long-term growth Improvement of the safe working environment that will become the foundation of success
	Human rights	Promotion of support for human rights that is significant from a global perspective	
	Coexistence with local communities	Establishment of stable business foundation supported by local communities	
	G Governance	Enhancement of the governance system	All employees share the group corporate philosophy and realize the growth strategies
Promotion of risk management		Reconstruction of the supply system that the markets will keep choosing	
Strict compliance		A high sense of ethics that will be trusted by the markets	

Set a target for each item

Field	Theme	Goal
E Environment	Greenhouse gas emissions reduction	Total greenhouse gas emissions in Japan in fiscal 2022: 26% reduction (compared to fiscal 2014)
	Promotion of the use of renewable energy	Renewable energy utilization ratio: 50% or more
	Promotion of carbon fixation	Amount of carbon fixation by the wood material business: 1,100,000 t-CO ₂ /year
	Promotion of recycle and conversion of waste into valuables	Final disposal rate (ratio of volume disposed of in landfill outside the company): 5% or below
	Promotion of effective use of water resources	Water resource input: 3% reduction (As compared to fiscal 2019)
	Appropriate management and reduction of chemical substances	Release amount of substances subject to the PRTR law: 70% reduction (As compared to fiscal 2019)
S Social	Procure wood in a biodiversity friendly way	Utilization of domestic timber for flooring materials: 45%
	Strengthen environmental risk management	Number of environmental accidents and violations: 0 (Those with administrative guidance or penal charge)
	Enhancement of the Quality Control Structure	Serious product accidents: 0 Product safety and quality improvement education execution rate: 100% Product audit implementation cover rate: 100%
	Fair transactions	Rate of acquisition of the agreement on the CSR procurement standards at home and abroad: 100% Serious violations of the Anti-Monopoly Act and Subcontract Act: 0
	Promotion of diversity	Total diversity index ^{*1} : +20 pt
	Promotion of workstyle reform	Total work time reduction rate: 3% Rate of taking annual paid leave: 70% Employee satisfaction ^{*2} : +5 pt
G Governance	Enhancement of the human resources development	Job separation rate within three years: Within 15% Young employees' career plan training attendance rate: 100% Focused market enhancement program attendance rate: 50% Management staff training program attendance rate: 70%
	Enhancement of the occupational safety and health	Serious disaster: 0 Plant mutual safety diagnosis execution rate: 100%
	Human rights promotion activities	Human rights enlightenment training attendance rate: 100% Supervisor harassment training execution rate: 100%
	Social contribution activities by cooperating with local communities	Holding of the event planned by cooperating with local communities: Once a year in each group production base
	Enhancement of the governance system	Group corporate philosophy penetration program execution rate: 100% Degree of penetration of the group corporate philosophy ^{*3} : +10pt
	Promotion of risk management	System BCP 3-year proactive measure completion rate: 100% Procurement BCP 3-year proactive measure completion rate: 100%
G Governance	Strict compliance	Serious compliance violations: 0 Compliance consciousness degree ^{*4} : +5pt

*1: Our own indices in which the eight diversity items, such as the female manager ratio, were indexed compared to fiscal 2019
 *2: Our own indices in which employees' actual feeling for satisfaction and job satisfaction in the workplace were indexed compared to fiscal 2020
 *3: Our own indices in which employees' understanding, sharing, and practice of the group corporate philosophy were indexed compared to fiscal 2018
 *4: Our own indices to measure employee's compliance consciousness degree from the perspectives of legal compliance, a sense of ethics, structure, and corporate culture compared to fiscal 2020