

## Daio Paper and Hokuetsu Announce the Revision of Their Capital Relationship—Limited Impact on Their Ratings

The following is Japan Credit Rating Agency, Ltd. (JCR)'s opinion on the announcement by Daio Paper Corporation (security code: 3880) and Hokuetsu Corporation (security code: 3865) on the deepening of their strategic business alliance and revision of capital relationship.

- (1) Daio Paper Corporation ("Daio Paper") and Hokuetsu Corporation ("Hokuetsu") announced on March 18 that they will further deepen their strategic business alliance and revise capital relationship. To be more specific, they will establish an equal capital relationship by bringing the percentage of voting rights they hold in each other to around 20% (less than 20%). Meanwhile, they also intend to reduce this percentage to 5 to 10% in the future from the perspectives of governance and capital efficiency. Currently, Hokuetsu holds 24.8% voting rights in Daio Paper, and Daio Paper 1.4% in Hokuetsu. With the revision of the capital structure, the two companies will repurchase own shares, while Daio Paper plans to take such actions as acquiring the shares of Hokuetsu and carrying out asset transfers.
- (2) Recently, the domestic paper and paperboard industries have been seeing their business environment become increasingly challenging, thus facing a structural decline in demand, persistently high raw material and fuel prices, surging logistics expenses and so forth. Under these circumstances, the two companies entered into a basic strategic business alliance agreement in May 2024 and have since then worked to build a cooperative framework for production technology, raw material procurement and logistics. They have set the target of increasing combined operating income by around 5 billion yen in the fiscal year ending March 2027 and appear to have achieved certain results.
- (3) JCR assumes that the capital structure revision will have only a limited impact on the two companies' ratings. Hokuetsu has executed a share repurchase of 10 million shares for 10.2 billion yen, but this will affect its finances only marginally as Hokuetsu will sell 11 million shares of Daio Paper for 12.3 billion yen. On a separate note, Daio Paper is expected to cease to be an equity-method affiliate of Hokuetsu upon completion of the transaction. Meanwhile, Daio Paper on its part has repurchased 12.24 million of own shares for 13.7 billion yen and will acquire approximately 26 million shares of Hokuetsu for roughly 26.3 billion yen from Hokuetsu's major shareholders, Daio Kaiun Co., Ltd. and Misuga Kaiun Co., Ltd. While it will partially cover the acquisition price with the transfer of fixed assets, it will still incur some funding requirements. Equity ratio and net D/E ratio will weaken, but not to the extent of immediately reviewing the ratings in JCR's view. The deepening of the business alliance is aimed at further expanding the scope of the cooperative framework and enhancing the two companies' earnings capacity. JCR will keep an eye on concrete measures and their effectiveness.

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### <Reference>

Issuer: Daio Paper Corporation

Long-term Issuer Rating: A- Outlook: Stable

Issuer: Hokuetsu Corporation

Long-term Issuer Rating: A Outlook: Stable

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