

“Stop Exploiting Daibiru”  
December 2021

# Summary

Asset Value Investors Ltd (“AVI”) has held shares in Daibiru Corporation (“Daibiru”) (TYO 8806) since September 2020. Today AVI announced that it has launched a campaign highlighting the exploitation of Daibiru by its parent company Mitsui O.S.K. Lines, Ltd. (“MOL”) (TYO 9104) and requesting that Daibiru withdraws its support for MOL's ¥2,200 tender offer and seeks a price of at least ¥3,000 per share, equal to the market value of its real estate.

Since AVI became a shareholder of Daibiru in September 2020, we have provided Daibiru with proposals including the cancellation of the parent-child listing to sustainably enhance corporate value considering the interests of various stakeholders. We requested Daibiru and MOL to improve the corporate value of Daibiru by highlighting governance issues caused by the parachute appointments of directors and auditors from the parent company (in Japanese so-called "Amakudari"), as well as concerns about the declining motivation of employees and lack of trust in management. As of December 2021, three of Daibiru's four inside directors, including Toshiyuki Sonobe President and Representative Director, had been appointed directly by MOL within the past 6 years. None of these three inside directors had any experience in the real estate industry, Daibiru's main business, prior to joining Daibiru.

While we welcome MOL's efforts to resolve the parent-child listing in line with the recent trend of seeking fairness and transparency in governance systems, the negotiation process of the tender offer price demonstrates MOL's continued exploitation of Daibiru and its minority shareholders.

We call on the board of Daibiru to withdraw its support for MOL's ¥2,200 tender offer, introduce a majority of minority clause and to renegotiate a price of at least ¥3,000

Joe Bauernfreund

CEO & CIO Asset Value Investors

9<sup>th</sup> December 2021

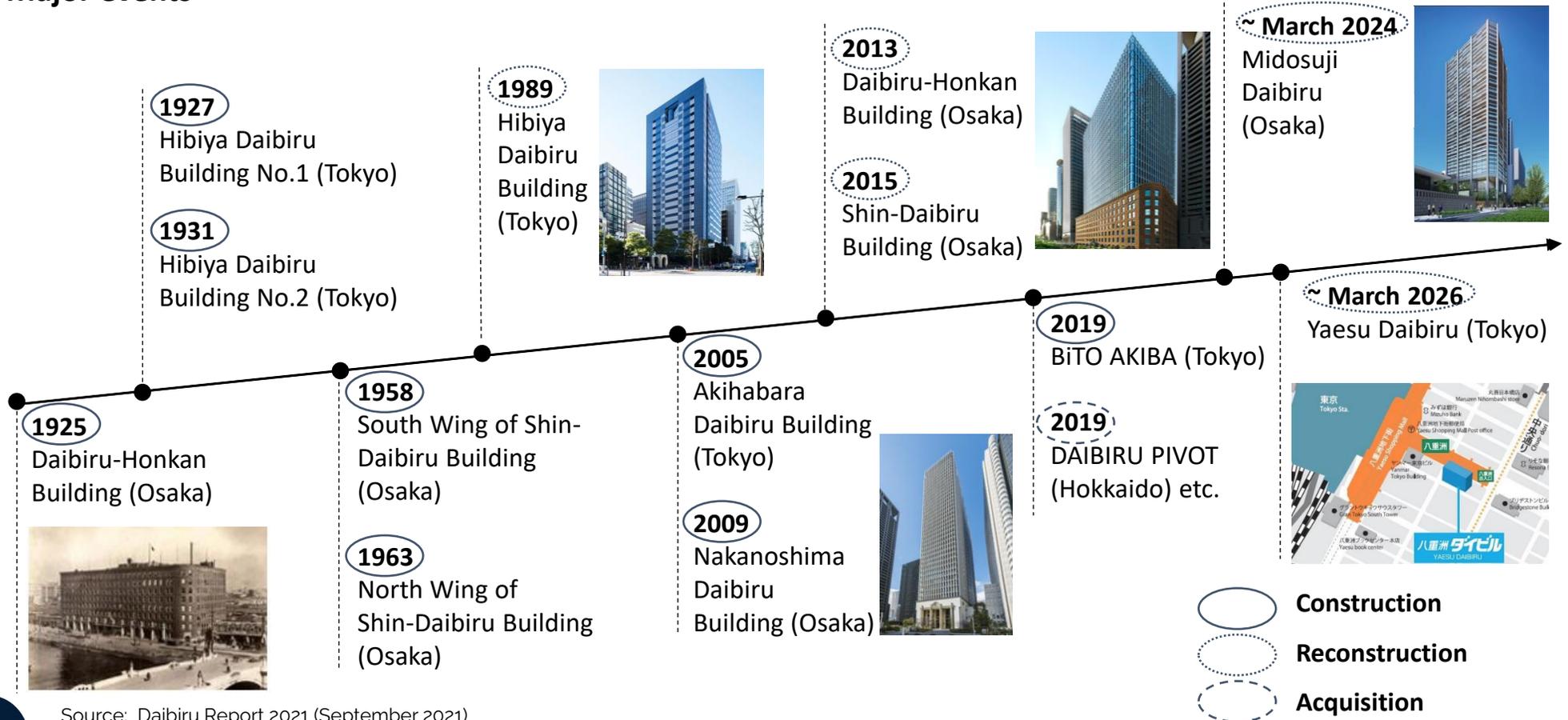


# 1. MOL's Long Standing Exploitation of Daibiru

# Daibiru – A Proud Japanese Office Building Company

Daibiru has been providing value to the community through the provision of high-quality office buildings for a century, with its corporate principle “constructing buildings, creating towns, pioneering the new era”

## Major events



Source: Daibiru Report 2021 (September 2021)

# MOL's Long Standing Exploitation of Daibiru (1/3)

MOL appoints its retired management as directors and auditors of Daibiru (in Japanese so-called "Amakudari"). It is an antiquated process, placing seniority over merit, which benefits a few individuals at the expense of Daibiru's employees

## "Amakudari" Structure



Source: Daibiru Report 2021 (September 2021)

*"Amakudari" refers to the post-retirement employment of senior bureaucrats in private and public corporations and non-governmental organizations that fall under the jurisdiction of the ministry they retired from. The term also refers to senior management of parent companies assuming important posts of subsidiaries.*

# MOL's Long Standing Exploitation of Daibiru (2/3)

The ex-MOL directors have no experience in the real estate business. Their lack of expertise and experience in the industry, raises questions as to whether they are best suited to make important business strategy decisions.

	Name	Background
Board of Directors	 Toshiyuki Sonobe	Tanker Division at MOL
	 Takashi Maruyama	Finance Division at MOL
	 Takehiko Ota	IR Office at MOL
	 Hideki Tainaka	Construction & Technical Management Department at Daibiru
	 Atsushi Oi	Ministry of International Trade and Industry <sup>1</sup> (Independent Director)
	 Atsushi Miyanoya	Bank of Japan (Independent Director)
Board of Auditors	 Hideo Horiguchi	Accounting Division at MOL
	 Shigeki Taenaka	Accountant (Independent Auditor)
	 Tomoyuki Nishide	Lawyer (Independent Auditor)

 ex-MOL

- Three of the four internal directors are ex-MOL
- The ex-MOL directors do not have experience in real estate industry

Source: Daibiru Report 2021 (September 2021)

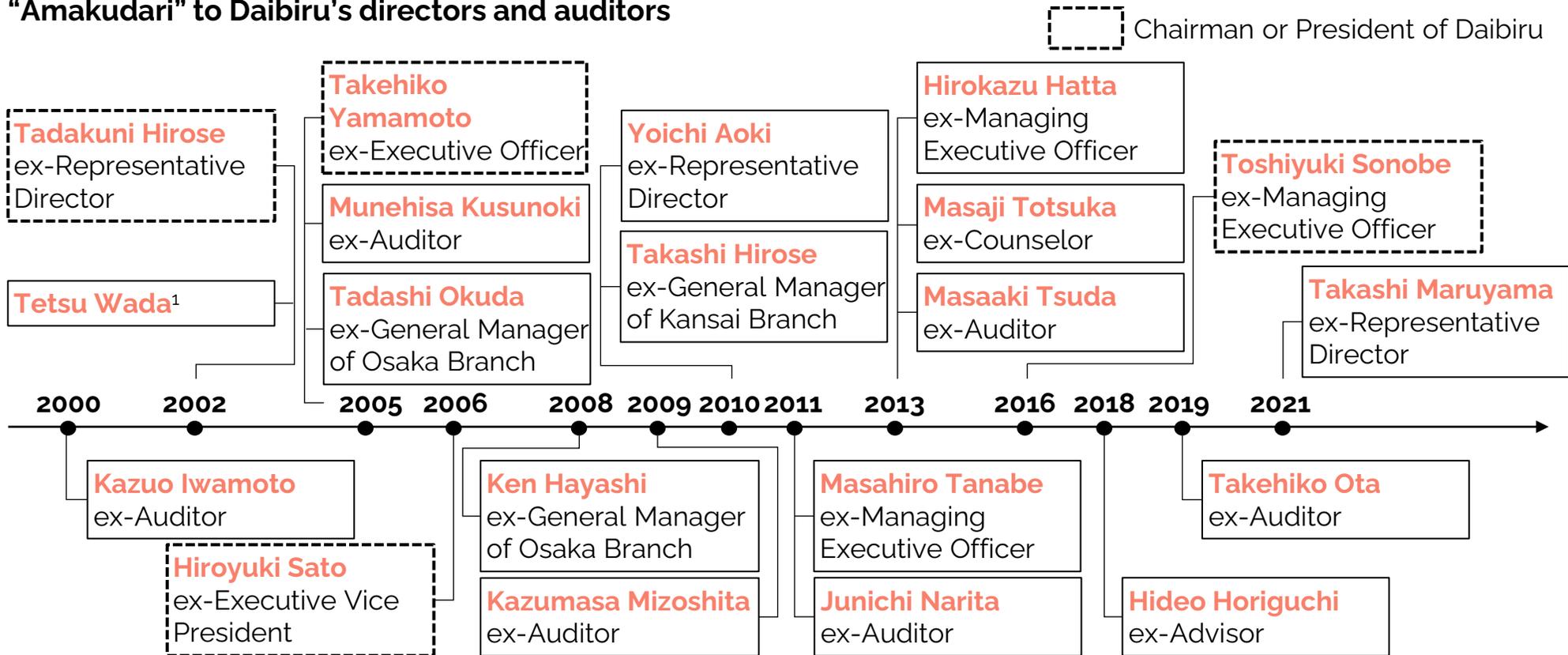
Note: For Internal directors and internal auditors, the department in which they worked when they were General Managers or Managers. For independent directors and independent auditors, the first career disclosed

<sup>1</sup> Currently the Ministry of Economy, Trade and Industry

# MOL's Long Standing Exploitation of Daibiru (3/3)

MOL has a long history of appointing its ex-employees as directors and auditors of Daibiru

## “Amakudari” to Daibiru's directors and auditors



Source: Daibiru the annual securities report (the 133rd – the 149th)

Note: The ex-management of MOL who were directors or auditors of Daibiru since 2004, when Daibiru was consolidated by MOL. Indicating the year in which they first became a director or auditor of Daibiru. Kensuke Tanaka is an ex-MOL who became a director of Daibiru in 2019, but was seconded to Daibiru in 2009 and is therefore not included in the chart

<sup>1</sup> No disclosures on his background at MOL

## 2. MOL's Exploitation of Daibiru in the Tender Offer Process

# MOL's Exploitation of Daibiru in the Tender Offer Process

## Exploitation of Daibiru has influenced the tender offer negotiation process

### 1 Only MOL and its shareholders benefit from the synergies

- Daibiru's existing shareholders will be squeezed out, and cannot benefit from the synergies of the combined companies
- The financial advisors did not include the synergies in their valuation calculation, giving the benefit to only MOL and its shareholders

### 2 Tender offer price below real estate market value disclosed by Daibiru

- Applying the adjusted book value method, a widely accepted methodology for valuing real estate companies and used in other real estate tender offers, Daibiru's market value is c.¥3,000; implying a 27% discount for tender offer price
- The absence of "active market checks" raises doubts about the appropriateness of the tender offer price

### 3 No "Majority of Minority" Conditions

- Daibiru believes that the tender offer price to be fair, but did not set a "Majority-of-Minority" condition on the grounds that this would have made the offer unstable
- The reasoning of instability of success of the offer is just a view from MOL and does not treat all shareholders fairly

# Tender Offer Price Below Value Disclosed by Daibiru (1/3)

Daibiru's own published market value of its real estate, amounts to to ¥585,892 million with an adjusted BPS of ¥2,948

## Actual disclosures on real estate market value provided by Daibiru in its annual securities report

		Previous fiscal year (1 <sup>st</sup> Apr 2019 - 31 <sup>st</sup> Mar 2020)	Current fiscal year (1 <sup>st</sup> Apr 2020 - 31 <sup>st</sup> Mar 2021)	(Unit: million in ¥) ( 単位 : 百万円 )
		前連結会計年度 (自 2019年4月1日 至 2020年3月31日)	当連結会計年度 (自 2020年4月1日 至 2021年3月31日)	
連結貸借対照表計上額 Amount recorded on the consolidated balance sheet	期首残高 Balance at the beginning of the period	315,388	335,362	
	期中増減額 Changes during the period	19,973	1,694	
	期末残高 Balance at the end of the period	335,362	337,057	
期末時価 Market value at the end of the period		570,777	585,892	

## Actual disclosures on Book Value per Share ("BPS")

Book Value per Share (BPS) in FY2021/03

Market value base  
after tax: ¥2,948

< 2021年3月期・一株当たり純資産額 (BPS) >  
時価ベース(税引後)2,948円、簿価ベース1,442円

Book value base:  
¥1,442

Source: Daibiru the 149th annual securities report, Daibiru Group the earnings briefing presentation as of FY2021/03



# Tender Offer Price Below Value Disclosed by Daibiru (2/3)

Previous tender offers for real estate companies have used the adjusted book value method for calculating the fair price

## Examples of calculating adjusted book value method

Mitsui Fudosan's methodology for Tokyo Dome (30<sup>th</sup> November 2020):

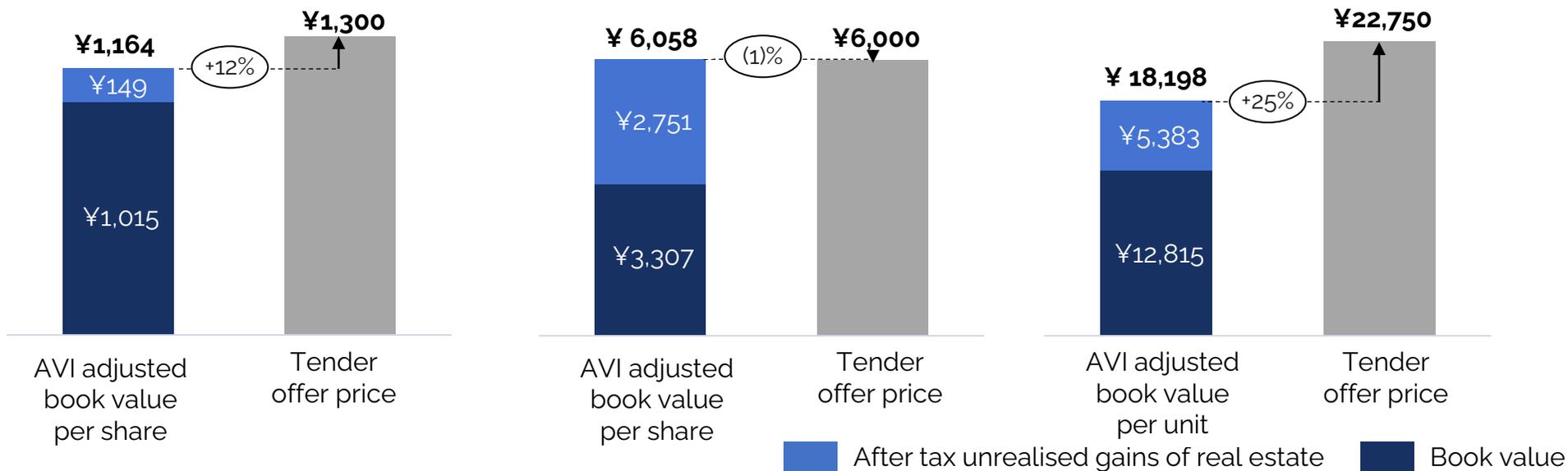
Unizo's methodology for itself (24<sup>th</sup> December 2019)

Invesco Office JREIT's methodology for itself (18<sup>th</sup> June 2021)

"The **adjusted net book value analysis** showed that the value per share of the Target Company Stock is in the range of ¥1,187 to ¥1,374"

"Using the **adjusted book value method**, they calculated the value per share of ..... to be ¥7,856." [AVI estimated ¥6,058 after-tax]

"The offer price was within the range of the valuation of unit value per unit using the ..... **adjusted book value method.**"

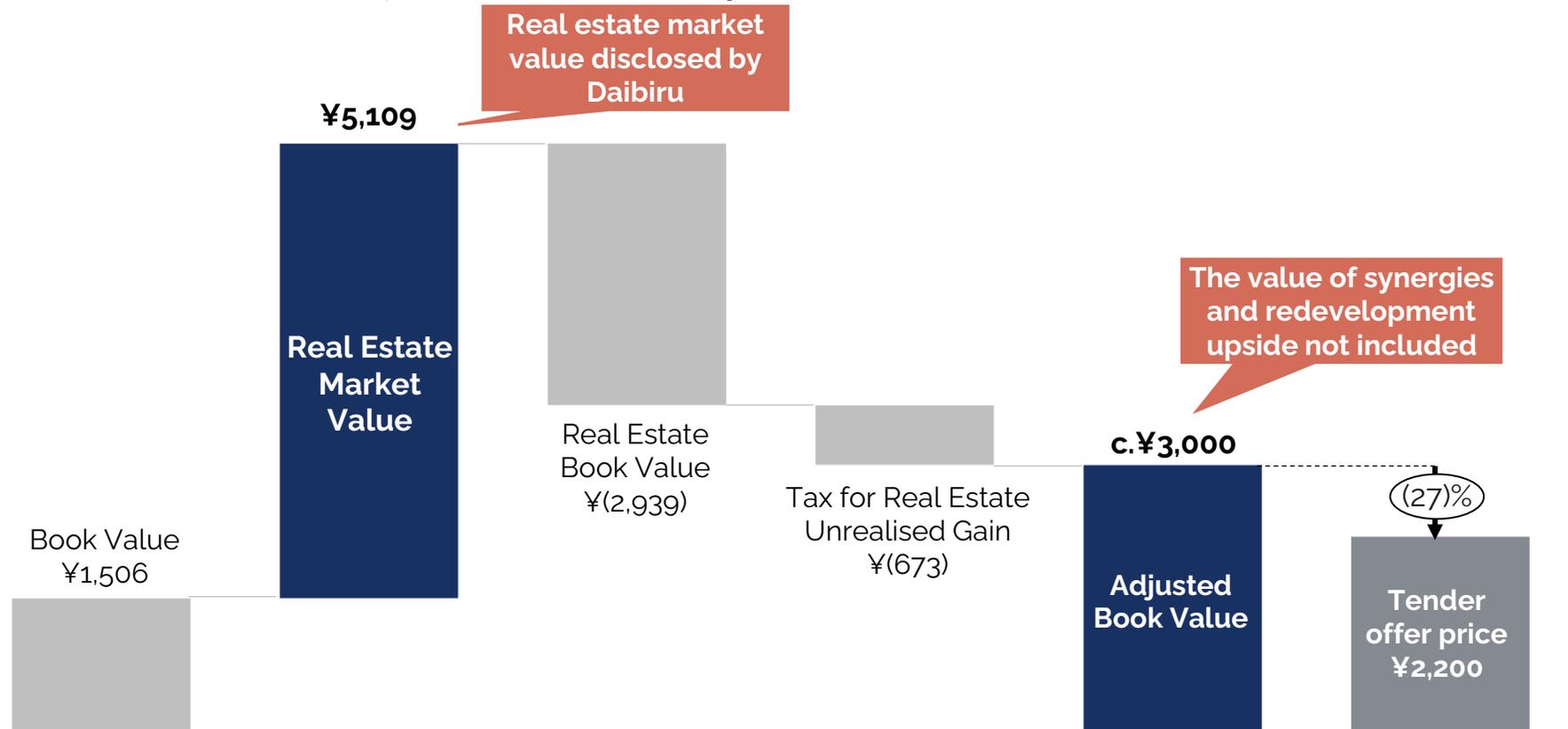


Source: Mitsui Fudosan Co., Ltd. the tender offer document (30<sup>th</sup> Nov. 2020), Tokyo Dome Corporation the 110th annual securities report and the 2nd quarter of 111th quarterly report. Unizo Holdings Company the target company's position statement (24<sup>th</sup> Dec. 2019), Chitoea Investment Co. Ltd the amendment of tender offer notification (18<sup>th</sup> Mar. 2020), Unizo Holdings Company the 42nd annual securities report, Invesco Office J-REIT, Inc. the target company's position statement (18<sup>th</sup> Jun. 2021), Invesco Office J-REIT, Inc. the 14th annual securities report. Note: AVI adjusted book value per share (or per unit) is the sum of the net asset value per share (or unit) for the most recent quarter and the after tax unrealised gains of real estate per share (or unit) for the most recent full-year results (the unrealized gains after tax on real estate, which is the difference between the market value of real estate and the book value of real estate minus taxes, divided by the number of shares (or units) outstanding). The number of shares (or units) outstanding for the calculation is at the time of the tender offer. Tax rate is assumed to be 31% for Tokyo Dome and Unizo, 0% for Invesco Office JREIT. Tokyo Dome's net assets is as at 31st Jul. 2020 and Unizo's net assets is as at 31st Mar. 2019 in order to align the calculation conditions with disclosure.

# Tender Offer Price Below Value Disclosed by Daibiru (3/3)

Daibiru's adjusted book value is c.¥3,000, with the tender offer price coming at a 27% discount

Daibiru's value based on adjusted book value (¥, per share value)



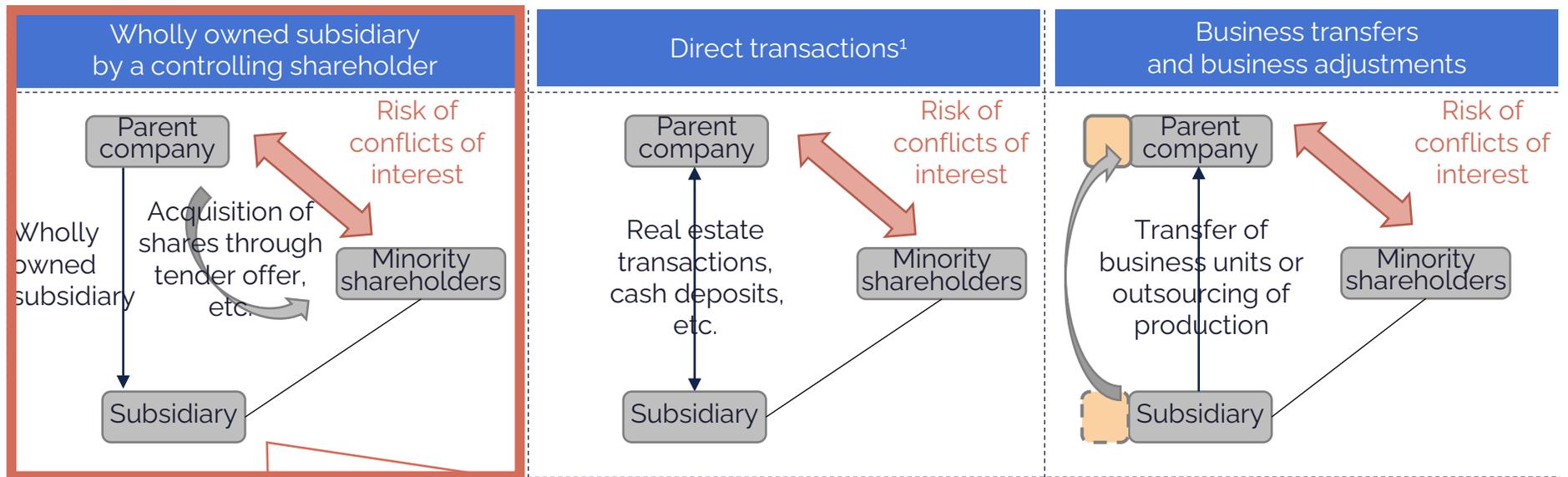
Source: Daibiru the 149th annual securities report, Daibiru the 2nd quarter of 150th quarterly report, MOL, "Notice of commencement of tender offer for shares of Daibiru Corporation (Securities Code: 8806)" (30<sup>th</sup> November 2021)

Note: The number of shares outstanding (114.7 million, excluding treasury shares) used to calculate the per share value is as at end-September 2021. The book value (¥172.7 billion) as at end-September 2021. The real estate market value (¥585.9 billion) and the real estate book value (¥337.1 billion) is as at end-March 2021. Tax rate is assumed to be 31%.

# Potential Conflicts of Interest in the Tender Offer Process

This transaction is one example of potential conflicts of interest in a parent-subsidary listing defined by METI. In the case of a wholly owned subsidiary, the process needs to consider minority shareholders

## Three examples of conflict of interests from listed subsidiaries disclosed by the Government



- The parent company wants to acquire shares minority shareholders at the lowest possible price
- The subsidiary's shareholders do not want to accept the acquisition unless a fair price is offered, taking into account future cash flows and other factors.

Source: The Ministry of Economy, Trade and Industry, "Practical Guidelines on Group Governance Systems (Group Guidelines) Executive Summary -strengthening group governance and sustainable improvement of corporate value-" (June 2019)

Note: 1 Excluding the example of business transfers and business adjustments.

# Disclaimer

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