

5th Medium-term Business Plan (FY2024~FY2026)



Reframe
Strengthening Foundations

May 15, 2024
Daio Paper Corporation
President and Representative Director
Chief Executive Officer
Yorifusa Wakabayashi

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Review of the 4th Medium-term Business Plan

- Under the slogan “GEAR UP: The Next Growth Stage, to a New Future” the Company aimed for further structural reforms

Basic policies

1

Establish a strong and resilient business portfolio

Build an even greater competitive advantage in the Paper & Paperboard Business by capitalizing on the results of strategic investment and continuing with structural reforms

Lead the Company’s growth and expansion through faster multi-category business expansion and further acquisitions in the Home & Personal Care (H&PC) Business

Create future growth opportunities through new businesses such as cellulose nanofiber (CNF)

2

Improve financial strength

Strengthen cash generation capacity and improve cash flow to enable further growth under the 5th MTBP

In view of the uncertain economic outlook, rigorously select capital expenditure projects for the 3 years of the 4th MTBP, and aim to obtain a credit rating of A during this time

Promote management consciousness of capital cost and return on capital

Introduce ROIC as an internal management indicator for evaluating profitability for each business and investment decision standards

3

Respond to climate change Achieve carbon neutrality by 2050

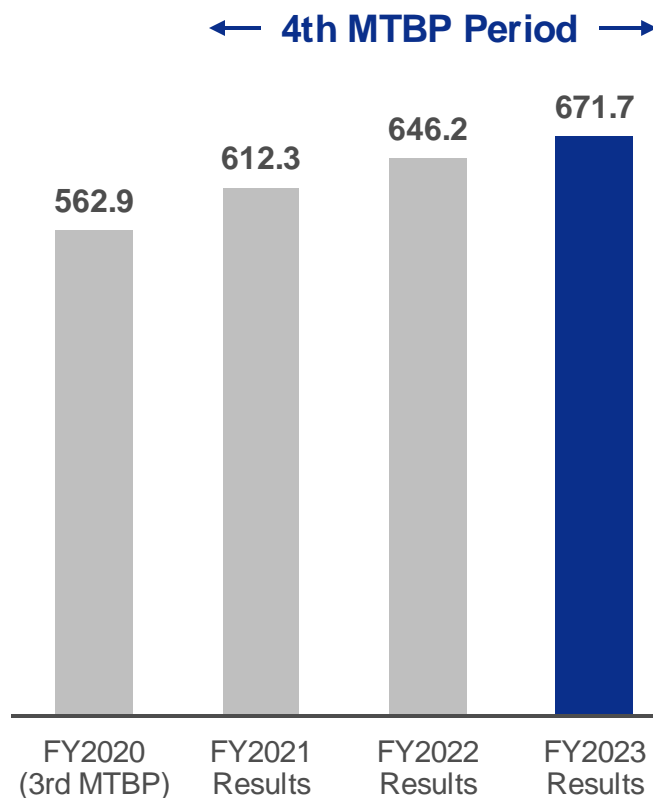
Promote the use of renewable energy, and aim to reduce coal usage to zero by 2050

Continually engage in proper plantation management and expansion of plantation areas

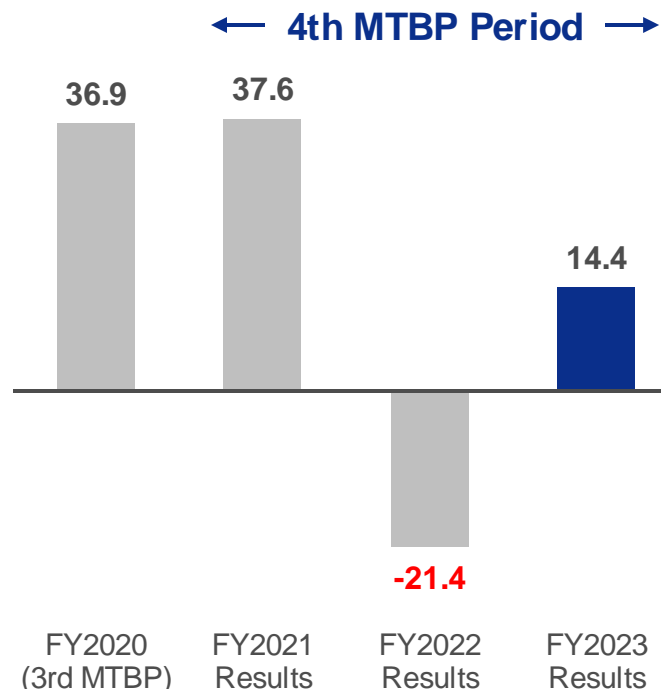
Promote a shift to environmentally-friendly materials through CNF and plastic-free product businesses

- Net sales continued to reach record highs, but fell short of the target

Net Sales



Operating Profit



Target Indicators	FY2023 (Initial plan)	FY2023 Results
Net sales	720.0 billion yen	671.7 billion yen
Operating profit	51.0 billion yen	14.4 billion yen
Ordinary profit	48.0 billion yen	9.6 billion yen
H&PC overseas sales ratio	18.8%	14.3%
ROE	10.0% or more	1.9%
Net Interest-bearing debt	270.0 billion yen	361.6 billion yen
Net D/E ratio	1.0	1.5
Issuer Rating/Outlooks (R&I)	Target of A	A- Stable

- While we were able to make strategic moves for future growth despite the challenging environment, strengthening H&PC's profitability and energy transition will continue to be key issues in the next medium-term business plan.

Items Achieved

Strategic moves to establish a strong and resilient business portfolio

- Made a full-scale entry into the pet care business in October 2023 under the brand name of elleair Pet *kimiomoi*
- Santher's performance grew to drive H&PC overseas business

Ongoing Issues Carried over to the 5th MTBP

Strengthen H&PC's profitability and speed up energy transition

- Boost operating margin of H&PC business (especially turning overseas business profitable)
- Review the energy mix, mainly coal, which was the main factor behind lower earnings in FY2022
- Improve financial position

Our Goal

Long-term Vision: Daio Group Transformation 2035

Daio Group Transformation 2035

Four focus themes towards 2035

01 Area

Global presence,
including Japan

Domestic focus

02 Strengths

Adaptability to environmental
changes, R&D and
marketing capabilities

Manufacturing / sales/
factories / facilities

03 Energy

Woody fuel and community-
sourced waste-derived fuel for
regional sustainability

Fossil fuel (coal)

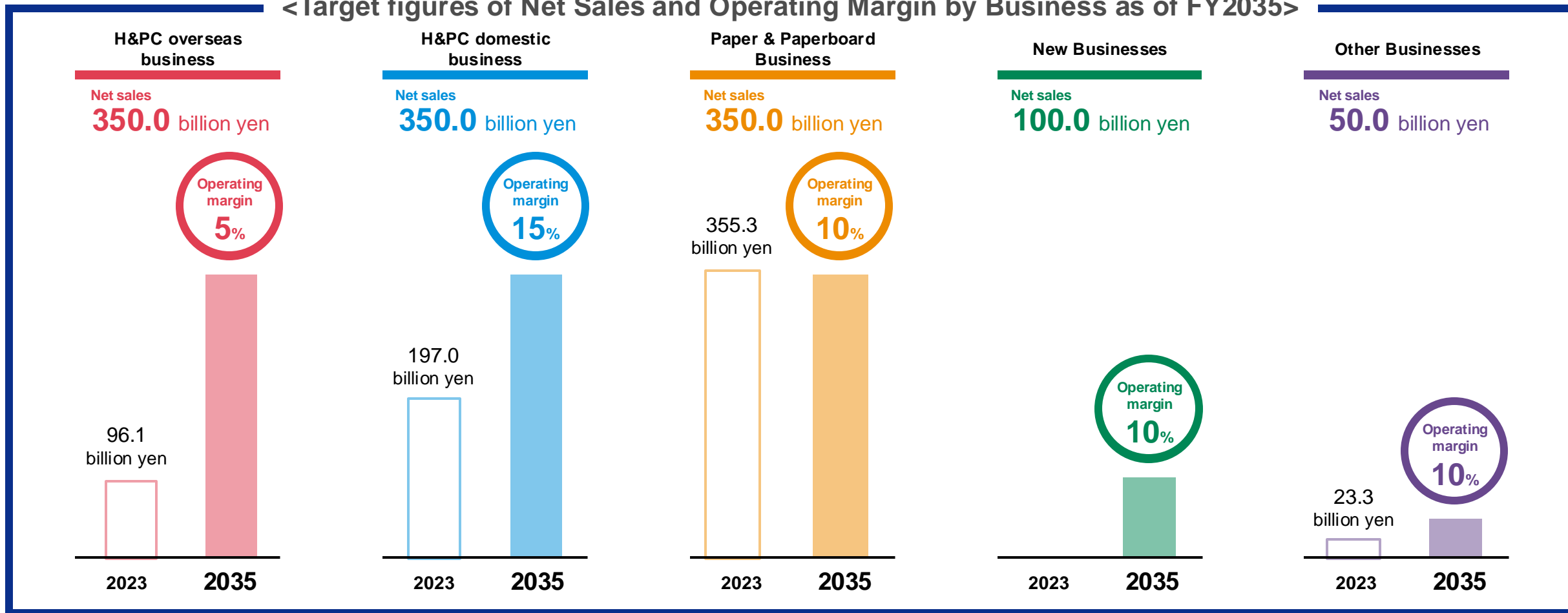
04 Source of value creation

Human resources
Corporate culture

- Investment in securing and developing human resources that drive transformation
- Revamp of corporate culture and work-style mindset

- Achieve 1.2 trillion yen in consolidated net sales and 10% operating margin

<Target figures of Net Sales and Operating Margin by Business as of FY2035>



Summary of the 5th Medium-term Business Plan

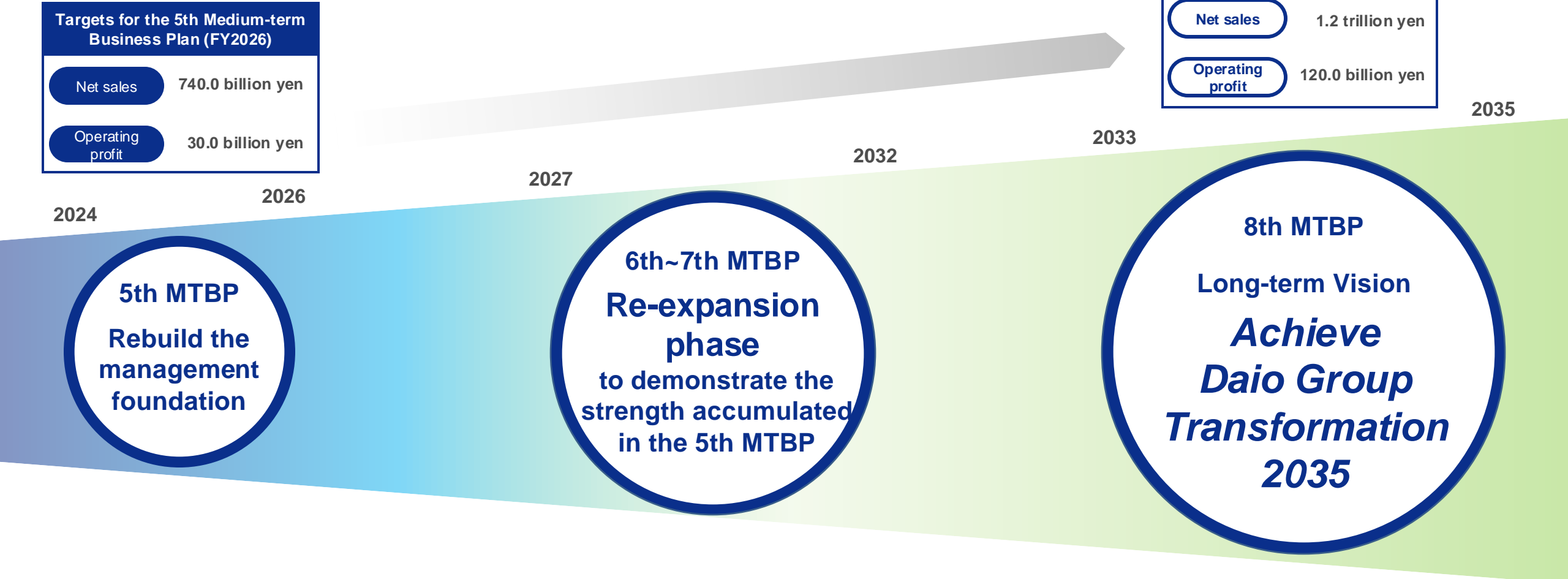
Slogan for the 5th Medium-term Business Plan



- Three years to build up strength to take further steps forward beyond the 6th Medium-term Business Plan and achieve the Long-term Vision

Targets for the 5th Medium-term Business Plan (FY2026)	
Net sales	740.0 billion yen
Operating profit	30.0 billion yen

Targets for the 8th Medium-term Business Plan (FY2035)	
Net sales	1.2 trillion yen
Operating profit	120.0 billion yen



- Focus on rebuilding the management foundation in the 5th Medium-term Business Plan to achieve the Long-term Vision



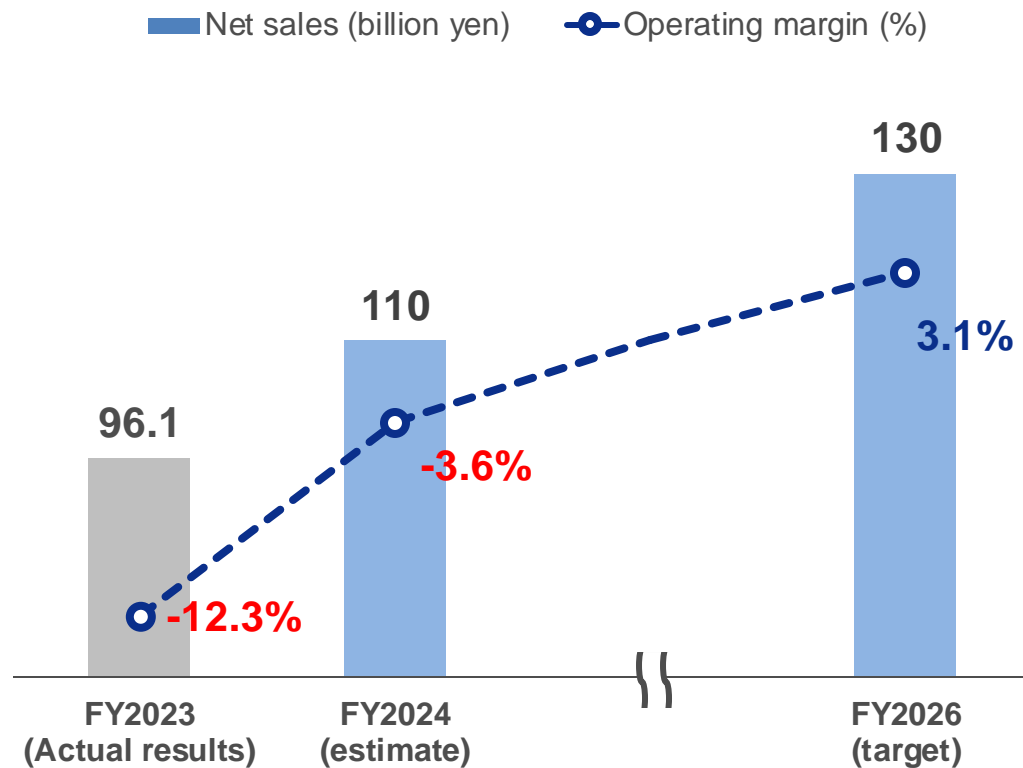
- Aim to achieve net sales of 740 billion yen and operating profit of 30 billion yen in FY2026 (the final year of the medium-term plan)

	4th Medium-term Business Plan (FY2023)			5th Medium-term Business Plan (FY2026)		
	Net sales (billion yen)	Operating profit (billion yen)	Operating margin	Net sales (billion yen)	Operating profit (billion yen)	Operating margin
Paper & Paperboard Business	355.3	16.0	4.5%	350.0	10	2.9%
H&PC Business	293.1	-4.1	-	360.0	18.5	5.1%
(Breakdown) Domestic	197.0	7.7	3.9%	230.0	14.5	6.3%
Overseas	96.1	-11.8	-	130.0	4.0	3.1%
Other Businesses (including adjustments)	23.3	2.5	10.7%	30.0	1.5	5.0%
Total	671.7	14.4	2.1%	740.0	30.0	4.1%

**Strengthen operating cash flow
generation capabilities**

- Urgent need to restructure business model
- Aim to turn every overseas subsidiaries profitable in the final year of the 5th Medium-term Business Plan

Net Sales and Operating Margin Estimate and Target



Direction during the 5th MTBP Period

01

Overhaul strategy of existing sales areas

- Identify segments where winning strategies can be found and establish a model to achieve both sales growth and profitability

02

Formulate plans for expansion for the Long-term Vision

- Research potential new entry countries
- Consider entering new countries through M&A

03

Strengthen our people and organization

- Design systems to develop and strengthen human resources
- Concentratedly redeploy personnel from other departments, expand hiring of experienced personnel, promote local employees to senior management positions and delegate authority

Baby Care

Rebrand

- Achieve a V-shaped recovery by strengthening new product planning and development for quality-conscious loyal users, new Generation Z users, and baby specialty stores through a product policy tailored to Chinese consumer and distribution trends
- Baby care product sales in Q1 2024 increased 158% quarter-on-quarter, surpassing the planned recovery target
- Aim to return to the No. 1 position in the mainstay baby shop in-store share by the end of this fiscal year and achieve a 5% share of the domestic market



GOO.N
Dragon year edition
(For young adults/Generation Z)



GOO.N
Beautiful Illusion Series
(New super-premium product)



GOO.N
Journey of Wonders,
Feathered Illusions Series
(Exclusive for baby specialty stores)

Feminine Care

Strengthen brand marketing

- Boost sales by assigning dedicated feminine care units in priority areas (Shanghai, Beijing, Shandong, and Jiangsu) and acquiring sales space through continuous rollout of new products and limited edition products, and through intensive sales promotions
- Expand lineup of panty-type products, for which demand is growing, and offer products with deodorant functions for Generation Z, with college students and young workers as the main target, aiming for a 5% market share and 70% brand recognition in priority areas



elis Effortless
Absorption
sanitary pad



elis Fantasy Fanny
sanitary pad
(For young adults)
Launch of additional products
with deodorant functions



elis Starry Night
True Love
panty-type
sanitary pad

Baby & Feminine Care

Further develop high value-added products

- Sales volume of baby diapers increased thanks to the launch of premium pants-type diapers in fall 2022 and the additional launch of standard pants-type diapers in February 2023
- Sales volume of feminine care products increased thanks to expanded sales channels and distribution outlets for premium products, and baby and feminine care sales in FY2023 grew 52% compared to the previous year
- Continue to nurture high value-added products to further improve profitability this fiscal year



Personal baby diaper
Premium (left) and standard (right) pants type

Sym sanitary pad
Reinforced products for nighttime
use through rebranding

Other Measures

Start to consider entry into new categories

- Sustained price revision effects by introducing value-added and differentiated toilet paper products, such as long-length and deodorant types
- Develop and implement category-specific measures that will establish a clear winning path, such as market-oriented products and brand strategies based on a three-year product policy and development pipeline
- Start market research to launch new categories in response to anticipated intensification of competition in the sanitary paper market driven by major pulp makers' entering the downstream sector



Personal toilet tissue
2-ply long-length type



Personal toilet tissue
With deodorant function
(lavender)

Measure 1

Overhaul Overseas Business Strategy

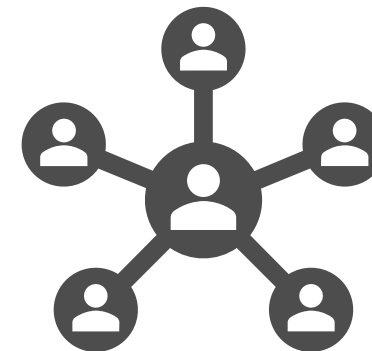
- Thoroughly analyze afresh the market and competitive environment based on changes in the business environment and diversification of needs and channels in each country/region
- Identify areas where we can find a winning edge in our overseas business and establish a business model that will enable us to improve profitability
- At the same time, research new countries/regions and categories to enter, and consider M&A as an option, aiming to realize overseas business expansion through both existing and new businesses



Measure 2

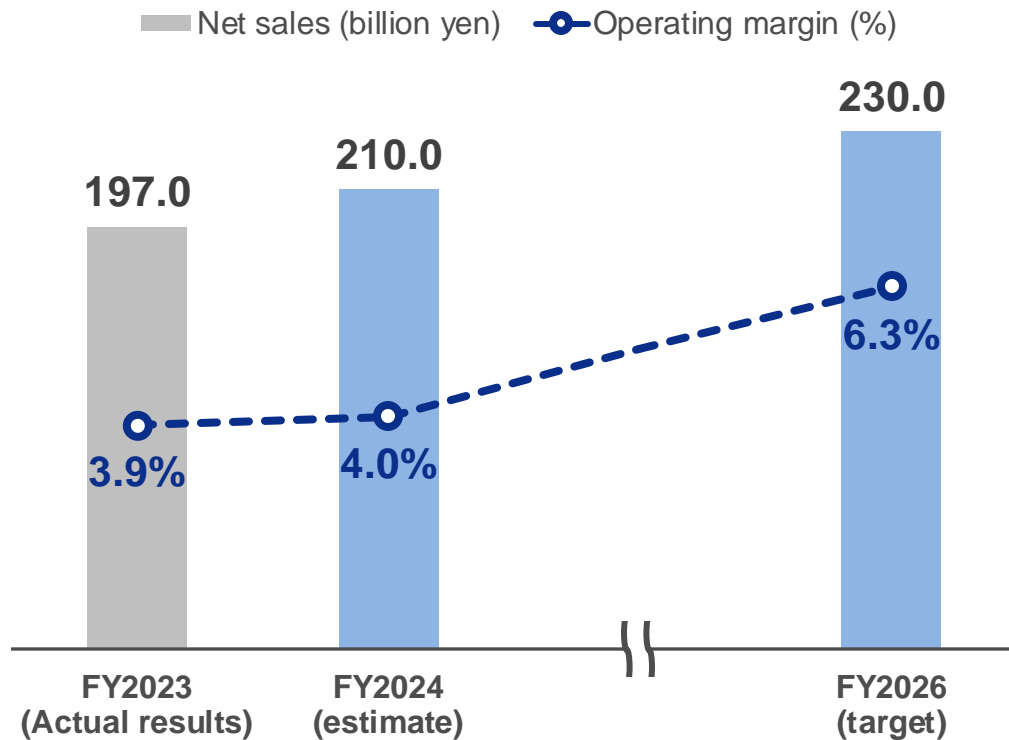
Strengthen Global Human Resources and Organizations

- Expand hiring of experienced personnel in addition to concentrating deployment of personnel to divisions related to overseas business
- Boost motivation of local employees to improve organizational capabilities by promoting the appointment of senior management and delegation of authority to local employees of overseas subsidiaries in accordance with their abilities and aptitude
- Build a pool of global human resources by expanding the number of employees with overseas experience through training of candidates for overseas assignments and appropriate rotation of expatriate personnel



- Streamline business by selecting and concentrating resources on specific categories
- Recover operating profit to 15 billion yen in FY2026 (the FY2021 level, which marked a record high)

Net Sales and Operating Margin Estimate and Target



Direction during the 5th MTBP Period

01

Focus on Growth Categories

- Concentrate development and marketing expenditures on family care (sanitary paper) and adult care categories

02

Expand the Pet Care Business (detailed on p. 30)

- Focus on expanding presence and aim to increase value market share during the 5th MTBP period
- Implement upfront brand investment in TV commercials, events, etc.

03

Explore New Categories

- Research potential alternative businesses in categories with expected demand decline, particularly in baby and feminine care

Family Care (sanitary paper)

Enhance soft pack facial tissues and 100% virgin pulp long-lasting toilet tissue

- Expect an annual growth of 7.7% in demand for soft pack facial tissues through FY2026
- Expect the toilet tissue market, which currently consists of 44% virgin pulp products and 56% recovered pulp products, to see the proportion of virgin pulp products exceed half due to a decline in recovered paper supply
- Strengthen production and sales in segments where demand is growing to earn incremental profits



elleair lotion tissue Luxurious Moisturizing 130W3P



elleair i:na Toilet Tissue, 3.2-fold length, 2-ply

Adult Care

Expand well-known “Yoru Ichimai Anshin” brand

- Expect institutional sales market to shift increasingly toward the consumer market due to a rise in at-home care
- Expect growth of slim pant-type diapers for users who can walk (including those who need assistance) and inner pads for pant-type outer diapers
- Expand the lineup of the “Yoru Ichimai Anshin” brand, which has earned high brand recognition



Attento Yoru Ichimai Anshin Pants (All-night comfort without pads), M-L for Unisex, 14 pcs

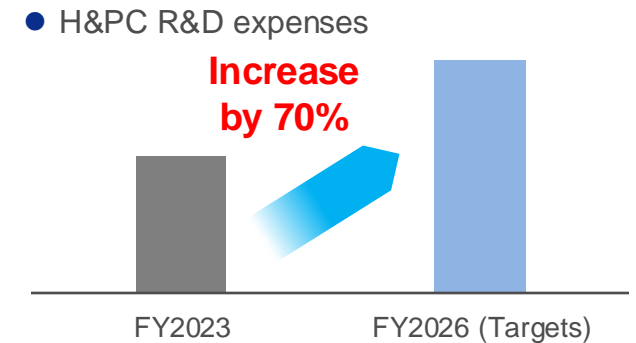


Attento Yoru Ichimai Anshin Pad (Insert pad for disposable pants), 6 times absorption, 18 pcs

Explore New Categories

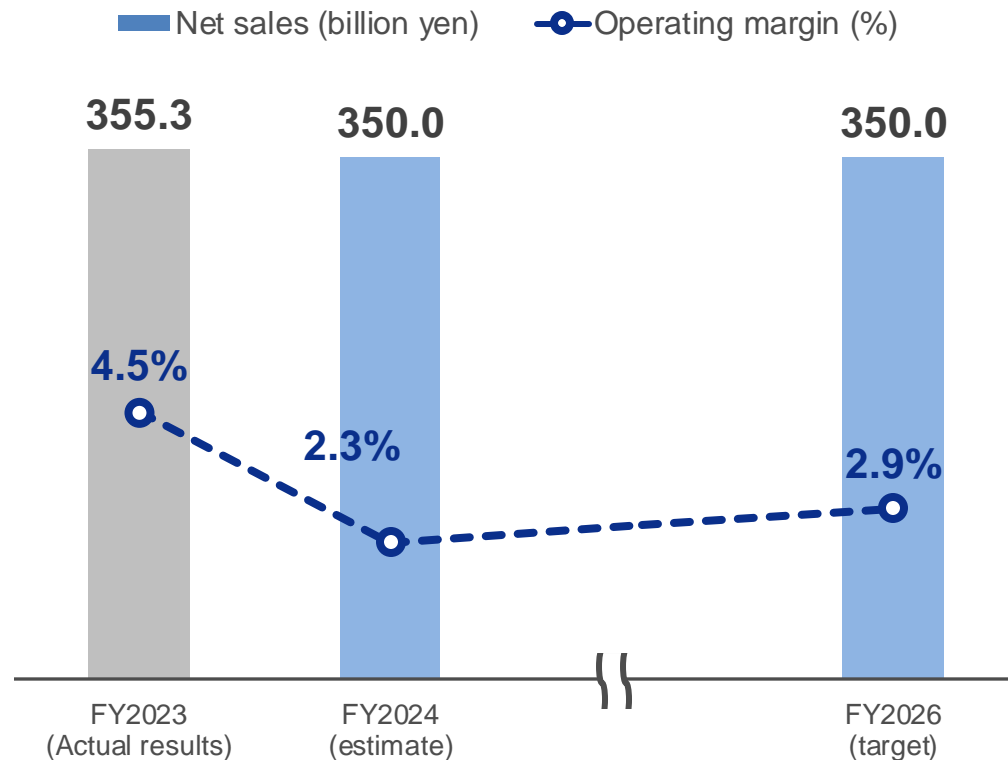
Increase R&D expenditures and launch a dedicated team

- Forecast rapid shrinkage in demand for baby and feminine care products due to declining births
- In addition to nurturing the pet care business, explore the possibility of entering new categories
- Increase R&D expenditures and at the same time, establish a department dedicated to exploring new categories (within FY2024)



- Policy shift from sales growth to stable operating profit
- Top priority is to secure operating profit of ca. 10-15 billion yen

Net Sales and Operating Margin Estimate and Target



Direction during the 5th MTBP Period

<Recognition of Business Environment>

- Demand for graphic paper will continue to shrink at an annual rate of about 7-8% for the foreseeable future
- Demand for packaging and paperboard is expected to shrink at about 2% per year



<Further Reinforcement of the Packaging Field>

- Increase the ratio of highly processed final products (packages) from the composition centered on sales of base paper to offset the decline in sales volume and sales of newsprint and graphic paper
- Daio Package, Daio Paper's Direct Sales Department, and Daio Miura to work together to pursue new packaging-related opportunities
- Consider M&A of packaging-related companies in addition to corrugated container companies

- Strengthen the business foundation and deepen and expand areas of collaboration with an eye to the future

Major Initiatives during the 5th Medium-term Business Plan Period

Promote initiatives centered on the following three themes with the goal of increasing operating profit by approximately 2 billion yen in FY2026

- 01 Production Technology** : Reduction of manufacturing costs through sharing of know-how of both companies; reduction of equipment maintenance costs and improvement of productivity through sharing of information on machine maintenance and mutual utilization of machine parts
- 02 Raw Material Purchasing** : Reduction of vessel costs and environmental impact, and strengthening of BCP measures through mutual sharing of chip vessels; reduction of procurement costs through mutual sharing of in-house manufactured pulp, consumables, etc.
- 03 Product logistics** : Reduction of logistics costs through round-trip transportation between production bases of both companies, including group companies, and improvement of storage efficiency through the mutual use of Hokuetsu Corporation's privately owned containers and both companies' logistics warehouses

Initiatives for the Future

Structural reform of both companies, joint research on new technologies, etc., energy transition, DX promotion, utilization of forest resources, etc.

Consider not only improving profitability but also reducing environmental impact, such as CO₂ emissions reduction and waste management

- Build a logistics system that is both competitive and sustainable

Achievements up to the 4th Medium-term Business Plan

- 01 Promoted modal shift by increasing the use of coastal vessels and RORO vessels as an initiative to develop new logistics infrastructure
- 02 Started logistics cooperation with Suntory Logistics, Nippon Paper Group, etc.
- 03 Started palletizing sanitary paper
- 04 Promoted the introduction of AGF (Automated Guided Forklift)



AGF unmanned forklift in use

Direction during the 5th Medium-term Business Plan Period

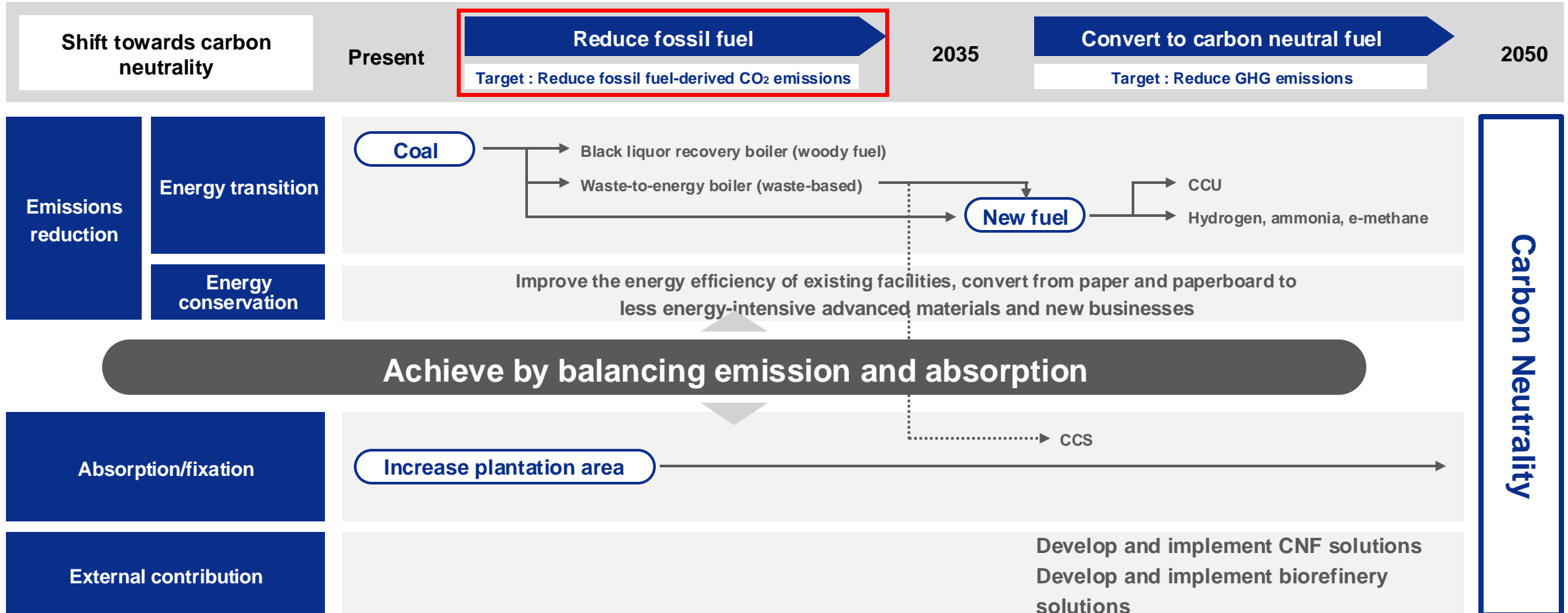
- 01 **Expand palletization of H&PC products**
 - Grow to be the manufacturer of choice for logistics companies by promoting initiatives to further reduce the burden on drivers
- 02 **Launch full-scale operation of AGF and double-trailer trucks**
 - Respond flexibly to changes in the labor environment by promoting logistics efficiency, labor saving, and unmanned operations
- 03 **Promote production in optimal locations and restructure logistics networks**
 - Build a sustainable logistics structure with improving cash flow in mind



The Kirekira! Pallet delivery of toilet cleaner

Implement investments carefully selected for future growth
**Further Promote Environmental Responsiveness to
Enhance Cash Generation Capabilities**

- Aim to reduce fossil fuel-derived CO₂ emissions during our transitional period towards achieving carbon neutrality



(Source)Daio Paper Long-term Vision: Daio Group Transformation 2035

- Implement three measures, aiming for a 46% reduction in fossil fuel-derived CO₂ emissions in FY2030 compared to FY2013

01 Restart Iwaki Daio Paper No. 4 boiler (biomass-fired boiler)

02 Install energy-saving equipment

ex. Install energy-saving equipment, effectively use waste heat from factories, further introduce solar power generation facilities

03 Improve production efficiency by integrating and reviewing product types, etc.

- Formulate a scenario for reducing fossil fuel-derived CO₂ emissions during the next medium-term business plan period while also forecasting demand trends

01 Feasibility of renewing the gas turbine at Ellear Paper Fujinomiya Mill

02 Measures to achieve goal of Zero Coal with our coal-fired boilers and sludge boilers at Mishima Mill*

03 Measures to convert Dainichi Paper's coal-fired boiler to phase out coal usage

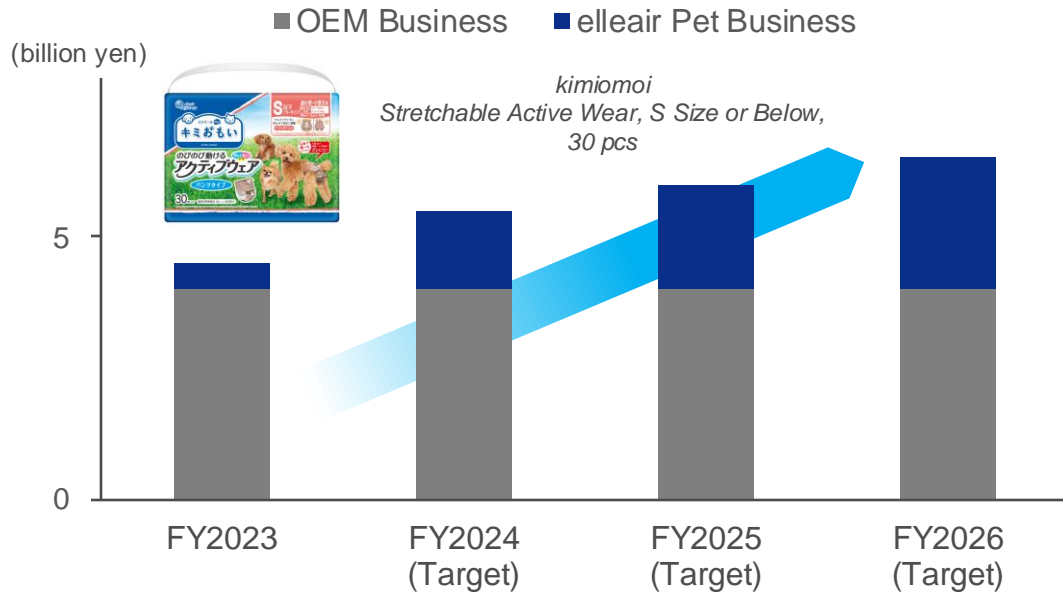
*Meaning formulating specific measures for shutting down one coal-fired boiler in FY2030

Implement investments carefully selected for future growth

**Develop New Businesses for Future
Cash Flow Expansion**

- Boost the number of consumers who have experienced elleair Pet among households with dogs and cats (10.4 million households*)
- Give top priority to establishing a presence in the pet products market

Sales Target



KPI

- Brand recognition rate: 50.0%
- Brand experience rate: 30.0%
- Brand current usage rate: 15.0%
- Market share of sales value: 4.0%

Policies during the 5th MTBP Period

01 Cultivate users

- Based on the concept of “high satisfaction through products that meet needs,” turn those who have experienced the brand to users of one product, and turn users of one product to users of multiple products

02 Strengthen partnerships and introduce new products

- Deepen relationships with business partners (Kitasato University School of Veterinary Medicine and OEM contractors) and introduce new products by combining marketing and product development capabilities in the Daio Group

03 Enhance communication

- Strengthen communication through direct touchpoints with pet owners (digital & e-commerce, in-store, “keicho shiiku (attentive pet care)” awareness events, etc.)

* 2023 National Survey on Dogs and Cats Ownership by the Japan Pet Food Association

- Bolster Our Structure with a Focus on Two Areas: CNF and Biorefinery

Themes to be Addressed during the 5th MTBP Period

CNF

- Strengthen supply capabilities, mainly in composite resins, and increase the number of fields for commercialization

Biorefinery

- Focus on establishing technology with the aim of conducting demonstration tests of several tens of thousands of kiloliters per year in FY2030

Common to Both Fields

- Increase R&D expenses and personnel to strengthen R&D structure

- Construct a commercial plant for ELLEX-R67 Composite Resin and start sales to select users

Achievements up to the 4th Medium-term Business Plan

- Expanded CNF lineup to meet a variety of needs
- Developed manufacturing processes with three pilot plants
- Increased supply significantly, advanced product development and adoption
- Decided on a policy to commercialize products in 7 areas* based on our vision

*Medical/healthcare, paper/consumer goods, sporting goods, construction materials, functional additives, automotive components, home electrical appliances

	FY2020 Results	FY2023 Results	FY2026 Targets	FY2030 Targets
Number of fields for commercialization	1	3	5	7

Paper / Consumer goods	Sporting goods	Functional additives
<p><ELLEX-S> Daio Paper toilet cleaning wipe Kirekira!</p>	<p><ELLEX-M> Table tennis racket components Fan Zhendong</p>	<p><ELLEX-C> Textile processing agent memory cotton</p>

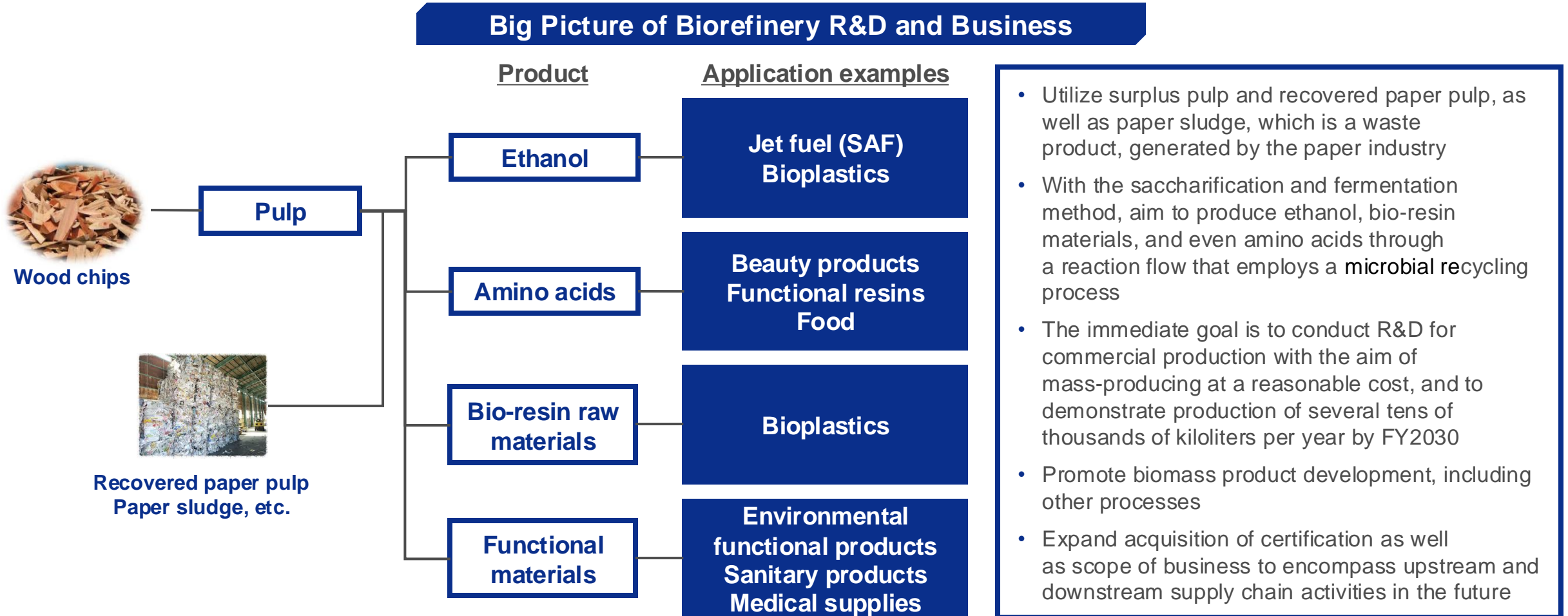
Direction during the 5th MTBP Period



ELLEX-R67 composite resin

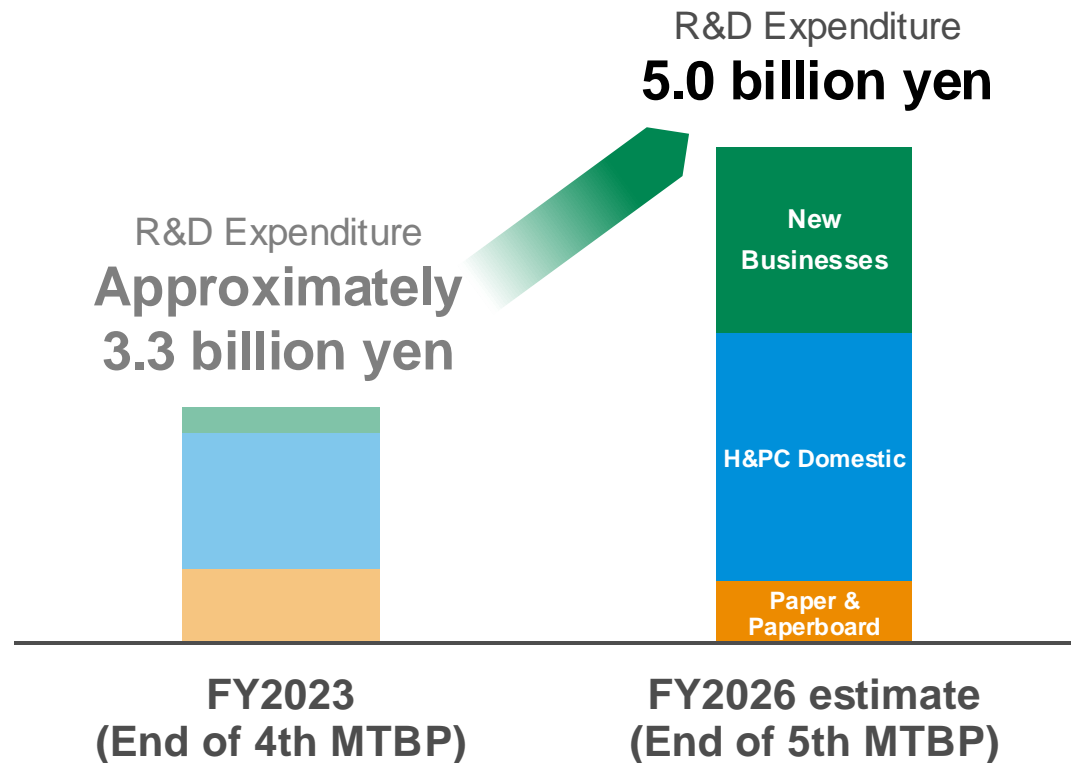
- Expand the supply of materials to automotive parts manufacturers, targeting automotive components for which the use of CNF is expected to expand in the future in response to environmental concerns
- Construct a commercial plant for ELLEX-R67 composite resin (scheduled for completion in FY2025/investment of approx. 4.0 billion yen), boost supply capacity from the current 100 t/year to 2,000 t/year, and launch sales to select users
- Continue research and development of ELLEX-S (slurry) as a semiconductor material (Tohoku University, University of Tokyo, AIST)

- Main theme is the establishment of technologies, including the saccharification and fermentation method adopted as a NEDO* Project



- Secure 5 billion yen for R&D in FY2026 and strengthen human resources as well as facilities

R&D Expenditure



Main Menu of Actions Using the Increased Amount

- 01** Increase R&D personnel
(strengthen hiring of experienced personnel)
- 02** Strengthen collaboration with universities and domestic and international research institutions
- 03** Strengthen intellectual property strategy
- 04** Enhance testing facilities

Implement investments carefully selected for future growth
**Strengthen the people and organization driving
our Transformation**

- Review career development and performance evaluation systems and enhance training and recruitment to drive Transformation of people and corporate culture.



(Source)Daio Paper Long-term Vision: Daio Group Transformation 2035

- Promote measures that can support change and challenge (≡reskilling)

01 Establish evaluation criteria that value transformation and bold challenges

- Provide training to raise evaluators' awareness to ensure thorough company-wide penetration

02 Increase education and training expenses and enhance reskilling training

- Details are explained on the next page

03 Define and institutionalize clear career paths for global human resources

- Conduct matching to identify and develop the right personnels as global human resources, and enforce strict duration of overseas assignments and rotation management

04 Boost staffing levels for key departments and the Personnel Department

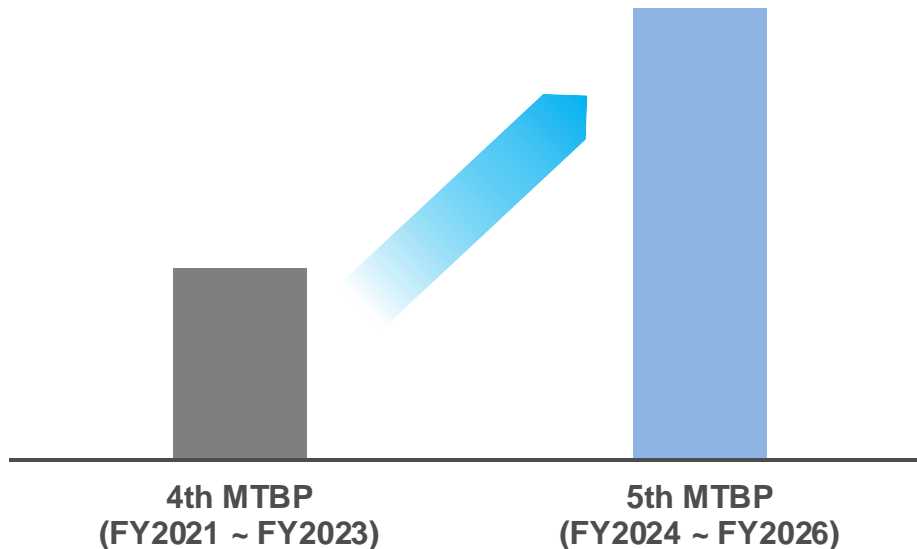
- Increase internal transfers and hiring of experienced personnel in five departments: Overseas Business, H&PC New Businesses, Pet Care Business, Advanced Materials, and Personnel

- More than Double the Total Amount Compared to the 4th Medium-term Business Plan

Education and Training Expenses (Daio Paper, non-consolidated basis)

Budget

approximately **2.4 times**
the total amount of the 4th MTBP



Main Menu of Actions with Increased Amount

- 01 Language training to promote global expansion**
 - Select a certain number of employees in their 30s or younger each year
- 02 Provide management (awareness) reform training for executives**
 - Envisaging leadership development, career support and coaching, etc.
- 03 Support for faster work and skill acquisition**

Other reskilling training programs are in the pipeline

Enhance the financial foundation

- With a capital investment plan of 91.5 Billion Yen in the 5th MTBP, prioritize the enhancement of our financial foundation while carefully select and implement essential investments

Type	Details
Boost Sales	<ul style="list-style-type: none"> Increase production of long-lasting toilet tissue at Kani Mill
New Business	<ul style="list-style-type: none"> Build a commercial CNF composite resin plant at Mishima Mill
Response to the 2024 Issue	<ul style="list-style-type: none"> Build a warehouse at Daio Package's Ibaraki Factory (to reduce waiting time for cargo by expanding shipping capacity) Provide support for pallet transport for H&PC products (expansion of SKUs for pallet transport)
Energy Transition Environmental Response	<ul style="list-style-type: none"> Renew No. 4 boiler at Iwaki Daio Paper Consolidate capacity of steam turbines at Kani Mill Waste-to-energy boiler preparation work at Mishima Mill*

*The boiler is scheduled to come online in FY2030.

- Reduce Assets and Strengthen Governance in Investment Decision-making

01 Sell non-core assets (asset lightening)

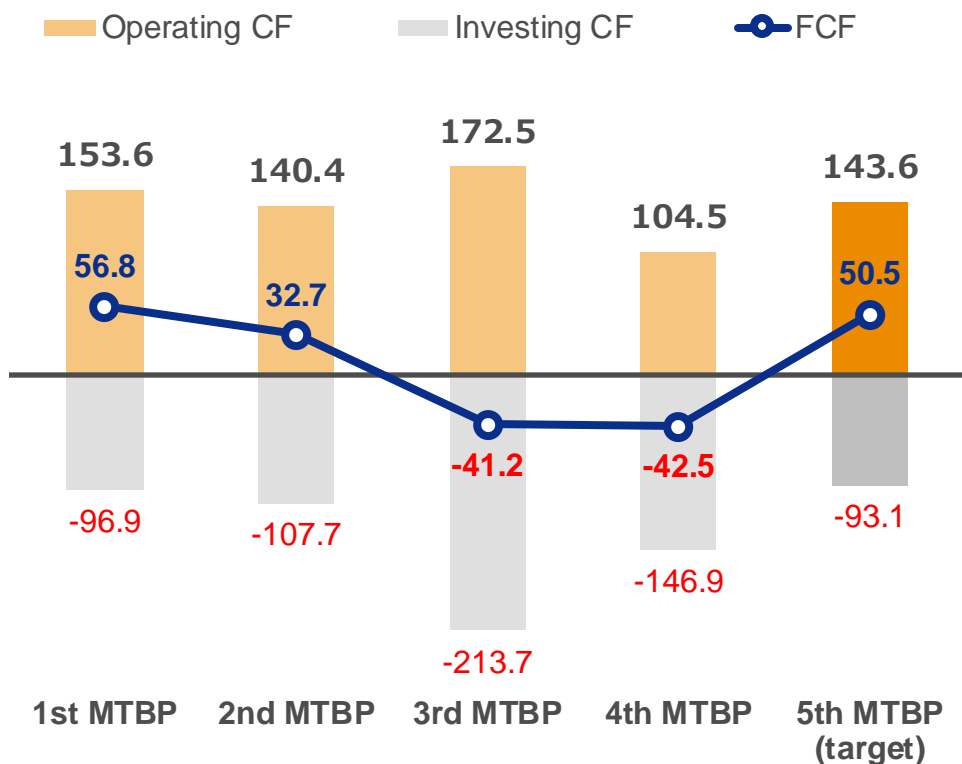
- Plan to sell more than 5.0 billion yen of assets during the 5th MTBP period
- Improve ROIC and net D/E ratio

02 Restructure investment and loan screening system

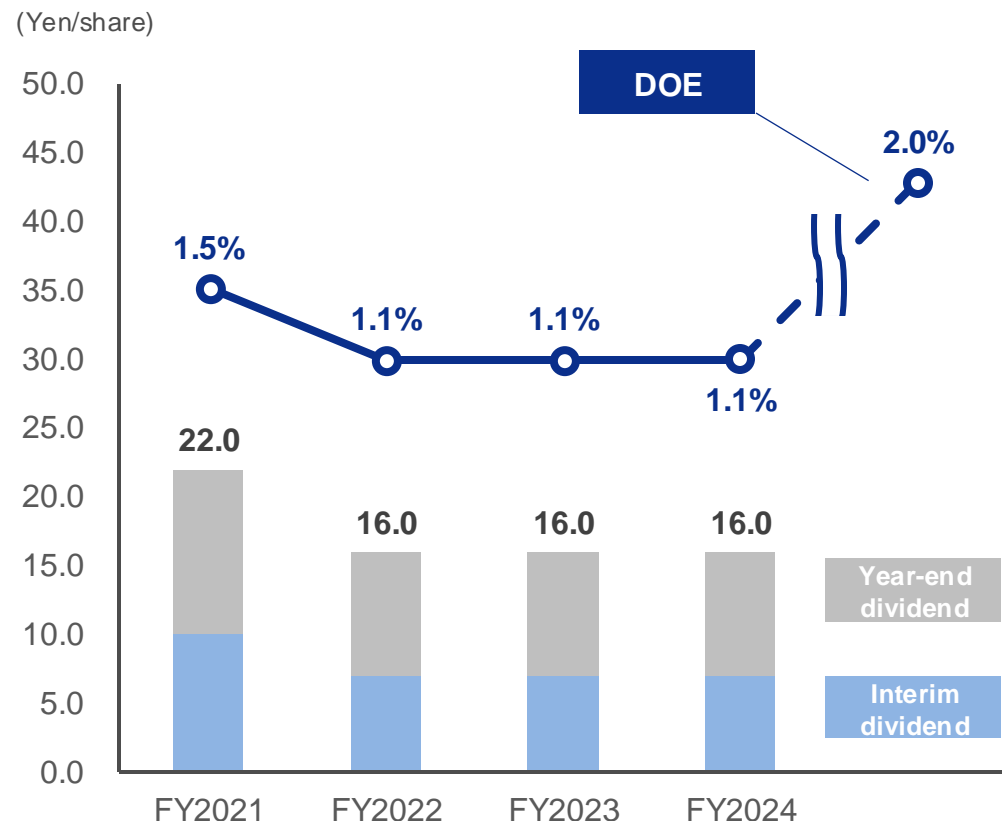
- Establish an investment and loan committee as an advisory body to the president
- Improve investment efficiency through thorough deliberation and enhanced effectiveness verification of investments and loans

- Generate 50.5 billion yen in free cash flow and aim to reduce interest-bearing debt while continuing to pay stable dividends

Free Cash Flow (Unit: Billions of yen)



Dividends and DOE (Dividends on Equity)



Vision and Indicators

- Aim to achieve profitability in excess of cost of capital while placing the highest priority on strengthening people, organizations, and financial foundation for a leap forward in the next medium-term business plan

	FY2014 (End of 1st MTBP)	FY2017 (End of 2nd MTBP)	FY2020 (End of 3rd MTBP)	FY2023 (End of 4th MTBP)	FY2026 (End of 5th MTBP)
Net sales	450.2 billion yen	531.3 billion yen	562.9 billion yen	671.7 billion yen	740.0 billion yen
Operating profit (Operating margin)	21.8 billion yen (4.8%)	11.1 billion yen (2.1%)	36.9 billion yen (6.6%)	14.4 billion yen (2.1%)	30.0 billion yen (4.1%)
Ordinary profit (Ordinary margin)	21.8 billion yen (4.8%)	12.8 billion yen (2.4%)	34.5 billion yen (6.1%)	9.6 billion yen (1.4%)	21.0 billion yen (2.8%)
ROE	10.0%	2.2%	10.1%	1.9%	4.5%
Depreciation and amortization (3 years total)	80.0 billion yen	87.2 billion yen	99.2 billion yen	126.0 billion yen	140.0 billion yen
Capital expenditure (3 years total)	78.3 billion yen	109.3 billion yen	174.9 billion yen	143.5 billion yen	91.5 billion yen
Interest-bearing debt	292.5 billion yen	280.0 billion yen	299.8 billion	361.6 billion yen	320.0 billion yen
Net D/E ratio	1.9	1.6	1.3	1.5	1.2
Rating Symbol/Outlooks (R&I)	BBB-/Stable	BBB+/Stable	BBB+/Positive	A-/Stable	A-/Stable
Exchange rate	109.8 yen to the dollar	110.9 yen to the dollar	106.1 yen to the dollar	144.6 yen to the dollar	150.0 yen to the dollar
Dubai crude oil	84 dollars/barrel	56 dollars/barrel	45 dollars/barrel	82 dollars/barrel	85 dollars/barrel

Cautionary Statement Concerning Forward-Looking Statements

The strategies, plans, goals, and future projections contained in this document are based on judgments made from information available at this time and involve potential risks and uncertainties.

Therefore, changes in the economic and business environment surrounding the Company in the future may cause actual results and other outcomes to differ materially from the forward-looking statements contained in this document.