

ENGLISH TRANSLATION FOR REFERENCE PURPOSE ONLY

This notice is an English translation of the original Japanese text of the timely disclosure statement dated February 27, 2020 issued by Daio Paper Corporation and Marubeni Corporation and is for reference purposes only. In the event of any discrepancy between the original Japanese text and this English translation, the Japanese text shall prevail.

February 27, 2020

To whom it may concern,

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Announcement of Acquisition of Brazil Sanitary Goods Manufacturer

Daio Paper Corporation (hereinafter, “Daio”) and Marubeni Corporation (hereinafter, “Marubeni”) have reached an agreement to jointly acquire indirectly all shares (hereinafter, the “Transaction”) of Santher - Fábrica de Papel Santa Therezinha S.A. (hereinafter, “Santher”). Daio’s Board of Directors has resolved at a meeting held today to make Santher an indirectly owned subsidiary of Daio.

A joint investment company established in Brazil called H&PC BRAZIL PARTICIPAÇÕES S.A.” (hereinafter, the “Subsidiary Company”), in which Daio and Marubeni hold 51.0% and 49.0% stake respectively, will directly acquire 100% of Santher shares.

1. Purpose of the acquisition / Transaction

Daio resolutely pursues the key strategies of its growth plan, with a focus on further expanding its Home & Personal Care (including sanitary goods, hereinafter, “H&PC”) business globally and strengthening the profitability of the H&PC business, in accordance with its Third Medium-term Business Plan “Move on: Reform and Soar Above” and its long-term vision ^[Note 1] announced in May 2018.

Note 1: “Net sales of 800 billion to 1 trillion yen, with H&PC to account for over 50% of net sales, and H&PC Overseas to account for over 30% of net sales.”

Since its establishment in 1943, Daio has continued to grow as a full-range paper manufacturer and has established a solid position in Japan since 1979 with the brand “Elleair”, which holds strong brand awareness in the household paper sector, and other brands such as “GOO.N” (disposable baby diapers) and “Attento” (disposable adult diapers). The H&PC business of Daio is currently focusing on the sales of high value-added products to further enhance market share in Japan. Overseas, it is engaged in increasing the sales of its H&PC products, including “GOO.N” disposable baby diapers. Through a business strategy of localizing products to cater to region-specific consumer needs on top of the development and launch of high-value added products, Daio has steadily enhanced its market shares in China and Southeast Asia. Furthermore, by establishing representative offices in Turkey and Russia (in 2017, 2019 respectively), Daio has built a management structure that paves the way for Daio to invest into opportunities in Turkey and Russia, and other countries in the Middle East and North Africa moving forward.

The above strategic measures are based on the long-term vision of Daio, and Daio considers M&A to be an effective option to achieve its targeted plans. Likewise, Daio considers the Transaction as an attractive opportunity to enter the Brazilian market where demand for consumer goods, including personal care, is expected to significantly increase. Daio’s vision post-transaction is to extend the business to the entire South American region and furthermore to Southern Africa by capturing customer demands for high value-added products driven by economic growth in the region, and it is looking to optimize its business portfolio to achieve sustainable growth lasting more than 10 years into the future.

Marubeni considers the overseas expansion of H&PC products (household paper, disposable diapers, sanitary napkins, etc.) as a new opportunity for growth and envisions to provide high-quality products worldwide, while contributing to a hygienic environment and a safe and comfortable lifestyle. This acquisition will mark the first milestone for such concept. Furthermore, Marubeni aims to establish a platform to provide products and services that answer to the diversified consumer needs by building points of contact with end-consumers through the sales of H&PC products and integrating those with its existing functions, resources and networks as a general trading house. In particular, it targets to fill the growing demand of middle-class consumers in emerging countries.

The global H&PC market is being valued at approximately US\$180 billion (2018), with an estimated annual growth rate of around 3% in the coming years. Marubeni observes promising outlook in the H&PC sector given the constant growing demand for H&PC products expected due to population growth, economic development as well as improved living standards in emerging countries, while in developed countries, demand for adult diapers will grow as the aging population advances.

Daio and Marubeni have decided to jointly enter the Brazilian market as they determined the market as attractive, in light of the significant population growth and economic development of the country, and anticipated notable demand growth for consumer goods (including personal care products). The Brazilian H&PC market is the fourth largest market in the world, with household paper products and disposable diapers marking an annual growth rate of 5.6 percent and 5.4 percent respectively over the last five years, and continued growth of the market is expected moving forward, given that penetration rates of such products would increase driven by population growth, economic development and higher living standards. Since it should take significant number of years to gain market share and to generate profit organically through a greenfield investment, Daio and Marubeni believe a friendly takeover of a promising local company will be an effective measure, therefore they came to the decision to acquire Santher.

Santher was founded in 1938 and has engaged in the sales and manufacturing of personal care products such as household paper, disposable baby diapers and sanitary napkins in Brazil for over 80 years. Brand awareness of the company’s products is notably high throughout Brazil. Particularly, it has established a solid leading position in the H&PC market with the “Personal” brand, which is highly valued by local consumers. Santher holds a strong position as a market leader in the Brazilian household paper market, and out of the local companies, holds the top share of disposable diapers and sanitary napkins.

Daio and Marubeni believe Santher has extensive potential for further profitability through streamlining of its production structure and a shift to higher value creation. Marubeni and Daio intend to accelerate the reorganization of the existing production structure after the Transaction and implement the following measures to stimulate further growth of Santher: entry into the manufacture and sales of adult disposable diapers where Daio holds an advantage; extension of its premium product lineup; enhancement of fast-growing B2B products for hospitals and clinics; introduction of new technologies to improve moisture retention and solubility of products. Also, by utilizing Marubeni's extensive operational expertise within Brazil and its global network, Daio and Marubeni seek to enhance Santher's corporate value and envision to eventually reach out to the entire South American market and furthermore to the African market in the future.

2. Overview of the Transaction

(1) Transaction structure

Daio's Brazilian subsidiary H&PC BRAZIL PARTICIPAÇÕES S.A. wherein Daio and Marubeni own 51.0% and 49.0% stake respectively, will acquire all shares of Santher through the Transaction.

(2) Overview of the Subsidiary Company

1.	Name	H&PC BRAZIL PARTICIPAÇÕES S.A.
2.	Principal office	Av. Paulista, 854, part 1, 12th floor, Bela Vista, City of São Paulo, State of São Paulo, Brazil
3.	Representative title and name	Director, Alessandro Orizzo Franco de Souza Director, Fábio Margiela de Favari Marques
4.	Business description	Plans to acquire companies in South America mainly engaged in the household paper, disposable diapers and sanitary goods business, and conduct household paper related business in the region.
5.	Stated capital	294,189 BRL

(3) Number of acquired shares, acquisition value, and status of shares held before and after acquisition

Number of shares before transfer	0 shares (Number of voting rights: 0, Proportion of voting rights held: 0%)
Number of shares acquired	Number of shares acquired: 16,918 (Number of voting rights: 16,918) Aggregate shares obtained by the Subsidiary Company in which Daio and Marubeni hold 51.0% and 49.0% stake respectively
Acquisition value	2,303 million BRL (apx. 58.4 billion yen) ^[Note 2] * 1 BRL = 25.3859 yen Note 2: The acquisition value will be adjusted in accordance with the increase or decrease of working capital, debt and cash on the day of acquisition of shares.
Number of shares after transfer	16,918 shares (Number of voting rights: 16,918, Proportion of voting rights held: 100%) Aggregate shares obtained by the Subsidiary Company in which Daio and Marubeni hold 51.0% and 49.0% stake respectively

(4) Method of funding

Upon funding via cash on hand, Daio intends to consider financing through long-term loans from financial institutions. In order to maintain financial stability, Daio will also consider measures such as hybrid financing ^[Note 3], etc. Marubeni will consider various options including fully funding via cash on hand.

Note 3: A form of financing that includes features such as deferred interest payment, extremely long term repayment, subordination upon liquidation and bankruptcy proceedings, etc.. While being a liability, a certain extent of funded amount of hybrid financing may be assessed as capital from credit rating agencies, without any dilution of shares.

3. Overview of subsidiary to be transferred (Santher)

1.	Name	Santher - Fábrica de Papel Santa Therezinha S.A.	
2.	Principal office	Rua Aracati, No. 275, Penha, City of Sao Paulo, State of Sao Paulo, Brazil	
3.	Representative title and name	CEO, José Rubens de La Rosa	
4.	Business description	Sales and manufacturing of H&PC products such as household paper, disposable diapers etc, and specialty paper	
5.	Stated capital	52.7 million BRL	
6.	Date of establishment	1938	
7.	Major shareholders and shareholding ratio	SOL - Fundo de Investimento em Participações Multiestratégia (99.97%) RFPLCA Participações Ltda. (0.03%)	
8.	Relationship between listed companies and the company	Capital Relationship	No noteworthy capital relationship
		Personnel Relationship	No noteworthy personnel relationship
		Business Relationship	No noteworthy business relationship
9.	Consolidated operating results and financial position of this company during the last 3 years		
	Fiscal year	FYE 12/2017	FYE 12/2018
			FYE 12/2019 (Unaudited)
	Consolidated net assets	11.8 million BRL	6.6 million BRL
	Consolidated assets	920.6 million BRL	1,054.0 million BRL
	Consolidated net assets per share	699.9 BRL	391.2 BRL
	Consolidated sales	1,323.0 million BRL	1,481.0 million BRL
	Consolidated EBIT	86.4 million BRL	67.0 million BRL
	Consolidated EBITDA	140.0 million BRL	120.0 million BRL
	Profit (loss) attributable to owners of parent	-9.9 million BRL	-5.2 million BRL
	Consolidated basic earnings per share	-587.2 BRL	-308.7 BRL
	Dividends per share	0 BRL	0 BRL

4. Overview of the party from whom the shares (of Santher) are acquired

(1) SOL - Fundo de Investimento em Participações Multiestratégia

1.	Company name	SOL - Fundo de Investimento em Participações Multiestratégia
2.	Principal office	Avenida das Américas, 3434, block 07, room 201, Barra da Tijuca, Rio de Janeiro, Brazil
3.	Name of representative	Oliveira Trust Servicer S.A.
4.	Business description	Investment fund owned by the founding family
5.	Stated capital	6.6 million BRL

6.	Date of establishment	2016	
7.	Relationship between listed companies and the company	Capital relationship	No noteworthy capital relationship
		Personnel relationship	No noteworthy personnel relationship
		Business relationship	No noteworthy business relationship
		Related party status	No noteworthy related party status

Note 4: Due to a confidentiality agreement, net assets, total assets, major shareholders and shareholding ratio are not disclosed.

(2) RFPLCA Participações Ltda.

1.	Company name	RFPLCA Participações Ltda.	
2.	Principal office	Avenida Eusébio Matoso, 1375, Andar 9 Conj 92 - Parte Butanta, Sao Paulo, Brazil	
3.	Business description	Limited Liability Company owned by the founding family	
4.	Shareholder's equity	120 BRL	
5.	Date of establishment	2016	
6.	Relationship between listed companies and the company	Capital relationship	No noteworthy capital relationship
		Personnel relationship	No noteworthy personnel relationship
		Business relationship	No noteworthy business relationship
		Related party status	No noteworthy related party status

Note 5: Due to a confidentiality agreement, the name of representative, net assets, total assets, major shareholders and shareholding ratio are not disclosed.

5. Schedule

1.	Date of resolution at the Board of Directors' meeting (Daio)	February 27, 2020 (today)
2.	Execution date of share purchase agreement	February 27, 2020 (scheduled)
3.	Execution date of share transfer	June 30, 2020 (scheduled)

6. Future outlook

As the Transaction will be executed after obtaining clearance from the Brazilian competition authority, the indicated date of share transfer above is an estimation at this point in time.

Should any circumstance impact on Daio and Marubeni's consolidated financial results, it will be disclosed in a timely manner based on disclosure requirements and regulations.

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