



Representative Director, President

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Interview with Top Management

Establishing Our Image as a Comprehensive Building Materials Company through Strategic Investments in Sustainable Growth

Q The first year of the GP25 3rd Stage, which marked the conclusion of our long-term vision GP25, has concluded. Could you please elaborate on the main focus of the GP25 3rd Stage?

In 2015, we established our long-term vision, GP25, under the overarching company vision of transitioning from a housing materials manufacturer to a comprehensive building materials enterprise. Since then, we've been executing a medium-term management plan, dividing the 10-year roadmap into three phases.

The first phase, initiated in fiscal year (FY) 2017, focused on taking the initial steps toward becoming a comprehensive building materials company. We worked on strengthening our existing businesses and laying the groundwork for new ventures as the key to growth. The second phase, starting in FY 2020, aimed to accelerate our growth strategies to achieve our company vision. During this phase, we aggressively pursued growth strategies overseas, reviewed our domestic business portfolio, and bolstered our management foundation.

FY 2023 marked the commencement of the GP25 3rd Stage, the final step after six years of dedicated effort. Over the subsequent four years of this phase, we are implementing a variety of initiatives to firmly establish ourselves as a comprehensive building materials company.

[Long-Term Vision GP25](#) ▶ P.33

[Progress of the Medium-Term Management Plan](#) ▶ P.35

In summary, the past year was marked by challenges stemming from continuous and significant shifts in the business landscape due to a variety of different factors. In February 2022, while the COVID-19 pandemic had yet to end, the Russian invasion of Ukraine led to soaring prices of raw materials, fuels, and rapid

inflation. The business environment remains uncertain, compounded by rising interest rates in Europe and the United States and the challenges faced by US financial institutions.

In light of these circumstances, we believe one of Daikden Corporation's strengths lies in our consistent commitment, since our inception in 1945, to develop businesses that contribute to the realization of a sustainable society. In 1958, we began manufacturing insulation boards—wood fiberboards using renewable wood materials from waste wood chips as the primary material. Used for the inner parts of tatami mats, this product not only stores carbon by utilizing wood raw materials but also provides society with heat insulation, humidity control, cushioning properties, and lightweight products, enhancing its value. When we first introduced this product, climate change concerns and demands for decarbonization were not as pronounced as they are today, so we did not emphasize its carbon storage capacity. However, the concept of utilizing valuable resources with zero waste had already taken root within Daikden Corporation and has persisted to this day.

As global markets increasingly prioritize environmental value, the ideas and technologies developed by Daikden Corporation for efficient resource utilization now align with societal demands, forming a solid foundation for exponential growth. When we conceived the GP25 3rd Stage, our guiding principle was to achieve sustainable growth while addressing societal challenges through sustainability, a core strength of our organization. This principle extends beyond the GP25 3rd Stage because we are committed to conducting our business with a forward-looking perspective and because we are convinced that sustainable growth contributes not only to our own sustainability but also to the betterment of society.

[Medium-Term Management Plan GP25 3rd Stage](#) ▶ P.37

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Q | How do you view FY 2023 in light of the market trends for the fiscal year?

In FY 2023, new housing starts in Japan remained relatively stable at 861,000, showing no significant decline despite the ongoing COVID-19 crisis. Specifically, while privately owned housing starts experienced a downward trend during this fiscal year, rental housing starts remained robust, and house starts in subdivisions remained at similar levels to the previous year. Although Japan does not anticipate a significant surge in housing starts due to its declining population, we aim to increase our market share by capitalizing on our strengths as a company offering a wide range of environmentally friendly products. This strategic direction aligns with the broader societal shift toward sustainable products that contribute to decarbonization. Conversely, changes in societies' perspectives regarding spending time at home, catalyzed by increased teleworking during the COVID-19 pandemic, have driven elevated demand for a variety of products in the home renovation market. Issues of sound, odor, and humidity, which were previously overlooked or not considered seriously, have come to the forefront. This diversification of user needs is expected to continue, representing a lasting trend rather than a temporary reaction. According to surveys, the domestic home renovation market is valued at 6–7 trillion yen. We are committed to proposing superior products and spaces that cater to the evolving demands of citizens to seize growth opportunities effectively.

[Initiatives for Priority Markets: Home Renovation Market](#) ▶ P.47

In the realm of public and commercial buildings, the government has been at the forefront of promoting timber use since the implementation of the Act on the Promotion of Use of Wood in Public Buildings in 2010. Initiatives of incorporating timber into public school construction have gained traction. According to the Ministry of Education, Culture, Sports, Science and Technology, over 70% of new public school buildings in FY 2022 utilized timber. It has been observed that the use of wood in school buildings alleviates children's stress, enhances concentration, and fosters an appreciation of local forests and nature. We anticipate that further encouragement of timber use in construction will create new business opportunities. Moreover, we have been emphasizing the utilization of local materials for flooring and wall materials with a focus on local production for local consumption. We have also proposed solutions for creating pleasant spaces using a variety of different functional building materials for interior finishing in multiple sectors. Additionally, the office building market has witnessed continuous growth driven by numerous redevelopment projects in Tokyo and Osaka despite concerns about labor shortages.

[Initiatives for Priority Markets: Public and Commercial Buildings](#) ▶ P.45

In the global arena, housing starts experienced a decline in FY 2023 due to rising interest rates. However, in FY 2022, North

America significantly contributed to our company's profits as it stands as the world's largest market for timber housing. The wood price shock, resulting in price increases for LVL and veneers, saw a downward trend in the latter half of FY 2023. Notably, Pacific Woodtech Corporation (PWT), a US-based company specializing in LVL production, transitioned from a consolidated subsidiary to an equity method affiliate in August 2022 as it increased its capital for business expansion. Consequently, the percentage of global sales for FY 2023 decreased by four points compared to the previous fiscal year, landing at 28.3%. However, we remain committed to positioning global markets as a growth driver. Our strategy includes expanding sales outlets for the Indonesian door business in both the existing UK market and the broader European market. For MDF, a primary product in our industrial materials business, manufactured in Malaysia and New Zealand, we successfully passed on cost increases to selling prices while executing structural reforms to enhance profitability.

[Initiatives for Priority Markets: Global Markets](#) ▶ P.41

Given this dynamic market landscape, FY 2023 posed a series of challenges as previously mentioned. We encountered hurdles, such as sales declines resulting from delayed product deliveries and order restrictions in the building materials business during the fourth quarter of FY 2022. Additionally, the soaring raw material prices drove up our costs. Unfortunately, we lagged behind in implementing cost rationalization measures, cost reduction efforts, and pass-through in the rise of costs. Consequently, while sales reached 228.8 billion yen, marking a 2.4% increase compared to the previous fiscal year, our operating profit declined by 43.2% to 9.8 billion yen, and ordinary profit dropped by 30.5% to 13 billion yen. However, because of extraordinary income resulting from the change in PWT's status, profit attributable to the owners of the parent company reached 10.3 billion yen, a 31.2% increase from the previous fiscal year.

Q | What were the challenges encountered in the first year of the medium-term management plan that remain unresolved, and how do you intend to address them? What accomplishments were achieved in the first year?

The most significant challenge we face is falling behind in our efforts to reform our business structure and enhance profitability. In the previous year, we adopted a reactive approach, responding to immediate challenges at the expense of our long-term strategic goals. We must acknowledge that we did not allocate sufficient resources to develop new product applications and identify new customers, despite knowing the importance of these endeavors. In a rapidly evolving business environment, we must proactively implement measures even when facing uncertainties.

Consequently, we initiated structural changes in April 2023, establishing a more flexible and adaptable system to respond promptly to market dynamics by strengthening our marketing and



planning functions. We also introduced the Comfort Business Division to foster an integrated approach to manufacturing, sales, and construction, thereby accelerating the implementation of a new business model primarily targeting public and commercial buildings.

On a positive note, our efforts in open innovation and collaborating with other companies have yielded substantial results. Through a co-creation consortium focused on the future of office spaces, we've developed innovative solutions by integrating our sound-absorbing panels with the technologies of partner companies. Another notable initiative is the MINNA NO ECO SAIEN, a vegetable garden system introduced as a new venture within our organization. This system enables the cultivation of vegetables in open urban spaces, a concept that has gained considerable traction. It transforms previously unused rooftops into green spaces, contributing to increased greenery in urban areas. Our wood culture medium, GLOW EARTH, is also incorporated into this garden, further enhancing our environmental footprint. These initiatives are challenging as they extend beyond our traditional housing domain, involving considerations for public and commercial buildings. However, they are instrumental in establishing our identity as a comprehensive building materials company.

Strategies by Business Segment and Market ▶ P.39

Q Could you elaborate on the rationale behind prioritizing sustainability as a key pillar of management and its impact on Daiken Corporation's corporate value?

In the domestic market, the population witnessed a decline of approximately 780,000 individuals in 2022, while the number of individuals engaged in construction work continues to dwindle because of aging and demographic shifts. In response to this significant trend, our strategic shift toward becoming a comprehensive building materials company is not only natural but essential. We have broadened our business horizons from the new home market to the home renovation market and from the housing market to encompassing public and commercial buildings. Moreover, we have expanded our focus from the domestic market

to embrace global markets.

What sets us apart from our competitors is our unique blend of selling industrial and building materials products while actively engaging in construction—a strength of our organization. By participating in this multifaceted business, encompassing industrial materials and engineering in non-housing sectors, we consistently identify markets that continue to thrive despite demographic shifts. We firmly believe that our strategic direction, as outlined in the long-term vision GP25 since 2015, remains accurate and forward-thinking.

While I previously emphasized Daiken Corporation's strength in sustainable ideas and technologies, we promote sustainability through wood materials. For example, DAILOTONE, a material used in ceilings, is crafted from slag wool, a byproduct of steel production, and developed to capitalize on the non-combustibility and sound-absorbing properties of underutilized mineral resources. Japan, being a volcanic country, possesses abundant volcanic ash that often goes unused. We've harnessed this resource, along with the slag wool used in DAILOTONE, to create DAILITE—a material that is not only noncombustible but also serves as an insect repellent, antiseptic, and high-strength wall material for residential and office settings.

Looking at the global landscape, we recognize an array of risks, from geopolitical challenges like the Ukraine conflict to the factors of rising resource and energy prices, inflation, and currency fluctuations. However, the individual's growing awareness of the Sustainable Development Goals (SDGs) in response to climate change and the pursuit of a recycling-oriented society is a growing trend. While our predecessors laid the groundwork for a unique portfolio of eco-friendly products, we consider our commitment to efficient resource utilization, passed down through the generations, as one of our greatest strengths for the years ahead.

As we look ahead to 2035 and beyond, extending beyond the final fiscal year of 2026, we have identified three priority areas, known as material issues, in the formulation of the GP25 3rd Stage. These include the realization of resource circulation and a recycling-oriented society, the alignment of our offerings with user needs in the new normal, and the diversification of our human resource base

Interview with Top Management

Overview of the Deployment of Daiken Sustainability Transformation (SX)

		Medium-term perspective (Key measures toward FY 2026)	Long-term perspective (Key measures toward FY 2031 - 2051)	
Response to sustainability issues	Maximization of growth (Maximize growth by trade-on business)	Capturing the opportunity for sales expansion	Contribution to carbon neutrality by utilizing wood resources <ul style="list-style-type: none"> • Capturing alternative demand for plastic molding materials by the use application development of the insulation board and MDF • Capturing alternative demand for tropical natural wood plywood by the use application development of the insulation board and MDF • Launch of new wooden board business utilizing domestic materials • Establishment of the production of MDF using the adhesive derived from post-fossil fuel and the mass-production technology • Development of decorative surface materials/paints derived from post-fossil fuel and establishment of the product specifications 	<ul style="list-style-type: none"> • Expansion of flooring substrates by the new wooden boards utilizing domestic materials (Alternative to tropical natural wood plywood) • Expansion of the sale of MDF using the adhesive derived from post-fossil fuel • Expansion of the sale of the building materials using the decorative surface materials/paints derived from post-fossil fuel
		Reduction of existing costs	Reduction of the input of raw wood materials by low-density MDF <ul style="list-style-type: none"> • Establishment of the technology to make low-density MDF and introduction of it to the market 	<ul style="list-style-type: none"> • Expansion of the sale of the low-density MDF
		Reduction of environmental burden in the supply chain	<ul style="list-style-type: none"> • Reduction in the use of water resources in the production processes (4% reduction compared to FY 2022) • Reduction of waste in the production processes (15% reduction in final waste volume disposed of in landfills in the production bases in Japan and overseas compared FY 2022) 	<ul style="list-style-type: none"> • Reduction in the use of water resources in the production processes • Reduction of waste in the production processes (2050: Zero final disposal of industrial waste in landfills)
	Minimization of risks (Minimization of the expected risks)	Avoidance of the risk of reduction in sales	Promotion of CSR procurement <ul style="list-style-type: none"> • Execution of the CSR survey to the suppliers in Japan and overseas (the execution rate at 100%) and an improvement approach to the companies that did not achieve the standards 	<ul style="list-style-type: none"> • Maintenance of the CSR survey execution rate at 100% and execution of the continuous review of survey items
			Human rights due diligence <ul style="list-style-type: none"> • Identification of and response to the risks in the value chain 	<ul style="list-style-type: none"> • Continuous execution of the execution process
			Review of the business portfolio by introducing internal carbon pricing <ul style="list-style-type: none"> • Incorporation of it into new investments and the existing business evaluation processes and setting of the standards for withdrawal of/exit business 	<ul style="list-style-type: none"> • Selection/execution of the business to withdraw based on the standards
		Avoidance of the risk to increase costs	Promotion of the use of sustainable timber <ul style="list-style-type: none"> • Improvement of the usage of certified wood • Expansion of self-managed plantations (Increase by 100% compared to FY 2022) • Reduction of the use of tropical natural wood plywood for flooring substrates (50% reduction in use compared to FY 2022) 	<ul style="list-style-type: none"> • Improvement of the usage of certified wood • Expansion of the self-managed plantations • Reduction in the use of tropical natural wood plywood for flooring substrates (Zero usage in 2050)
			Promotion of the recycling of sales products <ul style="list-style-type: none"> • Establishment of the insulation board collection and recycling scheme 	<ul style="list-style-type: none"> • Expansion of the operation of the insulation board collection and recycling scheme

by improving the work environment and job satisfaction. These sustainability goals are outlined in the Daiken sustainability basic policy. We firmly believe that aligning our efforts with the realization of a sustainable society, environment, and economy, while maintaining sustainability as a fundamental aspect of our company, will foster a virtuous circle that enhances our corporate value, ensuring these elements are like interlinked pillars.

[Risks, Opportunities, and Materiality](#) ▶ P.25

[Our Sustainability Goals](#) ▶ P.5

As part of our medium- to long-term growth strategy, we have established priority measures and target values for sustainability challenges. These measures align with both maximizing growth and minimizing risks. We are embarking on a journey of sustainability transformation (SX) in both the medium and long term. By categorizing a variety of initiatives related to the environment and business activities through the perspective of SX, and sharing the implementation roadmap within the organization, we expect to improve their effectiveness.

Concerning our environmental strategy, we have set long-term

goals within the Daiken global environment vision 2050 articulated in October 2021. These goals include achieving the Three Zeros: net-zero greenhouse gas emissions, zero landfill disposal of waste, and zero use of natural lauan wood. To drive these initiatives, we have established the Sustainability Promotion Committee, which I chair, to oversee and monitor our progress. Particular attention is directed towards the theme of "coexistence with nature," encompassing the elimination of natural lauan wood usage. We are committed to preventing deforestation while upholding the rights of local residents and forestry communities. In parallel, we are enhancing our information disclosure practices in line with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

In May 2023, we successfully developed technology for manufacturing MDF using wood-derived adhesives. This innovation paves the way for the production of MDF exclusively composed of natural materials, eliminating the need for adhesives derived from fossil fuels. Leveraging this technology will enable us to differentiate our products from competitors, transitioning our company from a technology creator to one that focuses on product circulation, thus



advancing the sustainability of both our organization and society.

[Environmental Strategies](#) ▶ P.51

Q | What approach does Daiken Corporation take to strengthen its human resources foundation, a critical management resource, and governance in the pursuit of an enhanced management foundation?

To establish a robust business foundation capable of supporting our medium- to long-term growth, we are leveraging all our resources, including our people, assets, financial capital, and the extensive technological expertise and know-how cultivated over the years. Given that our strengths, including technological prowess, creativity, and know-how, are primarily a product of our human resources, our investment in our workforce is paramount. Our immediate priorities involve securing and developing sales engineers who play a pivotal role in driving sales within the public and commercial building market, a strategic focus area. Additionally, we recognize the significance of global human resources who facilitate our expansion into international markets, as well as research and development (R&D) personnel, indispensable for the creation of new value propositions. These are the urgent human resources-related challenges that demand our attention.

At the same time, we are dedicated to reinforcing our organizational strengths by ensuring a workforce of diverse experiences and backgrounds. This includes actively embracing flexible work styles and fostering a culture of diversity, all of which have gained prominence in light of the COVID-19 crisis. We are particularly proactive in encouraging male employees to avail parental leave, promoting gender equality within the organization. Furthermore, we are harnessing digital technologies to enhance the quality of our products, optimize employee assignments, and empower our workforce to realize their full potential in creative endeavors.

Permeating our corporate philosophy throughout the organization is a process that cannot be rushed. It requires the

cultivation of a corporate culture that embraces this philosophy over time. As the president, I am personally spearheading the promotion of this cycle of information, close scrutiny of our corporate philosophy, open dialog, and recognition of employee achievements that embody our corporate philosophy. I believe that engaging in meaningful conversations with employees is a pathway to revitalizing our organization, particularly through the empowerment of our younger workforce.

[Human Resource Strategies](#) ▶ P.55

In terms of governance, we transitioned into a company with an audit and supervisory committee in 2021. This move established an effective governance framework for fair and transparent management. Our nine-member Board of Directors, including three external directors, assumes a central role in ensuring this fairness and transparency. The Board assesses the effectiveness of this system every year, identifying areas that require attention. The Governance Committee, composed primarily of external directors, actively participates in addressing these issues. Their role is pivotal in strengthening internal controls and enhancing the governance framework.

Q | Finally, could you please share a message with our stakeholders?

In today's rapidly evolving business landscape, marked by heightened uncertainty, stakeholder engagement has assumed greater significance than ever before. We recognize the vital role played by stakeholder engagement, which involves the transparent sharing of our initiatives, gathering diverse opinions, and incorporating feedback into our management strategies. We are committed to intensifying our efforts to disseminate information and engage in ongoing dialogs with stakeholders who offer varied perspectives. This encompasses our sustainable growth strategy and its progress, as well as our sustainability endeavors, which are integral to our organization. We humbly seek the continued support of all our stakeholders in our journey forward.