Cross-border M&A and Japanese Companies
- Overcoming Challenges in Cross-border M&A -
Insights from leading Domestic and Overseas M&A Players

Executive Summary
Survey of Japanese Cross-border M&A

April 2019
Investment Facilitation Division,
Ministry of Economy, Trade and Industry
In order to support cross-border M&A, an effective tool for the achievement of global-level business growth but often suggested as being highly challenging, a survey was conducted on the common challenges, etc. of Japanese companies by collecting fresh opinions from companies, taking the past efforts into account.

**Study Group for Japanese Companies’ Cross-border M&A**

[Product]
- Report of the Study Group
- Nine Actions for Successful Cross-border M&A

* Both of them were released in March 2018

**Contents, subjects and purpose of this survey**

- **Past efforts**
  - Major problems considering the past efforts
  - What is in the mind of the people who are actually involved in PMI? What kind of challenges do they recognize?

- **Round table discussions on overseas PMI** *
  - Discussed and shared difficulties they faced and well-designed efforts they made in PMI.
  - • CEOs and CFOs, etc. of overseas companies purchased by Japanese companies
  - • Japanese representatives dispatched for PMI from parent companies
  - * Held in the United States, the United Kingdom and Singapore

- **Challenges of Japanese companies which can only be experienced onsite were highlighted**

- **Cross-border M&A workshops**
  - Small group interactive workshop including group work
  - • Officers and persons in charge of companies with high interest in cross-border M&A
    (mainly companies who have started to work on M&A)
  - * Held in Tokyo, Osaka and Fukuoka

- **Focused on companies with limited experience and companies with few resources**

- **Interviews with overseas companies with rich experience**
  - Interviews were conducted on such matters as the well-designed efforts made in cross-border M&A, case studies thereof and challenges specific to Japanese companies
  - • MA team of overseas companies, etc. (15 in total)
  - • Foreign investment funds (5 in total including those which haven’t expanded their business in Japan)
  - * Conducted in the United States, the United Kingdom, Germany, Singapore, India and Tokyo

- **Informative points for Japanese companies and challenges specific to Japanese companies were explored from the difficulties faced and well-designed efforts made by overseas companies**

* PMI: Post Merger Integration (management integration after merger)
Report Outline (ii)  
– Challenges of Japanese Companies in Cross-border M&A (overview) -

- Through this survey, development of the “management capability” and “systems” which global companies should have as well as a “framework for execution of M&A” that take into account the entire M&A process were recognized as the challenges.

Overview of the Challenges and Examples of the Opinions of Companies

1. Lack of “framework” to effectively promote the M&A process
2. Insufficient organizational structure for working on M&A

Opinions of European companies (manufacturing industry) (clarified the position of M&A in growth strategy)

The top executive presents the direction of the strategy. The head of the business division must consider the possible responses to any change in the business environment in light of the strategy presented by the top executive. With the direction of business being clarified, the research and development department constantly assesses possible new technologies which may become necessary in the future.

Opinions of foreign investment funds (ability to communicate missions and visions)

Clear missions and visions serve as the basis for discussion, thereby facilitating future discussions. Many Japanese get turned off by missions and visions; this is particularly salient in the case of spin-out of large-scale companies. In order to make such missions or visions realistic, communication with the leadership is important.

Opinions of U.S. Companies (technology industry) (effective DD)

Industry analysis of the target business and development of the financial model of the business plan are carried out while conducting pre due diligence process every time before executing the due diligence process. In addition, simple assessment of human resources and technologies is conducted for making determination at an early stage.

Opinions raised at the round-table discussions held for Japanese representatives (in the U.S.) (difference in the compensation system)

The concept of compensation is radically different between Japan and the United States. Major challenges are the specific way to have the local company as well as the head office in Japan understand such difference and the managers’ low compensations in Japan. We are exploring the best way by changing the system every year.

Challenges of Japanese companies in cross-border M&A

- Shortage of capabilities necessary for global management which is represented by the ability to communicate one’s own strong points and strategy, etc., language ability and the ability to adapt to different corporate cultures.
- Lack of corporate governance in which accountability and outcome accountability are taken into consideration
- Lack of development of a compensation system that is appealing in the global society
(Reference) Preparation for Global Management Capability and System

- In cross-border M&A, it is necessary to manage overseas companies that have different languages, cultures, and business practices and systems. Thus, **it is essential to have the global management capabilities and the ability to respond to the global management systems** that are adopted and **taken for granted** by many global companies.

<table>
<thead>
<tr>
<th>Global management capability</th>
<th>Communication Skills</th>
<th>Language Skills</th>
<th>Adaptability (corporate culture)</th>
<th>Corporate Governance</th>
<th>Compensation and Incentives</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Ability to clearly communicate one’s own strong points, strategy and visions to the purchased company</td>
<td>• Language ability to communicate in English or local languages</td>
<td>• Know-how to assess different corporate cultures</td>
<td>• Disciplined management system based on accountability and outcome accountability</td>
<td>• Compensation system attractive and appealing to globally competent human resources</td>
</tr>
<tr>
<td></td>
<td>• Persuasive communication ability with clear background and reasons</td>
<td></td>
<td>• Ability to disseminate one’s own corporate culture</td>
<td>• Transparent financial management and information disclosure system</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>• Execution ability to realize integration and fusion between different corporate cultures</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
(Reference) Preparation of a “Framework” for Execution at each stage of the M&A Process

Many overseas companies experienced in M&A have identified key points that should be considered at each stage of M&A strategy, and execution of M&A and PMI, based on their past successes and failures.

- Clarification and documentation of the position and purpose of M&A in the growth strategy
- Selection of target companies based on the compatibility with one’s own strategy and financial standard
- Implementation of business DD to determine the compatibility with one’s own strategy
- Execution of effective DD based on the checkpoints
- Designing the management system after merger from an early stage; prior to conclusion of DA
- Involvement of the responsible person of PMI from an early stage
- Visualization through establishment of the monitoring system
- Being creative in establishing reporting structure reflecting the management system
- Periodic assessment of M&A cases
  - Strategic viewpoint
  - Financial viewpoint
  - Consideration of a sale option

Development of system for M&A

- Formation of in-house dedicated M&A teams and/or teams dedicated to PMI/ divestiture
- Systematic organization and sharing of past experience, knowledge and know-how of M&A
- Development of personnel and training system for development of human resources for M&A