

# Interview with Top Management



*Masanori Okuda*

Representative Director,  
President

# Toward becoming an all-embracing company for building materials

**To achieve the Long-Term Vision GP25,  
contribute to society by returning to our roots  
and leveraging the changes as opportunities**

**Q What has been the influence of the spread of the COVID-19 infection, and how have you coped with it?**

The worldwide spread of COVID-19 has had a tremendous influence on social and economic activities. We are deeply grateful for the daily support of healthcare professionals on the frontlines and other persons working to prevent the spread of the infection. How the situation will develop remains uncertain. Our company will continue to place its highest priority on guaranteeing the safety of customers, business partners, employees and their families, and all other stakeholders to prevent the spread of the infection and minimize the impact from the crisis. Under these circumstances, we were fortunate in that the influence on our performance for FY 2020 was limited. In the early phase of the crisis from February to March 2020, there were concerns about the procurement of parts and materials from China due to the major impact of the spread of the infection. However, after strengthening our BCP structures following the procurement problems in FY 2019, we fulfilled our responsibility as a manufacturer for a stable supply for the end-term increase in demand for housing and building materials.

Since the start of FY 2021, the situation has been difficult because of rapid and continuous changes. Regarding company-wide measures up to June

when this interview was held, the Countermeasures Office was established, and I will serve as the director. Under the integrated management systems combining Japan and overseas, we are continuing business as much as possible, while taking precautions to prevent the spread of the infection. The key business production bases in Japan are continuously operating with partial production adjustments. Among the overseas bases, the MDF plants in New Zealand stopped operations for about one month from late March until the end of April due to the nationwide lockdown. The LVL plant in the United States was forced to reduce operations by approx. 40% to 60%. The impact has been greater overseas than in Japan with restrictions placed on other plants in Malaysia, China, and Indonesia. At the business offices in Tokyo, Osaka, and other regions, we switched to remote working, in principle, after the declaration of the state of emergency by the Japanese government, and we maintained operations of 80% or higher. Urgent measures were implemented, but our structures, which had been gradually established from the viewpoints of BCP and work style reform, took effect. The impact on sales and orders was limited at the beginning of the term in April, but difficulties are increasing with each passing month. The influence on housing and building materials emerges two or three months after the start of construction. Therefore, we are establish-

ing production structures to flexibly adapt to any changes in demand in preparation for a rapid decrease in demand expected in Q2 and after.

**Q FY 2020 was the year to start the medium-term management plan GP25 2nd Stage. What were the achievements and problems in the first year?**

The two achievements were the steady progress in the review of the market portfolio amidst the downward trend of new housing starts and the M&As aimed at strengthening key markets. As had been expected, new housing starts slowed following the increase in the consumption tax in October of FY 2020. Because of last-minute demand, there was a steady trend in the first half of an increase in owned houses and detached houses year-on-year. However, performance throughout the fiscal year was poor at -7.3% due to the reactionary decrease in the second half. Nevertheless, we maintained increased income in the building materials business for the new housing market by 6% by strengthening deployment in public and commercial non-residential buildings and the home renovation market. We felt confident that we could increase our presence by proposing differentiating products to acquire increased market share and by steadily reviewing our market portfolio despite the downturn in new housing starts. Another achievement was that we implemented M&A measures in three key markets (global markets, public and commercial buildings, and the home renovation market).

In the global markets, we took a substantial step by managing to enter North America, where the market size is large, medium-term to long-term growth is expected, and mainly wooden construction is used, an area of particular strength for us. We will promote sales in North America by focusing on the existing housing LVL for the time being. In the future, we will introduce products with high added value and additional functions (such as preservative and noncombustible materials) to

enhance the range of housing proposals. At the same time, we will expand sales channels to commercial nonresidential facilities and examine expansion into other industrial materials and building materials by leveraging the resources of ITOCHU Corporation with which we established a capital and business alliance in 2018. In this way, we will formulate medium-term and long-term strategies to pursue further expansion into North America.

In the public and commercial buildings segment, we started full deployment of solid wood flooring business, which had been missing from our product lines. We will strengthen proposals with a focus on educational facilities (such as gymnasiums and classrooms) that have persistent needs for solid wood flooring. In the meantime, we are promoting a major shift in the sales structures from housing as the main target toward public and commercial buildings. We hope to strengthen proposals for public and commercial buildings and thereby accelerate sales increases.

On the other hand, the performance of the MDF was a problem because the mainstay in the industrial materials business was stagnant because of the deteriorated global market conditions triggered by the US-China trade friction and other factors. As market conditions deteriorate, price competition occurs in general-purpose products, which in turn results in selling price declines and other impacts. However, we received stable orders for special MDF for use as materials for flooring with their waterproof quality and dimensional stability highly



rated by customers. It has become clear that products with high added value and functionality are less vulnerable to deteriorated market conditions.

In addition to special MDF for flooring, our product lines include many other differentiating products from our company, such as tatami facings with high durability compared to conventional rushes by processing machine-made Japanese paper, sound absorption products that resolve residential sound problems, and the flooring material with its improved appearance design based on unique technology. We will establish structures and further develop more products and applications.

**Q What is your direction toward the achievement of the medium-term management plan GP25 2nd Stage through to FY 2022?**

First, we need to identify risks and opportunities amidst the uncertainties that we face. We are establishing structures to achieve robust immediate operations by suspending capital investment that assumes production increases, overall inspection and selection of expenses, further pursuit of asset efficiency, and an improved standard for short-term liquidity to manage the risks. While thus pursuing risk preparedness, we must be careful not to quit investments altogether by selectively reviewing expenses. We must also be careful not to miss opportunities. If we only prepare, business may shrink and diminish. To avoid cutting off the branch that has important buds for the future, we must identify the essential factors of medium-term and long-term competitiveness and corporate value enhancement. As a member of top management, I would like to make decisions by looking at both sides and take action to attack or to defend as necessary.

We need to prepare for risks, monitor changes amidst uncertainties, and implement the necessary measures at the appropriate times. In the financial

crisis of 2008, we were faced with tough market conditions where new housing starts for the fiscal year decreased by approx. 25% from 1.03 million to 0.77 million. We had been promoting business restructuring since early 2000, including withdrawal from the housing equipment (such as kitchens), roof materials, exterior materials, and plywood segments as one of the founding businesses. On the other hand, we took the opportunity of incorporating the MDF plants in New Zealand into our group to expand our industrial materials business. We leveraged the expanded capacity to divide production based on the advantages of plant lines with the New Zealand plants engaged in the mass production of general-purpose products and the Malaysia plants specializing in the production of special MDF for flooring with high added value, which supports our business as a product that is less vulnerable to the recent deteriorated market conditions. We also shifted toward productivity improvement in floor materials, which had faced difficulties though they were key products in the building materials business, by integrating the functions of the Nagoya plant, which had been a key plant since our foundation, into the present Mie plant with renovated equipment. Floor materials have been revitalized as the core of our building materials business.

Similarly, we will take this opportunity during the current COVID-19 crisis to accelerate the review of our business portfolio. We had assumed that we could proceed from the 2nd Stage to the 3rd Stage in steps under the risk scenario of a gradual decrease in new housing starts, but we will accelerate the decisions on the reduction or withdrawal from business segments that are no longer viable. In the meantime, as in the financial crisis, we will proactively invest capital resources into business segments that maintain competitiveness and business segments that represent the source of new growth. M&As under highly uncertain circumstances will require more difficult decisions but can be concluded under more advantageous conditions. We will carefully identify opportunities for M&As, while leveraging

a financial structure that has improved compared to those days.

Under these circumstances, attaining the goals set in the medium-term management plan GP25 2nd Stage will naturally be difficult toward FY 2022 in consideration of decreases in demand and existing businesses. However, there has been no change in the concept of reforming our business and the market portfolio and implementing steady measures to become an all-embracing company for building materials as reflected in our corporate image in the long-term vision, despite the decreases in new housing starts, as our basic attitude in the medium-term management plan. At present, we will not modify our management goals in consideration of the new possible steps based on opportunities amidst the uncertainties. We would like to find the seeds of the next-generation business as the potential fourth pillar after industrial materials, building materials, and engineering, which will lead to the resolution of social issues in a Daiken-like manner toward the start of the GP25 3rd Stage in FY 2023 as the final step in achieving our long-term vision.

I believe that it will entirely depend on the strength of human resources to create something new in response to changes in the external environment and to establish a relationship of trust with customers and other stakeholders. While work styles change from the influence of COVID-19, we will strengthen investments in human resources and establish a workplace environment where all employees can achieve optimal performance and exercise their skills.

---

**Q What will be your medium-term and long-term management strategies in the post-COVID-19 era?**

"Changes" and "return to our roots" will be key terms. The two perspectives for change are as follows: changes in work styles and changes in lifestyles. For the changes in work styles, work will

no longer involve commuting, and remote work will become common for people in different places, including homes and satellite offices. There will also be a shift from sales activities in person to more online-based activities, thereby reducing the time required for travel. The saved time can be used for market analysis, proposals that match customer needs, the formulation of enhanced sales plans, and otherwise increasing added value. Office tasks can be performed from home, which can increase concentration and productivity for certain jobs. This signifies that employees who are in the midst of life events (such as childrearing and long-term care) can find increased opportunities to reach their potential.

Lifestyles will become more online-based in a variety of different ways. Because it will no longer be necessary to live in urban areas close to offices, trends may emerge for people to move to remote areas or to live in spacious detached houses in suburban areas. In offices, space will be required to minimize physical contact while pursuing comfort and functionality, Web meetings will become more common, and new demand may emerge for personal booths for those purposes. At home, space will be required for remote deskwork and for soundproof functions in order to coexist with family activities. As antiviral measures, we have proposed products equipped with BIOTASK, an antiviral that was developed following the emergence of the pandemic influenza in 2012. We will contribute to society by promoting product development with an expanded scope of application with an antiviral function. We also released a series of building materials for medical facilities in the last fiscal year, but the existing lines are clearly not satisfactory. This means we have the need and the reason to develop new products that will help professionals working on the frontlines of saving lives.

A company cannot be continuously selected by simply conducting business as usual. Personnel within the company must always ask themselves

whether they are better than they were yesterday. A company must demonstrate adaptability and the agility to provide new value in response to changes in a post-COVID-19 society. This is exactly the practice of endeavoring to improve customer trust and satisfaction by grasping changes in the needs of society in advance, while providing products, technologies, and services that are safe, secure, healthy, comfortable, and appealing as mentioned in our group conduct guidelines. Our true value will be assessed.

In conclusion, I would like to mention "return to our roots." Amidst the increasing uncertainties of the COVID-19 crisis, we must return to our roots. Our company celebrates its 75th anniversary in September 2020. From the foundation of the company immediately following World War II to today, there have been difficult managerial crises. I believe that our company survived and grew because it knew its roots. To contribute to a sustainable society through the effective use of limited

resources originating from the wood processing business and to create a safe, secure, healthy, and comfortable space by expanding business into functional industrial materials and into building materials with higher added value—these are the roots and the fundamental concepts to which we must adhere. While the influence of COVID-19 remains the focus, this does not mean that other social issues (such as climate change, frequent earthquakes, and resource depletion) disappear. Amidst the increasing uncertainties, it will become more important to return to our roots in order to pursue more essential contributions to the resolution of social issues through our business activities. Based on the roots and the business concepts to which our company has adhered since its foundation, we will examine ways that we can contribute to society in the coming years, including the reconfirmation of Daikden's strengths. These efforts will contribute to a sustainable society and the SDGs.

