

The JFTC Closed its Review on the Proposed Acquisition of Shares of C&H Co., Ltd. by DAIKEN CORPORATION
(Tentative Translation)

January 24, 2013
Japan Fair Trade Commission

Upon a notification regarding a proposed acquisition of shares of C&H Co., Ltd. (hereinafter “C&H”) by DAIKEN CORPORATION (hereinafter “DAIKEN”), the Japan Fair Trade Commission (hereinafter “the JFTC”) had reviewed the planned share acquisition and reached the conclusion that, on the premise of the remedies* offered by DAIKEN, the deal would not substantially restrain competition in any particular fields of trade. Accordingly, the JFTC has notified DAIKEN that a cease and desist order will not be issued by the JFTC, resulting in the completion of its review.

I. Outlines of the transaction

DAIKEN, a manufacturer of wood-based materials including medium density fiberboard (hereinafter “MDF”) and of building materials made of wood-based materials, plans to acquire the shares of C&H, a wholly owned sales subsidiary of HOKUSHIN Co., Ltd. (hereinafter “HOKUSHIN”) that manufactures MDF, and thereby to obtain more than half of C&H’s voting rights. Moreover, concurrent with the acquisition of the shares of C&H, DAIKEN plans to acquire the shares of HOKUSHIN, and thereby to raise the ratio of voting rights up to approximately 15%.

II. Reviewing process

Receipt of the notification regarding the proposed acquisition of C&H’s shares by DAIKEN on April 25, 2012 (start of the primary review)

Request for reports, etc. by the JFTC on May 25, 2012 (start of the secondary review)

Receipt of all requested reports from DAIKEN on January 11, 2013 (the due date for a prior notice was set on April 12, 2013)

Submission of a report on changes in the notification by DAIKEN, in which the remedies were incorporated on January 18, 2013

Notification to DAIKEN that a cease and desist order will not be issued on January 24, 2013

III. Conclusion

On the premise of the remedies* offered by DAIKEN, the JFTC has decided that

the transaction in question may not substantially restrain competition in any particular fields of trade.

* Outline of the remedies: In order to avoid vertical market foreclosure resulting from the acquisition of the shares, DAIKEN shall make C&H supply users (manufacturers of building materials competing with DAIKEN) with certain types of MDF, on substantially equal and reasonable terms with DAIKEN and its subsidiaries etc. for five years after the acquisition. (See VI-1(7) B and VI-2(4) of the Attachment)




(Foot Note)

The JFTC has been authorized to conduct reviews on whether business combination plans may be substantially to restrain competition in particular fields of trade by following procedures prescribed in the Antimonopoly Act. When a notifying corporation submits the notification form to the JFTC and the JFTC receives it, the notifying corporation is prohibited from effecting share acquisition, etc. in question until the expiration of the 30-day waiting period from the date of receipt of the said notification. During the waiting period, concerning the business combination in question, the JFTC will normally either; (1) judge that the said business combination is not problematic in light of the Antimonopoly Act, or; (2) judge that more detailed review is necessary and request submission of the necessary reports, information or materials.

In the case of (1) above, to improve transparency of the review of business combination, the JFTC shall give notification to the effect that it will not issue a cease and desist order.

In the case of (2) above, the period when the JFTC may give notice prior to cease and desist order shall be extended until 120 days after the date of receipt of the notification or 90 days after the date of receipt of all reports etc., whichever is later. In case the JFTC judges in this extended period that the business combination plan in question is not problematic in light of the Antimonopoly Act, it shall give notification to the effect that it will not issue a cease and desist order, same as the case of (1).

MDF subject to the Review

Name	Photograph
MDF	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> <p>Hardwood thick MDF →</p> <p>Softwood thin MDF →</p> </div>  </div>
<p>Flooring made of thin MDF-plywood base materials consisting of M-type thin MDF</p>	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> <p>M-type thin MDF →</p> <p>Plywood →</p> </div>  </div>
<p>Flooring made of pure plywood base materials consisting only of plywood</p>	<div style="display: flex; align-items: center;"> <div style="margin-right: 10px;"> <p>Plywood →</p> </div>  </div>

(Sample photos submitted by the parties)

Detailed Results of the JFTC's Review of the Proposed Acquisition of Shares of C&H Co., Ltd. by DAIKEN CORPORATION

I. Parties

DAIKEN CORPORATION (hereinafter "DAIKEN"; the group of combined companies whose ultimate parent company is DAIKEN shall be referred to as the "DAIKEN Group") is a company engaged in manufacturing and selling wood-based materials such as medium density fiberboard (hereinafter "MDF") and in manufacturing and selling interior finishing materials made of wood-based materials, etc.

C&H Co., Ltd. (hereinafter "C&H") is a wholly-owned subsidiary of HOKUSHIN Co., Ltd. (hereinafter "HOKUSHIN"; the group of combined companies whose ultimate parent company is HOKUSHIN shall hereinafter be referred to as the "HOKUSHIN Group"), and it is engaged in selling products manufactured by HOKUSHIN (hereinafter the DAIKEN Group and the HOKUSHIN Group shall be collectively referred to as the "parties").

II. Outline of the case and the provision of applicable laws

This is a case where DAIKEN plans to acquire shares of C&H and obtain a majority of the voting rights of all stockholders of C&H (hereinafter the "Share Acquisition"). DAIKEN also plans to acquire shares of HOKUSHIN and increase the ratio of voting rights it holds for HOKUSHIN to approximately 15%.

The provision of applicable law is Article 10 of the Antimonopoly Act.

III. Reviewing process and outline of the results

1. Reviewing process

In April 2012, DAIKEN voluntarily submitted to the JFTC a written opinion to the effect that the company does not consider that the Share Acquisition will substantially restrain competition in the field of trade of MDF, the product for which the parties compete with each other, and thereafter, the JFTC had meetings with DAIKEN upon the request of the company. On April 25, 2012, DAIKEN submitted a notification concerning the plan on the Share Acquisition to the JFTC under Article 10, paragraph (2) of the Antimonopoly Act. The JFTC accepted this notification and launched the primary review. While proceeding with the review based on said notification and other documents submitted by DAIKEN and the information collected through interviews with users and competitors, etc., the JFTC found that more detailed review should be necessary. Accordingly, on May 25,

2012, the JFTC requested a report, etc. from DAIKEN and launched the secondary review, and on May 28, the JFTC announced that it had launched the secondary review and it would accept opinions from third parties.

In the secondary review, the JFTC studied the impact that the Share Acquisition might have on competition in the relevant fields, based on the reports and other documents submitted successively by DAIKEN as well as information collected through interviews and questionnaire surveys with users and competitors, etc. While most of the reports etc. requested to DAIKEN had been submitted by around July 2012, the JFTC found it necessary to explain the issues to the parties, thus it provided an explanation on the issues to them based on its review results available at that time. In response, the parties submitted additional allegations and documents, which were then examined by the JFTC. Subsequently, the JFTC indicated competitive problems in relation to some types of MDF, namely, M-type thin MDF and M-type thick MDF, and DAIKEN presented a method of resolving these competitive problems. Following the consideration by the JFTC, DAIKEN submitted a report of the changes concerning the measures to resolve the competitive problems.

By submitting the report and documents on January 11, 2013, DAIKEN submitted all reports etc. as requested by the JFTC.

2. Outline of the review results

With respect to M-type thin MDF and M-type thick MDF, the JFTC considered that, assuming that DAIKEN implements the measures it has proposed to the JFTC, the Share Acquisition would not substantially restrain competition in these fields of trade. The JFTC also found that the Share Acquisition would not substantially restrain competition in any other fields of trade.

The details of the review results are as indicated in IV to VI below.

IV. Joint Relationship to be Created by the Share Acquisition

As indicated in II above, DAIKEN plans to (i) conduct the Share Acquisition (acquire shares of C&H and obtain a majority of the voting rights of C&H), and (ii) acquire shares of HOKUSHIN and increase the ratio of voting rights it holds to approximately 15%. Presently, the MDF manufactured by HOKUSHIN in whole is sold via C&H. The parties state that they will continuously sell the whole MDF manufactured by HOKUSHIN via C&H after the Share Acquisition.

Of these two acquisitions of shares proposed by DAIKEN, only (i) is subject to the liability to submit notification under the Antimonopoly Act. As a result of (i), C&H will be jointly owned by DAIKEN and HOKUSHIN, which will create an

indirect joint relationship between DAIKEN and HOKUSHIN. As a result of (ii), DAIKEN will directly hold approximately 15% of the voting rights of HOKUSHIN, and moreover, a new business alliance for the manufacturing, etc. of MDF will be established between DAIKEN and HOKUSHIN. Thus, the series of actions accompanied with the Share Acquisition will create a joint relationship between the DAIKEN Group and the HOKUSHIN Group.

Therefore, in the sections below, this case will be examined on the assumption that a joint relationship will be newly created between the DAIKEN Group and the HOKUSHIN Group as a result of the Share Acquisition.

V. Particular field of trade

1. Product range

MDF is a kind of wood material, manufactured by processing wood chips into fiber, adding adhesive to such wood fiber, and pressing it. As it is made of wood fiber, it has a smooth surface and square edges, has high processability, and is less likely to cause curvature or seasonal cracks which are usually seen with rough woods. MDF is mainly used as materials for interior finishing of buildings such as flooring, and its major direct users are interior finishing materials manufacturers. The major purchasers of interior finishing materials made of MDF are residential building manufacturers.

MDF with different characteristics are manufactured depending on the type of tree from which the wood chips are made, thickness of the product, and type of adhesive used.

(1) Substitutability between different types of MDF

A. Substitutability between MDF made of different types of wood chips

There are two major types of wood chips that can be used to make MDF, those of hardwood trees and those of softwood trees (hereinafter MDF made of the former type of wood chips shall be referred to as “hardwood MDF” and MDF made of the latter type of wood chips shall be referred to as “softwood MDF”). Although these two types of MDF are not distinguished from each other under the Japanese Industrial Standards (JIS), it is generally said that hardwood MDF is superior in water resistance, whereas softwood MDF is whiter and less likely to affect the color of surface sheets.

According to the questionnaire survey that asked MDF users regarding the substitutability between the two types, they would switch approximately 30% of hardwood MDF (softwood MDF) to softwood MDF (hardwood MDF) should the price of hardwood MDF (softwood MDF) rises by around 10%.

Also through price correlation analysis, a correlation was found between prices of hardwood MDF and that of softwood MDF.

Accordingly, MDF users recognize hardwood MDF and softwood MDF as substitutable, and it is considered that there is no need to define the particular fields of trade separately for these types of MDF.

B. Substitutability between different thicknesses of MDF

There are MDF products of different thickness, ranging from 2.5mm to 30.0mm. Generally, MDF of 5.5mm or thinner is called thin MDF, and that of over 5.5mm is called thick MDF. Thin MDF is mainly used as surfacing materials by being affixed to the front and back sides of plywood, etc. and used as base materials for flooring, doors, etc. Thick MDF is mainly used independently as base materials for window frames, steps of stairways, etc.. According to the questionnaire survey that asked MDF users regarding the substitutability between the two types, the users would switch only a very small portion of thin MDF (thick MDF) to thick MDF (thin MDF) when the price of thin MDF (thick MDF) rises by around 10%. Thus, MDF users do not recognize thin MDF and thick MDF as substitutable.

From the standpoint of the substitutability for suppliers, with respect to manufacturing facilities of MDF, there are two types depending on the pressing modes, namely continuous press and multi-stage press. The continuous press can basically make any thickness of products but is mainly used to manufacture thin products aiming to achieve production efficiency. The multi-stage press is mainly used to manufacture thick products aiming to achieve production efficiency and it is incapable to manufacture a certain range of thin products which have high demands. Thus, the substitutability for suppliers between thin MDF and thick MDF exists to a certain degree but the substitutability is weak.

Accordingly, it is considered that it is necessary to define the particular fields of trade separately for thin MDF and thick MDF.

C. Substitutability between MDF made with different types of adhesive used

MDF can be categorized into three types under JIS by the type of adhesive used, namely, MDF made with urea resin adhesive (U-type), MDF made with melamine resin adhesive (M-type), and MDF made with phenol resin adhesive (P-type). The water resistance increases in this order.

P-type MDF is used for buildings and structures, whereas U-type and M-type MDF are not used for this purpose. Therefore, P-type MDF can be regarded as a distinct type of MDF as compared to the other two types.

According to the interviews that asked MDF users regarding the substitutability between U-type and M-type MDF, they use high water-resistant M-type MDF as materials to be situated at places that are easily exposed to dampness, such as window frames and flooring, while low-priced U-type MDF is used for products that are not required to have high water resistance, such as furniture. Thus, MDF users use different types of MDF based on the difference in the type of adhesive used (level of water resistance) for different purposes. Also according to the questionnaire survey of MDF users, they would switch only a very small portion of U-type MDF (M-type MDF) to M-type MDF (U-type MDF) when the price of U-type MDF (M-type MDF) rises by around 10%. Thus, MDF users do not recognize U-type MDF and M-type MDF as substitutable.

From the standpoint of the substitutability for suppliers, if they do manufacture several types of MDF using the same production lines, they can manufacture different types of MDF by changing the types of adhesive used as inputs. However, if they manufacture only one type of MDF using with production line, it is not easy for them to manufacture different types of MDF using the same production line, due to the necessary investments in preparing adhesive tanks, etc. and the lack of expertise in manufacturing other types of MDF. Thus, the substitutability for suppliers exists only to a limited degree.

Accordingly, it is considered that it is necessary to define the particular fields of trade separately for U-type MDF, M-type MDF, and P-type MDF.

While the HOKUSHIN Group manufactures and sells P-type MDF, the DAIKEN Group does not manufacture or sell this type of MDF, which means that these groups are not in a competitive relationship (horizontal relationship) for P-type MDF. In addition, since the interior finishing materials division of the DAIKEN Group does not procure P-type MDF, these groups are not in a relationship where they deal in different trading positions regarding P-type MDF (vertical relationship). Therefore, P-type MDF will hereinafter be excluded from the scope of the review.

(2) Substitutability between MDF and other wood-based materials

There are other types of wood-based materials that are used for the same purpose as MDF, namely, plywood (Note 1) and particle board (hereinafter “PB”) (Note 2).

According to the interviews with MDF users, they commented that plywood is less smooth on the surface and inferior in processability as compared to MDF, and that plywood is less useful due to its high price volatility. Through price

correlation analysis, correlation was not found between prices of M-type thin MDF and that of plywood. With respect to PB, according to the interviews with MDF users, most of them commented that although PB is relatively cheaper than MDF, it is less smooth on the top surface and cross-section surface and is inferior in strength, thus it is difficult to use PB as a substitute for MDF except for limited applications. Also according to the questionnaire survey of MDF users, they would switch only less than 5% of M-type thin MDF to plywood or PB when the price of M-type thin MDF rises by around 10%. Thus, MDF users recognize MDF and plywood or PB as only slightly substitutable.

Moreover, due to the difference between the manufacturing facility of MDF and the manufacturing facility of plywood or PB, the substitutability for suppliers does not exist.

Accordingly, it is considered that it is necessary to define the particular fields of trade separately for MDF and plywood or PB.

(Note 1) Plywood is made by laminating thin wood panels, made by paring logs, so that the directions of the fibers are at right angles to one another, and pasting them together using adhesive.

(Note 2) Particle boards (PB) are made by adding adhesive to particles of wood chips and pressing them into boards.

(3) Section summary

Accordingly, the JFTC defined “U-type thin MDF,” “U-type thick MDF,” “M-type thin MDF,” and “M-type thick MDF” as the product ranges.

2. Geographic range

MDF products in the Japanese market, with some exceptions, are mostly JIS-certified MDF, because Japanese users prefer products that meet the JIS standard. In this respect, Japanese users are different in their disposition from overseas users.

Therefore, the JFTC defined entire area of Japan (markets for all users in entire area of Japan) as the geographic range.

VI. Review concerning substantial restraint of competition

1. M-type thin MDF

The parties are both leading manufactures and sellers of M-type thin MDF. Thus, firstly, the impact that the Share Acquisition would have on the competition in M-type thin MDF is examined.

(1) The status of the parties and the competitive situation

In the market for M-type thin MDF, after the Share Acquisition, the total market share of the parties would be approximately 65% (the largest share on the market), the HHI would be approximately 5,500, and the increment of HHI is approximately 1,800. Therefore, the Share Acquisition does not meet the safe harbor standards for horizontal business combinations (Note 3).

In this market, the parties are facing a leading competitor, Company A (a domestic manufacturer), which holds approximately 35% share.

(Note 3) See Guidelines to Application of the Antimonopoly Act Concerning Review of Business Combination (JFTC, May 31, 2004), IV-1(3).

[Market shares for M-type thin MDF in the FY2011]

Rank	Company Name	Share
1	HOKUSHIN Group (C&H)	Approx. 45%
2	Company A	Approx. 35%
3	DAIKEN Group	Approx. 20%
—	Overseas manufacturers	Less than 1%
	Total	100%

(2) Excess supply capacity

The utilization ratio of the facilities of all MDF manufacturers is nearly 100%. Although it may be possible for them to increase production to a certain degree by adjusting the operating hours or improving the production facilities without enhancing the existing facilities, none of them seem to have an adequate excess supply capacity.

(3) Competitive pressure from overseas manufactures' products

At present, overseas manufactures' products are scarcely found in the Japanese market. According to the interviews with MDF users, they consider that overseas manufactures' M-type thin MDF cannot assure the necessary performance.

Thus, there is no competitive pressure from overseas manufactures' products.

(4) Entry pressure

Amid the declining birthrate and decrease in population of Japan, it is hard to expect that the number of housing starts will increase dramatically in the future. Under such circumstances, as it is necessary to invest several billion yen to

introduce the MDF manufacturing facilities and it is not always easy to find a supplier of wood chips, it is less likely that there will be any new entrants in the MDF market.

Thus, there is no entry pressure.

(5) Competitive pressure from neighboring markets

As mentioned in V-1(2) above, even when the price of M-type thin MDF rises, interior finishing materials manufacturers, which are direct users of the product, would switch only a small portion to plywood or PB (less than 5%). Thus, there is no (direct) competitive pressure from neighboring markets.

(6) Allegations of the parties on the substitutability between MDF and plywood, etc. as interior finishing materials, and assessments thereof

A. Allegations of the parties

The parties allege that as interior finishing materials, M-type thin MDF can be substituted with plywood, etc., and this type of MDF is under indirect competitive pressure from neighboring markets.

Specifically, most demands for M-type thin MDF is used as a component of base materials for flooring (M-type thin MDF pasted together with plywood is used as flooring; hereinafter such materials shall be referred to as “thin MDF-plywood base materials”). In the market for finished products of flooring, those made of thin MDF-plywood base materials compete with those made of materials consisting only of plywood (hereinafter “pure-plywood base materials”). If the price of M-type thin MDF rises, the price of flooring made of thin MDF-plywood base materials would rise accordingly, and demands would shift to flooring made of pure-plywood base materials. The parties allege that the markets for plywood, etc. pose indirect competitive pressure from neighboring markets on M-type thin MDF in this way.

B. Review and assessment of the allegations of the parties

In addition to thin MDF-plywood base materials, pure-plywood base materials are widely used as base materials for flooring. In recent years, the share of flooring made of thin MDF-plywood base materials has been increasing, but flooring made of pure-plywood base materials still holds a large share.

There are various types of flooring depending on the features in appearance or characteristics such as color, pattern, and luster, or the features in performances, such as scratch resistance and easiness in removing stain. Based

on their skills and experiences, flooring manufacturers adopt an appropriate type of base materials (thin MDF-plywood base materials or pure-plywood base materials), surface sheet, coating, etc. to make flooring that has the demanded characteristics and performances. According to the interviews with the residential building manufacturers, etc., which are the major purchasers of flooring products, since there is no such characteristics or performances that can only be achieved by thin MDF-plywood base materials, they do not particularly designate thin MDF-plywood base materials when purchasing flooring products but they would be willing to switch to flooring made of pure-plywood base materials having the same characteristics or performances, should the price of flooring made of thin MDF-plywood base materials rises.

As indicated above, thin MDF-plywood base materials and pure-plywood base materials are available as base materials for flooring, and purchasers of flooring products adopt and procure the flooring having the nature or performance that they need, without being fixated on any particular type of base material. Thus, flooring made of thin MDF-plywood base materials and flooring made of pure-plywood base materials are in a fierce competition, and M-type thin MDF is under indirect competitive pressure from the neighboring market. Consequently, the Share Acquisition is unlikely to have an effect that will result in substantial restraint of competition, such as raising the price of flooring made of thin MDF-plywood base materials.

(7) Assessments concerning vertical market foreclosure

A. Impact of the vertical market foreclosure on competition

The DAIKEN Group is a MDF manufacturer and an interior finishing materials manufacturer engaged in manufacturing flooring and other interior finishing materials using MDF, etc., whereas the HOKUSHIN Group is exclusively engaged in manufacturing MDF. Therefore, the Share Acquisition would have an aspect of a vertical business combination between the HOKUSHIN Group, a MDF manufacturer, and the DAIKEN Group, an interior finishing materials manufacturer, thus the HOKUSHIN Group might sell MDF to the DAIKEN Group under favorable conditions in preference to other flooring manufacturers which do not manufacture MDF by themselves and to which HOKUSHIN has sold its MDF (hereinafter “independent flooring manufacturer”) (vertical market foreclosure). In fact, as the DAIKEN Group is a leading entity in the market for flooring and has an adequate excess supply capacity to manufacture flooring, it may have an ability and incentive to procure MDF from the HOKUSHIN Group in preference to competitors and

increase its production of flooring.

Some independent flooring manufacturers maintain specific characteristics or performances of their products by applying their own skills, etc. and by exclusively taking advantage of the surface smoothness, etc. of MDF. Such manufacturers would find it difficult to switch MDF to plywood when the price of MDF rises or the procurement of MDF becomes difficult. As indicated in (1) to (5) above, although there is one leading competitor which manufactures M-type thin MDF as materials for flooring, it does not have an adequate excess supply capacity, and there is no competitive pressure from overseas manufactures' products or entry pressure, nor is there direct competitive pressure from neighboring markets. Under such circumstances, if the vertical market foreclosure occurs with regard to MDF manufactured by the HOKUSHIN Group, which holds approximately 45% market share, independent flooring manufactures would have difficulty in taking competitive actions.

According to the questionnaire surveys and interviews with independent flooring manufacturers, many of them commented that they were concerned that after the Share Acquisition, the HOKUSHIN Group might supply its MDF preferentially to the interior finishing materials division of the DAIKEN Group and alternatively reduce the amount of MDF supplies to them.

B. Measures proposed by DAIKEN

After the JFTC indicated to the parties the issues indicated above, DAIKEN has proposed that it would take the following measures.

- (i) For five years from the execution of the Share Acquisition, with regard to M-type thin MDF that C&H currently sells to users other than the DAIKEN Group (including its subcontracting manufacturers), DAIKEN will have C&H deal with orders from such external users under reasonable and substantially equivalent terms of trade to those applicable to the supply to the DAIKEN Group in terms of the price, quantity, deadline for delivery, quality, specification (thickness, size, etc.) and other conditions; provided, however, that this commitment shall not apply should the volume of sales from C&H to external users (in cubic meters) (hereinafter the "volume of external sales") for each business year exceeds the maximum volume of external sales during the most recent five business years (per business year).
- (ii) For five years from the execution of the Share Acquisition, DAIKEN will

report to the JFTC, once every six months, regarding the sales results of M-type thin MDF sold by C&H to each user (e.g. date of order, price, quantity, deadline for delivery, quality, specification (thickness, size, etc.) and other aspects).

C. Assessment of the measures proposed by DAIKEN

The measures proposed by DAIKEN represent its commitment that for a certain period of time after the Share Acquisition (five years), DAIKEN will have C&H sell to external users the same quantity of M-type thin MDF as that C&H currently sells to them, under reasonable and substantially equivalent terms of trade to those applicable to the supply to the DAIKEN Group in terms of the price, etc.

During the period in which these measures are in effect (five years), independent flooring manufacturers will be able to procure the same quantity of M-type thin MDF as heretofore from HOKUSHIN Group under reasonable and substantially equivalent terms of trade as compared to those applicable to the DAIKEN Group, thus they will not have difficulty in taking competitive actions.

As for the five-year period of implementation of said measures, even for independent flooring manufacturers, which maintain specific characteristics or performances of their products using M-type thin MDF, five years would be sufficient to prepare for manufacturing flooring with such characteristics or performances by using materials other than thin MDF-plywood base materials (e.g. pure-plywood base materials), thus after the end of implementation of said measures, they would be able to continue taking competitive actions.

Accordingly, it is considered that assuming that DAIKEN implements the measures it has proposed, the Share Acquisition will not cause a vertical market foreclosure.

(8) Assessment under the Antimonopoly Act

As indicated above, in the market for M-type thin MDF, the parties jointly hold approximately 65% share. Although there is one leading competitor, it does not have an adequate excess supply capacity, and there is no competitive pressure from overseas manufactures' products or entry pressure, nor is there direct competitive pressure from neighboring markets. However, in the market for flooring, for which M-type thin MDF is mainly used, there is an active competition between flooring made of thin MDF-plywood base materials and

flooring made of pure-plywood base materials, thus there is indirect competitive pressure from the neighboring markets. In view of such circumstances, the Share Acquisition will not substantially restrain competition, such as raising the price of flooring made of thin MDF-plywood base materials. Furthermore, assuming that DAIKEN implements the measures it has proposed, the Share Acquisition will not cause a vertical market foreclosure. Consequently, the Share Acquisition will unlikely have an effect that will result in substantial restraint of competition in the field of trade of M-type thin MDF by any action taken by the parties unilaterally or in coordination with the competitors.

2. M-type thick MDF

(1) The status of the parties and the competitive situation

In the market for M-type thick MDF, after the Share Acquisition, the total market share of the parties would be approximately 65% (the largest share on the market), the HHI would be about 5,400, and the increment of HHI is approximately 800. Therefore, the Shares Acquisition does not meet the safe harbor standards for horizontal business combinations.

In this market, the parties are facing a leading competitor, Company B (a domestic manufacturer), which holds approximately 30% share.

The DAIKEN Group, one of the parties, holds a small market share, approximately 5%, and its position as a manufacturer and seller of M-type thick MDF is relatively less influential as compared to its position as a manufacturer and seller of M-type thin MDF.

[Market shares for M-type thick MDF in the FY2011]

Rank	Company Name	Share
1	HOKUSHIN Group (C&H)	Approx. 60%
2	Company B	Approx. 30%
3	DAIKEN Group	Approx. 5%
4	Company C	Less than 5%
—	Overseas manufacturers	Less than 1%
	Total	100%

(2) Excess supply capacity, competitive pressure from overseas manufactures'

products, entry pressure, and competitive pressure from neighboring markets

The circumstances concerning M-type thick MDF in relation to these factors are the same as those concerning M-type thin MDF indicated in VI-1 above. That is, none of the manufacturers of M-type thick MDF has an adequate excess supply capacity, and there is no competitive pressure from overseas manufactures' products or entry pressure, nor is there (direct) competitive pressure from neighboring markets.

(3) Substitutability between M-type thick MDF and plywood as interior finishing materials

Most demands for M-type thick MDF is for materials for window frames (hereinafter "thick MDF base materials"). Window frames made of thick MDF base materials compete with those made of plywood base materials, which suggests that there is indirect competitive pressure from the neighboring market. In this respect, the situation of M-type thick MDF is similar to that of M-type thin MDF in which most demands for M-type thin MDF is used as base materials for flooring and there is a competition between flooring made of thin MDF-plywood base materials and flooring made of pure-plywood base materials.

(4) Assessment under the Antimonopoly Act

As compared with its position as a manufacturer and seller of M-type thin MDF, the position of the DAIKEN Group as a manufacturer and seller of M-type thick MDF is less influential, and thus the Share Acquisition will have only a relatively small impact on the competition in the field of trade of M-type thick MDF. In view of such circumstances, as well as the fact that there is indirect competitive pressure from the neighboring market, the Share Acquisition will not substantially restrain competition, such as raising the price of window frames made of thick MDF base materials.

Meanwhile, as in the case of M-type thin MDF, the Share Acquisition would have an aspect of a vertical business combination between the HOKUSHIN Group, a MDF manufacturer, and the DAIKEN Group, an interior finishing materials manufacturer, and it would make it difficult for window frame manufacturers which do not manufacture MDF by themselves to take competitive actions. DAIKEN has proposed that it would take the same measures for M-type thick MDF as those for M-type thin MDF (indicated in VI-1(7) B). Assuming that DAIKEN implements these measures it has proposed, the Share Acquisition will not cause a vertical market foreclosure.

Accordingly, the Share Acquisition is unlikely to have an effect that will result in substantial restraint of competition in the field of trade of M-type thick MDF by any action taken by the parties unilaterally or in coordination with the competitors.

3. U-type thin MDF and U-type thick MDF

(1) The status of the parties and the competitive situation

In the market for U-type thin MDF, after the Share Acquisition, the total market share of the parties would be approximately 50% (the largest share on the market), the HHI would be approximately 3,500, and the increment of HHI is approximately 1,200. Thus, the Share Acquisition does not meet the safe harbor standards for horizontal business combinations. In this market, the parties are facing leading competitors: Company D (a domestic manufacturer), which holds approximately 25% share, and Company E (a domestic manufacturer), which holds approximately 15% share.

In the market for U-type thick MDF, after the Share Acquisition, the total market share of the parties would be approximately 50% (the largest share on the market), the HHI would be approximately 3,300, and the increment of HHI is approximately 1,200. Thus, the Share Acquisition does not meet the safe harbor standards for horizontal business combinations. In this market, the parties are facing leading competitors, Company G (a domestic manufacturer), which holds approximately 25% share, and Company H and Company I (domestic manufacturers), each of which holds approximately 10% share.

[Market shares for U-type thin MDF in the FY2011]

Rank	Company Name	Share
1	DAIKEN Group	Approx. 35%
2	Company D	Approx. 25%
3	HOKUSHIN Group (C&H)	Approx. 15%
4	Company E	Approx. 15%
5	Company F	Approx. 5%
—	Overseas manufacturers	Approx. 5%
Total		100%

[Market shares for U-type thick MDF in the FY2011]

Rank	Company Name	Share
1	HOKUSHIN Group (C&H)	Approx. 30%
2	Company G	Approx. 25%
3	DAIKEN G	Approx. 20%
4	Company H	Approx. 10%
5	Company I	Approx. 10%
—	Overseas manufacturers	Approx. 5%
Total		100%

(2) Excess supply capacity, entry pressure, and competitive pressure from neighboring markets

The circumstances concerning U-type thin or thick MDF in relation to these factors are similar to those concerning M-type thin MDF indicated in VI-1 above. That is none of the manufacturers of U-type thin or thick MDF has an adequate excess supply capacity, and there is no entry pressure, nor is there (direct) competitive pressure from neighboring markets.

(3) Competitive pressure from overseas manufactures' products

The quality standards that users require for U-type MDF are not as high as

those for M-type MDF. Consequently, while overseas manufactures' products are scarcely found in the market for M-type MDF in Japan, a certain volume of overseas manufactures' products are present in the markets for U-type thin and thick MDF, holding approximately 5% market share respectively.

According to the interviews with MDF users, some of them purchase a certain volume of U-type MDF which are made by Korean or Indonesian manufacturers and that are JIS-certified. Moreover according to the questionnaire survey of MDF users, some of them manufacture the surface materials of door fittings or furniture etc. using U-type MDF which are made by overseas manufactures and that are not JIS-certified

Accordingly, there is competitive pressure to a certain degree from overseas manufactures' products.

(4) Substitutability between U-type MDF and plywood, etc. as interior finishing materials

U-type MDF is used for products that do not need to be water resistant, such as door fittings and furniture. For such usages, plywood, PB and the like are actually being used as substitutes for U-type MDF. There is no such characteristic or performance that can only be achieved by MDF. Interior finishing materials made of U-type MDF compete with those made of plywood, etc., which suggest that there is indirect competitive pressure from the neighboring market.

(5) Assessment under the Antimonopoly Act

Both in the markets for U-type thin MDF and U-type thick MDF, the parties jointly hold approximately 50% share. Although none of the manufacturers of U-type MDF has an adequate excess supply capacity, there are a few leading competitors. Furthermore, there is competitive pressure from overseas manufactures' products. In view of such circumstances, the Share Acquisition will not substantially restrain competition, such as raising the price of interior finishing materials made of U-type thin MDF or U-type thick MDF.

As in the case of M-type MDF, there may be a concern that a vertical market foreclosure will occur for U-type MDF when the HOKUSHIN Group, a MDF manufacturer, becomes a member of the DAIKEN Group, an interior finishing materials manufacturer. However, should it becomes difficult for MDF users to procure U-type MDF from the parties, since there are a few other manufacturers which make U-type MDF and it is possible to use overseas manufactures' products as a substitute, the Share Acquisition would not make

it difficult for interior finishing materials manufactures which use U-type MDF to take competitive actions.

Accordingly, the Share Acquisition is unlikely to have an effect that will result in substantial restraint of competition in the field of trade of U-type thin MDF or U-type thick MDF by any action taken by the parties unilaterally or in coordination with the competitors.

Flowchart of Business Combination Review (Reference)

