

Discussion with President and Outside Directors

Following the general meeting of shareholders on June 26, 2020, a new structure with three outside directors was formed. The three outside directors used a teleconferencing system to meet with Masanori Okuda, representative director and president, on the required governance for sustainable corporate value improvement.



Okuda Following the general meeting of shareholders on June 26, a new structure was formed with three outside directors, including one additional director. I would like to exchange opinions with you, the outside directors, and invite your frank opinions about the company under the theme of *Required Governance for Sustainable Corporate Value Improvement* in the Daiken Group in the coming years amidst the increased uncertainties in the business environment caused by the COVID-19 pandemic. Thank you for participating in this meeting.

1 Evaluation of the management and effectiveness of the Board

Okuda First, I would like to hear the opinions of Director Mizuno, who has been an outside director since 2015 and who has also served as the chair of the Corporate Governance Committee and the Nomination and Remuneration Committee.

Mizuno I remember that the Board had a more passive attitude when I was appointed director. Opinions are now being exchanged more actively under President Okuda. My impression is that the Board has been revitalized in response to the establishment of the Stewardship Code and the Corporate Governance Code in line with the momentum for better governance. The evaluation of the effectiveness of the Board started at the end of FY 2016. The evaluation was performed not merely through scoring but also with many opinions supplied in the free description

fields, thereby identifying the necessary requirements and improvements from a variety of perspectives every year. The characteristic of the governance of Daiken Corporation is that the Board has an open atmosphere where improvements are made every year based on vigorous opinions.

On the other hand, risk management and the response to uncertainties from the COVID-19 crisis can be considered requirements. The Board must then be engaged more strongly in group-wide risk management considering the increase in the number of group companies as a result of M&A.

Furube I think it is necessary to strengthen risk management, particularly overseas, as we pursue globalization.

Ishizaki The vigorous opinions of the Board and the annual improvements based on the requirements identified through the evaluation of effectiveness are worth recognizing. After observation for more than a year as an Audit & Supervisory Board member, I think it is necessary to proceed one step deeper into discussions by the Board.

Okuda While the improvements based on the evaluation of the effectiveness of the Board have been rated by outside directors, there remain requirements considering the depth of discussions. The coming years will present opportunities for more in-depth discussions under the selected key themes that may alter our medium-term and long-term competitiveness and corporate value, such as the required group-wide risk management that includes overseas bases.

2 Business deployment for future growth

Okuda Next, I would like to hear the opinions on business deployment and R&D for future growth. First, Director Furube, what do you think based on your experience as a management executive of a housing equipment manufacturer?

Furube I was appointed outside director in 2017. In the history of Daiken Corporation, my tenure has been synchronized to the transition stage of the company covering the two last years of the former medium-term management plan and the first year of the present medium-term management plan. Appreciably, during this period, the company acquired the MDF plant in New Zealand to expand the industrial materials business overseas, and the wood materials business in North America to gain a firm foothold for globalization, while implementing proactive measures in Japan by increasing product lines to expand public and commercial buildings and by sharing a sense of urgency throughout the company against the risk of a decrease in new housing starts. I think it is also an achievement that market share has been effectively increased in the new home market as the existing basis of profitability through strengthened proposals for differentiating products to selected targets.

Okuda The review of our business portfolio is the basic policy of the medium-term management plan. It is now necessary to accelerate the review relative to the original schedule because of the COVID-19 pandemic. It will now be necessary to make decisions on the selection and concentration of business segments that have ended their roles and business segments that need to be further strengthened.

Furube For expansion into global markets as one of the growth strategies, it is essential that we reinforce human resource development. While there is no easy way to achieve this goal, it will be necessary to steadily upgrade human resources according to clarified milestones.

Okuda The global market share in terms of sales in FY 2020 increased to 18% from 11% compared to the previous fiscal year. The urgent requirement is to implement the necessary measures in human resources. We have enhanced training menus with a variety of different items as we promoted development through job rotation. We will further upgrade human resource development through a personnel exchange with C. Itoh & Co. as our capital and business ally.

Furube Toward future growth, it is necessary to pursue new business deployment and R&D that will match the goals of Daiken Corporation. Since the early 2000s before the financial crisis, the company promoted business restructuring



Masanori Okuda Representative Director, President



Koji Mizuno Outside Director

through selection and concentration. In that process, the company withdrew from several business segments. I suppose that the company made the decision to withdraw because it had business segments to become the next pillars. To continue boosting the metabolism of business, it will be necessary to cherish a culture of consistently creating something new. From this perspective, a favorable trend has been created through the reinforcement of research and development following the establishment of the R&D Center in 2018. The information network is also being expanded under the concept of open innovation. The future requirement will be to find ways to connect the seeds created in the R&D Center to the needs of society.

Okuda For new business deployment, an examination is in progress to find the next-generation business segment as the fourth pillar after industrial materials, building materials, and engineering. The examination has started in areas adjoining building materials as our present business segment because it is difficult to promote business in remote areas. In this process, technologies originating from the R&D Center have been steadily taking practical shape. While it will take time before commercialization, we will proactively input managerial resources into initiatives aimed at medium-term and long-term corporate value improvement.

Mizuno Open innovation is being proactively promoted by the R&D Center. I

hope that R&D initiatives through industry-academia cooperation will be enhanced. The introduction of ideas and expertise new to the company will become the driving force in the creation of something new. It will be necessary to establish a robust position as a technology-oriented company through effective human resource development from the medium-term and long-term perspectives.

Okuda In terms of industry-academia cooperation, we are promoting joint research with universities and the dispatch of young researchers to universities. We will continuously implement these initiatives because the possibility of new ideas increases through experience in different communities.

3 Desirable M&A for growth strategies

Okuda We utilize M&As as a means of new business deployment and future growth. Director Ishizaki has extensive experience in investment bank operations with particular expertise in M&As. From that viewpoint, do you have an opinion about desirable M&As in the coming years?

Ishizaki I think M&As are an indispensable means of increasing corporate value. In my experience, it is important that the Board have deeper discussions

concerning consistency with the company's management strategy and the practicality of the business plan in the implementation of M&As and then verify that the project will be appropriate for maximizing corporate value. I also believe that we should strengthen risk management and risk control following any acquisition of a subsidiary. I think in-depth discussions are required by the Board regarding this point.

In this process, it is essential to establish a system that provides accurate and timely information in an emergency. Daiken Corporation has established rules for escalation and whistleblowing from the viewpoints of BCP and compliance. As group companies increase and are covered by these rules, it will be necessary to verify that the system functions effectively without delay or omission.

Furube With the penetration of the internet throughout society, it is extremely important that information from all group companies be provided to the head office in a timely manner. It will be necessary to establish a system that effectively utilizes IT and collects information efficiently.

Mizuno M&As continue to be an important means of growth for Daiken Corporation. As one of the key requirements for this fiscal year based on the evaluation of effectiveness of the Board, the strengthened monitoring of acquisition projects is now highlighted. I consider it necessary to establish a system for continuous monitoring, including the gap from the intended effect and synergy and the viewpoint of risk management, by proceeding one step further from the conventional practice of business reporting.

Okuda We have promoted M&As to bolster the three key markets identified in the long-term vision and the medium-term management plan. In FY 2020, three projects were handled regarding the wood material segment in North America to expand the global market,

the solid wood flooring segment to enhance product lines for proposal making in public and commercial buildings, and the renovation segment in the metropolitan area to strengthen building power in the home renovation market. We will have deeper discussions concerning consistency with the company's management strategy and the practicality of the business plan in order to establish a system for post-acquisition monitoring incorporating the viewpoints of risk management and verification of the effect and synergy, thereby clarifying how the Board should be engaged in important projects.

4 Enhanced dialog with shareholders and investors for corporate value improvement

Ishizaki Another point of governance is that governance has two aspects: inner governance representing internal control, and outer governance signifying checks from an external objective viewpoint. It is necessary for both of these aspects to function in a balanced manner. At Daiken Corporation, the former seems to be mostly functional, while the latter may need additional upgrading. In this sense, it is necessary to strengthen IR through dialogs with shareholders and investors to form the core of outside governance. The present activities are limited inside Japan. It will be necessary



Shingo Ishizaki Outside Director



Kiyoshi Furube Outside Director

to proactively approach global investors for enhanced dialogs.

Furube In my previous job, I had periodic meetings with global investors. Such meetings led to future corporate value improvements through discussions from perspectives that differ from Japanese investors and through expanded fields of dialog with investors who emphasize ESG evaluations, which are also a characteristic of Daiken Corporation.

Mizuno I also feel the need to strengthen IR. To achieve a better understanding of the company's mindset and direction amidst the increasing uncertainties, we must increase the occasions for direct dialog with the company's top management.

Okuda We hope to continue strengthening IR. From this viewpoint, we established a dedicated IR unit inside the

Management Planning Department under a new organizational structure in FY 2021. The Policy for Structures and Initiatives for Promoting Constructive Dialog with Shareholders has been revised by the Corporate Governance Committee and the Board in order to clarify my responsibility as the management executive and to ensure more consistent and continuous initiatives led by the executive officer for IR. I hope to effectively communicate our strengths and direction through these IR activities, while listening to inspirational input from shareholders and investors, thereby producing a virtuous circle of dialog for corporate value improvement.

Summary

Okuda Amidst the uncertainties caused by the COVID-19 pandemic, the Board will need to play its role in the emergency and assume heavier responsibility in navigating business management than during normal times. We will earnestly examine important requirements, have deeper discussions with specialized and objective input from outside directors, and set the direction for continuous corporate value improvement.

Thank you very much.