

Mergers and Acquisitions: overview, structuring and negotiation

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What will we learn today?

- ▶ Impact on Japan from the global economic crisis
 - Severe and may last for the next couple of years.
- ▶ M&A transactions so far
 - Most cases occurred within Japan. FDI are highly welcome.
- ▶ Case studies of cross border M&A
 - Out-in
 - In-out

What will we learn today? (cont.)

- ▶ KFS – Lessons from case studies.
 - PMI is important.
 - Be aware of anything “very Japanese”
 - Leadership – management control is important.
 - Communication – documentation
 - Synergy – do not forget the initial negative CF. follow the action plan.
- ▶ Potential areas in the next few decades
 - Alliance with Japanese strategic buyers
 - Strategic areas in technology

Macroeconomic overview

»» Impact from the global financial crisis

▶ Quote from the FT

- Economic destruction in Japan is assuming Godzilla-like proportions. Industrial production fell almost 10 per cent in December compared with November. That's a big number but it gets worse. The government re-did its forecasts for January to a 9 per cent drop, and February down another 5 per cent. In all, that knocks almost a third off output since September, putting it back [...] (to) 1983 levels. In other words, it took a quarter of a century to reach levels that were unwound in the space of five months. For carmakers, it is even worse: production may halve from last year. (FT, 30.1.2009)

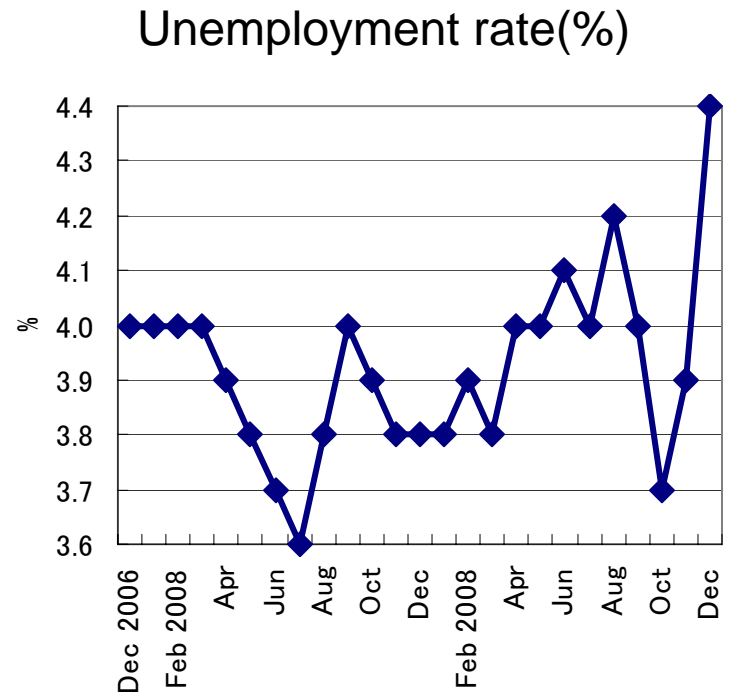
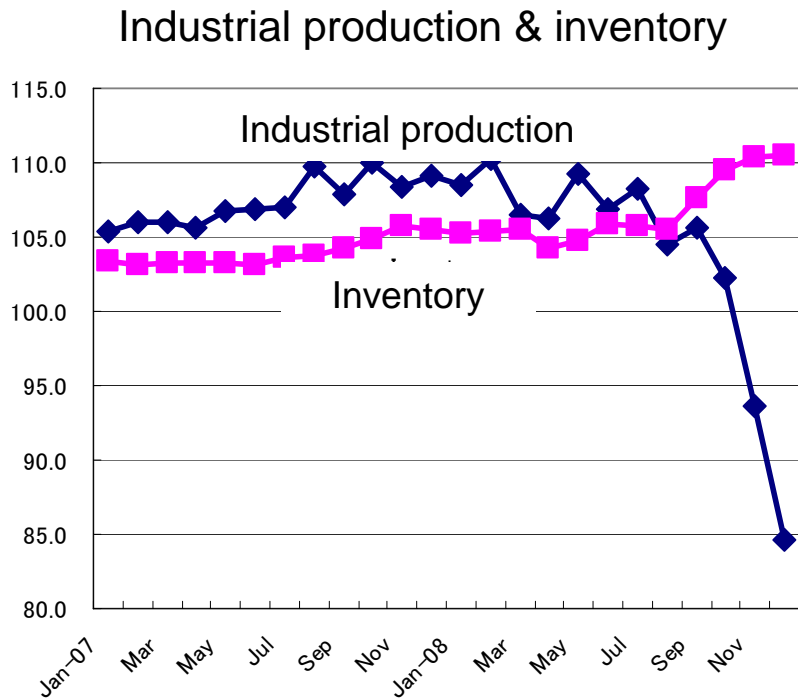
Drop in stock price and currency hike deteriorate company performance.



Stock price plunged by 40% in one year.

Yen appreciated against other major currencies.

Alarming numbers



Disappearing demand –
slowdowns by manufacturing

Rise in unemployment rate –
consumers fear of their jobs

Source: MITI, Ministry of Health, Labour and Welfare

Downturn may continue until 2011

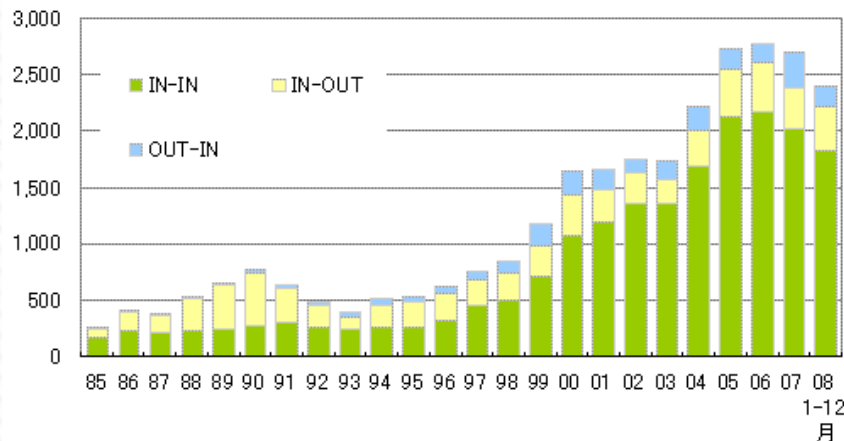
- ▶ Currently activities of most Japanese companies are dormant.
 - Even trading companies are reviewing their investment plans.
 - Manufacturing sectors are reducing the number of workforces.
 - Companies are trying to hoard capital through debt financing.
- ▶ Some businesses which focus on economical goods or energy, environment are relatively healthy.
- ▶ This may continue until 2011.
 - Increase in consumption tax planned by government in 2011 is a good indicator for starting revival of the Japanese economy.

M&A in Japan

»» Making progress

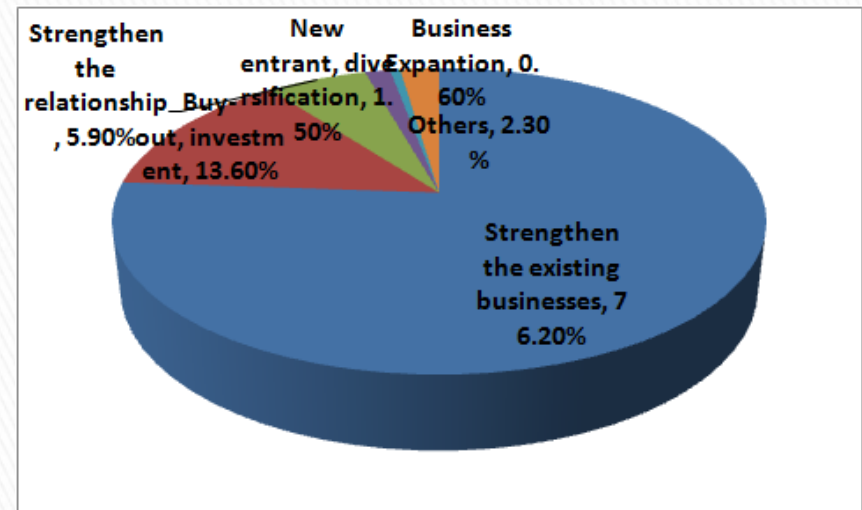
Cross border M&A are welcome to strengthen businesses.

Trends



IN-IN: M&A between Japanese companies.
 IN-OUT: M&A of overseas companies by Japanese firms.
 OUT-IN: M&A of Japanese firms by overseas companies

Japanese co. reported objectives



75% of transactions are domestic.

Objective: strengthen the existing businesses.

Strategic out-in M&A

Time	Industry	Target	Bidder	Size	After merger
11.1998	Finance	Lake	GE capital	Business transfer	To be sold in 2009
10.2001	Pharmaceutical	SSP	Boehringer Ingelheim	57% Stake	Still in business
10.2001	Telephone	Nippon Telecom	Vodafone	\$5.5B, 67.73% stake (TOB)	Sold to Softbank in 2006
5.2002	Retail	Seiyu	Wal-Mart	37.8% stake	Struggle to achieve market share
9.2002	Pharmaceutical	Chugai	Roche	51.5% stake (TOB)	Still in business
3.2004	Pharmaceutical	Banyu	Merck	100% Acquired	Still in business
2.2007	Automobile	Nissan Diesel	Volvo	\$1.4B, 96% stake	Still in business
5.2008	Finance	Nikko Cordial	Citi Group	Acquired	To be sold in 2009

Economic bail-out, out-in M&A

Time	Industry	Target	Bidder	Size	After merger
3.1999	Finance	Japan Lease	GE	Acquired	Still in business
5.1999	Automobile	Nissan	Renault	44.3% stake, \$4.9B	Still in business
4.2000	Automobile	Fuji Heavy Industries	GM	20% stake	Sold in 2005
1.2001	Finance	Tokyo Sowa Bank	Lone Star Funds	Acquired	Still in business as Tokyo Star bank; Lone Star sold stake in 2008
4.2001	Finance	Chiyoda Insurance	AIG	Acquired	Success (AIG star insurance)
3.2004	Automobile	Mitsubishi Automobile	DaimlerChrysler	22% stake	Subsidiary of Daimler
3.2007	Finance	Sanyo Credit	GE	\$1.1B	Still in business

Success story: Strong leadership of CEO Carlos Ghosn: Nissan–Renault

▶ Background

- Business failure in 1998: \$16B debt. On the verge of bankruptcy.

▶ Nissan–Renault form an alliance in 1999

- CEO Carlos Ghosn – takes an assertive role in ensuring success in bail-out situation.
- Capital and personnel inflow from Renault
- Business restructure: pursued cost reduction, factory closure, property sale, employee reduction, subsidiary consolidation
- Made a goal-oriented plan
- Introduced global management style to the entire firm

But many fail to create market value.

- ▶ Consumer taste in Japan is critical.
 - Economically-priced goods do not always attract consumers
 - Wal-Mart – Seiyu case
 - Do not offer service and price differentiation
 - Vodafone case
- ▶ Lack of commitment
 - Japan was only one of several investment targets for Daimler
 - Daimler – Mitsubishi case
- ▶ Lack of mutual understanding of each management style
 - Japanese management style is more egalitarian and ritualized.

KFS of out-in M&A : PMI is a key

- ▶ Do not forget that M&A start with negative CF due to the premium.
 - Without synergy creation equivalent to the premium, mergers will fail.
 - Make an action plan and follow it.
- ▶ Leadership and commitment
 - One sole party should take the entire control of management upon acquisition.
- ▶ Do thorough market research and work environment of Japan.
 - Do not assume what applies to other consumers or workers also applies in Japan.
 - Japan is different from Korea and China.
 - Achieve mutual understanding.
 - Document every action .

Suggestions

»» Potential areas in Japan

2 Hints for the FDI in Japan

- ▶ Japanese strategic buyers seek strategic opportunities abroad due to the maturity of domestic market.
 - Refer to the next in-out M&A cases
 - These are potential areas in which to form a strategic alliance.
- ▶ There are still some areas to develop in Japan.
 - Government lists several areas to promote.
 - In these areas, European companies have competitive advantage.

Strategic in-out M&A

Time	Industry	Bidder	Target	Size	Aim
1999	Food	Japan Tobacco	RJR International	\$7.8B	Expand to the global market
2001	Telecom	NTT DoCoMo	AT&T Wireless	\$9.8B, 16% stake	Service offer in USA
2005	Material	Nippon Sheet Glass	Pilkington	\$4B	Seek global business
2006	Electronics	Toshiba	Westinghouse	\$5.4B	Strengthen its nuclear power business
2006	Food	Japan Tobacco	Gallaher	\$18.80	Expand to the global market
2008	Finance	Mitsubishi UFJ Financial	Morgan Stanley	\$9B	Strengthen advisory service
2008	Finance	Nomura Holdings	Lehman Brothers (except US)		Expand to the global market
2008	Pharmaceutical	Takeda	Millennium Pharmaceutical	\$8.1B	Buy skills (medicine against cancer)

In-out M&A

- ▶ These cases relate to the core business of each company.
- ▶ Companies that are well performing but in a mature industry seek new markets abroad.
 - JT-Gallaher
 - Nippon Sheet Glass – Pilkington
 - Food industry – seek suppliers
- ▶ Some aim to change their own business portfolio.
- ▶ industrial restructurings are anticipated
 - Finance, Electronics, Pharmaceuticals
- ▶ Changes in regulation support cross border M&A
 - M&A by stock exchange (1999)
 - Convergence between Japanese GAAP and IFRS (to be completed in 2011)

“8 Strategic areas in technology” by the government: The next promising businesses in Japan

Areas	Technology
Life science	<ul style="list-style-type: none">•Genome analysis, structure analysis of proteins•prevention of infectious disease•prevention and treatment of cancer/immunity/adult disease/bone and joint disease/ kidney disease•development of medicine•gene analysis•stable food supply
IT	<ul style="list-style-type: none">•Network technology in the next generation, photonic network technology•ubiquitous network technology, information appliances•Device display, miniaturization of LSI•Security and software: prevention of information divulcation•Human interface and contents•Robots, intellectual robots•Super computer in the next generation
Environment	<ul style="list-style-type: none">•Risk analysis of chemical materials•Recycling testing•Ecosystem•Utilization technology of unused resources•Greenhouse gas reduction technology•Biomass, fermentation technique

“8 Strategic areas in technology” by the government: The next promising businesses in Japan (cont.)

Areas	Technology
Nanotechnology, Material	<ul style="list-style-type: none">• Semiconductor related technology, deflection plate for display• Imaging technique to be applied to cells• Development of biomedical material• Development of cell compatible material toward regenerative medicine• Development of catalyst material• Search for new nano-material• Quantum information processing
Energy	<ul style="list-style-type: none">• Nuclear electric power generation technology• Utilization of natural energy: solar energy, geothermal energy, wind-power energy, ocean energy, biomass energy
Production	<ul style="list-style-type: none">• Prevent hollowing of the production techniques,• Process innovation, Process visualization
Infrastructure	<ul style="list-style-type: none">• Reduce the number of small crisis• Construct protective measures, counter terrorism• Earthquake prediction
Frontier	<ul style="list-style-type: none">• Rockets, development of space technology, universe transport systems, earth exploration satellites• Air development• Marine development