

Interview with Top Management



After finishing the second year of the medium-term management plan

Q

In fiscal 2018, we completed the second year of the three-year medium-term management plan GP25 1st Stage. Please describe the achievements and future issues.

After finishing two years of the plan, we greatly improved profitability by successful streamlining, cost reduction, and the introduction of new products. As a result, we achieved four of the management goals in the medium-term management plan GP25 1st Stage in the first fiscal year, namely sales profit, ordinary profit, net profit, and ROE. I find this to be a great achievement. We are expecting a decrease in the number of new houses in the future.

In addition to achieving the figures in the management goals, it is important to shift our focus to cover this decrease by *positioning public and commercial buildings, global markets, and the home renovation market as the three priority markets.*

Public and commercial buildings

In terms of public and commercial buildings, we were able to achieve the following four items: (1) proposing domestic flooring wood with enhanced scratch resistance through our original WPC technology, (2) expanding orders for user-friendly, safe doors for nursing homes and kindergartens/nurseries, (3) increasing the sales of tatami mats using machine-made Japanese paper with excellent maintenance for accommodation facilities, and (4) expanding orders for interior projects mainly in the Tokyo metropolitan area.

However, we also found three issues: (1) deciding on the areas of social issues and the needs for which our advantages can be used, (2) an insufficient number of products for proposals, and (3) increasing the areas of installation work.

Public and commercial buildings cover a wide range of work. Product development and proposal methods are totally different depending on the building genre. I find these issues challenging. However, I think we should learn from the themes where we have succeeded so far. Let's look back and consider previous successful

Toward becoming an all-embracing company for building materials

Achieve the goals of the medium-term management plan GP25 1st Stage and shift to the 2nd Stage for the next period.

Masanori Okuda

Representative director
President and executive officer

projects. We were able to succeed by making proposals that offer new value using our technologies while paying attention to social issues and needs and listening to opinions from the market, such as *promoting the use of domestic wood, responding to the super-aging society, countermeasures for the falling birthrate, improving the environment for working women, solving problems of waiting lists for nursery schools, and insufficient accommodation facilities due to an increase in inbound tourists.*

We should decide on the areas where we can use our advantages and intensively inject management resources. We want to increase good cooperative activities within the company through the collection of the opinions of designers and owners through the Market Development Division, where staff are working toward the adoption of our products, product development by the Manufacturing Division, effective emphasis and the promotion of value by the Marketing Division, and community-based proposal activities by the Sales Divisions of the nationwide branch offices. Based on these efforts, we need to increase our product items for

specific proposals.

Our engineering business is mainly for ceiling work of office buildings, but I think we can further increase business opportunities by expanding the area of the installation work to cope with a variety of different projects.

■ Global markets

Regarding the industrial material business, sales of the MDF with manufacturing bases in Malaysia and New Zealand show steady performance in the Southeast Asian and North American markets.

For the building material business, the export of highly functional flooring materials for China is increasing. Together with products manufactured in the local factory, we can propose a variety of products ranging from high-grade to ordinary.

In addition, in August 2016, we established a new factory for interior doors in Indonesia to respond to markets with growing demand in emerging countries.

Our future issues are as follows: (1) pursuing the potential of the industrial material business in addition to MDF, and (2) reinforcing

Vision and Strategy of Value Creation

and expanding the basis of the building material business in China and Indonesia. Seeing the development of the industrial material business in global markets, we export some ceiling materials, but our business is currently focused on the MDF. For further expansion, we should comprehensively assess the needs and securement of raw materials by country and region and consider developing another industrial material business.

Regarding the building material business, China is still halfway from the perspective of scale and profitability. We will further strengthen cooperation with agents in each country by operating joint showrooms in major cities and expand the market by providing some products exported from Japan to make the most of the made-in-Japan brand. We initially faced difficulties at a door factory in Indonesia in terms of production capability, but now things are on the right track. We will expand the market by increasing orders from local developers and Japanese companies, as well as by exporting products to other countries from Indonesia.

■ Home renovation market

We deploy our business in the home renovation market mainly based on the alliance with TOTO and YKK AP. We have been accelerating the deployment of collaboration showrooms since April 2016 in Kanazawa and Takamatsu, as well as in Sapporo in July 2017. We have completed the eight-base system covering

major cities in Japan. In addition, we have been working toward the expansion of easy-to-install, labor-saving products, such as the flooring installed over existing floors and sliding doors installed without damaging existing walls.

A condominium renovation company joined our group in October 2016 for the development of new business. As a building material manufacturer, we now participate in the renovation business. We will develop products that help shorten the work period.

However, when looking at the entire home renovation market, sales of products are growing very slowly except for new renovation projects. I think we should cope with the lack of skilled workers and increase easy-to-install products for renovation, reinforce the cooperation of the TDY alliance, and develop demand for renovation.

Finish in the final year of the medium-term management plan

Q

Fiscal 2019 is the final year of the medium-term management plan GP25 1st Stage. We see the factors of increasing costs in a variety of aspects, in addition to a decrease in the number of new house construction projects. How will you finish the final fiscal year?



■ Decrease in the number of new house construction projects and increase in raw material prices

Regarding the market environment, the number of new house construction projects in fiscal 2018 decreased the previous year after July, and the number continued to drop and was less than the previous year for nine consecutive months up to March 2018, indicating a slowdown. After the second half, we faced cost increases that affected our performance, such as energy, adhesives, imported plywood, and transportation costs. The tendency for cost increases will continue in fiscal 2019, and the situation is expected to worsen. Although we have been coping with streamlining and cost reductions mainly in plants, it has reached the level that cost increases cannot be absorbed through our efforts alone. Because of this situation, we cannot help but increase the prices of some products, so we are now asking our customers for their understanding.

■ Proposing new value by large-scale introduction of new products

The most important objective for a manufacturer is to provide new value to customers. As one specific proposal, we introduced new products on a large scale in June 2018. We changed 70% of the products in the previous product catalog to new products, increased the product lineup by 30%, and reinforced our capabilities to propose plans for both housing and public and commercial buildings. We will increase our market share in the new house construction market mainly with these new products and will widen the range of our proposals in terms of public and commercial buildings.

In particular, we positioned Gravio Edge, a deeply embossed non-combustible wall material using the original incombustible material Dai-Lite, as a strategic product to reinforce our proposal capabilities for walls, which have been less of a focus in the interior space before. For houses, we will widen our proposal range as accent walls for entrances, living rooms, and main bedrooms matched with flooring and interior doors in the high-grade space, and for non-residential buildings, we will emphasize our good design that gives the entrance hall a luxurious atmosphere. This product offers not only a good design but also workability. It is light and easy to process because of the features of Dai-Lite. I believe it contributes to saving work skills in the building industry, which is facing a lack of skilled workers.

■ Maximizing the synergy effect of acquired New Zealand MDF plant as soon as possible

We will establish a solid cooperative relationship as a group with the New Zealand MDF plant that we acquired in April 2018. After this acquisition, we established the MDF manufacturing system



producing about 800,000 m³ per year, an increase of 30%, through two plants in New Zealand, two plants in Malaysia, and Hokushin, a cooperative factory in Japan. I think we should quickly maximize the synergy effect in the entire group by optimizing the production items while making the most of the characteristics of each plant.

As a result of the acquisition, we took over their sales routes for overseas, so we can expand our sales routes in the global markets. In addition, about a quarter of their products are for the Japanese market; thus, our market share of MDF will be about 50% in Japan, which secures our position as the No.1 MDF manufacturer in Japan, and we were able to enhance the existence of our MDF business. Through these efforts, we have to achieve all five of the management goals of sales profit, ordinary profit, net profit, ROE, and the sales target of 180 billion yen in the medium-term management plan and move on to the medium-term management plan for the next period under the best conditions.

ESG and CSR

Q The momentum for ESG investment is increasing. Please let us know about efforts for ESG and CSR.

■ Environment (E)

Our company started its history in timber processing, so we have been taking over the DNA of using wood without leaving any waste as precious materials. Based on this idea, we have been dealing in Insulation boards using wood chips processed from wood waste and tree thinning since the 1950s. Today, we make efforts to

Vision and Strategy of Value Creation

effectively use wood materials by increasing the rate of use of old wood produced at the time of house demolition.

Based on the idea of effectively using limited materials, we developed Dai-Lotone (ceiling material) from a byproduct produced after extracting iron from iron ore and Dai-Lite using the volcanic ash of the *Shirasu* plateau in Kagoshima, which sometimes causes debris flows in the area. We regard these industrial material businesses as some of our core businesses, and we have been seriously working toward environmental issues since our foundation.

We also proactively make efforts to reduce the environmental burden in the process of production. We installed woody biomass boilers to use the unusable chips and wood waste produced in the manufacturing process in our nine group plants in Japan and established a system where about half of the energy for the plants in Japan is covered by renewable energy. Thus, we have been greatly contributing to reducing CO₂ emissions.

Nowadays, water resource issues are attracting attention around the world. We use water mainly in the plants manufacturing insulation boards. We have been making efforts for water resource issues by installing circulation and clarification equipment to prevent contamination, as well as minimizing water usage. We introduced the latest model of clarification equipment in fiscal 2018 to reinforce the system. I think we should make serious efforts for environmental issues, even if they are not directly observable by customers.

■ Social (S)

Regarding society, we make efforts by establishing priority issues in the medium-term CSR Activity Plan: *quality, using human resources, even-handed dealings, coexistence with the community, and human rights*.

First, let me talk about quality, the foundation of a manufacturer. We work hard to ensure that we provide high quality, safe products and services to customers. In particular, we focus on *workstyle reform* to create a *workplace where employees can work positively and enthusiastically*, and *promote diversity* where a variety of human resources participate in great activities and contribute to the growth of the company, which is described as the basic policy in the medium-term management plan.

We also think women, our working partners, should be more actively involved in the company. Although the proportion of women in managerial posts, which tends to attract outside attention, is still low, we should not put too much emphasis on increasing this number. That will not bring good results to the company or female workers.

We place a high priority on preparing the basic circumstances where female workers can be more actively involved in the company. We invite external presenters for lecture meetings, organize female

worker gatherings, recruit more female new graduates, and provide training courses for female managerial post candidates. It is essential for our human resources to actively participate in the company as *sources of intelligence*, particularly in the time of reforms. I think, from that perspective, we will emphasize efforts that change awareness by sharing the medium- and long-term plans, which give a specific image of future improvements. At the shareholders meeting in June 2018, we appointed Ms. Yuko Katsuo as a female external auditor. I expect that she will make some changes within the company if we actively provide her with opportunities to exchange opinions with our employees.

■ Governance (G)

Regarding governance, to secure more transparent management, we established the corporate governance committee as an arbitrary advisory committee comprising a majority of independent outside executive officers that include the committee chairperson, as well as the nomination and remuneration committee where our employees actively discuss matters with members from outside organizations. In addition, discussions are not only held in the meetings. There are more opportunities to provide information and exchange opinions. I find these opportunities very effective.

A series of efforts for ESG forms an inseparable basis for supporting business activities. I welcome the tendency where the company values are comprehensively evaluated based not only on financial information but also on the corporate philosophy and non-financial information, such as ESG, because what we have valued is evaluated from a fresh perspective.

Taking the growing momentum for ESG investment and being aware of the fusion of our business activities, ESG, and CSR, we will accelerate our efforts more than before.

Efforts for SDGs

Q As global social issues, we are asked to respond to SDGs. Please let us know what you think about these issues.

I think the ultimate meaning of the existence of a company is to solve social issues through the business.

SDGs are “*global standards for social issues to be solved*” as established under the leadership of the United Nations. These themes cannot be avoided when we aim at a sustainable society.

At Daiken, we started to figure out how our current business activities are linked to SDGs.

It is important for the board members—including the managerial layer executive officers and me—to recognize the changes occurring globally and what is required of companies.

Then, we need to connect the issues to the surrounding themes or duties of each employee from the manager of a division to an

administrative position and from the administrative position to the employees in each workplace. For this effort, we have started to discuss the direction in the CSR committee and share the information at meetings where managers gather from nationwide divisions.

Regarding the specific efforts of the company, we will set related themes in the currently prepared medium-term management plan for the next period, the medium-term CSR Activity plan for the next period, and the medium-term environment plan, clarify the policy and promotion system if necessary, and promote our efforts.

To spread SDGs to the level of sites in the company, we will develop activities that provide an opportunity to adopt SDGs for the theme of the medium- and long-term research and development with young employees responsible for development.

Establishment of medium-term management plan for next period

Q Please let us know what you think of the medium-term management plan GP25 2nd Stage starting from fiscal 2020.

The most important thing is to finish the 1st Stage completely. I cannot tell you the details of the 2nd Stage because it is currently being prepared. I think the 2nd Stage, the medium-term management plan for the next period, is the stage in which we will be tested as to whether we can achieve GP25, the long-term vision for fiscal 2026.

In the 1st Stage, we developed our business in new markets using existing management resources. However, in the 2nd Stage, in addition to expanding the three existing businesses, industrial materials, building materials, and engineering, we will work toward establishing a new business that will be the fourth pillar for us.

To do so, we need to decide on a large-scale investment project in addition to the current management resources.

Therefore, in April 2018 we established the Management Strategy Office, a special organization that strategically works toward new business and M&As. I will stick to the idea that the fourth pillar will have been established by the end of the third year of the 2nd Stage.

What we have to pay attention to financially is how we effectively use and maximize cash flow and decide whether the return on capital costs is appropriate or not.

So, I think we should clarify not only the targets of sales, profit, and ROE, but also the balance sheet and cash use policy in the medium-term management plan for the next period.

We should also have a clear image that expansion of the business as a new pillar will help us understand the social issues and needs and eventually lead to achieving our corporate philosophy and the long-term vision. This will lead to the sustainability of society, as well as our business activities.

