Provisional Translation

Ministry of Economy, Trade and Industry

Case Studies relating to the use of inbound M&A transactions

(Case Studies of Japanese companies that leveraged foreign capitals for corporate reforms, management enhancement, and dramatic growth)

- ✓ This research introduces a wide variety of cases for inbound M&A transactions in Japan, ranging from large enterprises to SMEs and start-ups.
- ✓ This research contains indexes which enable searches for cases, according to the issues confronted by companies or the benefits sought by companies.
- ✓ This research contains various real voices/opinions of the people involved in the M&A transactions and illustrates realistic situations of some difficulties that were overcome and initiatives that led to a success.

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Outline of the Research

- In recent years, multiple Japanese companies have achieved expansion of overseas sales channel, enhancement of management methods, and strengthening and development of human resources by utilizing global networks and know-hows held by foreign investors.

- The Japanese government is also working to attract human and financial resources from overseas (i.e., promoting highly skilled foreign personnel and foreign direct investment in Japan), and the number and amount of M&As for Japanese companies by foreign companies or foreign private equity funds (hereinafter "PE funds") (hereinafter "inbound M&A transactions") , which are one of the ways to utilize foreign capital, are also on the increasing trend.

- In this research, in addition to 18 cases of the inbound M&A transactions that made effective use of foreign capital, 2 cases of start-ups that received investment from foreign private equity funds are introduced, and this research examined the benefits, cautions, and key factors for success of inbound M&A transactions.

- In order for a company to continue to grow sustainably in a rapidly changing business environment, it is necessary to review its business portfolio, innovate, bolster global expansion, promote digital transformation (DX), enhance productivity and profitability, and respond quickly to difficult issues such as ESG and diversity management.

- In order to serve as a reference for these, each case study describes efforts to solve problems and lead the growth process, along with some concrete comments from the target companies’ employees. In addition to success stories, there are more than a few cases detailing gradual step-by-step efforts and instances where difficult judgments were required. This research focused not only on including the positive aspects of inbound M&A transactions, but also on addressing concrete difficulties as much as possible, so that this research could offer more practical insights.

- We hope that this research will offer some hints for Japanese companies in solving management issues and accelerating corporate growth.

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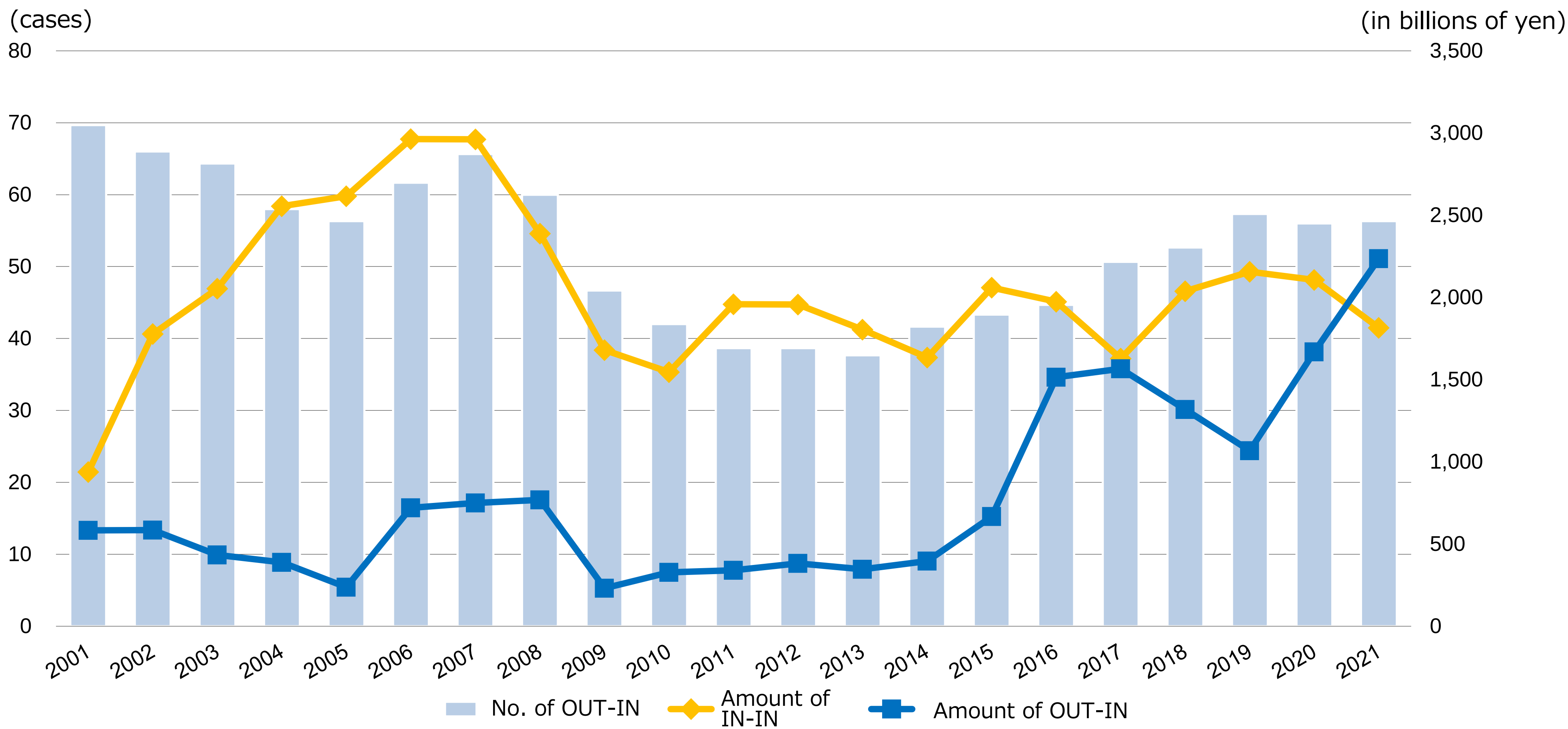
1 Outlook of Inbound M&A Transactions, Benefits, Cautions, Patterns, etc.

1.1 Overview of Inbound M&A Transactions (1/2)

The number of inbound M&A transactions (OUT-IN) has been on an increasing trend over the past 10 years. The monetary amount of these M&As has been on an increasing trend, although there are fluctuations due to some factors, such as the occurrence of large deals (while M&As between Japanese companies (IN-IN) were steady in the 2010s, inbound M&A transactions (OUT-IN) have gradually increased which led to competition in recent years). However, as compared to the Western countries, the number and monetary amount of inbound M&A transactions (OUT-IN) in Japan are small (as compared to the United States, the ratio of inbound M&A transactions (OUT-IN) to nominal GDP is about 1/10*1).

Changes in inbound M&A transactions, etc. (acquisitions and business transfers) (number and monetary amount (three-year moving average*2))



*1. OUT-IN M&A amounts (2017-2021 total) and nominal GDP (2021) were used from UNCTAD and the World Bank.

*2. The average value obtained by adding the value of the previous and following years to the value of the applicable year and dividing it by the number of years (3) (Example: the value for 2021 is the average valuefor 2020-2022). The trend of the amount for each year is especially difficult to grasp depending on the occurrence of large deals, so a 3-year moving average was used.

Source: Created from the RECOF M&A database (for OUT-IN, data excludes the sale of overseas corporations of Japanese companies. There are also some cases for which the amount has not been disclosed.)

1.1 Overview of Inbound M&A Transactions (2/2)

Major cases of inbound M&A transactions between 2020 and 2022 amounting to 100 billion yen or more are as follows. Additionally, in order to grasp the effects after M&A, this research primarily examined those transactions, for which several years have passed since the M&A was executed.

Major inbound M&A transaction cases in the past three years (announced in 2020-2022) (100 billion yen or more)

Buyer type	Buyer	Seller (targeted company)	Amount (in millions of yen)
Operating Company	Nipsea International Limited (NIL), etc.	Nippon Paint Holdings	1,285,139
PE Fund	Bain Capital, etc.	Hitachi Metals	817,254
PE Fund	KKR	Hitachi Transport System	671,437
PE Fund	Bain Capital	Evident (Olympus)	427,674
Operating Company	PayPal	Paidy	300,000
PE Fund	The Blackstone Group	Takeda Consumer Healthcare	242,000
PE Fund	KKR	Yayoi	240,000
PE Fund	KKR	Mitsubishi Corp.-UBS Realty Inc. (MC-UBSR)	230,000
PE Fund	Bain Capital	MASH Holdings	200,000
PE Fund	Oriental Beauty Holding	FineToday Shiseido	160,000
PE Fund	Ichigo Trust	Japan Display Inc. (JDI)	110,800
PE Fund	Bain Capital	NICHIIGAKKAN	110,166
PE Fund	PAG	Huis Ten Bosch	100,000
Operating Company	Carrier	Toshiba Carrier	100,000

Source: Created from the RECOF M&A database (including company names).

1.2. Issues confronted by Japanese companies that conducted M&A transactions

In recent years, multiple Japanese companies have achieved expansion of overseas sales channel, enhancement of management methods, and strengthening and development of human resources by utilizing global networks and know-hows held by foreign investors. In the management environment that is rapidly changing, in order for Japanese companies to sustainably grow on a continuing basis, they need to promptly respond to the difficult issues by reviewing their business portfolio, creating innovations, strengthening overseas businesses, promoting DX, and increasing productivity and profitability. The case studies exemplify those Japanese companies that solved the following issues by utilizing M&A transactions.

Corporate and Business Strategy

■The company had businesses and subsidiaries that did not have synergies with core businesses.
■The company wished to utilize products and services as well as business models that are more advanced in overseas markets and secure a revenue base.
■The company wished to conduct smooth business succession (that would not rely on a transition of organizational management b the owner of the company)

Personnel and Organizational Structure

■The company wished to obtain management personnel that lacked within the company, with a view to making further business growth.
■The company wished to implement an organizational structure (including that for an IPO) and establish an attractive equity story.

Capital and Know-how

■The company lacked know-hows and networks for overseas business operations.
■The company wished to promote DX and enhancement of productivity based on global knowledge.
■The company (and its domestic subsidiaries) was limited with technologies and capitals for future business development
■The company wished to conduct M&A transactions (including acquisition of other companies in the same industry) but lacked capitals and know-hows to do so.

1.3. Cautions for Inbound M&A Transactions

While inbound M&A transactions have many benefits, there are some cautions that need to be considered for smooth implementation and realization of expected effects, such as understanding the differences in corporate cultures and compliance with the foreign exchange laws and procedures. The important cautions, such as differences in corporate cultures and a failure to achieve expected results, are not only limited to inbound M&A transactions, but also are common to M&A transactions between Japanese companies as well.

	Cautions	Overview
Cautions within and between companies	**Differences in corporate cultures (Shared visions and trustful relationship)**	● Compared to M&A transactions between Japanese companies, especially as for transactions involving foreign operating companies, differences in corporate cultures as well as the language difference can result in management difficulties. With respect to the case studies researched, having noted of the differences in corporate cultures, we confirmed that **it is important for a target company to select a buyer whose management vision is consistent with that of such target company and endeavor to foster a trustful relationship that will allow mutual discussions on the issues following the M&A transaction.**
	Psychological resistance and reluctance to change among employees and business partners (sincere communication)	● Target company's employees and business partners may have concerns with becoming under the umbrella of a foreign investor. In addition, some employees may feel confused immediately after the M&A transaction due to the rapid pace of management improvement and corporate transformation. The case studies researched confirmed **the importance of sincere communication, including explanations of the new company's visions and strategies.**
	Not achieving the expected effect (cognitive differences, external environment)	● There were case studies in which the benefits and effects of accepting foreign capital were achieved, but there were also some cases in which they were not. The causes of such difference include **differences in perceptions between the buyer and the target company, unexpected changes in the external environments, and other factors.** Note that these are not limited to inbound M&A transactions (for details, see column (p.65)).
	No deal has been concluded after negotiations were initiated and announced (Preparations for M&A)	● While this is not limited to inbound M&A transactions, there are cases where a deal can be terminated even after the negotiations have been started and announced. The most common reasons are, first a failure of TOB, then the buyer's shortage of funds, and finally the parties' difficulties in agreeing on the terms of the contract. Even when both the buyer and the seller may agree, in some cases, deals cannot be concluded due to the disapproval by the relevant authorities in Japan and overseas with respect to merger controls. **Advance preparations for the M&A transaction is important from various perspectives, including strategy/business, funding/value, and procedures.** (For details, see column (p.65))
Legal cautions	**Economic Security (Compliance with procedures of the Foreign Exchange and Foreign Trade Control Law)**	● Sound inward foreign direct investment plays an important role in the development of the Japanese economy. Thus, FDIs in Japan need to be further promoted. However, with regards to investments that may be harmful to Japan's national security, the Foreign Exchange and Foreign Trade Act (FEFTA) requires prior notification of inward FDIs in certain industries from the perspective of national security, while maintaining the freedom of investment in principle. ● In addition, as various issues have emerged in the cross-sectoral fields between the national security and the economy, the government as a whole has been strengthening its economic security initiatives through such measures as the enactment of the "Act on the Promotion of National Security through Integrated Economic Measures" (Economic Security Promotion Act) to comprehensively and effectively promote economic measures related to security assurance. ● Under these circumstances, companies involved in M&A transactions need not to overwhelmingly hesitate, but they are required to comply with various laws and regulations, including FEFTA. In addition, it is also important for such companies to maintain and improve technological capabilities and prevent technology outflows, as well as to take initiatives based on security-related perspectives.

1.4. Benefits of Inbound M&A Transactions (Summary)

Six main benefits of inbound M&A transactions (related to the target company that accepted foreign capital) have been identified, which were common to multiple cases broadly in terms of management base, employees, and business operations (see the next page for specific comments received from the companies).
These initiatives are also common to those needed to solve corporate management issues and to continue sustainable growth of the company. Although many Japanese companies are already engaged in these initiatives, results also suggest that foreign capitals could potentially enhance the company's ability to proceed and accelerate the implementation.

Management Base

Sophistication of business and financial management by acquiring global knowledge and management know-how — 20/20 cases

Sophistication of business management, promotion of DX, and improvement of productivity/profitability were achieved through incorporating management know-how, expertise, and global standards of governance, in which areas foreign investors are more advanced, such as KPI[1] management, ROIC[2]-conscious investment, and business portfolio management.

Strengthening of the organizational structure through human resources support — 16/20 cases

The organizational structure was strengthened through introduction of the most suitable human resources for the issues confronted by the target company, based on the foreign investor's rich personnel networks.

Employees

Enhancement of employees' motivation through the introduction of a new personnel evaluation system — 14/20 cases

Introduction of a new personnel system and a highly transparent evaluation system as well as the grant of stock options and other measures, as used by the foreign investor, contributed in enhancing the employees' motivation

Development and strengthening of global human resources — 15/20 cases

Training programs and exchanges with global human resources made it possible for the company to develop and strengthen its employees, enabling them to gain a global perspective and mindset. The company became able to recruit more globally-minded human resources, as being under the umbrella of a foreign investor.

Business Operations

Expansion of the overseas sales channels through a global network — 12/20 cases

Expansion of the overseas sales channels was achieved through utilization of the network and brand power of the foreign investor. This contributed to the increase in overseas sales ratio and the expansion of the company's presence in overseas markets.

Utilization of products, services, and business models in the fields that are more advanced in overseas markets — 10/20 cases

Expansion of the range of products and services and quality enhancement were achieved through incorporation of technologies, know-how, and business models related to products and services that are more advanced in overseas markets.

In addition, there are other multiple specific benefits, subject to different case studies. **For the seller company, benefits may include the optimization of its business portfolio and the securing of funds. For the target company, benefits may include strengthening of ESG and diversity management, progresses in management reforms based on delisting, actively investing in and increasing R&D costs, expanding employment, and carrying out additional M&A transactions, etc.**

1. KPI: Key Performance Indicator. 2. ROIC (Return On Invested Capital)

1.4. Benefits of Inbound M&A Transactions (Actual Voices/Opinions)

Management Base

Sophistication of business and financial management by acquiring global knowledge and management know-how

“KKR helped us to develop a clear growth strategy from a different perspective than our own. **The management philosophy that focuses management/financial indicators and the company’s corporate value has permeated our management team.**” (Hitachi Kokusai Electric)

“**In Japan, while there is a tendency to be less proactive in divesting businesses from a portfolio management standpoint, we have divested about 13 businesses. We used the proceeds to actively acquire companies related to our core businesses.**” (Panasonic Healthcare)

Strengthening of the organizational structure through human resources support

“With the advice we received from Carlyle, we built an optimal management structure by skillfully mixing external knowledge with internal achievements. **We have actively recruited personnel externally and grown our corporate staff for key positions in the corporate system.**” (Hitachi Metals Techno)

“**Most of the key members were introduced to us through the PE fund**, and we built a back-office function that could embrace activities for the listing from almost nothing. Also, when our KPIs were not being met contrary to the company's expectations and we could not figure out the reason, **through the PE fund's own contacts, we were also introduced to data analysis professionals and a data warehouse design consultant**. The PE fund also **helped us build the base of our current management data platform.**” (AB&Company)

Employees

Enhancement of employees’ motivation through the introduction of a new personnel evaluation system

“By working with Bain Capital on the reform project, **we have created an environment in which employees can work with a sense of job satisfaction**. We have also focused on incentive plans for managers, and some executives have been granted with stock options. These have led to enhance the motivation of the employees.” (NICHIIGAKKAN)

“**Our performance bonus has been revised significantly. We have clarified the goals and results of each individual.** Compensations are now paid on the basis of the company's performance as well as employees’ individual contributions.” (SSP)

Development and strengthening of global human resources

“**Many employees indicate their desires to participate in the in-house “overseas challenge system”.** More employees perceive the company’s globalization in the positive light.” (Shiseido Personal Care Business Transfer)

“**Overseas transfers have become the standard within our company, and it has become easier to attract globally-minded personnel.** We are getting used to working overseas, and our culture is becoming more like that of a foreign company.” (Polymatech)

Business Operations

Expansion of the overseas sales channels through a global network

"Carlyle provided us with a full support from the time of site selection to the land contract negotiations, and we built our first overseas factory in Taiwan. **We also expanded our sales channels by using the local retail and wholesale networks of our PE fund, and our overseas business, including Asia, has more than tripled.**“ (The Oyatsu Company)

”Thanks to the strength of the buyer's brand, **we have improved relationships with suppliers, expanded the range of products we handle, and made progresses in overseas expansion.** Our sales grew approximately 10 times and profits even more than that." (Chip One Stop)

Utilization of products, services, and business models in the fields that are more advanced in overseas markets

We were allowed to **freely use the systems and solutions developed by Infosys**, a leading Indian company in the digital field, and **made a new strength of developing digital technology related products** that suit Japanese customers.” (Hitachi Procurement Service)

“We have become able to exclusively distribute drugs obtained from the Roche Group in Japan, **and our strengthened revenue base has enabled us to develop new drugs.**” (Chugai Pharmaceutical)

1.5. Patterns of Inbound M&A Transactions in this Research

Even within inbound M&A transactions, there are differences and trends in cases, depending on the strategy of the seller company and the status of target company's shareholders. In this research, these are classified into four patterns to make it easier to find cases based on the situation of each company. Specifically, the patterns consist of the sale of subsidiaries / business transfers by large companies (Pattern A), the sale of large companies themselves (Pattern B), and the sale and capital acceptance of owner-operated companies (Pattern C) or start-up companies (Pattern D).

Pattern	Definition	Major Cases
Pattern A **Sale of a Subsidiary / Transfer of Business (Carve-out)**	■ **A pattern in which primarily large companies divest their subsidiaries or certain businesses from their corporate group in order to transfer business (carve-out) with the intention of revising their portfolios or improving their finances.**	■ (PE Fund)Hitachi Kokusai Electric (Hitachi) & KKR p.22 ⇒Achieved growth through R&D/personnel investment after leaving the group. ■ (Operating Company) OMRON Nogata (OMRON) & Advantech p.24 ⇒Incorporated foreign investor's businesses into a new pillar of income
Pattern B **Sale of a Large Company / Acceptance of Capital**	■ **A pattern in which primarily large companies (the target company) sell their shares (a majority of shares) as part of their growth strategy**	■ (Operating Company) Chugai Pharmaceutical & Roche p.32 ⇒Concentrated investment in drug discovery based on a stable earnings base through the partnership ■ (PE Fund) Pioneer & Baring Private Equity Asia p.40 ⇒Rapid launch based on the incorporation of external knowledge and a revitalization plan
Pattern C **Sale of a Owner-operated Company / Acceptance of Capital (e.g. business succession etc.)**	■ **A pattern in which an owner-operated company sells its shares (a majority of shares) when it considers business succession due to the absence of a successor, or the development of its business through introducing the capital of another company rather than on its own.**	■ (Operating Company) Taiyo Yakuhin Kogyo & Teva Pharmaceutical Industries p.44 ⇒Increase product quality to restore market trust ■ (PE Fund) TASAKI & MBK Partners p.48 ⇒Enhanced brand power through management reform
Pattern D **Sale of a Start-up Company / Acceptance of Capital**	■ **A pattern in which a start-up company sells its shares or accepts capital for its next growth phase.** • Only this pattern includes minority investments, which are investments with minority interest	■ [Operating Company] PicoTherm & NETZSCH Japan p.58 ⇒Further business expansion by utilizing the back office functions of the buyer. ■ [PE Fund] Spiber & Carlyle p.62 ⇒Case of a start-up receiving investment from a PE fund

1.6. Differences between Foreign Operating Companies and Foreign Private Equity Funds

The followings are differences when the buyer is a foreign operating company or a foreign private equity fund. (These differences are not limited to inbound M&A transactions, and include differences common to M&A transactions between Japanese companies)

	Operating Company	PE Fund
Main purpose of M&A Duration of shareholding	- **Expand the Japan-based business of the operating company itself,** and **demonstrate** the growth strategy and business synergy - Long-term holding	- **Increase corporate value through enhancement of productivity and profitability, management reform, and sophistication of business models through support in the form of funds, personnel, know-how, etc.** - **About five years on average (close to 10 years in some cases)**
Benefits for the target company*	(Compared to PE funds) Trend for more "**Utilization of products, services & business models in the fields that are more advanced in overseas markets "**	(Compared to foreign operating companies) Trend for more "**Strengthening organizational structure through human resources support**"
Structure of the buyer-side (party for negotiation and business)	- **Japanese employees** of the Japanese subsidiary or office or **foreign employees of the global headquarters**	- In many cases, **Japanese employees of the Japan office**
Other precautions	- **Differences in corporate cultures, streamlining of redundant departments**, etc. There are cases in which challenges arise	- **There may be** a future sale (exit)**, and there may be** confusion about the rapid speed of change to produce results in a limited time.

*Benefits of inbound M&A transactions (no. of cases for operating companies and PE funds)

	Benefit	Operating company	PE fund	Benefit	Operating company	PE fund
Management base	Sophistication of business and financial management by acquiring global knowledge / management know-how	Operating company 7/7 cases	PE fund 13/13 cases	Strengthening organizational structure through human resources support	Operating company 4/7 cases	PE fund 12/13 cases
Employees	Enhancement of employees' motivation through the introduction of a new personnel evaluation system	Operating company 4/7 cases	PE fund 10/13 cases	Development & strengthening of global human resources	Operating company 6/7 cases	PE fund 9/13 cases
Business operations	Expansion of overseas sales channels through a global network	Operating company 4/7 cases	PE fund 8/13 cases	Utilization of products, services & business models in the fields that are more advanced in overseas markets	Operating company 6/7 cases	PE fund 4/13 cases

2 Research of Inbound M&A Transactions

2.1 List of Case Studies

No.	Japanese Company (target of M&A)				Foreign Company (Buyer)		Shareholding Ratio	Transaction Amount (billion yen)	Page
	Name	Industry	Location	SME	Name	Category			
Pattern A: Sale of a subsidiary or transfer of business (carve-out)									
1	Panasonic Healthcare (now PHC Holdings)	Electric Appliances	Tokyo*		KKR	private equity fund	80%	1,650	P.18
2	Hitachi Metals Techno (now SENQCIA)	Construction Materials	Tokyo*		Carlyle	private equity fund	Approx. 100%	293	P.20
3	Hitachi Kokusai Electric (now KOKUSAI ELECTRIC)	Electrical Machinery	Tokyo*		KKR	private equity fund	100%	2,570	P.22
4	OMRON Nogata (now Advantech)	Electrical Machinery	Fukuoka	✓	Advantech	operating company	80%[2]	-[3]	P.24
5	Hitachi Procurement Service (now HIPUS)	Service	Tokyo		Infosys	operating company	81%	-	P.26
6	Shiseido Personal Care Business (now FineToday)	Wholesale	Tokyo		CVC Capital Partners	private equity fund	65%	1,600	P.28
Pattern B: Sale of a large company or acceptance of capital									
7	Chugai Pharmaceutical	Pharma	Tokyo*		Roche	operating company	50.1%[2]	1,221	P.32
8	SSP	Pharma	Tokyo*		Boehringer Ingelheim	operating company	100%	822	P.34
9	Chip One Stop	Wholesale	Kanagawa		Arrow Electronics	operating company	100%	70	P.36
10	Polymatech (now Sekisui Polymatech)	Chemicals	Saitama		CITIC Capital (now Trustar Capital)	private equity fund	100%	-	P.38
11	Pioneer	Electrical Machinery	Tokyo*		Baring Private Equity Asia (now BPEA EQT)	private equity fund	100%	1,020	P.40
Pattern C: Sale of a regional/owner-operated company or acceptance of capital (business succession, etc.)									
12	Taiyo Yakuhin Kogyo (now Teva Takeda Pharma)	Pharma	Aichi		Teva Pharmaceutical Industries	operating company	100%	740	P.44
13	The Oyatsu Company	Foods	Mie	✓	Carlyle	private equity fund	Approx. 70%	-	P.46
14	TASAKI	Manufacturing	Hyogo	✓	MBK Partners	private equity fund	100%	318	P.48
15	OWNDAYS	Precision Machinery	Okinawa	✓	L Catterton	private equity fund	-	-	P.50
16	NICHIIGAKKAN	Service	Tokyo		Bain Capital	private equity fund	100%	1,100	P.52
Pattern D: Sale of a start-up company or acceptance of capital									
17	AB&Company	Service	Tokyo		CLSA	private equity fund	100%	100	P.56
18	PicoTherm (now NETZSCH Japan Tsukuba Office)	Precision Machinery	Ibaraki	✓	NETZSCH Japan	operating company	100%	-	P.58
19	from scratch (now dataX)	Software/IT	Tokyo	✓	KKR	private equity fund	-	40	P.60
20	Spiber	Biotechnology	Yamagata	✓	Carlyle	private equity fund	-	100	P.62

*Indicates whether the subject company is a SME. They are classified according to the definition of SMEs in the SME Basic Law. However, scope of treatment may differ depending on the type of industry, nature of business, and other individual circumstances.
*Indicates cases in which the location of the subject company (headquarters) is in Tokyo, but its main offices, factories, etc. are not in Tokyo.
(Notes) 1. Company names are abbreviated
2. The shareholding ratio at the initial transaction is shown. The shareholding ratio may differ now due to incremental investment.
3. "-" denotes deals in which the shareholding ratio and transaction amount are undisclosed.

2.2. Search for Cases by Issues

Category	Issue	Major Cases			
Company / Business Strategy	There are businesses or subsidiaries that do not have a synergy with the core business	Panasonic Healthcare & KKR (p.18)	Hitachi Metals Techno & Carlyle (p.20)	Hitachi Kokusai Electric & KKR (p.22)	OMRON Nogata & Advantech (p.24)
Company / Business Strategy	Want to implement business succession smoothly (transition to organization management that does not rely on the owner)	Taiyo Yakuhin Kogyo & Teva Pharmaceutical Industries (p.44)	The Oyatsu Company & Carlyle (p.46)	TASAKI & MBK Partners (p.48)	NICHIIGAKKAN & Bain Capital (p.52)
Company / Business Strategy	Want to utilize foreign capital but worried about a sudden 100% investment	Panasonic Healthcare & KKR (p.18)	OMRON Nogata & Advantech (p.24)	Hitachi Procurement Service & Infosys (p.26)	Chugai Pharmaceutical & Roche (p.32)
Funds / Know-how	Lack of know-how and network for expansion outside Japan	Shiseido Personal Care Business & CVC Capital (p.28)	Chip One Stop & Arrow Electronics (p.36)	The Oyatsu Company & Carlyle (p.46)	PicoTherm & NETZSCH Japan (p.58)
Funds / Know-how	Want to use global knowledge to promote digital transformation and enhance productivity	Hitachi Procurement Service & Infosys (p.26)	Chugai Pharmaceutical & Roche (p.32)	SSP & Boehringer Ingelheim (p.34)	OWNDAYS & L Catterton (p.50)
Funds / Know-how	There is a limit to future business development with the company's own technological and financial capabilities and those of Japanese companies	OMRON Nogata & Advantech (p.24)	Hitachi Procurement Service & Infosys (p.26)	Chugai Pharmaceutical & Roche (p.32)	Taiyo Yakuhin Kogyo & Teva Pharmaceutical Industries (p.44)
Funds / Know-how	Want to execute M&A of a company in the same industry (corporate acquisition), but do not have the funds or know-how.	Panasonic Healthcare & KKR (p.18)	NICHIIGAKKAN & Bain Capital (p.52)	AB&Company × CLSA (p.56)	
Personnel and Organizational Structure	Want to obtain management personnel that is lacking within the company, with a view to making further business growth.	Hitachi Metals Techno & Carlyle (p.20)	The Oyatsu Company & Carlyle (p.46)	NICHIIGAKKAN & Bain Capital (p.52)	AB&Company × CLSA (p.56)
Personnel and Organizational Structure	Want to establish a structure (including public listing) and build an attractive equity story	AB&Company × CLSA (p.56)	from scratch & KKR (p.60)	Spiber & Carlyle (p.62)	

2.2. Index: Search for Cases by Benefits

Category	Benefits	Major Cases	
Management base	Sophistication of business and financial management by acquiring global knowledge / management know-how	Panasonic Healthcare & KKR (p.18)	Polymatech & CITIC Capital (p.38)
		Pioneer & Baring Private Equity Asia (p.40)	Spiber & Carlyle (p.62)
	Strengthening organizational structure through human resources support	The Oyatsu Company & Carlyle (p.46)	OWNDAYS & L Catterton (p.50)
		NICHIIGAKKAN & Bain Capital (p.52)	AB&Company × CLSA (p.56)
Employees	Enhancement of employees' motivation through the introduction of a new personnel evaluation system	Hitachi Metals Techno & Carlyle (p.20)	Hitachi Kokusai Electric & KKR (p.22)
		SSP & Boehringer Ingelheim (p.34)	NICHIIGAKKAN & Bain Capital (p.52)
	Development & strengthening of global human resources	Shiseido Personal Care Business & CVC Capital (p.28)	Chugai Pharmaceutical & Roche (p.32)
		Polymatech & CITIC Capital (p.38)	Pioneer & Baring Private Equity Asia (p.40)
Business operations	Expansion of overseas sales channels through a global network	Chip One Stop & Arrow Electronics (p.36)	The Oyatsu Company & Carlyle (p.46)
		TASAKI & MBK Partners (p.48)	PicoTherm & NETZSCH Japan (p.58)
	Utilization of products, services & business models in the fields that are more advanced in overseas markets	OMRON Nogata & Advantech (p.24)	Hitachi Procurement Service & Infosys (p.26)
		Chugai Pharmaceutical & Roche (p.32)	Taiyo Yakuhin Kogyo & Teva Pharmaceutical Industries (p.44)

Management base		Employees		Business operations	
Gaining Management Knowledge	Strengthening organizational structure	HR System Innovation	Acquiring global personnel	Expansion of overseas sales channels	Acquisition of product knowledge

[Regarding tags]
There are tags designating each benefit on the right side of case pages as a reference for searching.

Pattern A: Explanations / Characteristics (Sale of Subsidiary / Transfer of Business (Carve-out))

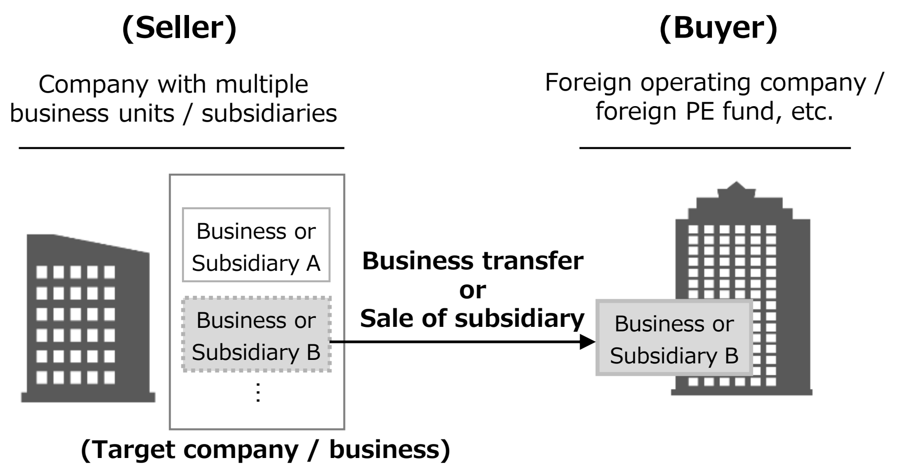
<List of Case Studies>

Pattern A: Explanations and Characteristics (Sale of a Subsidiary / Transfer of Business (Carve-out))

Definition / Characteristics

- **A pattern in which primarily large companies divest their subsidiaries or certain businesses from their corporate group in order to transfer business (carve-out) with the intention of revising their business portfolios or improving their finances.**
- After executing the M&A, the target company will be able to exercise increased strategic discretion, reform employee awareness, and carry out investment and R&D which was difficult as a non-core business, due to leaving its group.

Scheme visualization



Specific examples

- **Hitachi Metals Techno & Carlyle**
  - Sale of subsidiary Hitachi Metals Techno (Target Company) by Hitachi Metals (Seller) to Carlyle (Buyer / PE Fund)
- **OMRON Nogata & Advantech**
  - Sale of subsidiary OMRON Nogata (Target Company) by OMRON (Seller) to Advantech (Buyer / Operating Company)

Outlook

- **Promote business restructuring to realize sustainable corporate growth (Formulation of Practical Guidelines for Business Transformations by the Ministry of Economy, Trade and Industry in FY2020)**
  - If Japanese companies intend to achieve sustainable growth, they must concentrate their management resources in efforts to enhance core businesses or to invest in growth and new businesses. In this respect, Japanese companies should urgently and continuously review their business portfolios and carry out business transformations in line with best practices.
  - The Ministry of Economy, Trade and Industry's "Practical Guidelines for Business Transformations" summarizes a vision for corporate governance at three layers—management, the Board of Directors, and investors—in a manner that allows their business transformations to contribute to their sustainable growth and to the medium to long-term improvement of corporate value.

The company achieved a global growth by leveraging KKR's knowledge and expertise

(Panasonic's sale of Panasonic Healthcare (now PHC Holdings) to KKR as announced in 2013 (1/2))

After becoming independent from Panasonic, the company achieved a drastic growth through its proactive acquisitions of other companies and investments, including the acquisition of companies that are from different business industries. The company accelerated its global growth by reorganizing its strategic business portfolio based on the management of its non-core businesses and achieved the IPO in 2021.

Before M&A

- **The company had limited knowledge of the medical industry and limited funds for investment that were restricting potential business growth.**
- **It was too difficult that the company would improve its business by investing management resources.**

After M&A

- **The company achieved its independence with the capital received from KKR (the company renamed itself as PHC Holdings)**
- **As a company specializing in healthcare, the company achieved global expansion and a drastic growth through acquisitions, with KKR's full support.**
- **The seller has continued to hold a certain level of equity, but the company achieved its independence without any disruption to is business based on the support received from the seller, such as allowing continued use of the brand for a certain period of time after the carve-out.**

Details

Triggering Event for M&A

- **The parent company, Panasonic, was considering selling its non-core healthcare business for the purpose of its portfolio review.**
- **The target company, Panasonic Healthcare, was also seeking the way in which it could obtain financing by becoming independent, as it was missing out on existing investment opportunities due to Panasonic's difficult management environment.** The company sought for an opportunity of the "second-time establishment" with a view to becoming an independent healthcare specialized manufacturer.
- **The company decided that it would be optimal for business growth and re-listing to bring in a partner having an expertise and financial resources in this field and a shared business vision.** The company decided to **work with KKR, which had a global network and financial resources.**

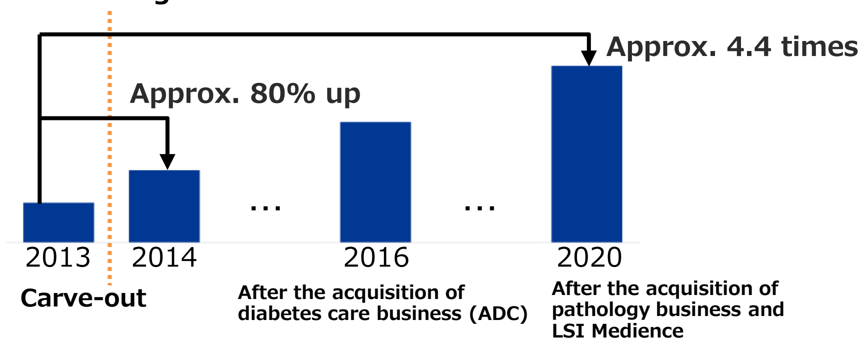
Support from the Buyer

- **Dispatch of industry experts from KKR**
  - KKR dispatched an external director and a management support team called "Capstone" to assist the company with respect to each individual project.
- **Support for smooth additional acquisitions**
  - There was a strong support provided by KKR, ranging from the valuation process (including due diligence, negotiations, etc.) to PMI for the company's acquisition of Bayer AG's diabetes care business and LSI Medience, etc.

Impacts of M&A

- **Accelerating global growth in the healthcare business**
  - After M&A, the company moved up from the middle rank of the industry to the top rank in terms of EBITDA in the medical device industry in Japan. With the company's acquisition of the diabetes care business from Bayer AG of Germany, the company has now grown to become one of the industry leaders in the medical device industry.
    - The company improved operations and increased adjusted EBITDA by approximately 80% in FY2014 immediately after the carve-out
    - After the company's additional acquisitions supported by KKR (FY2020), its EBITDA grew approximately 4.4 times as compared to its pre-independence level
  - KKR achieved the listing of Panasonic Healthcare (now PHC Holdings) in Japan in 2021.

EBITDA changes



Deal Overview
Date of Announcement: September 2013. Scheme: Share transfer + re-investment (KKR 80%, Panasonic 20%). Transaction Amount: Approx. ¥165 billion (shareholding ratio: 80%)
Target Company: Panasonic Healthcare Corporation (currently PHC Holdings) (Tokyo); Business Portfolio: Development, manufacture, and sales of various healthcare equipment and services. Sales: Unknown. Number of employees: Unknown.
Investor: KKR & Co. Inc.; Business Portfolio: Management of various asset classes including private equity, energy, infrastructure, real estate, credit, and hedge funds

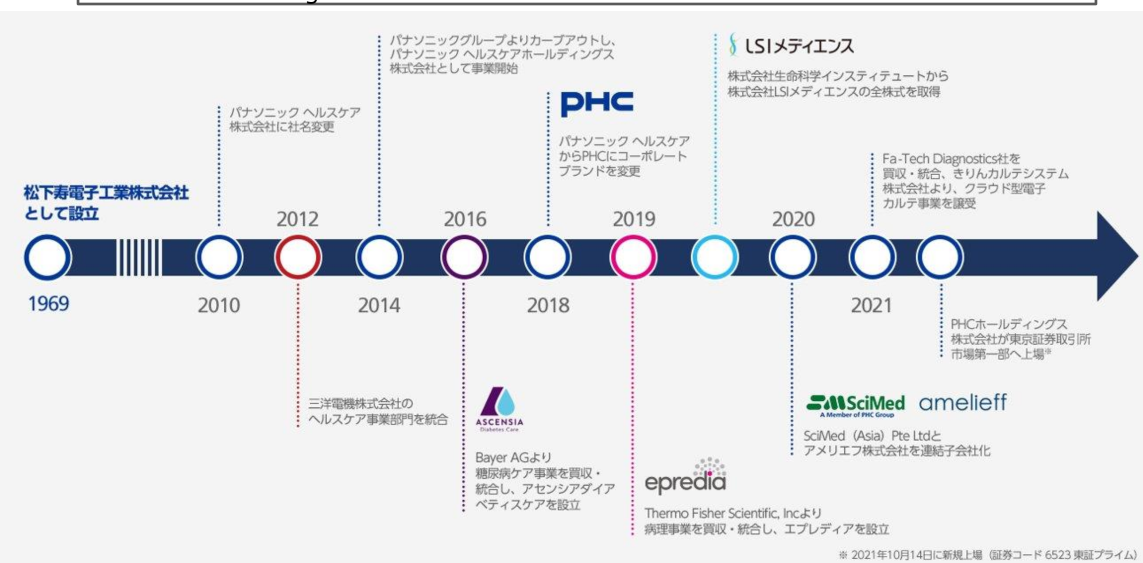
<Explanations to Employees> Independence for Growth.
"Introduction of an external capital" that turns the company into a main actor and "filial piety project"
(Panasonic's sale of Panasonic Healthcare (now PHC Holdings) to KKR as announced in 2013 (2/2))

The company conducted proactive M&A transactions targeted at healthcare-related companies through the acceptance of a foreign investor and promoted business portfolio re-organization.
The company came up with forward-looking explanations that can be exemplified as "introduction of an external capital" and "filial piety project" to make the employees actively feel the independence for growth.

- Key Factors for Success -

Proactive M&A transactions and business restructuring became the keys to the company's success

- **Proactive capital investment for a drastic growth**
  - By receiving KKR's support, the company acquired the diabetes care business of Bayer AG of Germany with an investment of approximately €1 billion (about ¥132 billion at the time).
    Furthermore, the company's acquisition of the pathology business of Thermo Fisher Scientific in the U.S. and LSI Medience in Japan have led the company to take a growth path.
  - **The company achieved a drastic growth through its proactive acquisitions and investments, while also promoting the reorganization of its strategic business portfolio based on the management of its non-core businesses.**
  - Through the generation of synergies and the optimization of organizations, the company achieved the IPO in 2021, and this led to the company's further continuous growth.



- Explanations to employees -

"Introduction of an external capital" that turns the company into a main focus

- "**We explained to our employees that the company was becoming independent in order to grow, so that the employees would not negatively consider the transaction, as such that the company was 'being sold' by Panasonic.** We used an expression of 'introduction of an external capital,' which nowadays a common method but was not used much at the time. Our idea was that **if we would call the transaction with such a term, 'introduction of an external capital' rather than 'being sold', the company would be turned into a main actor and could work proactively.**"
- "There is another anecdote that illustrates the importance of language. At that time, there were some people who were not positive about the company's independence. Under such a circumstance, **the company chose to name the transaction, "Project Orion," to signify that this project was not to go against Panasonic, but was in fact to treat Panasonic with respect and termed the project as "filial piety project"** (The star Epsilon of the Orion Constellation is called a "filial piety star" in Japanese.)
- "After that, **the president of the company at that time began to explain in a positive manner on various occasions that 'this is a project for filial piety,' and this has led to considerable progress in unifying the will of the executives of the company.**"

[Panasonic Healthcare]

New Growth Under a Management Structure Combining External Personnel & Internal Insights After Accepting Foreign Capital

(Sale of Hitachi Metals Techno (now SENQCIA) to Carlyle by Hitachi Metals (now Proterial), as announced in 2015 (1/2))

After the sale by Hitachi Metals, based on the concept of stable business management under the umbrella of the group, new personnel were introduced and the company worked to improve profit margins with the support of Carlyle; as a result, both sales and profits grew significantly.

Before M&A

- **As Hitachi Metals was selecting and concentrating its businesses based on its portfolio strategy, it was considering the sale of subsidiaries, primarily its listed subsidiary in the building materials business.**
- **Stable business operation in the Hitachi Metals group**

After M&A

- **After the acceptance of foreign capital, in addition to enhancing the company's sense of independence, awareness of profits was heightened under PE fund support.**
  - **In addition to sales growth, EBITDA growth was particularly notable.**
  - **Swift action and management reform were achieved by going private**

Details

Triggering Event for M&A

- **Based on the parent company Hitachi Metals' portfolio strategy, Hitachi Metals was considering selling its building materials business so that they could specialize in its core business**
  - The Hitachi Metals Group's policy was to concentrate business resources into four fields: automotive, electronics, industrial infrastructure, and aircraft and energy.
- **Hitachi Metals Techno's own intention to expand its business**
  - Through interviews with Carlyle, with the support of a PE fund the company planned to expand its business, which originally had one of the largest industry shares, into new areas and globally (decided to become independent from the Hitachi Metals Group).

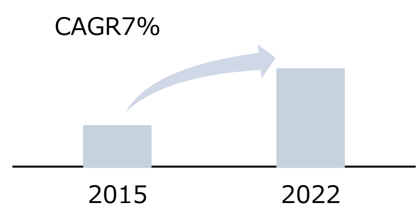
Support from Buyer

- Recruitment of talented personnel, thereby providing support to strengthen corporate functions
- Introduced an executive board system to clarify the responsibilities of each business division, and then transitioned to a company with a nominating committee to further strengthen corporate governance.
- Provided industry and market insights based on a track record of past industrial equipment-related investments.
- Identified business characteristics and pursued strategic capital policy by spinning off the industrial chain business to specialize in the building materials business

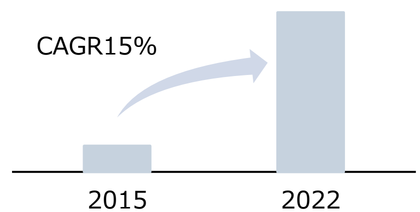
Impacts of M&A

- **Heightened awareness of profits**
  - Added gross profit targets as well as the conventional metrics of number of orders and sales to sales reps' targets.
- **Achieved a highly productive management structure by skillfully mixing external knowledge with internal achievements**
  - Utilizing Carlyle's contacts, actively recruited personnel externally for key positions in the corporate system, strengthening the corporate department, which was relatively weak compared to the front office (sales department).
- **Leaving the Hitachi Metals Group heightened employees' sense of independence**
  - As a result of leaving the Hitachi Metals Group, employee awareness changed from a mindset of stable business management to one focused on becoming a company that demonstrates independence and is evaluated by investors.

Sales growth



EBITDA growth



*Note: The two graphs above do not include the industrial chain business.
*The fiscal year ends in March.

Deal Overview
Announced: February 2015 Scheme: TOB Transaction amount: Approximately 29.3 billion yen (investment ratio: approx. 100%)
Target company: Hitachi Metals Techno, Ltd. (now SENQCIA Corporation) (Tokyo) Business description: Building materials and equipment, manufacturing and sales, and related construction work Sales: N/A Number of employees: 287 (2022)
Investor(s): Investment fund belonging to the Carlyle Group; Business description: PE fund

Case 2: Hitachi Metals Techno
(Pattern A / PE Fund)

<Involving employees for M&A success> Management and employees being united to foster an awareness of taking on new challenges

(Sale of Hitachi Metals Techno (now SENQCIA) to Carlyle by Hitachi Metals (now Proterial), as announced in 2015 (2/2))

Through internal projects involving employees and the permeation of a mindset through close communication with employees by management, the culture of the entire company has changed to one that does not avoid challenges.

-- Key Factor for Success (1) --

Deeper reform of awareness by implementing projects that involve all employees

Immediately after M&A

- **Anxiety among some employees due to leaving the large corporate group**
  - Since the company was a subsidiary of Hitachi Metals for many years, some employees did not want to think independently or did not want to take on new challenges.
  - Such people were momentarily demotivated when the company left the Hitachi group.

After improvement measures

- **Employee participation in management through in-house recruitment project**
  - **After the M&A, with the support of Carlyle, we conducted open internal recruitment for several in-house projects and the 100-day plan.**
  - Mainly junior employees applied for the 100-day plan with topics such as marketing and operational streamlining, and their recommendations were made to management after 100 days.
  - **Regarding the company name, a general meeting was held a few months before the change, and a Forum was created to announce the new company's name and for junior employees to present their opinions and proposals, which motivated employees.**
  - After that, the company continued to create a new medium-term management plan together with Carlyle and various consultancies, and worked on things that could not be done in existing businesses until now.

-- Key Factor for Success (2) --

Changing the mindset of management and employees

- **Enthusiastic communication with employees**
  - "Changing the corporate culture to create new businesses independently is quite difficult to do. The company's culture will not change in a short period of time. **We told our employees that we would tirelessly take on the challenges that we had not been able to do before, and showed our willingness to spare no effort in supporting them by visiting each branch and sales office to directly instill this mindset.** We were conscious of maintaining a feeling of optimism. We believe management should be prepared and show the direction for the company. "
- **Reforming management's awareness**
  - "Recently when talking with executives who have spent their entire career at the company, I get the feeling that we have changed. Up until now, we did not know what executives had to do for the company. The awareness that we cannot protect our company if we are not independent and that we will become a company that is valued by investors has also taken root through our efforts with Carlyle. **Our executives now have a strong awareness of growth and independence in order to protect and make employees happy.** "

【SENQCIA】

Upon leaving the group and becoming a specialized company, the company achieved growth exceeding market growth through R&D and personnel investment

Case 3: KOKUSAI ELECTRIC
(Pattern A / PE Fund)

(Sale of Hitachi Kokusai Electric (now KOKUSAI ELECTRIC; hereinafter “KOKUSAI") to KKR by Hitachi, as announced in 2017 (1/2))

Hitachi sold Hitachi Kokusai Electric to KKR in December 2017 with the aim of concentrating business resources on its core businesses. At KOKUSAI, there has been a change in the awareness of management based on management indicators, and the number of employees and employee satisfaction have also improved.

Before M&A

- **As part of its strategy of selecting and concentrating its businesses, Hitachi, the parent company, began discussions from the perspective of strengthening the competitiveness and increasing the corporate value of Hitachi Kokusai Electric.**
- **The subsidiary had two businesses (the semiconductor production equipment business and video communications system business), but achieving growth in both businesses was an issue.**

After M&A

- **KOKUSAI became independent from Hitachi Kokusai Electric and specialized in semiconductor production equipment, which allowed it to strengthen its R&D to build a competitive advantage.**
- **KOKUSAI promoted a management that was conscious of corporate value based on management indicators, and after revising its remuneration system, sales have increased by about 1.5 times in five years.**

Details

Triggering Event for M&A

- **Hitachi Group’s selection and concentration of businesses**
  - The Hitachi Group's policy was to concentrate business resources on core businesses.
  - KKR was selected with the expectation that Hitachi Kokusai Electric would be able to further strengthen its business base and accelerate growth by utilizing their abundant knowledge and expertise based on global management resources, networks, and investment experience.
- **Hitachi Kokusai Electric's Growth Strategy**
  - Hitachi Kokusai Electric had two businesses with different customers, required technologies, and know-how, but synergy was not expected between the two businesses, and the challenge was how to achieve growth for each business.

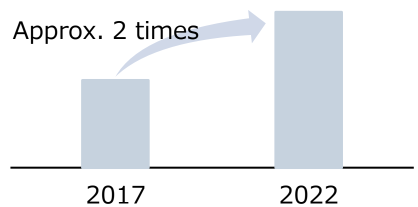
Support from Buyer

- **Spin off of video communications systems business**
  - KOKUSAI ELECTRIC was spun off into a specialized semiconductor production equipment business
- **Talented personnel were introduced to KOKUSAI ELECTRIC**
- **Clarification of management indicators and their reflection in management**
- **Revised the HR system to be performance linked**
- **Organizational reform in anticipation of IPO, strengthening of senior management**

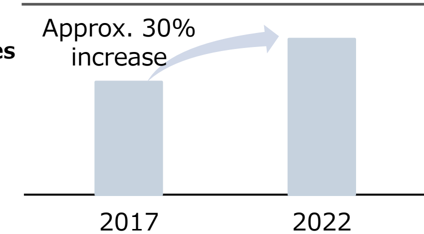
Impacts of M&A

- **Strengthened R&D by leaving the group**
  - After leaving the group, the company was able to increase R&D expenses more than before, allowing it to strengthen its R&D functions.
- **Changes in management awareness through working with KKR**
  - The management philosophy that focuses management / financial indicators and the company’s corporate value permeated the management team. There were especially significant effects gained from being able to organize the strengths and corporate value of the company together with KKR.
- **Significant enhancement in the number of employees and bonus levels**
  - The compensation system was revised so that bonuses heavily reflect performance. In line with the improvement in sales since 2017, salaries including employee bonuses also improved.
  - The number of employees involved in semiconductor production equipment increased by about 30%

Increasing R&D expenditures



Increasing the no. of employees



Deal Overview
Announced: April 2017 Scheme: Carve-out of semiconductor business after TOB Transaction amount: Approximately 257 billion (investment ratio: 100%)
Target company: Hitachi Kokusai Electric Co., Ltd. (now KOKUSAI ELECTRIC, currently Hitachi Kokusai Electric is a video communications company) (Tokyo) Business description: Video and communication solution business and film deposition process solution business
Sales: 171.8 billion yen Number of employees: 4,962 (consolidated for the fiscal year ended March 2017) Investor: KKR & Co. Inc. Business description: Management of various asset classes such as private equity, energy, infrastructure, real estate, credit, and hedge funds

<Key points of communication for post-M&A success> Overcoming the fear of losing stability and building a cooperative structure with KKR to achieve growth

Case 3: KOKUSAI ELECTRIC
(Pattern A / PE Fund)

(Sale of Hitachi Kokusai Electric (now KOKUSAI ELECTRIC; hereinafter “KOKUSAI") to KKR by Hitachi, as announced in 2017 (2/2))

In an industry with an unstable market environment, the loss of stable shareholders caused anxiety for management and employees, but growth was achieved by carefully engaging in dialogue and implementing a strategy with clear actions setting directions for the exit and management indicators.

-- Relieving employees’ concerns --

Overcoming the fear of losing stable shareholders

- **Relieving employees’ concerns by disseminating the impact of the M&A**
  - “There were some employee concerns about leaving the Hitachi Group. However, management continued to convey to employees that the possibilities of the semiconductor production equipment business would expand if the company specialized under the umbrella of KKR. Thanks to these efforts, few employees quit due to the company leaving the Hitachi group, and the company was able to make a new start as a semiconductor production equipment producer. "
- **Discussing the future exit with KKR**
  - "Since KKR is a PE fund and not a corporate shareholder like Hitachi, management had concerns about KKR's exit. However, **KKR told us that they would decide on the future exit after consulting with KOKUSAI, so we were able to join KKR with peace of mind.** "

-- Key Factors for Success --

Understanding the strategy drawn up by the PE fund is key to a successful M&A

- **Importance of understanding KKR's strategy and narrow the gap between our own strategy**
  - "I think it's important to start with a proper understanding of what the buyer's strategy is. In our case as well, KKR's strategic policy and KOKUSAI's strategic policy did not necessarily coincide initially. In order to narrow this gap, we ascertained what kind of strategy KKR was considering and where the gap was with KOKUSAI's strategy, and we consciously worked on how to eliminate it. I think that if there is a mismatch between the two companies at the start, then it will not be effective. "
- **Continuous communication with KKR required after M&A**
  - "Even after the M&A, I feel that communication with KKR has been necessary. This means receiving careful explanations and having person-to-person discussions. In order to aim for the exit of KKR and the sustainable development of KOKUSAI, there is a lot of preparatory work, and a sense of urgency was required. Naturally, there would be situations where it would be burdensome, but I would like to overcome such situations through careful communication with KKR. "

【KOKUSAI ELECTRIC】

The company incorporated foreign capital businesses into a new pillar of income, while maintaining existing businesses

(Sale of OMRON Nogata (now Advantech) to Advantech, as announced in 2018 (1/2)

OMRON Nogata, which had been contracted by OMRON to manufacture electronic devices for industrial use, was sold to Advantech, an industrial computer manufacturer, due to a review of the parent company's business portfolio. Since the sale, the company has expanded its business by selling Advantech products.

Before M&A

- **Strengthening of business portfolio management with the aim of maximizing the business value of the parent company, OMRON.**
- **OMRON Nogata was a dedicated contract manufacturer.**

After M&A

- **By incorporating Advantech's products into the business portfolio that had previously only contract/ consignment manufacturing, the company was able to achieve its dream of manufacturing and selling its own products**

Details

Triggering Event for M&A

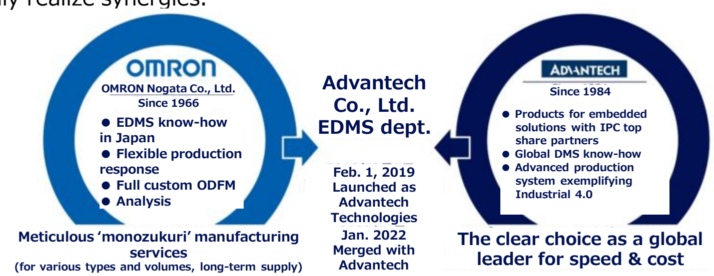
- **Review of parent company - OMRON's business portfolio**
  - OMRON was reviewing its business portfolio with the aim of maximizing the value of each of its businesses as a part of its long-term vision "VG2020" that was started in 2011, and was considering the sale of OMRON Nogata
- **OMRON Nogata's interest in developing its own products**
  - When developing its own products, OMRON Nogata was interested in technologies such as IoT and edge AI from Advantech, which was OMRON Nogata's supplier at the time.

Support from Buyer

- **Made it possible for OMRON Nogata to sell Advantech products**
  - The company strengthened the sales department of OMRON Nogata that was only engaged in contract manufacturing, and established a system that could sell Advantech's products.

Impacts of M&A

- **Achieved further business growth based on sales of in-house products that did not exist before**
  - As a dedicated contract / consignment manufacturer, the company was not able to make proactive moves to develop its own products, but they are now able to sell Advantech products which is accounting for a large part of sales.
  - By adding their own product sales business, OMRON Nogata has become a business entity capable of contract / consignment manufacturing, development, sales, and after-sales service.
  - The two parties talked about each other's shortcomings before the M&A and have worked to thoroughly realize synergies.



- **Initiatives to reform the HR system**
  - This M&A is being used as an opportunity to promote a reform of the HR system. When doing so, rather than incorporating Advantech's system as it is, the company has considered what is appropriate based on the differences it had with OMRON Nogata. For the growth of the company and business, Advantech has worked to create an environment where talented personnel could play an active role.

Deal Overview
Announced: October 2018 Scheme: Share transfer Transaction amount: Undisclosed (investment ratio: approx. 80% ⇒ 100%)
Target company: OMRON Nogata Co., Ltd. (now Advantech) (Fukuoka Prefecture) Business description: Contract / consignment manufacturing of systems for factories Sales: Approximately 8.8 billion yen (2018); Number of employees: 166 (2018)
Investors: Advantech Co., Ltd. (Taiwan), Advantech Japan Business description: Industrial computer manufacturer

<Key points for retaining employees and customers post-M&A> Careful consideration for employees and customers has enabled no loss of employees and customers

Case 4. OMRON Nogata (Pattern A / Operating Company)

(Sale of OMRON Nogata (now Advantech) to Advantech, as announced in 2018 (2/2)

Advantech's explanation of the M&A to the employees and customers and consideration for a phased M&A retained all employees and customers, whereby no one left, due to the M&A.

Advantech senior management's understanding of the Japanese way of business and careful explanations to the employees

Employee reaction to M&A announcement

- **The biggest concern of the employees was the strictness of a foreign investor.** They were worried that things would be forcibly changed from how they did things at OMRON Nogata to Advantech's methods.

Response by Advantech

- **Understanding the Japanese way of doing business**
  - Advantech is a global company and understood that each country has its own way of doing things, so it did not impose its methods on OMRON Nogata.
- **Held a kick-off meeting for employees**
  - At this event, the Advantech Chairman and Advantech executives carefully explained the post-M&A policy and other matters.

Employee reaction post M&A

- No employees left the company due to the M&A.

Phased M&A and considerations for customers through visits by Advantech employees

Customer reaction to M&A announcement

- Many customers in China and Taiwan still had an outdated idea of quality, and many **were worried that production in Taiwan would reduce quality.**

Response by Advantech

- **Advantech visited customers and held open houses for customers**
  - Advantech employees visited each customer to explain the M&A
  - Advantech Chairman K.C. Liu carefully briefed over 100 members of client customers on the post-M&A policy and other matters.
- **Implemented a phased M&A**
  - Since customers were worried about the company suddenly becoming a 100% subsidiary under a foreign investor, the company conducted a phased M&A to send a message to customers that OMRON would take care of them until they could show that the business could operate properly under a foreign investor.

Advantech acquired 80% of OMRON Nogata's shares, and OMRON continued to hold 20%

Two years after the M&A

ATJ (formerly OMRON Nogata) became a wholly owned subsidiary of Advantech

Customer reaction post M&A

- No customers were lost due to the M&A.

After leaving the Hitachi Group, sales volume increased rapidly through the use of advanced digital products/services of an Indian company

(Sale by Hitachi, Ltd. of Hitachi Procurement Service (currently HIPUS) to Infosys Limited, as announced in 2018 (1/2))

Being under the umbrella of an Indian company that ranks first in the BPO industry, HIPUS doubled its sales through the use of advanced digital products/services overseas and the retention of high-quality products/services provided to clients who use HIPUS' domestic business divisions.

Before M&A

- **Started considering M&A to achieve higher efficiency and greater added value in the indirect materials procurement business, as part of "selection and concentration" strategy of the parent company, Hitachi, Ltd.**

After M&A

- **Utilization of advanced digital products/services of Infosys made it possible for HIPUS to widely expand the range of services provided to clients. Sales to non-Hitachi Group companies doubled, boosted also by the separation from the Group**

Details

Triggering Event for M&A

- **Hitachi Group's selection and concentration**
  - The Hitachi Group had a policy to concentrate its management resources on its core businesses
  - HIPUS assessed and expected that it would be able to achieve higher efficiency and greater added value in the indirect materials procurement business by combining HIPUS' know-how relating to procurement operations and Infosys' global knowledge, BPM foundation and IT technologies
- **Under the parent company's leadership, Hitachi Procurement Services considered the sale of itself to a foreign operating company in the anticipation of future growth outside Japan**

Support from the Buyer

- Dispatch of directors commensurate with the shareholding ratio
- Sharing Infosys' products, services, and development resources
- Introduction of new governance (reducing matters for approval by the board of directors)

Impacts of M&A

- **Sales to non-Hitachi Group companies increased resulting from the separation from the Hitachi Group and the utilization of the reputable Infosys brand**
  - Through the separation from the Hitachi Group, HIPUS' sales to non-Hitachi Group companies increased suddenly. Overall sales more than doubled as compared before and after the M&A
  - The well-recognized brand as a leader in the global BPO* industry can be used to appeal to Japanese client companies that wish to expand their businesses outside Japan.

  * An abbreviation for business process outsourcing
- **The quality provided to clients improved through utilization of Infosys' advanced digital products/services and integration of domestic business divisions**
  - Infosys was ahead of its industry peers in adopting cutting-edge technologies in the digital field, enabling HIPUS to utilize the systems and solutions that are ahead of those in Japan
  - Following the adoption of the cutting-edge technologies and making the quality tailored to Japanese clients at HIPUS, the enhancement of service quality and sales was achieved.
- **Seniority system was abolished and advanced HR system was introduced to enhance motivation of young employees**
  - HIPUS made efforts over a period of three years to abolish the seniority system. HIPUS also revised the compensation system significantly, so that employees are evaluated according to their performance, which increasing young employees' motivation in a visible manner

Project overview
Announced: December 2018 Scheme: Share transfer Transaction amount: N/A (81% shareholding) The remaining 19% shareholding was sold to Pasona and Panasonic
Target company: Hitachi Procurement Service Co., Ltd. (currently HIPUS Co., Ltd.) (Tokyo), Business description: BPM/BPO services including procurement works and purchase agency works Sales: 14.1 billion yen (2020), No. of employees: 300 (2021)
Investor: Infosys Limited (India), Business description: Provision of next-generation digital services and IT consulting services

＜Challenges relating to M&A and Impacts on Employees＞

Case 5: Hitachi Procurement Service
(Pattern A: Operating company)

Struggles with filling the culture gap between HIPUS and the Indian company and changes in employees' mindset

(Sale by Hitachi, Ltd. of Hitachi Procurement Service (currently HIPUS) to Infosys Limited, as announced in 2018 (2/2))

Although it is difficult to fill the culture gap between Indian and Japanese companies, HIPUS achieved its success by integrating localization and global added value. HIPUS also realized the expansion in recruiting more employees in connection with its business expansion. HR system reforms enhanced the motivation of young employees

—Challenges—

The difference in ways of thinking of the Indian company was what HIPUS have struggled
Integration of localization and globalization has been the key

- **Cultural difference with the Indian company**
  - "**As Infosys is an Indian company, not only the style of management but also the culture and way of thinking are completely different.** They make continuous and voluminous requests that surprise those who have worked for Japanese companies for a long time. Meanwhile, **clients of HIPUS are Japanese companies, which means their employees are mostly Japanese people and they are running their businesses based on the Japanese culture. We struggled in this gap.** "

- **Keys to overcome the challenge (localization middle layer)**
  - "**The key is to accept the localization and add global added value.** India-based Infosys now understands that point, and HIPUS also has been able to retain localization of Infosys to some extent. This is why we are doing well with dealing with Infosys. "
  - "I think there are a small number of business collaborations in which a Japanese company can communicate equally with a foreign company. **It is often the case that the Japanese company looks down on its counterparty.** If you keep saying that the quality of Indian companies is poor, you will lose out of on the lead within five to ten years. **Although middle managers know that they have to collaborate with foreign companies, they have not been able to take much actions. Our collaboration with Infosys has been successful because our middle managers are moving it forward. "**

【HIPUS】

—Impacts on employees—

Recruited more employees and improved the motivation of personnel within the company

Positive changes in the employees' mindset	■ Existing employees were not confident at the beginning whether or not this M&A would succeedl. ■ **However, HIPUS recruited approximately 100 people, and introduced a job rotation for those employees who have previously handled the Hitachi Group companies to be responsible for other clients.** As a result, sales generated from clients outside the Hitachi Group doubled. ■ **Both executives and employees gained more confidence with accomplishing good results, if they exert their efforts, thus their mindset was changed.**
Introduction of advanced HR system	■ HIPUS abolished the seniority system and reformed the HR system, so that employees are assessed according to their performance and merit. **Results of an employee satisfaction survey show that young employees' motivation has enhanced visibly**
Recruitment of global talent	■ Under the umbrella of Infosys, **HIPUS has been associated with some elements attributable to foreign-affiliated companies and startups, and this places HIPUS well-positioned to recruit personnel more easily.**

The company established a world-beating management structure to develop a global brand and accelerate a corporate growth

(Shiseido's sale of its personal care business (now FineToday) to CVC Capital Partners, as announced in 2021 (1/2))

With the support of CVC Capital Partners, the company promoted the creation of a business environment that enabled the strengthening of growth investments, including flexible strategies specialized in the personal care business and the development of human resources with high decision-making and value creation capabilities.

Before M&A

- **Under the COVID-19 pandemic, the Shiseido Group was selecting and concentrating its businesses**
- **With limited management resources, product development and brand development were issues for its personal care unit.**

After M&A

- **The company centralized and concentrated on R&D to promote global branding**
- **Based on information sharing throughout Asia, rather than focusing on Japan, the company deployed optimal products and marketing throughout Asia**

Details

Triggering Event for M&A

- **Restructuring of the business portfolio by Shiseido**
  - Based on the new medium-term management strategy "WIN 2023" formulated in August 2020, Shiseido decided to restructure its business portfolio as part of efforts to become the world's No. 1 company in the skin beauty field by 2030.
  - With the aim of solidifying a management structure that can withstand uncertainty, Shiseido promoted the selection and concentration of its businesses and concentrated business resources on the high-priced cosmetics business.

Support from Buyer

- **Introduction of personnel and networks**
  - The buyer strengthened the management structure to expand business in Asia. CVC Capital has provided management support, including the introduction of talent and global networks and resources for business expansion.
- **Sharing global practices**
  - Online management meetings are held regularly, connecting 10 countries and regions to share the needs of and best marketing practices in overseas markets. These are held with automatic interpretation in five languages.

Impacts of M&A

- **Further improvement of brand power through utilization of funds that do not destroy the corporate culture**
  - Whether or not the value and world view employees had worked so hard to create would be cared for was also an important point for Shiseido for this sale. This was also the reason why **they chose CVC Capital rather than sell it to another company in the same industry.** In fact, **the company has been promoting product development to become a better brand by centralizing R&D, while leveraging the existing brand.**
- **Smooth deployment through fostering of trust and formulation of concrete strategies**
  - Both Shiseido and CVC Capital thoroughly discussed how to grow the personal care business in an increasingly competitive environment, and repeatedly held discussions on post-acquisition plans and structures until an optimal solution was reached. **Being able to formulate key strategies prior to the acquisition contributed to a faster post merger integration(PMI).**
- **Initiatives to realize a global company* from Asia**
  - Structures for considering strategies from planning to distribution from a global perspective were established for each brand.
  - Operations were incorporated that comprehensively cultivates the brand across the three regions of Japan, China, and the Asia-Pacific.

(*) Global deployment in response to local needs

- **Establishment of an independent management structure that is resilient to unforeseen circumstances**
  - The company established a management system that could respond quickly and actively to various changes in the external environment, while coordinating globally and across the organization.

Deal Overview
Announced: February 2021 Scheme: Company split Transaction amount: Approximately 160 billion yen (investment ratio: 65%, Shiseido: 35%)
Target business: Personal care business of Shiseido Co., Ltd (Tokyo) (now FineToday) Business description: Development and sale of personal care products Sales: 102 billion yen (2020) Number of employees: over 1,000
Investor: CVC Capital Partners Business description: Investment and management support

<Measures to enhance brand power>
Strengthening branding to become a global brand

(Shiseido’s sale of its personal care business (now FineToday) to CVC Capital Partners, as announced in 2021 (2/2))

Some success has been achieved through adopting of optimal sales strategies for each region in line with the circumstances of each region, but in order to beat the competition, the company has concentrated on each of the resources and shifted to building the optimal brand for the Asian region.

Before M&A

After M&A

Viewing the world in a unified way, aiming to deploy highly competitive products and marketing

Corporate growth by shifting to a management structure that is optimal for the Asian region, not optimal for one region (optimal for Japan)

- "In order to grow as a global company* originating in Asia amid intensifying competition, it is necessary to ask what our strategy is for deploying optimal products and marketing throughout Asia, rather than a decentralized way of thinking about investment and human resources that is optimal for each region. " (*) Global deployment in response to local needs
- “For that purpose, our top executives from 10 countries and regions have gathered to exchange information and held strategy meetings. "
- "By adopting this strategy of building a global brand, we have been promoting the sales growth in the expanding overseas markets. Many employees indicated that they hope to participate in the newly launched overseas challenge system. More employees perceive the company’s globalization in the positive light. "

【FineToday】

Pattern B: Explanations / Characteristics (Sale of a Large Company / Acceptance of Capital)

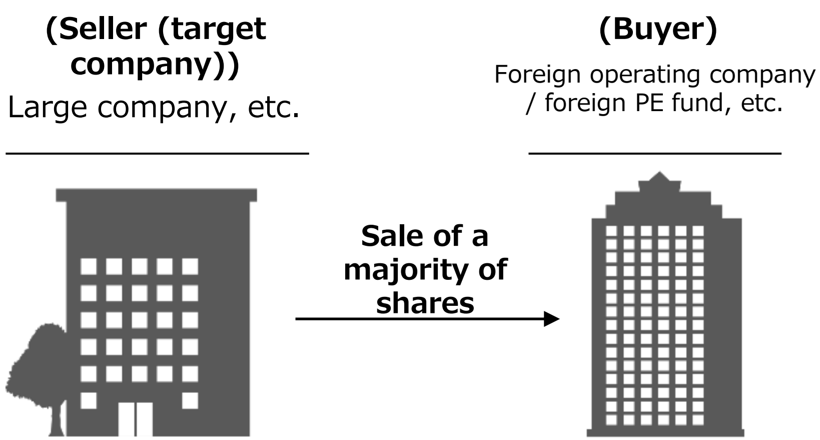
<List of Case Studies>

Pattern B: Explanations / Characteristics (Sale of a Large Company / Acceptance of Capital)

Definition / Characteristics

- **A pattern in which primarily large companies (the target company) sell their shares (a majority of shares) as part of their growth strategy**
- In addition to synergy with the buyer company that has a global network or other resources, this pattern is characterized by cases of the corporate philosophy and strategy being reviewed to deploy new businesses, and of delisting contributing to faster decision-making and reduced costs to maintain listing.

Scheme visualization



Specific examples

- **Chugai Pharmaceutical & Roche**
  - Chugai Pharmaceutical (Seller) received capital from Roche (Buyer / Operating Company)
- **Pioneer & Baring**
  - Baring Private Equity Asia (Buyer / fund) invested in and delisted Pioneer (Seller)

Outlook

- **Execution of M&A in anticipation of synergy effect and the difficulty of decision making**
  - In many cases, M&As have significant impacts such as cost reduction and sharing of sales networks, equipment, and generates synergistic effects etc.
  - On the other hand, due to factors such as the absence of a parent company and a controlling shareholder, it is recognized that it is difficult for sellers to make decisions regarding the utilization of foreign capitals for growth and strategic cooperation with a global company.

Chugai's strategic alliance with Roche provided the company with a stable revenue base, which enabled the company to make focused investments in the drug discovery

(Strategic alliance between Chugai Pharmaceutical and Roche as announced in 2001 (1/2))

Chugai Pharmaceutical received capital from Roche, one of the world's top ten pharmaceutical companies. Based on a stable revenue supported by its exclusive distribution of Roche's new drugs in the Japanese market and growth in the global market through out-licensing of its own new drugs to Roche, Chugai focused its management resources on drug discovery researches and early development, and thereby Chugai achieved a dramatic growth in both sales and profits.

Before M&A

- **As the development of new drugs required huge R&D expenditures, the company was limited with its ability to expand on its own, so the company was seeking partnerships with global companies.**

After M&A

- **The company concentrated its management resources on the drug discovery business based on a stable revenue base supported by its exclusive sales of Roche's new drugs in Japan and growth in the global market through out-licensing of in-house new drugs to Roche.**
- **In order to strengthen the concentration of its resources on drug discovery research and early-stage development, the agreement with Roche was amended to allow Roche to retain the right of first refusal at the early PoC stage for the development and marketing of all in-house products overseas (excluding South Korea and Taiwan).**
- **The company achieved the top share of domestic sales in the oncology field in Japan.**

Details

Triggering Event for M&A

- **Alignment was achieved between Roche's need to expand its presence in Japan and Chugai's need to secure a stable revenue base for its new drug development**
  - Roche was attracted by Chugai's strength in biopharmaceutical know-hows, as well as Roche needed to expand its presence in Japan as Japan was the second largest pharmaceutical market in the world.
  - Chugai was searching for a partner that could satisfy its need to secure the R&D funding for its new drug development and compete globally through biopharmaceuticals, which are one of Chugai's strengths.

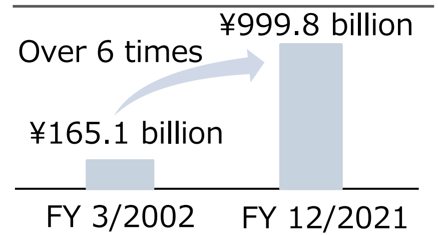
Support from the Buyer

- Roche enabled Chugai to maintain management independence and its listing on the Tokyo Stock Exchange Prime Market.
- Roche supported Chugai to reorganize its businesses, laboratories, and plants to transform the profit structure
- Roche granted Chugai with the exclusive right to market Roche's new drugs in Japan
- Roshe shared its sophisticated business practices and drug discovery research data infrastructure with Chugai

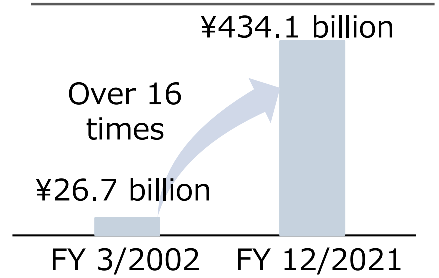
Impacts of M&A

- **The company realized efficient development and global marketing of in-house pharmaceutical products with Roche's infrastructures and sales networks**
  - Roche-led global clinical trials have reduced the burden of development costs
- **The company concentrated management resources on its drug discovery through a solid revenue base that was established based on the exclusive right to market Roche's new drugs. The company made four innovative global new drugs.**
  - In addition to the products from Roche, the company has developed its own new drugs and achieved the top position in the domestic sales share in the field of oncology.
- **Daily interactions with Roche have contributed to highly productive operations and global human resource development.**
  - Flexible and timely collaboration among related departments, agile approach, and other sophisticated business practices and mind-sets have been deep-rooted.
  - The company has strengthened the development of human resources, adopted a system emphasizing personnel exchange with Roche, as well as diversity and merit-based evaluation.

Increased sales



Increased operating income



Deal Overview
Date of announcement: December 2001. Scheme: TOB. Transaction amount: ¥122.1 billion (Investment Ratio: 50.1%)
Target company: Chugai Pharmaceutical Co., Ltd. (Tokyo). Business Portfolio: Medical pharmaceuticals business. Sales (consolidated): ¥999.8 billion (FY12/2021); Number of employees (consolidated): 7,664 (end of FY12/2021)
Investor: F. Hoffmann-La Roche, Ltd. (Switzerland), Business Portfolio: Pharmaceuticals and diagnostics

<Success Factors in the Post-M&A Integration>

Efforts were made to strengthen organizational communications through the joint committees, and thereby the integration between Chugai and Roche has progressed.

(Strategic alliance between Chugai Pharmaceutical and Roche as announced in 2001 (2/2))

By strengthening Chugai's communication with Roche through the joint committees and holding positive discussions to incorporate each other's good points, the organizational integration between Chugai and Roche gradually progressed. After 10 years, a structure has emerged, in which discussions can be held in the course of day-to-day communications.

Immediately after M&A

Left: Osamu Nagayama, President of Chugai Pharmaceutical
*At the time of the M&A
(Right) Franz Humer, Chairman and CEO of Roche
*At the time of the M&A

Establishment of the joint committees and the integration of human resources

- Joint committees with Roche were established for key management functions such as sales, production, R&D, and finance, and opinions were exchanged between the top managements as well as the middle managements.
- The company promoted communications between former Nippon Roche and Chugai employees, aiming to integrate personnel aspects of the two companies.

While the company did not know exactly what to do about alliances with global companies, the integration began from an organizational standpoint.

Rather than favoring one corporate culture over another, the company adopted the idea to take the best of both worlds

After 5 years

Incorporation of Roche's leading know-how

- Internal opinions were raised that Chugai should adopt Roche's product lifecycle management system.
  - Such system was created through various discussions between Chugai and Roche, rather than being imposed by Roche

It became a great asset that employees could develop a global mindset while being still in Japan

After 10 years

The two companies gradually got integrated and the joint committees were consolidated and abolished

- While retaining the top management-level committee, on a practical level, the company shifted to a system in which discussions are held in the course of day-to-day communications.

There were major differences in the business operations, including differences in the drug pricing system, so it took 10 years to understand each other's operations.

Boehringer Ingelheim and Sanofi provide support to strengthen market position and develop overseas markets

Case 8. SSP
(Pattern B / Operating Company)

(Sale of SSP to Boehringer Ingelheim announced in 2010; Boehringer Ingelheim and Sanofi business exchange as announced in 2017 (1/2))

After the sale to Boehringer Ingelheim and subsequently becoming a part of Sanofi, this enabled the early and efficient implementation of new product development and planning, promoting overseas market development and achieving a wide range of synergies.

Before M&A

- **While new business opportunities were expected in the Japanese domestic consumer healthcare (CHC) market in light of deregulation of the pharmaceuticals market, the market environment was harsh due to sluggish personal consumption and intensified price competition in the over-the-counter (OTC) drug market.**

After M&A

- **The information, funds, networks, etc. of Boehringer Ingelheim and Sanofi were utilized to further strengthen SSP's market position.**
- **The company achieved continuous growth after becoming a subsidiary of Sanofi, (a French company) in 2017.**

Details

Triggering Event for M&A

(Sale to Boehringer Ingelheim)

- **The needs of the buyer and the seller aligned, with the former wanting to strengthen their position in Japan and the latter wanting to plan and develop new products quickly and efficiently**
  - Boehringer Ingelheim sensed the appeal of SSP which had strengths in the Japanese OTC market.
  - SSP aimed to strengthen its competitiveness by utilizing the information, funds, networks, etc., of the buyer.

(Business exchange between Boehringer Ingelheim and Sanofi)

- As a result of a strategic business exchange between Boehringer Ingelheim and Sanofi in 2017, SSP became a wholly owned subsidiary of Sanofi.

Support from Buyer

- Invested in the construction of a new factory and efficient equipment to reduce the burden on employees.
- Granted switch OTC rights to SSP to strengthen market development by utilizing their top-class industry network.
- Aiming to reform the mindset of employees, strengthened HR and corporate governance systems from a global perspective.

Impacts of M&A

- **New capital investment with safety and quality in mind**
  - Aggressive capital investment with foreign capital (Sanofi invested about 4.5 billion yen in Japan over four years)
    They spared no investment in what they considered valuable, while being considerate of safety standards, drug quality, sustainability, etc.

(Building for new formulations completed at the Narita Factory in 2022)

- **Sharing global best practices and improving operations**
  - Sanofi's knowledge, network, and global best practices can be referenced on the internal information platform, leading to concrete operational and productivity improvements.
- **Strengthened ESG and diversity management**
  - The corporate culture has become an open one in which multinational employees can work comfortably in the factories.
  - **The company d**eepened efforts to reduce environmental impact, such as utilizing renewable energy
- **Raised employees' awareness of corporate governance and motivation**
  - Employee education on quality, costs, compliance, harassment, etc. was strengthened in line with global standards, leading to improved the awareness of corporate governance among employees. In terms of sustainability as well, the mindset of European companies can now be felt, leading to a change in the awareness.
  - Remuneration has increased, and the evaluation system was linked to employees' performance, resulting in their enhanced motivation.

Deal Overview
Announced: February 2010 Scheme: TOB Transaction amount: 82.2 billion yen (investment ratio: 100%)
Target company: SSP Co., Ltd. (Tokyo) Business description: Pharmaceutical products business Sales: 41.4 billion yen (2009) Number of employees: Undisclosed
Investor: Boehringer Ingelheim Group (Germany) Business description: Pharmaceutical products business

<Success factors in post-M&A integration> "Respect, Empathy, Passion, Challenge“- Respecting and integrating each other's corporate culture

Case 8. SSP
(Pattern B / Operating Company)

(Sale of SSP to Boehringer Ingelheim announced in 2010; Boehringer Ingelheim and Sanofi business exchange as announced in 2017 (2/2))

Although SSP was struggling with the process of transforming into a global company, they achieved business growth by fusing the corporate cultures and improved employee motivation by reforming the HR and corporate governance systems.

-- Challenges --

Cultural fit with a global company

- **Difficulties with a loss of employees due to transforming into a global company**
  - “**Losing employees was a big damage when we switched to a foreign corporation.** Some of our employees were xenophobic, and some were unable to cope with the change of shifting from a Japanese to a foreign corporation. When we received the capital from Boehringer, we lost about 30% of our employees who submitted their resignations; these included cases such as employees who had the mindset and skills of a craftsman, but who resigned voluntarily due to having to use English and changes in the culture. "

- **Key points for overcoming difficulties "Respect, Empathy, Passion & Challenge"**
  - “After some employees left, I think we were able to foster a new culture together with new colleagues as a global company. We also provided training on safety, quality, costs, compliance, and harassment at a global standard. Currently, employees from France, China, South Korea, and Malaysia are also working at our factories, and **the open atmosphere is becoming more comfortable for diverse personnel to work in.** "
  - "Respect, Empathy, Passion & Challenge" are important. Boehringer Ingelheim and Sanofi **had a respect for Japan and listened to our opinions. That enabled us to listen to them in turn. They have also captured the chance as a business chances. Also, I think that taking on challenges with enthusiasm together has led** to our growth so far. "

【SSP】

-- Impacts on employees --

Improves the motivation of in-house personnel

- **Implemented major changes in the HR system, compensation and evaluation systems, and corporate governance system, raising employee awareness and motivation**
  - The company implemented performance bonuses. Compensations are now paid on the basis of the company's performance as well as employees’ individual contributions. Supervisors and workers spend more time in one-on-one dialogues, so that both sides can reach agreement.
  - Salaries have also increased. SSP had a low average compensation, but Boehringer Ingelheim changed salaries after observing the market environment in Japan. **Additionally, the system of raising salaries in line with the added value that personnel provide, such as English and global standards, which are evaluated based on ability and performance, is attractive.** Since vacant in-house positions were made transparent so that employees can apply for them, globally minded employees can draw their own development plans, such as working in Vietnam in the future.
  - The overall age of managers has also decreased. The number of people who are promoted in their 30s and 40s has increased.

Case 9: Chip One Stop
(Pattern B: Operating company)

Leveraged a wealth of management resources of a foreign company to achieve even faster growth than before

(Sale of Chip One Stop Inc. to Arrow Electronics, Inc. , as announced in 2011 (1/2))

Expansion of overseas sales channels

Chip One Stop, which conducts online sales of electronic components and semiconductors, became a wholly-owned subsidiary of the industry leading Arrow Electronics in August 2011, to strengthen overseas expansion. The company strengthened overseas expansion, enhanced its product lineup and achieved steady business expansion

Before M&A

- **Chip One Stop became conscious about expanding its business to overseas in 2007, when the global and domestic economies weakened.**

After M&A

- **Chip One Stop leveraged relationship with the parent to strengthen relationships with suppliers**
- **By offering a wide-ranging product lineup, and being supported by the steady growth of the global semiconductor industry, sales increased approximately 10 times over the last 10 years.**

Details

Triggering Event for M&A

- Chip One Stop's management started to be conscious about the need to expand its business to overseas in 2007 when the global and domestic economies weakened, while it started considering to plan with a view to developing overseas business.
- Contemplating that Chip One Stop would expand its business to overseas, it considered partnering with a major foreign company **to expand the overseas business at scale. It started negotiating with Arrow Electronics in 2010; Chip One Stop already had previous business transactions and dealings with Arrow Electronics**

Support from buyer

- Procuring electronic components and semiconductors
- Adding the products from the lineup of the Arrow Electronics Group
- Strengthening the management system (human resources and systems) in relation to rapid business expansion/sales increase

Impact of M&A

- **Boosted by the steady growth of the global semiconductor industry, sales increased approximately 10 times over the last ten years**
  - Along with the enhancement of procurement capability and product lineup, marketing and operation are continuously improving
  - Chip One Stop continues communicating with the parent company even after the M&A transaction as to, for example, how best they can conduct its business while complementing each other's business
  - In addition to the effects of these efforts, sales were also boosted by favorable business conditions in the semiconductor industry and increased about 10 times
  - The parent company utilized Chip One Stop to launch the Internet sales, for which the parent company had previously had no know-hows, and created a business worth over 100 billion yen concentrated mainly in the U.S.
- **Sales in China and other countries were also strengthened, and the overseas sales ratio increased from almost 0% to 35% over the last decade**
  - While Chip One Stop could not afford to consider overseas expansion before the M&A transaction, Chip One Stop made the use of Arrow Electronics' know-how of overseas expansion and reinforced its entry into the Asia region by launching corporate entities in Hong Kong in 2012 and, in China in 2015
- **Progress of HR development of leaders in connection with business expansion**
  - Emphasis was placed on HR development of proactive, not passive, employees who have the will to move the company forward by themselves, such as by increasing the number of products and inventory or strengthening the overseas business expansion. As a result, Chip One Stop was able to develop personnel of some leaders who can respond to global business expansion
- **Efficient operation of newly graduated recruitment**
  - There was no need for layoffs and restructuring. Rather, the position as a foreign-affiliated company has made it easier to attract both newly graduated and mid-career hires

Project overview
Announced: August 2011 Scheme: TOB Transaction amount: Approx. 7.0 billion yen (100% shareholding)
target company: Chip One Stop, Inc. (Kanagawa) (Tokyo), Business description: online sales business of semiconductors and electronic components in domestic and outside Japanese markets Sales: 30.0 billion yen (as for the 2022 projection), No. of employees: 220
Investor: Arrow Electronics Inc. (U.S.), Business description: Sales of semiconductors and electronic components in domestic and outside the U.S markets.

<Key Points at the time of the consolidation>
Strategies were consolidated through close communication with the parent company, and the entry into overseas markets also accelerated rapidly

(Sale of Chip One Stop to Arrow Electronics, as announced in 2011 (2/2))

Because the M&A was for the purpose of business expansion, more emphasis was placed on the chemistry between the two companies and the business synergies rather than financial considerations. Chip One Stop grew steadily after the M&A, with its sales (projected to) increase 10 times over the last decade

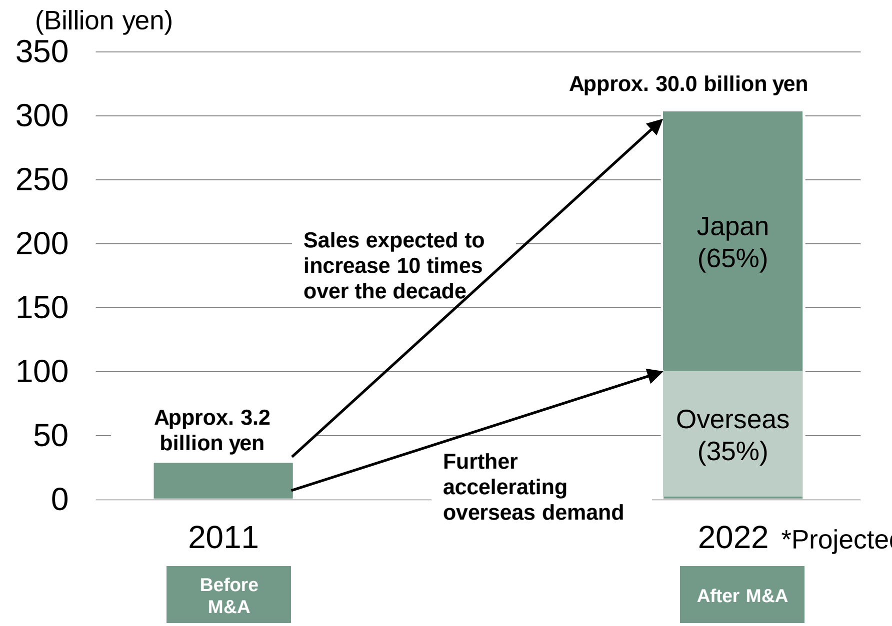
—Key factors for the success—

It is important to partner with a company that shares and aims at the same direction

- Although M&A transactions could involve aspects including EBITDA and other financial ratios for calculating the valuation of the targe companies, eventually, **factors such as the management's judgment and the chemistry of the companies are important**
- For example, it is good if the business strategies of the two companies are consistent with each other. Although differences in the business purposes and actions may produce synergetic effects, we felt the rapid operations by **sharing the same directions expedited after the merger through a smooth consolidation of strategies.**
- In our case, Arrow Electronics and Chip One Stop handled similar products and shared the direction to expand into new regions. We could provide Arrow Electronics with digital capabilities (the internet sales) that they lacked, while our management continuously communicated the views relating to the corporate organization and gained the understanding from the parent company. These are the reasons which made our M&A a success

【Chip One Stop】

Overseas sales ratio increased, and sales surged



Triggered by civil rehabilitation, the company achieved rapid corporate revitalization by recreating overall strategy

Case 10. Polymatech (Pattern B / PE Fund)

(CITIC Capital (now Trustar Capital) revitalized Polymatech (now Sekisui Polymatech), that was subject to civil rehabilitation, as announced in 2012 (1/2))

Due to the deterioration of the business environment, CITIC Capital was selected for the restructuring role after Polymatech became subject to civil rehabilitation due to the insolvency of the company. Corporate revitalization was achieved through reforms such as establishing a business strategy based on the company's characteristics and strengths, and strengthening the management base.

Before M&A

- **Due to a combination of events, both sales and profits declined, leading to a capital shortage, and the company decided to proceed with civil rehabilitation in July 2012.**
- **The core business was strong, but reckless diversification and overinvestment were carried out at the sole discretion of ownership and due to lack of corporate governance.**

After M&A

- **The company formulated a new overall strategy and rapidly revitalized the company including establishing a business strategy based on their strengths, developing competitive products, and strengthening overseas expansion.**
- **After the company was revitalized, CITIC Capital sold the company to Sekisui Chemical.**

Details

Triggering Event for M&A

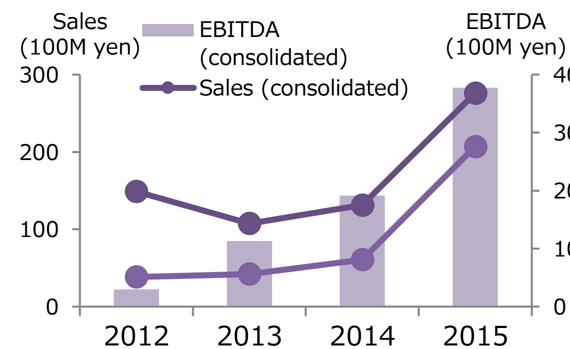
- Excessive investment in the manufacture of parts for a certain mobile phone company client and the disappearance of demand for such parts due to the advent of smartphones shook the backbone of the company and business deteriorated. In addition, the damage to the Fukushima Plant in the Great East Japan Earthquake and the damage to the Thailand Plant due to flooding in Bangkok occurred simultaneously, **resulting in a downward trend in both sales and profit.**
- **As a result, the company became insolvent and was forced to undergo civil rehabilitation in July 2012. After consulting with the lawyers who were receivers and consultants, the company decided to look for a PE fund and finally selected** CITIC Capital.

Support from Buyer

- **Review of business strategy for revitalization and launch of the new Polymatech**
  - The buyer clarified which businesses to strengthen and which businesses to withdraw from in accordance with customer needs, and formulated a business strategy. The buyer implemented management reforms such as transitioning the business portfolio, strengthening business management functions, and strengthening overseas expansion.
- **Dispatch personnel**
  - CITIC dispatched personnel and changed the business promotion system.
- **Improved cost competitiveness by closing plants in Japan and transferring all production to China**

Impacts of M&A

- **Achieving rapid corporate revitalization**
  - Through various management reform measures, despite being a civil rehabilitation case, sales and profitability increased rapidly, resulting in rapid corporate revitalization.
  - In 2017, CITIC Capital sold the company to Sekisui Chemical.



- **Increase/decrease in employees**
  - **350 jobs were cut due to the civil rehabilitation.** However, with the support of CITIC Capital, **when the company was sold to Sekisui Chemical, the number of employees involved in manufacturing recovered from the initial 150 to 250 in Japan, and from 2,000 to 3,000 overseas.**
- **Acquisition of globally-minded personnel**
  - Overseas transfers have become the standard within our company, and it has become easier to attract globally-minded personnel.　We are getting used to working overseas, and our culture is becoming more like that of a foreign company

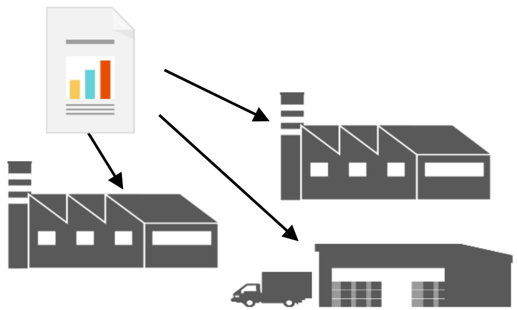
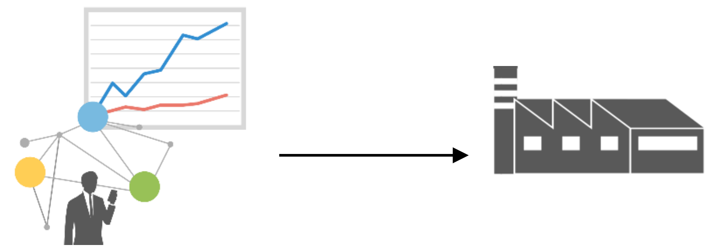
Deal Overview
Announced: November 2012 Scheme: Civil rehabilitation Transaction amount: N/A (investment ratio: 100%)
Target company: Polymatech Co., Ltd. (now Sekisui Polymatech Co., Ltd) (Saitama Prefecture) Business description: Development and provision of materials for electronic parts Sales: 8 billion yen (est. 2017) Number of employees: N/A
Investor: CITIC Capital Partners Limited Business description:Investment and management support

<Key points for business expansion post-M&A>
Fundamentally rethinking corporate culture to achieve business expansion

Case 10. Polymatech
(Pattern B / PE Fund)

(CITIC Capital (now Trustar Capital) revitalized Polymatech (now Sekisui Polymatech), that was subject to civil rehabilitation, as announced in 2012 (2/2))

Before the M&A, management was focused on latching onto anything that seemed profitable, and the motto of "continuing to make things because they will sell." Under such spur-of-the-moment management, resources were dispersed, core technologies could not be developed, and a competitive advantage could not be built, so management would falter whenever there was some change in the external environment. Now the corporate culture has improved, and an awareness of valuing the use of the company's proprietary technology has led to business growth.

Before M&A	After M&A
	
Immediately getting involved in various businesses whenever there is a trend, with the hopes of profitability	**Selective and concentrated investment based on the consideration of whether it can become a core technology and whether it can contribute to building a continued competitive advantage from a long-term perspective**
Temporary, inconsistent, resources were dispersed, strengths not accumulated, only investments piled up, and business deteriorated in the long-term	**Now focuses on creating strategic strengths and building sustainable competitiveness, rather than simply on-the-spot needs**

Rapid launch based on the incorporation of external knowledge and a revitalization plan

(Baring Private Equity Asia (now BPEA EQT) invested in and delisted Pioneer, as announced in 2018 (1/2))

Despite changes in the external environment, management continued to apply the same methods and the business deteriorated. By incorporating external knowledge from a foreign PE fund, the company improved its business quality and accelerated business development, achieving a rapid corporate revitalization.

Before M&A

- **Pioneer had some of the best talent in the industry, and based on its industry number one track record of being able to sell whatever it made, it was continuing to make better hardware with its in-house personnel.**
- **Investment increased rapidly due to its sales-oriented policy. This resulted in a shortage of working capital.**

After M&A

- **Incorporating external knowledge and changing the business model from simply selling goods to incorporating selling experiences as well.**
- **The company improved its corporate situation by focusing not only on sales but also on efforts to increase corporate value.**

Details

Triggering Event for M&A

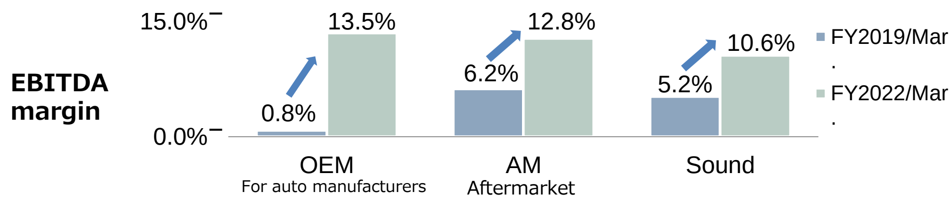
- In the early 2000s, Pioneer entered the plasma TV market and took out large loans in a competitive environment. Afterward, with the 2008 financial crisis, the company's cash flow was tight. It divested various businesses under a policy of selection and concentration. **While Pioneer had planned a recovery in car electronics, it needed a large upfront investment due to the sophisticated development requirements.**
- Although it had acquired a large-scale business, its investment burden was large and it ran out of working capital, resulting in discussions with various financial institutions. **Among these institutions, Pioneer decided to borrow from Baring, which had presented the most feasible plan and built a relationship of trust, and received investment.**

Support from Buyer

- **Baring's implementation of the "Pioneer Revitalization Plan"**
  - Delisting: Implemented to speed up major reforms
  - Introduction of talent: Promote business development utilizing external knowledge from other countries
  - Cost reduction: Restructuring, reorganization of expenses and CAPEX
  - Setting KPIs: Setting quantitative indicators such as future profit margins, etc.

Impacts of M&A

- **Promoting new business development through utilizing external networks**
  - Pioneer was a company with the power to tackle this issue internally. Since the 1980s, it had been the sole leader in the industry, repeatedly capturing the top market share with any product it released.
  - **After the M&A, it began incorporating insights from outside Japan and began considering its business model. It was unable to get away from the concept of selling goods, but it was able to promote the selling of experiences.**
- **Instilling an awareness of increasing corporate value**
  - The company transitioned from a management that looked at sales as the only indicator, to one **that was also conscious of EBITDA and other indicators to improve corporate value.** As a result, **it became a company that was able to discuss improvements in its financial position and focus on investment in core businesses, and its EBITDA has also improved.**



- **Motivating employees even in the challenging times**
  - Thanks to the strong desire to revive Pioneer and return it to its position as "pioneer" of the industry, and the speedy collaboration with Baring, **the revitalization plan proceeded smoothly and produced results in one year**.
  This led to a sense of security for employees and an opportunity to enhance motivation again.

Deal Overview
Announced: December 2018 Scheme: Capital increase through third-party allocation (DES*1 + cash) + squeeze-out via reverse stock split*2 Transaction amount: 102 billion yen (investment ratio: 100%)
Target company: Pioneer Corporation (Tokyo) Business description: Car electronics business Sales: approx. 360 billion yen (2018, consolidated) Number of employees: 9,947 (as of end-Dec. 2022, consolidated)
Investor: BPEA EQT Business description: Private equity fund *1: DES: Debt Equity Swap. Refers to swapping debt for shares. *2: Squeeze-out: The forced sale of stock owned by minority shareholders. In this case, we explained that when the third-party allocation is approved by the shareholders, a squeeze-out will also be executed.

<Key points for business revitalization>

Business was revitalized by transforming people, management policies, and the corporate culture

Case 11: Pioneer (Pattern B / PE Fund)

(Baring Private Equity Asia (now BPEA EQT) invested and delisted Pioneer, as announced in 2018 (2/2))

Although the difficult business environment continued after the M&A, people, management policies, and the corporate culture have been transformed in a complex manner under the support of Baring, contributing to the business revitalization.

Factors that were key for the transformation

People

Before M&A
- As business deteriorated, employees were driven to worry and their motivation declined.

After M&A
- **The management team was renewed, and in the new environment where, e.g. even those in their 40s are selected as GMs, all employees were ready for a new start.**

Management policy

Before M&A
- Sporadically developing new products with a light view of profits under management that looked at sales as the only indicator.

After M&A
- **Figures related to corporate value, such as EBITA, were adopted as KPIs. This contributed to improved financial standing and focused investment in core businesses.**

Corporate culture

Before M&A
- Craftsman mindset of relying on own resources to make new things to release to the world before other companies

After M&A
- **Development of products that will sell having confirmed external best practices and customer needs in detail**

Business revitalization

The company was reformed in a complex manner, and the management was made sound

Pattern C: Explanations / Characteristics (Sale of an Owner-owned Company / Acceptance of Capital (e.g. business succession))

<List of Case Studies>

Pattern C: Explanations / Characteristics (Sale of a Owner-owned Company / Acceptance of Capital (e.g. business succession))

Definition / Characteristics

- **A pattern in which an owner-operated company sells its shares (a majority of shares) when it considers business succession due to the absence of a successor, or the development of its business through introducing the capital of another company rather than on its own.**
- Under this pattern there are many M&As for the purpose of business succession and growth strategy. In addition, after the execution of an M&A, this pattern is characterized by a shift from an owner-centered management structure to a structure conducting management as a new organization through personnel support and investment from the buyer.

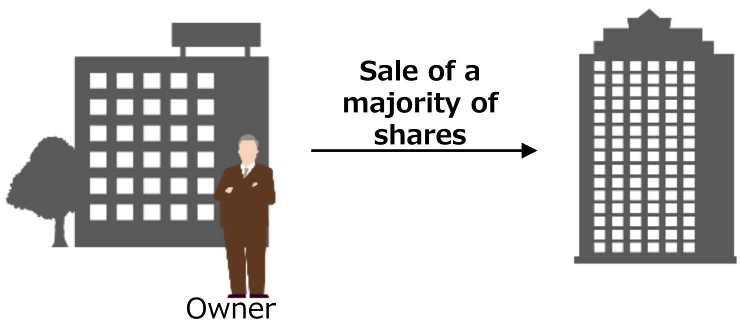
Scheme visualization

(Seller (target company))

Company with owner(s) / founding family as majority shareholders

(Buyer)

Foreign operating company / foreign PE fund, etc.



Specific examples

- **The Oyatsu Company & Carlyle**
  - Sale of The Oyatsu Company (Seller) , an owner-operated company, to Carlyle (Buyer / PE fund)
- **Taiyo Yakuhin Kogyo & Teva Pharmaceutical Industries**
  - Sale of Taiyo Yakuhin Kogyo (Seller) , an owner-operated company, to Teva Pharmaceutical Industries (Buyer / Operating Company)

Outlook

- **Increasing number of business succession cases and divestures of owner-operated companies**
  - In FY2021, the number of people who went to consultations at business succession and handover centers nationwide (public consultation windows established by the government of Japan) was 20,841. The number of M&A contracts was 1,514. Each of these figures was a record high (according to the data released by the Organization for Small and Medium Enterprises and Regional Innovation).

The company restored market trust by shifting management and business model in line with global standards

Case 12: Taiyo Yakuhin Kogyo (Pattern C / Operating Company)

(Sale of Taiyo Yakuhin Kogyo (now Teva Takeda Pharma) to Teva Pharmaceutical Industries, as announced in 2011 (1/2))

Although the company had lost the trust of the market due to violations of the Pharmaceutical Affairs Law, through the sale to the Teva Group, it introduced a global standard management method and a new business model. Having become able to manufacture high-quality products, its market trust was recovered.

Before M&A

- **Violation of the Pharmaceutical Affairs Law lowered the company's reputation**
- **Thereafter, the company's negative reputation could not be removed, and they were losing customers**

After M&A

- **Through selection and concentration of businesses and changes to the business model such as the promotion of fabless business and conducting product development and management at the global standard, the company gradually regained trust.**
- **For businesses that gradually improved, the establishment of a joint venture with Takeda Pharmaceutical led to further regaining of trust.**

Details

Triggering Event for M&A

- In March 2010, the Takayama Factory, the company's flagship factory, was suspended for manufacturing and selling the non-approved product "Gasport D" (a violation of the Pharmaceutical Affairs Law).
- Thereafter, **the company could not remove its negative reputation, and as the management including the president of Taiyo Yakuhin Kogyo at the time was worried about future business development, the Teva Group, with which Taiyo often communicated, proposed the acquisition.**

Support from Buyer

- **Investment in pharmaceuticals factories**
  - Manufacturing and quality control departments were vertically integrated to a global level
- **Dispatch of management personnel**
  - Personnel for key positions were dispatched from Teva Pharmaceutical Industries and other group companies.
- **Selection and concentration of businesses (after establishment of the joint venture with Takeda Pharmaceutical)**
  - Aiming to become fabless and shifting to a business model with low fixed costs

Impacts of M&A

- **Transitioning to a profitable business model**
  - As a result of starting to consider a model of profitability based on changes in the business environment, Taiyo decided to stop aiming for a wide range of products and a high market share, and shifted to a policy of "competing with generics that can be differentiated by their characteristics, even if the number of products is small."
  - Aiming to become fabless, they sold the contracts for their Takayama Factory, its employees, and contract manufacturing products at the factory.
- **Restored trust in quality through product development and management at a global standard of quality**
  - Product standards have become stricter as Teva Pharma required that the company's products meet global standards. Since up until then, the products had been mass produced and sold in large quantities. This resulted in some difficulties as there was a temporary increase in recalls when products did not meet the standards. However, later, as the quality improved, customer trust was also restored.
- **Executing an M&A to further restore the brand and increase competitiveness**
  - In order to restore its presence and brand in Japan, the Teva Group established a joint venture with Takeda Pharmaceutical (now Teva Takeda Pharma Ltd. and Teva Takeda Yakuhin Ltd.)
  - With the name Takeda included in the company name, trust for the company was significantly restored.

Deal Overview
Announced: May 2011 Scheme: Share transfer & other Transaction amount: Approximately 74 billion yen (investment ratio: 100%)
Target company: Taiyo Yakuhin Kogyo (now Teva Takeda Pharma) (Aichi Prefecture) Business description: Manufacture and sale of pharmaceuticals, and R&D Sales: 51.4 billion yen (end-Mar. 2011) Number of employees: 1,672 (as of Apr. 2011)
Investor: Teva Pharmaceutical Industries Ltd (Israel) Business description: Manufacture and sale of pharmaceuticals

<Key points for the company's business performance recovery>
The company restored business performance by improving the quality a small selection of products, rather than focusing on a wide variety

Case 12: Taiyo Yakuhin Kogyo
(Pattern C / Operating Company)

(Sale of Taiyo Yakuhin Kogyo (now Teva Takeda Pharma) to Teva Pharmaceutical Industries, as announced in 2011 (2/2))

Taiyo had adopted a strategy of manufacturing a large number of products to meet industry trends and capturing a large market share, but they lost trust because they were unable to guarantee the quality. After the M&A, they tried to improve the quality standards by introducing Teva's standards, but as a result there were frequent recalls and supply concerns, primarily for old products with poor formulation designs. After trying to restore trust through their own efforts, a joint venture was established with Takeda Pharmaceutical and the company's supply was stabilized by revising the number of products; this accelerated the recovery of trust in the company and led to the stabilization of the current management.

Before M&A

Drug A

Drug B

Drug C

Drug D

Drug E

Drug F

- Increased sales by aiming to create many products and capture large market shares, developing one product after another
- Among the products that the company had manufactured over the long term, there were many products with poor formulation designs, and some of these products were non-approved, resulting in a series of recalls and supply concerns.
- As the number of products increased, manufacturing planning became complicated and capital investment rose since various products were manufactured at the company's own factory.

Quality could not be guaranteed due to insufficient product management structure, resulting in loss of trust

After M&A

Drug A

Drug B

Drug C

- Strict adherence to each of the quality standards, thus guaranteeing the quality
- By revising the number of products, the company improved the production efficiency of the factory and improved formulation designs.
- By going fabless and mass-producing items with high market demand (e.g. Takeda's authorized generic drugs), the company expanded sales with smaller risks (after the establishment of the joint venture)

Became able to execute highly reliable deployment in accordance with the market demand

Case 13: The Oyatsu Company
(Pattern C / PE Fund)

The company reformed its organizational structure and expanded overseas business based on Carlyle's human resource support, among others

(Sale of Oyatsu Company to Carlyle as announced in 2014 (1/2))

The Oyatsu Company sold its majority shareholding to Carlyle, a foreign private equity fund, and began a strategic business and capital alliance with Carlyle. The company promoted reforms on the organizational structure and the expansion of its business for overseas markets.

Before M&A

- **The founding family of the company sought a business succession, aimed at further growth of the company.**
- **Although the company's products were highly recognized, the company struggled to expand its business into overseas markets.**

After M&A

- **External specialists were invited to join the marketing department and other departments that were previously weak at the company, thereby the organizational capability was strengthened, and the management style shifted to team-oriented management.**
- **Overseas businesses grew more than three times as compared between before and after M&A.**

Details

Triggering Event for M&A

- **The company sought a business succession for its further growth, exploring to capture overseas markets with large demands.**
  - In 2014, the former President Matsuda, the second generation of the founding family, decided to conduct a business succession by selling the company to an external party. His M&A advisory firm contacted Carlyle's representative directly as a potential buyer.
  - At the time, The Oyatsu Company had long been pursuing overseas expansions, mainly in Taiwan, Hong Kong and South Korea, but the company had issues with growth potentials. They formed a partnership with Carlyle, a foreign investor, and had expected Carlyle's support capabilities

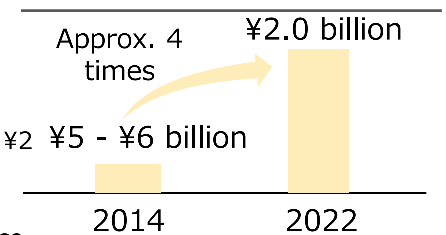
Support from the Buyer

- Reform of the management structure (marketing, overseas business, business administration, human resources, etc.), invitation of external human resources (i.e. a former CEO of a global company) to the company
- Carlyle provided full support for the establishment of the first overseas factory in Taiwan, ranging from the site selection to the land contract negotiations.
- Reform of the HR evaluation and compensation systems

M&A Effects

- **Transition from top-down management by the founding family to team-oriented management**
  - Prior to the M&A, the company's organizational structure was heavily dependent on the skills of the founding family president, and internally the marketing and business administration departments were virtually non-functional. After the M&A, the company strengthened its organizational capabilities by inviting specialists from outside into the company for the marketing department and other departments that were previously weak, while retaining the same personnel in key departments such as development, manufacturing, and sales.
- **Increased sales**
  - Net sales increased from ¥18.2 billion yen in FY July/2013 to ¥22.7 billion in FY July/2022.
- **Expansion of overseas business**
  - Overseas business, mainly in Asia, grew from ¥500 to ¥600 million in sales when Carlyle started investing, and achieved around ¥2 billion in 2022, thereby more than threefold.
- **Exit announced in December 2022**
  - After the steady growth in business performance, Carlyle announced the sale of the company to D Capital in December 2022.

Increase in overseas business



Deal Overview
Date of Announcement: May 2014. Scheme: Acquisition of a majority shareholding and Forming of a strategic business and capital alliance. Transaction Amount: Undisclosed (Investment Ratio: Approx. 70%) Target Company: The Oyatsu Company, Ltd. (Mie Prefecture); Business Portfolio: Confectionery and food manufacturing and sales. Sales: ¥22.67 billion (July 2022) Employees: 424
Investor: The Carlyle Group LP Business (Carlyle Group): A U.S.-based private equity fund that is one of the world's leading investment companies. 29 offices worldwide, Japan office established in 2000.

<Points relating to the Organizational Development and Overseas Expansion>
The company created an organization in which the existing employees can play an active role, and expanded its business targeting overseas with the support of a private equity fund

(Sale of The Oyatsu Company to Carlyle as announced in 2014 (2/2))

The company integrated its talented, loyal existing employees and specialized external personnel as a unified team to achieve its growth. Sales were expanded by fully utilizing the support of the foreign capital fund in the overseas business, which was the company's concern over many years.

- Organization Building -

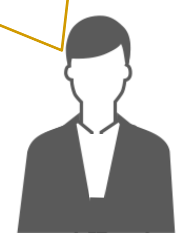
The company maintained and developed an organization where the existing employees can continue to work with loyalty

- The Oyatsu Company had **a large number of extremely hard-working and capable exisiting employees.** The company also had a culture of taking on new challenges. Twice a year, members of all sections make presentations on improvements they have made or new challenges they have undertaken, and there was a mindset of always striving for improvement.
- After the M&A, the company focused on creating a welcoming working environment for these existing employees. Originally, these talented employees worked under the owner with loyalty, but **it was important to create an environment where these people wanted to continue working with even more loyalty.**
- **Sensitive management was required because of the risk of losing loyalty**. The company had a high level of loyalty among the employees and the company worked on communication with its employees and the internal reforms to maintain that loyalty and to encourage the employees to continue working with even stronger loyalty.

- Overseas Expansion -

The PE fund supported the company's overseas growth potential for the products based on its specialized human resources, know-how, and networks.

- "Prior to the M&A, we conducted foreign awareness surveys and held tastings of our main brand product- Baby-Star in Taiwan and Hong Kong, and we found that it was very well received. However, we had not secured sufficient marketing and sales channels, but we had felt tremendous potentials in the overseas markets."
- "In order to increase the company's overseas sales, Carlyle established a factory to begin local production in addition to exports. Carlyle **envisioned this strategy in detail even before the M&A."**
- "In order to strengthen our overseas business, **we invited the current President Teshima, who has been familiar with the business in Asia.** In addition, **we set up specialized departments and established local subsidiaries** in Taiwan and Hong Kong as well as we built localized organizations."



(The Oyatsu Company)

The company improved brand power through management reforms and accelerated growth through overseas expansion

(Sale of TASAKI to MBK Partners, as announced in 2017 (1/2))

Case 14: TASAKI (Pattern C / PE Fund)

TASAKI, a jewelry retailer specializing in pearls, received two investments from MBK Partners, a PE fund, and achieved improved brand power and sales through management reforms. Furthermore, they deepened their expansion of business outside Japan to accelerate its growth

Before M&A

- **(1st) Recorded a loss while carrying excess inventory and 35 billion yen in interest-bearing debt**
- **(2nd) Urgent need for overseas expansion and brand establishment initiatives**

After M&A

- **Management reforms improved the company's brand power and improved the gross margin ratio due to increased sales and unit price**
- **Active brand deployment both in and outside Japan**

Details

Triggering Event for M&A (received 2nd investment)

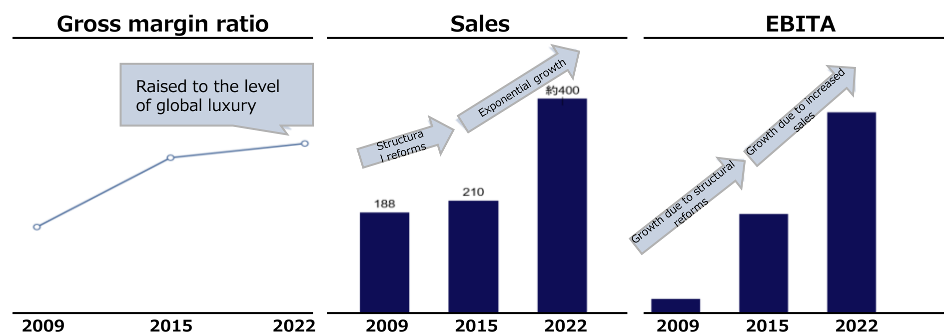
- **(In 2008) Inventories, interest-bearing debt, and negotiations with financial institutions**
  - The company recorded a loss while carrying excess inventory equivalent to 1.8 times the annual cost of sales and interest-bearing debt of 35 billion yen. After repeated negotiations with financial institutions, it has become obvious that the company's future was uncertain.
- **(2017) Establishing a brand image to improve the corporate value**
  - In order to improve the corporate value, there was an urgent need to establish an image as a global luxury jewelry brand both in and outside Japan. The company was looking for a supporter for medium- to long-term support for overseas investments, such as opening stores in Europe and the United States, which could hurt cash flow and earnings in the short-term.

Support from Buyer

- **Redefining the brand and shifting channels by, e.g., securing personnel**
  - TASAKI adopted advanced designs by inviting world-class designers. For pearls, which were mainly handled as a classic type of jewelry, the buyer proposed a new category of "modern pearls that complement fashion."
  - Renovation of the Ginza store, conversion of main sales channels (from directly managed to department stores) and discontinuation of discount sales
- **Promoting expansion outside Japan**
  - Provided appropriate advice and assessment of investments needed during the start-up period, such as overseas expansion which requires lump investment.

Impacts of M&A

- **Smooth launch due to going private**
  - The PE fund receiving the company's shares private enabled management decisions to be made swiftly, and measures were implemented smoothly.
- **Global branding of TASAKI**
  - Utilizing MBK Partners' network in East Asian countries (China, Taiwan, and South Korea), TASAKI actively promoted expansion outside Japan and achieved high sales growth in each of these countries
  - Started fundamental structural reforms (inventory disposal, discontinuation of discount systems, consolidation and closure of aquaculture farms, etc.) in accordance with a significant decline in sales and profits in order to reform the brand. As a result of these reforms, TASAKI enhanced its brand power and improved the gross margin ratio with increased sales and improved unit prices.



Deal Overview
Announced in March 2017; Scheme: TOB; Transaction amount: Approximately 31.8 billion yen (investment ratio: 100%)
Target company: TASAKI & Co., Ltd. (Hyogo Prefecture); Business description: Jewelry manufacturing and retail business with headquarters in Chuo-ku, Kobe, Hyogo Prefecture; Sales: Undisclosed; Number of employees: Undisclosed
Investor: MBK Partners; Business description: Private equity

<Relationship of trust and difficulties> Building a relationship of trust with a PE fund and struggling with brand reform

(Sale of TASAKI to MBK Partners, as announced in 2017 (2/2))

Case 14: TASAKI
(Pattern C / PE Fund)

A relationship of trust was built with MBK Partners, which provided the second investment, through fairly sharing of the downside risks and providing careful explanations
In striving for the brand reform, there were difficulties with the impact of appointing external professionals and with employees and other concerned parties.

-- Key Factors for Success --

Rejoining with a PE fund in a relationship of trust

- **2008: First investment from MBK Partners**
  - “We were very grateful when they saved us the first time. I think TASAKI must have worried MBK about having any prospects for recovery. However, I’m grateful that they did not sell their shares at a discount price even if the prices went up. "
  - “MBK understood that it took time and that the brand would not get stronger unless we had a brand that everyone knew. “

- **2017: Second investment from MBK Partners**
  - "We received proposals from other PE funds, but MBK, which had a deep understanding and knowledge of the brand business in this industry, and through their other investment experience, presented a concrete future plan, so we decided to accept their capital. “

- **Building a relationship of trust with MBK Partners**
  - "In order to build trust with MBK, we shared negative aspects of our business without hiding them. PE funds are professionals at numbers. Even if we wanted to hide something they would know, so we explained that we can’t do what we can’t do, and things that take time will take time. They of course made various recommendations, but they understood the attitude of our management and addressed us politely. "

【TASAKI】

-- Difficulties --

Appointment of external professionals for brand reform & voices of concerned parties

Utilization of external professionals and changes employees’ awareness

- Key persons for the brand reform were appointed from outside
- When a creative director was hired and I saw their picture of “Balance," a new design, I wondered if it would sell. It was a design like nothing I’d seen before, so much so that I did not know how it would be sold.
- Employees learned from external professionals, and the corporate atmosphere changed.

Discontinuation of discounts and creation of incentives for sales staff

- In the past, the seller sometimes discounted by selling products as a bundle, but this was not in line with improving brand image. TASAKI also created a system in which incentives are returned to sales staff for the amount sold without a discount.

Craftspeople’s thoughts on pearls

- I had a hard time because the idea that “pearls are best made into necklaces" was instilled in me. Now, we cut holes in pearls and inset diamonds, but there was one craftsperson who quit because they did not like that. They said they did not want to damage the pearls. This was a difficult part of promoting the brand reform.

Launched new stores in domestic and overseas markets, promoted DX of store operations and strengthening of the back office function based on proactive support from the PE fund

(Partial sale by OWNDAYS Inc.'s management to a consortium of L Catterton and Mitsui & Co., Principal Investments LTD., as announced in 2018 (1/2))

OWNDAYS received a joint investment between the private equity fund to which L Catterton, a strategic partner of LVMH, advises, and Mitsui & Co. Principal Investments("MCPI"), a principal investment subsidiary of Mitsui & Co., and thereby accelerated its growth by launching new stores in domestic and overseas market, promoting DX of store operations, and strengthening the back office function

Before M&A

- **While OWNDAYS kept growing, there were issues on further acceleration of global development, quality and quantity of potential store locations, store productivity, product logistics and group management such as finance and governance**

After M&A

- **Launching new stores was accelerated and improved qualitatively. Thriving on more refined operations, sales increased 1.7 times over the period of four years and overseas sales ratio reached over 60% despite the hardships due to the COVID-19**
- **Organizations and systems that support business growth were built by strengthening back office functions, including business management, accounting/finance, logistics, and compliance**

Details

Triggering Event for M&A

- **In the contemplation for accelerating the next growth, OWNDAYS determined that utilizing external resources would make it more realistic to achieve the growth rather than making efforts on its own**
  - OWNDAYs started negotiations with MCPI and L Catterton, which were introduced by its main bank and group securities firm
  - L Catterton, a PE fund, specializes in the consumer domain, was well-versed in the retail business and could support the overseas expansion for OWNDAYS. MCPI had a track record of providing support that leveraged Mitsui & Co.'s strengths such as strengthening the business management foundation. A consortium of these two companies realized a scheme that matched the interests of both the seller and the buyer

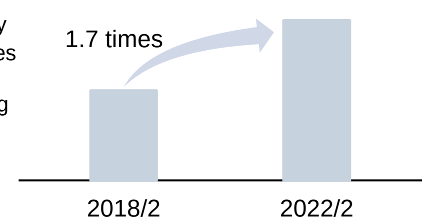
Support from buyer

- Strengthening OWNDAYS' capability to launch new stores, by utilizing the buyer's networks, introducing OWNDAYS to its foreign partners, dispatching directors and inviting an executive officer responsible for business development
- Supporting the strengthening of existing stores by improving store and product supply operations and promoting digitalization such as introducing cutting-edge digital technology and improving EC
- Building corporate planning functions and strengthening monthly consolidated settlement and other finance/accounting capabilities through hiring of executive officers and senior managers

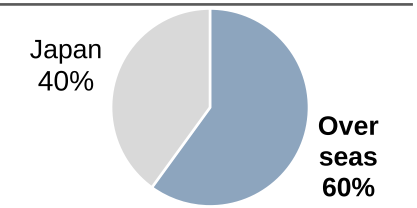
Impact of M&A

- **Store networks grew rapidly both in Japan and overseas, and OWNDAYS acquired prime locations in and outside Japan**
  - Support from the buyer resulted in enhancing new store pipeline in and outside Japan qualitatively and quantitively
  - Despite the hardships of COVID-19, consolidated net sales grew 1.7 times over the period of four years, while the overseas sales ratio expanded to 60%, the highest among OWNDAY's industry competitors in Japan
- **Productivity enhancement and development of digitalization**
  - Full-scale implementation of digital technology, including remote eye test, social media integration, and virtual fitting has innovated customers' purchase experience
- **Acquired a group management system**
  - Realized the consolidated accounting and monthly reporting
  - Formulated mid-term business plan, budgets and KPIs to visualize the actual budget and performance comparison
  - Raising the level of management which can even aim to be a listed company
  - Logistic improvement (reduced domestic stockouts and streamlined overseas logistics)

Sales growth



High overseas sales ratio



Project overview Announced: November 2018 Scheme: Capital increase through a third-party allotment/partial transfer of shares owned by the management Transaction amount: Undisclosed (shareholding ratio: Undisclosed)
Target company: OWNDAYS Inc. (Okinawa), Business description: SPA-style eyewear chain operator with own brand Sales: 22.0 billion yen (as of Feb. 2022) No. of employees: Approx. 2,400 (as of Jun. 2022)
Investor: Consortium of L Catterton and Mitsui & Co., Principal Investments (MCPI)
Business description (L Catterton): A consumer-focused private equity investment fund. Being a strategic partner of LVMH, the fund operates in 17 locations across the globe
Business description (MCPI): A principal investment subsidiary of Mitsui & Co. The company is characterized by its support provided to the investees that utilizes comprehensive capabilities of the Mitsui & Co. Group

Case 15: OWNDAYS
(Pattern C: PE Fund)

<Key points for the business growth>
Accepting investment from Indian company after achieving the growth based on the support from the PE fund that was a good fit with OWNDAYS

(Partial sale by OWNDAYS' management to a consortium of L Catterton and Mitsui & Co. Principal Investments, as announced in 2018 (2/2))

OWNDAYS, which had been growing even before accepting PE fund's investment, grew out from a Japanese company to become an Asian corporation based on proactive support from the PE fund. Then OWNDAYS became under the umbrella of Lenskart, an India-based tech startup that received investments from KKR, SoftBank and other companies, and has grown into a major company that is valued at 4.5 billion dollars and ships over 10 million eyewear products annually. By combining OWNDAYS' strengths of credibility and quality service and Lenskart's strength of advanced technology, OWNDAYS aims to expand from Asia into the global markets as an innovative eyewear company

—Key factors for success—

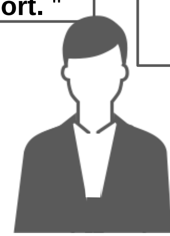
The types and forms of support provided by the PE funds have been diverse, and the fit to the company was important.

- **Key factors for success relating to the M&A transaction of fast-growing OWNDAYS**
  - "OWNDAYS was growing and had a favorable momentum before accepting investments from L Catterton and MCPI. **While maintaining the existing management system led by the management team, we were able to receive generous, direct support for the relevant issues which we had perceived as our challenges,** such as enhancing the operations of the management council and the board of directors and other business management/governance aspects, as well as building a structure of executive officers and other senior managers and supporting relations with developers in Japan and overseas. This fared well. As a result, we could maintain the growth momentum in the stagnation of the retail market caused due to the COVID-19. "
- **The optimal type or form of support is different for each company**
  - "On the other hand, good supports could vary, depending on a particular company, and in some cases the investor's hands-off support can be better. **PE funds can provide various types and forms of support.** "

—Next growth phase—

OWNDAYS integrated its strengths with Lenskart's strengths by accepting investments from Lenskart, upon when OWNDAYS grew into an Asian corporation from a Japanese company, thereby further advancing into global markets

- **Became under the umbrella of Lenskart, an industry peer in India, in August 2022**
  - "Lenskart highly recognized the quality customer service of OWNDAYS' store staff. The value of commodities like glasses is determined by the store space and customer service. **OWNDAYS aims to be the "Starbucks" of the eyewear industry.** "
  - "New business models emerge when you put yourself in a drastically-changing market. **We are considering acquiring new systems in overseas markets** such as customer relationship management (CRM) and fitting glasses in a virtual space and **introducing them into Japan** "
  - "Consolidation of OWNDAYS and Lenskart created the largest omnichannel eyewear chain operator in the Asia region that operates a total of 1,500 stores in 13 markets of the region, offers an application downloaded over 20 million times and has over 300 remote-working optometrists. By becoming one group with Lenskart, we are convinced that **Japan's excellent service and India's advanced IT technology will be combined to enable innovations that will fundamentally disrupt the conventional notions in the eyewear industry**. "



【OWNDAYS】

Realization of highly competitive and sustainable growth strategies through selection and concentration

(Sale of NICHIIGAKKAN to Bain Capital, as announced in 2020 (1/2))

NICHIIGAKKAN's non-core business were reporting more losses, and it became necessary to reconsider the allocation of corporate resources. Under these circumstances, in order to enable management to move flexibly and quickly, the company conducted an MBO in cooperation with a PE fund and formulated a growth strategy of selecting and concentrating businesses.

Before M&A

- **NICHIIGAKKAN had been diversifying its businesses, but its non-core businesses were making losses.**
- **When many reforms needed to be implemented quickly, it was difficult to so do, while there were various stakeholders.**

After M&A

- **The company conducted an MBO and built an organizational structure that facilitated transformation**
- **The company reviewed each business one by one and selected key non-core businesses**
  Resources were concentrated into core businesses to transform them into highly profitable businesses

Details

Triggering Event for M&A

- **Diversification and losses from non-core businesses**
  - As NICHIIGAKKAN diversified its businesses into healthcare, nursing care, childcare, English schools, housekeeping services, etc., its non-core businesses were suffering losses.
- **Consideration of MBO**
  - In the wake of the death of the founder, who had driven the company with strong leadership, there was a need to review in-house structures and make quick management decisions, so the company considered an MBO.
- **Consultation with Bain Capital**
  - NICHIIGAKKAN originally had connections with Bain Capital, and after consultations they proceeded with the sale.

Support from Buyer

- **11 reform projects**
  - **Bain Capital launched 11 hands-on reform projects to support management**
  - A variety of projects were simultaneously launched, including an IT reform project, an overhead reduction project, HR organization reforms, financial controls, and preparations for corporate listing.

Impacts of M&A

- **Improved profitability by selecting and concentrating businesses**
  - **Selected non-core businesses and excessive overseas businesses**
    - The subsidiary responsible for the language business was sold, and the company withdrew from its China business
  - **Core businesses were strengthened through further concentration**
    - Prior to the investment by Bain, NICHIIGAKKAN had been actively conducting M&A in its diversification business, but its core business was focused on organic growth. Following the investment by Bain, the company built a dedicated organization and executed an M&A of its core businesses.
    - Bain Capital played a central role in the construction and valuation of various deals.
- **Fundamental corporate reform to change “people, the organization, and systems"**
  - Aiming to realize Bain's mission of "executing fundamental corporate reform, gaining unprecedented competitiveness, and creating a stronger organization than any other company," NICHIIGAKKAN changed its people, organization, and systems.
  - In particular, personnel from consulting firms that NICHIIGAKKAN had never had a relationship with, were introduced by Bain Capital to secure talented personnel.
  - The list given to NICHIIGAKKAN when hiring these personnel was extraordinary, introducing CFOs and CIOs with considerable experience, and although there were concerns at first regarding whether the company culture would fit, they fit in brilliantly and the company’s business accelerated.
  - The company has also focused on incentive plans for managers, and some executives have been granted with stock options. This has contributed to enhance motivation.

Deal Overview
Announced in May 2020; Scheme: TOB; Transaction amount: Approximately 110 billion yen (investment ratio: 100%)
Target company: NICHIIGAKKAN CO., LTD. (Tokyo); Business description: Various businesses, primarily nursing care business; Sales: approx. 298 billion yen (end-Mar. 2020); Number of employees: N/A
Investor: Bain Capital and joint investors including the founding family; Business description: Investment and management support

<Key points for organization building post-M&A>
Using reforms to create an organization that facilitated frontlines work and provided job satisfaction

(Sale of NICHIIGAKKAN to Bain Capital, as announced in 2020 (2/2))

Case 16: NICHIIGAKKAN
(Pattern C / PE Fund)

Many employees have felt anxious when various reforms have been out. Also, in order to secure talented personnel and promote the business, it was necessary to create an organization that was different than before. Under these circumstances, the company promoted the creation of a new organization through (1) thorough explanations from management to employees, (2) transitioning from the uncertainty of delisting to an environment where people can work enthusiastically, and (3) linking the compensation system with employees' performance and results.

1 Thorough explanations from the management to the employees

- Through video messages from the company representative and teaming up with Bain Capital to hold direct dialogues and explanations multiple times, it was thoroughly explained to the employees how the company would be transformed.
- A letter came asking, "Why are you doing an MBO?" In response to the letter, the strategic significance of the MBO was explained from A to Z. Thorough internal explanations were provided to the employees until their concerns and doubts of the frontlines were relieved.

2 Transitioning from the uncertainty of delisting to an environment where people can work enthusiastically

- At first, there were concerns about working with a foreign investeor (Bain Capital) for the relisting.
- Bain Capital's method was hands-on, aiming for growth together with the company's employees, and there was a gap with previous experiences for the employees.
- Under the top-down management by their charismatic founder, many employees just did as they were instructed to do, but by promoting the reforms together, the work environment has become where the employees could work with enthusiasm and a sense of satisfaction.

3 Linking the compensation system with employees' performance and results

- In order to further improve the employees' job satisfaction and secure new talented personnel, the company thought that the compensation system needed to be significantly changed.
- As a result, employee salaries were revised, performance-linked bonuses were introduced, and incentive plans were granted to the management level personnel.
- This led to securing talented personnel from outside the company, further growth of permanent employees, and improved the employees' motivation, thus secured retention of the employees.

Promotion of the creation of a system, in which the management not only draws up a strategy as a plan, but which also enables the frontlines to enjoy job satisfaction and work to realize the plan (promoting a trinity of the reform: the Employees, Bain, and the Management)

Pattern D: Explanations / Characteristics (Sale of a Start-up Company / Acceptance of Capital)

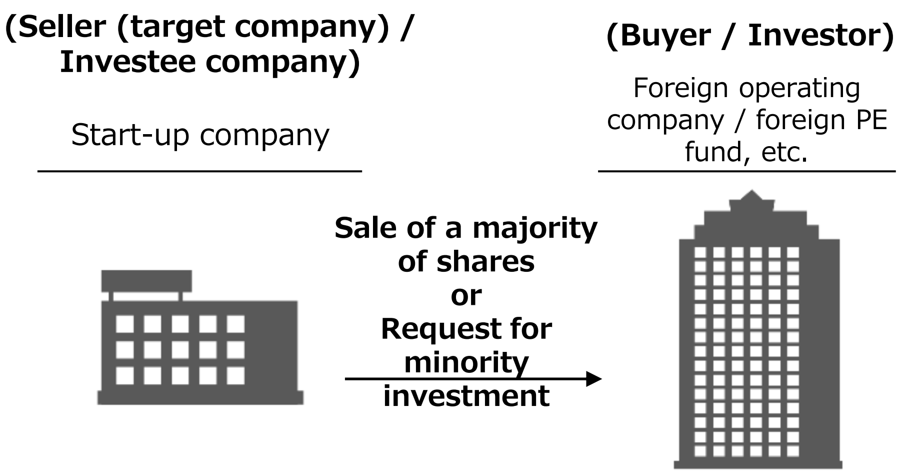
<List of Case Studies>

Pattern D: Explanations / Characteristics (Sale of a Start-up Company / Acceptance of Capital)

Definition / Characteristics

- **A pattern in which a start-up company sells its shares or accepts capital for its next growth phase.**
  - Only this pattern includes minority investments, which are investments with minority interest
- After the M&A, the company often aims to rapidly expand their business by utilizing the buyer's resources (funds, networks, know-hows, etc.). In addition, there are cases where it is effective in terms of securing personnel and developing structures when aiming for IPO.

Scheme visualization



Specific examples

- **PicoTherm & NETZSCH Japan**
  - Sale of start-up company PicoTherm (Seller) to NETZSCH Japan (Buyer / Operating Company)
- **from scratch & KKR**
  - Minority investment by KKR (Investor) in start-up company from scratch (Investee company)

Outlook

- **Increase in M&As as a method of growth for start-up companies**
  - M&As targeting Japanese start-ups (including those by other Japanese companies; not including minority investments) are on an increasing trend, and the number of such cases in 2022 has increased by about 1.5 times compared to those in 2017*.

*Source: From the RECOF M&A database

Realized the establishment of a solid organization at the inception of a rapid growth and achieved business expansion smoothly

(Sale to CLSA through the establishment of AB&Company Co., Ltd. , as announced in 2018 (1/2))

Sold the entity to CLSA in March 2018, grew to the level of five times more sales than before M&A over the period of three years based on the support received from CLSA, and became a listed company

Before M&A

- **The company had confidence in expanding store locations and planned to further launch new stores**
- **However, the company had issues with expanding its business and building a management system with respect to the back office function (corporate management division) aimed for the listing (IPO)**

After M&A

- **Strengthened the back office function by utilizing the PE fund's support in human resource recruitment**
- **Built a operational system that can bear the rapid store launches and became listed in 2021**
- **The joint venture style, in which the management of the company continued to hold a 30% stake, proved to be successful**

Details

Triggering Event to M&A

- **The company had confidence in expanding store locations and planned to further launch new stores**
  - As sales and new store launches grew, the back office function as all outsourced. Thus the company's back office system was weak and there were concerns with the company's further expansion
- **Among a number of various candidates, AB&Company selected CLSA, which had a strong track record of providing support to B2C companies and assistance for IPOs**

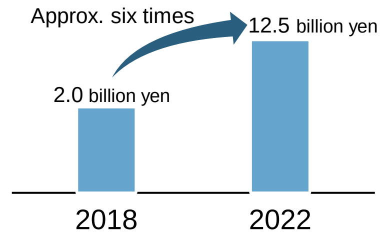
Support from buyer

- **Strengthening the management foundation with high productivity that can handle the IPO**
  CLSA's support with respect to the management system in terms of both human resources and systems aspects
  - External professionals from financial institutions, consulting firms and other companies supported the company's financial strategy, recruitment, and compliance matters
- **Providing funds for acquiring other companies necessary for the company's business expansion and formulating plans**
  - Four companies were additionally acquired in a period of six months after M&A

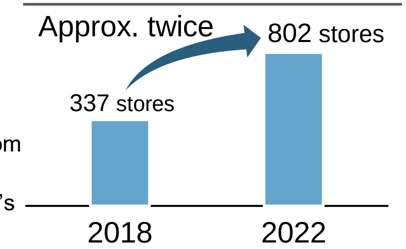
Impact of M&A

- **Despite its rapid expansion, the company smoothly expanded business, strengthened its management foundation and achieved the IPO, without any serious trouble brought to the back office function**
  - Human resource supported by CLSA reinforced the company's foundation for administration and management toward the IPO
  - As there was no back office function at the time of CLSA's investment, the company **established a back office function that can carry out the IPO in a short period**
  - **IPO was realized within only three years after the M&A**
- **Focus on the front office (operation function)**
  - AB&Company was able to focus on its competitive front office (operation function), resulting in i**ncreases in sales and the number of stores**
- **Facilitating fundraising and additional acquisitions**
  - CLSA's creditworthiness made it possible to raise funds from banks smoothly
  - Acquisition of other companies necessary for the company's rapid expansion was also implemented smoothly based on CLSA's advices relating to the funds and business plans

Sales increase



Increase in no. of stores



Project overview
Announced: March 2018 Scheme: Share transfer Transaction amount: Approx. 10.0 billion yen (shareholding ratio: 100%; established joint venture by CLSA and original management team (AB&Company: 70% held by CLSA and 30% by original management team), and the joint venture holds 100%)
Target company: AB&Company Co., Ltd. (Tokyo), Business description: Operation of hair salon called "Agu." and other beauty salons Sales: 12.5 billion yen, No. of employees: 224 (Consolidated) *Excluding staff from each beauty salon
Investor: CLSA Ltd., Business description: Alternative investment, asset management, corporate finance and securities and wealth management business for capital markets, companies and institutional investors

<Key Factors for success after M&A>
Thoroughly improved the company's weaknesses and build on its strengths. Realized a virtuous cycle of management

Case 17: AB&Company
(Pattern D: PE Fund)

(Sale of the company to CLSA through the establishment of AB&Company, as announced in 2018 (2/2))

CLSA accurately grasped the company's strengths (attributed to it operational function, "front" office) and weaknesses (attributed to its administrative function, "back" office), and thoroughly improved such weaknesses and built on such strengths. This led to the growth of the company. Becoming such a company created a virtuous cycle of attracting talented employees.

—Key factors for success—

Place right people in right positions, thereby optimizing the management

■ **Respecting the front office and strengthening the back office**

- "Because a beauty salon is a group of artists, CLSA may have thought it was not good to interfere, and their involvement in the salon operations was limited. Thus, the frontline was able to concentrate on enhancing the quality of stylists. "
- "On the other hand, **because the company, which used to be almost free of debts, received a loan of 7.5 billion yen suddenly, the back office suffered from a shortage of personnel as it prepared for the IPO, while maintaining a trustful relationship with banks**.
  A business reform was implemented related to these back-office matters through personnel-related support provided by CLSA, and this save the company greatly. "
- "In addition, **we shared the same direction with CLSA even after the M&A as the company's management retained a 30% stake.** I recognize that this was also a key factor for success. "
- "Without the support received from CLSA, the growth that we have achieved would not have been possible. "

【AB&Company】

—Employee motivation—

Employees' motivation and skills were strengthened rapidly

■ The company conducted the recruitment activities for the purpose of conducting the IPO, and the company was able to **recruit and employ personnel, whom the company could have not been able to attract and hire**

■ Dispatch of some personnel from the PE fund **enhanced the quality of various works across the workplace**, that seemed to have advanced the company into **a venue for the growth**

■ Increase in the number of highly motivated and skilled new employees led to the enhancement of motivation and skills of the existed employees

■ These factors were **the driving force for achieving the company's business growth**

The company realized further business expansion at a lower cost by using the buyer's back-office functions

(Sale of PicoTherm (now NETZSCH Japan Tsukuba Plant) to NETZSCH Japan, as announced in 2020 (1/2))

PicoTherm, a start-up company that develops and sells thin-film thermophysical property equipment, was considering an exit. As the sole distributor of PicoTherm, NETZSCH Japan approached PicoTherm to sell the company. The company achieved further business expansion by gaining NETZSCH Japan’s sales, back-office functions and HR system.

Before M&A

- **The company was considering an exit as a startup company.**
- **The company was facing increased orders for equipment, which made it difficult for the company to do both R&D and equipment manufacturing/contract analytical services.**

After M&A

- **PicoTherm became NETZSCH Japan’s Tsukuba Office, enabling them to use NETZSCH Japan’s technology and sales team**
- **The company’s overseas sales ratio increased, shifting from the previous ratio of mainly the Japanese market to the 80% overseas market at present**

Details

Triggering Event for M&A

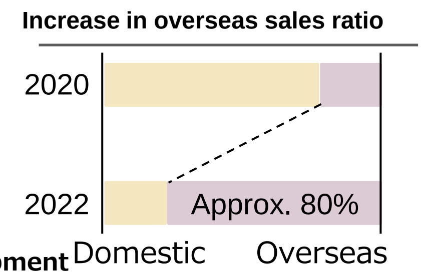
- **PicoTherm was considering an exit**
  - As a venture company, the company had to think of a means of exit, but because it was a niche field and an IPO would be difficult, the company was considering a M&A transaction.
  - The company was facing increased orders for equipment, which made it difficult for the company to develop the business.

NETZSCH Japan, as the company’s sole distributor, approached the company
  - NETZSCH Japan had been the sole distributor for PicoTherm since 2014, but sharing of confidential information was not possible and the scope of collaboration was limited, so NETZSCH Japan proposed a M&A transaction to PicoTherm.

Support from the Buyer

- **Use of NETZSCH Japan's sales team**
  - PicoTherm used Netsch's global sales team to support overseas expansion
- **Technology integration with NETZSCH Japan**
  - NETZSCH Japan's technology was used in PicoTherm’s R&D.

M&A Effects



- **Massive increase of overseas sales ratio**
  - Using NETZSCH’s global sales force, the ratio of overseas sales increased to 80%.
  - The company has made plans to double overseas sales in the future
- **Enabled the company to concentrate on development**
  - PicoTherm had only three employees, so it had been difficult to concentrate on R&D. The company underwent the organizational integration, including the concentration of sales and manufacturing operations in the NETZSCH Japan headquarters.
  - Going forward, it is expected that the company will be able to concentrate on R&D.
- **The company improved employees’ salaries and benefits by switching to NETZSCH Japan’s HR system**
  - Salaries and benefits have improved as a result of the switch to the new HR system. Employees were pleased with these improvements.
  - The number of employees is also increasing.

Deal Overview
Date of Announcement: November 2020. Scheme: Share transfer. Transaction Amount: Undisclosed (Investment Ratio: 100%)
Target Company: PicoTherm Corporation (Ibaraki Prefecture); Business Portfolio: Development and sales of thin-film thermophysical properties equipment. Sales: Undisclosed. Number of Employees: 3
Investor: NETZSCH Japan K.K. (Germany). Business: Development and sales of thermal measurement equipment

Case 18: PicoTherm
(Pattern D / Operating Company)

<Points for a Smooth M&A Transaction>
A Smooth M&A transaction was achieved through building of human relations between the two companies

(Sale of PicoTherm (now NETZSCH Japan Tsukuba Plant) to NETZSCH Japan as announced in 2020 (2/2))

Even before the M&A discussions, PicoTherm representatives were acquainted with NETZSCH Japan's representatives and researchers, and the company had a good understanding of NETZSCH Japan. After M&A, the integration of the organizations proceeded smoothly through careful and thorough communication.

(Before M&A) Personnel exchange between the two companies

- **M&A transaction had no gap between the plans due to mutual understandings between two companies**
  - Human relations have been established even before the M&A discussions proceeded.
    - The representatives had met each other at a thermophysical properties conference in 2006, which was 14 years before the M&A transaction.
    - PicoTherm’s representative had met with NETZSCH Japan's thermophysical properties researchers and NETZSCH’s German president for some time.
  - Because the company had a good understanding of NETZSCH, not much happened that was unexpected after the M&A transaction.

- **PicoTherm and NETZSCH had high-end equipment as commonality**
  - PicoTherm is a technology transfer venture of the National Institute of Advanced Industrial Science and Technology (AIST), and it has developed high-reliability equipment traceable to national standards.
  - NETZSCH Japan also develops and sells high-function, high-performance equipment, and the two companies shared a common targeting market strategy.

(After M&A) Thorough coordination through meetings

- **There were some changes in communication methods before and after the M&A transaction.**
  - “PicoTherm had only three employees, so we were able to share information without struggling to communicate with each other. But now that we have joined a larger organization, we need to communicate with other departments, including the manufacturing and administrative departments.”
  - “We couldn’t get used to it at first, but each of us being conscious of the importance for holding meetings and sharing information, we became able to communicate more smoothly.”

[PicoTherm]

Accelerated the growth toward the IPO as KKR's first project in Asia to invest in a startup

Case 19: from scratch (Pattern D: PE Fund)

(from scratch Co., Ltd. (currently dataX Inc.) accepting a minority investment from KKR, as announced in 2019 (1/2)

from scratch(currently dataX), a SaaS startup, raised 4.0 billion yen from KKR in a series D round, and strengthened its overseas operations and the back office (administrative) function. KKR's investment satisfied from scratch's need for funds and led to enhance its corporate recognition and increase its recruitment of new employees

Before investment

- **The company needed a large-scale fundraising towards its business expansion with a view to conducting the IPO**
- **As of 2019, no Japanese startups had never raised funds from an overseas PE fund**

After investment

- **Due to the large-scale later-stage funding support received that was unique to a foreign PE fund, from scratch achieved the enhancement of corporate value towards the IPO**
- **This contributed in the increase of its brand power and the recruitment of more employees**

Details

Triggering event for investment

- **from scratch wanted to grow to a certain scale before the IPO, and it needed funds worth roughly 10.0 billion yen**
  - The company was introduced to KKR by a shareholder who raised funds in the series C round. KKR was considering investment in an Asian startup. The investment was realized because KKR recognized from scratch's past business performance
  - This was the first case that a Japanese startup successfully raised funds from a foreign PE fund

Support from buyer

- Large-scale investment to satisfy the company's need for funds
- Supporting at the monthly management meetings (providing advices concerning new businesses and market situations based on KKR's global insights and experiences)
- Appointing a PE fund's partner as an external director
- Developing points of contact with overseas institutional investors

Impact of investment

- **The company expanded business scale toward the IPO**
  - There was no investor, including VC funds, that made investments worth several billions of yen at the later stage of a startup at that time in Japan
  - Funds necessary for the company's growth were secured as in the form of large-scale later-stage funding support that is unique to a foreign PE fund
- **The company obtained advisors to achieve management targets**
  - from scratch could receive advices from KKR as appropriate, which has global insights, experiences and information, and KKR served as an advisory function concerning from scratch's corporate tactics and strategy
- **The company enhanced the brand power due to KKR's investment**
  - KKR's investment improved the recognition of from scratch and provided a sense of security in the market
  - Successful fundraising improved the employees' loyalty to the organization and contributed in recruiting more employees
  - Communication with overseas VC funds and institutional investors was enhanced

Project overview

Announced: August 2019 Scheme: Capital increase through a third-party allotment Transaction amount: 4.0 billion yen (shareholding ratio: Undisclosed)

Target company: from scratch Co., Ltd. (currently dataX Inc.) (Tokyo), Business description: Development and provision of marketing platform "b→dash" Sales: N/A No. of employees: 229 (Jun. 2021)

Investor: KKR & Co. Inc, Business description: Management of various asset classes including private equity, energy, infrastructure, real estate, credit and hedge funds

＜Key points for conducting a M&A＞

Selecting a partner who helps the company to achieve its vision is vital

(from scratch (currently dataX) accepting a minority investment from KKR, as announced in 2019 (2/2))

KKR agreed with from scratch's strategy aiming at the IPO after growing the company largely, instead of having a small IPO. KKR also maintained a favorable relationship after the investment, leading to the acceleration of growth for from scratch

—Key factors for success (1)—
Selecting a partner who can help the company to achieve its goals

Agreement on the company's goals	■ **Most important rule was to thoroughly communicate the company's stance and what the company wanted to realize, and welcome a partner who can agree with the company's goals** ■ The Company's visions and goals do not need to be advanced, but **the company should partner with a venture capital or a PE fund that agree with the company's vision and goals**
Selecting a partner who has a good chemistry with the company	■ **This is not limited to overseas VC funds and PE funds, but there are only a few cases, in which projects prove to be successful, even if the company partners with extremely talented people to pursue the economic rationality, if the chemistry in terms of the management is bad with such partner and such partner is not on the same wavelength with the company**

—Key factors for success (2)—
New trend for utilization of a foreign PE fund

- **The company's big vision and utilization of PE funds**
  - "Different companies pursue different visions, but in terms of the development of the Japanese economy, the company has always believed that the existence of world-class Japanese companies is important. For this reason, the company took up a bigger theme than just a small-scale IPO and has built on efforts thus far since the series A round based on the philosophy of keep moving forward "
  - "Before the investment received from KKR, **startups had not had a choice to raise funds from an overseas PE fund.** However, such fundraising projects have been emerging recently in Japan. **It is a positive change that we now have a new option of selections to utilize a foreign PE fund.**"

【[dataX]】

The Company developed a marketing strategy and a sales structure and established a management system for its rapid growth

(Spiber Inc. accepted a minority investment from Carlyle,as announced in 2021 (1/2))

Spiber, a next-generation biomaterial development manufacturer, was about to expand globally by utilizing its competitive, proprietary technology. The company developed a marketing strategy and a sales structure with the support from Carlyle and established a management system for its rapid growth

Before investment

- **While a mass-production system was being built, a strategy for the future business operation was under consideration. However, Spiber did not have a specific marketing strategy (especially for overseas markets) or a PDCA framework for its sales activities**

After investment

- **The company developed a business management system that could comprehensively address production, sales, investment and finance functions. Also, the company fine-tuned the business plan. Thus, its management actions also became clear, the company could make a more specific marketing strategy and progressed with the strengthening of its corporate structure. Meanwhile, a mass-production system was also established**

Details

Triggering Event for Investment

- While Spiber had an advantage in its proprietary technology, **it needed to make a large-scale upfront investment and formulated a more sophisticated strategy for expanding into global markets, in order to proceed with further business development**
- The company determined that, rather than raising funds only through bank loans, **it was more effective to utilize a foreign PE fund, receive various forms of management support and build a system that helped to move with more agility.** Its securities firm introduced Spiber to Carlyle and started negotiations
- Carlyle and Spiber communicated with mutual respect, which was a decisive factor for Spiber to accept the investment from Carlyle

Support from buyer

- Providing the funds purported to launch global businesses
- Providing hands-on support for production, sales, finance and other various aspects. Serving an advisory and consultation role at the company's weekly management meetings. Proving accompanying support while sharing common feelings with respect to issues
- Not only helping Spiber to build various systems within the company, but also **providing personnel, measures and networks attributed to the sustainability trends. Even introducing potential clients to Spiber**

Impact of Investment

- **The company utilized Carlyle's global networks**
  - Through Carlyle's global networks, Spiber became able to effectively utilize experts, external resources and suppliers across the domains of production, sales, finance, and management
- **The company developed a mass-production system for its full-scale business expansion**
  - The company made important KPIs visible and established a mass-production system in accordance with suppliers' needs, thereby the company achieved its long-term research results
- **The company developed a sales structure to disseminate its products**
  - Although Spiber grew based on its R&D activities, it has entered into the phase, in which its sales capabilities has become crucial.
    With the support from Carlyle, personnel was introduced and Spiber's sales capabilities were enhanced
- **The company fostered a sense of stability for each stakeholder**
  - Based on the partnership with Carlyle, the company 's credibility for its market value has improved. Spiber has been able to demonstrate that each of its management policies has been realistic and impactful, thus generating a sense of stability for the existing shareholders and financial institutions

Project overview
Announced: September 2021 Scheme: Capital increase through a third-party allotment Transaction amount: Approx. 10.0 billion yen (shareholding ratio: Undisclosed)
target company: Spiber Inc. (Yamagata), Business description: Next-generation biomaterial development manufacturer Sales: N/A, No. of employees N/A
Investor: The Carlyle Group LP, Business description: Investment and management support

<Carlyle's Requirements for Investment>
Spiber satisfied Carlyle's requirements for investment-- "Total Addressable Market (TAM) of a considerable scale" and "technology that is extremely difficult to emulate," and thus Carlyle made the investment in Spiber

(Spiber's acceptance of a minority investment from Carlyle, as announced in 2021 (2/2))

Case 20: Spiber
(Pattern D: PE Fund)

Unlike VC funds, foreign PE funds such as Carlyle do not usually make minority investments in startups. However, Spiber satisfied Carlyle's requirements for investment, such as "TAM of a considerable scale" and thus could receive fund from Carlyle

Carlyle's requirements considered at the time of a minority investment to Spiber

	Requirement	Questions
1	**TAM of s considerable scale**	■ Is the total addressable market (TAM) attractive taking account of the future demand? ■ Does Spiber's TAM target markets include those of overseas?
2	**Technology that is extremely difficult to emulate as a disruptor**	■ Does Spiber provide fundamental added value to the client's industry and have the technological capabilities that encompass the feasibility and its robust IP strategy?
3	**Clear paths for the profitability**	■ Can Spiber's business model at the time of its expansion be articulated clearly, and whether the flow to its profits is not complicated?
4	**Management team that is proactive about utilizing the support from PE fund**	■ Does the management team intend to proactively utilize a PE fund other than as a means of fundraising, and have ideas about its utilization?
	⋮	⋮

Background of the investment and Carlyle's involvement

■ **Discussion within Carlyle**

- "As this investment was Carlyle's first minority investment in Japan, our internal investment committee had lively and wide-ranging discussions. Spiber had the world's leading capabilities to apply protein materials, and Carlyle firmly believed that such capabilities would be essential for the apparel industry. Further, Spiber satisfied various requirements, and we decided to make a minority investment. "

■ **Carlyle's involvement with its investee**

- "Carlyle has a philosophy that the corporate value would be enhanced only if the activeness of the management is enhanced. Also, its investment style is that Carlye stands by the investee's management without micro-managing the investee. Carlyle communicates with the investees and implement actions that the investee should focus on now to become what they aspire to be in 10 to 20 years. Carlyle aims to create a governance, in which Carlyle delegates the execution of business to the investee's management, discusses the investee's management strategies and provides necessary resources. "
- "It was meaningful that Carlyle was able to sincerely communicate with Spiber at the investment phase. In the due diligence process and the formulation of the "100-day plan" following the investment, Carlyle was able to have very deep discussions and foster a solid relationship of trust with Spiber's management. "

【Carlyle】

<Column 1>

Uncertainties and realities relating to inbound M&A transactions

In response to inbound M&A transactions, there are many cases where concerns arise as to losing jobs due to restructuring and facing differences between corporate cultures. However, on the other side of these concerns, there have been many cases where companies enjoyed significant effects and benefits. Below summarizes the reality of situations as viewed through case studies.

Uncertainties	Realities seen in case studies
In terms of inbound M&A transactions, don't most cases occur when **companies are bought out due to a distressed business situation?**	**Today, many cases are seen where companies that have an established track record decide to sell their companies in order to respond to changes in the macro environment and the industrial structure.** In fact, there are multiple cases where an increase in the overseas sales ratio and new business sales have been achieved.
Would jobs be lost if a large-scale restructuring is carried out?	**There are multiple cases in which M&As have contributed to an increase in jobs.** For example, there are cases in which acceptance of foreign capital has contributed to the expansion of capital investment and employment. **On the other hand, there are cases in which layoffs have been implemented due to business restructuring (it may have been necessary to conduct layoffs even without the M&A)**
There seems to be a big difference between corporate cultures. Will we be able to understand each other?	Especially in the case of a M&A transactions by foreign operating companies, it is often felt that there is a difference between corporate cultures. **In the cases examined, there were efforts to create systems and to communicate in order to understand each other's corporate cultures, such as by establishing a committee with members from both companies as a forum for discussion. It is also important to have a medium- to long-term perspective for mutual understanding.**
We were a listed company, but if we **go private or the company is delisted**, won't this have a number of disadvantages?	**Going private often leads to an increase in the probability and acceleration of achieving management reforms with a medium- to long-term perspective.** By changing from the shareholders of a listed company, who are interested in the short-term stock price and shareholder returns, to a shareholder that shares the same medium- to long-term perspectives as management, there are benefits such as being able to make swift decision-making, management reforms, and proactive investments.

<Column 2>

Cases in which the deals were not concluded

Due to various background factors, there have been cases where deals were not concluded after negotiations had started and announced. The factors for 18 cases (between 2010 and 2022) which discontinued after being announced, as confirmed from publicly available materials, are as follows.

Unsuccessful TOB	6 cases
Lack of funds from buyer	5 cases
Difficulty in reaching agreement on the contract terms	2 cases
Disapproved by competition law authorities	1 case
Disapproved by local councils (a case in which the shareholder is a local municipality)	1 case
Unknown	3 cases

The most common factor is an unsuccessful TOB, such as the target company expressing opposition to or resisting the TOB. The next most common factors are a lack of funds from the buyer, and difficulty reaching agreement on the contract terms.
In some cases, deals were not reached due to disapproval by competition law authorities.
Cross-border deals with foreign companies in particular often require approval from the authorities of each country, and there are cases where the deal could not be concluded even if both the buyer and seller have reached an agreement.
Therefore, it is important to prepare in advance for an M&A from various perspectives such as strategy/business, funding/value, procedures, etc.

Source: Created from the RECOF M&A data and various publicly available materials. Cases are only those researched and confirmed via publicly available materials.

Cases in which the expected effects were not achieved

While there were cases where the benefits of accepting foreign capital could be enjoyed in terms of the management base, employees, and business operations, in some cases, the expected effects and benefits were not demonstrated due to differences in perceptions, etc. These are common not only to inbound M&A transactions, but also to M&As between Japanese companies.

Factors for cases in which the expected effects were not achieved

Factor (1): Differences in perceptions between the buyer and the target company

(Case of Company A)
The company's performance did not meet the expected high quality level demanded by the buyer, which was higher than expected, and there were recalls of conventionally developed products. The reason was that the R&D system before joining the umbrella of a foreign company was to make and sell in large quantities, which did not meet global quality standards.

(Case of Company B)
With differences in business know-hows between the two companies, optimization was difficult because financial performance was severely pursued by the buyer.

Factor (2): Unexpected changes in the external environment

(Case of Company C)
Company C had aimed to increase overseas sales, but as a result of the COVID-19 pandemic in-person sales to customers became impossible, and they only achieved about 50% of the synergies they were aiming for.

(Case of Company D)
Material inflation, increased utility costs, and a weaker yen were not anticipated before the sale, and the profits initially anticipated did not materialize.

Having a relationship of trust with the buyer and sharing directions are key factors for the success of inbound M&A transactions, and paying attention to differences in perceptions can be considered an effective shortcut for inbound M&A transactions.

3 Summary of the Research

3.1. Key points for utilizing inbound M&A transactions (triggers, implementation details, difficulties before and after M&A, key factors for success)

The following is a summary of implications obtained for "triggers for utilizing foreign capital" for the case studies of inbound M&A transactions, categorized by each point. We hope that this will serve as a reference for understanding turning points, factors that led to problem solving and growth, etc., and be useful for the future utilization of inbound M&A transactions.

Flowchart and key points

Background (growth motivation and problems perceived) → ① **Trigger for utilizing foreign capital** → M&A → ② **Implementation details for achieving results** → Problem solving Growth

③ **Difficulties before and after M&A**

④ **Key Factors for Success**

(1) Trigger for utilizing foreign capital

- **Considering measures with a view to overseas expansion**
  - The company began considering utilizing M&A with a view to overseas expansion for future business growth, expecting to leverage the network and financial capacity of a foreign company while acquiring foreign personnel.
- **Considering creating a business and organization at a global standard**
  - The company began considering utilizing M&A with the aim of creating a business and organization with a global competitive advantage, and proceeded with considerations while learning the best practices in other countries
- **Portfolio review aiming to maximize the value of each business**
  - The company began considering utilizing M&A as a part of business portfolio management with the aim of maximizing the future value of each business.

(2) Implementation details for achieving results

- **Reorganization and optimization of business models**
  - The company identified areas for cost reduction and built businesses to leverage unique strengths, built a business with a competitive advantage on a global level
- **Built a strong management structure and improved operations**
  - The company organized the entity and facilities to achieve optimal corporate governance, cost reduction, and an efficient operating environment while developing structures for finance, IT, corporate planning, etc.
- **Establishment of human resources and personnel systems for the company's rapid business growth**
  - The company recruited the management members and executives necessary for business growth, and reformed the HR system with the aim of increasing employee motivation.

(3) Difficulties before and after M&A

- **Differences in ways of thinking and cultures**
  - There are often difficulties in adapting to different ways of thinking and cultures, such as differences in KPIs used as indicators, quality standards, and the decision-making process.
- **Communication with employees and business partners regarding acceptance of foreign capital**
  - There are often difficulties when the company is unable to gain understanding regarding differences with the pre-M&A management style as the parent company brand is lost and the process of streamlining management progresses, or when discussing employment relationships regarding employee retention and departure.
- **Creating autonomous organizations (especially former owner-operated companies)**
  - It is often difficult for an organization that used to make decisions based on a single voice of senior management to change into an organization that moves autonomously while holding discussions.

(4) Key Factors for Success

- **Building a relationship of trust between the buyer and the target company**
  - Building trust with the buyer is often talked about as the most important key factor. This is an important factor shared by almost all cases.
- **Sharing the direction to be taken and creating an autonomous organization**
  - After the M&A, it is important to share the direction to be aimed for and the goals to be achieved, and to create an organization that autonomously works toward that direction.
- **Enthusiasm, courage, and perseverance**
  - Since many unforeseen situations occur before and after the M&A, it is important to have the enthusiasm and courage to calmly deal with such situations and continue to resolve situations.

3.2. Definitions and explanations of terms (1/2)

Term		Explanation
M&A related	Inbound M&A Transactions	M&A (mergers and acquisitions) with Japan companies that utilize the foreign capital of a foreign operating company, foreign PE fund, etc.
	PE Fund	- A fund that invests in companies using funds collected from multiple investors (mainly to acquire management rights); after increasing the company's corporate value, the PE fund then exits to recover the funds and distribute profits to investors. - In this research, PE funds that have headquarters functions outside Japan or are operated under foreign capital are described as foreign PE funds or simply PE funds.
	Foreign company / Foreign operating company	- Companies and businesses that have their practical headquarters functions outside Japan. - This includes companies that have received foreign capital investment and are registered as corporations in Japan (so-called foreign-affiliated companies). - In this research, buyers other than PE funds are referred to as foreign companies, foreign operating companies, or operating companies.
	Buyer / Investor	The entity which acquires shares of the target company.
	Seller	The entity which holds the shares in a company and sells them to the buyer.
	Target company	The company which is targeted for sale in an M&A.
	VC	An abbreviation of Venture Capital. Refers to a fund that invests in unlisted companies (e.g., start-up companies).
	TOB	An abbreviation of Take Over Bid (also known as a tender offer). The tender offeror announces the purchase period, purchase price, a number of shares to be purchased, etc., and purchases the shares from an unspecified number of the shareholders.
	Business succession	Taking over management rights or the shares of a company.
	Business portfolio	The composition of businesses in operation to which a company allocates business resources.
	Carve-out	A management strategy in which a company separates (carves out) a business unit or a subsidiary to revise its business portfolio.
	MBO	An abbreviation of Management Buyout. A management buyout is when the management of a company acquires the shares of the company, or of a business unit that became independent of the company, as a form of buyout.
	Minority investment	A minority investment refers to acquiring less than 50% of the shares of a target company.
	Going private	The delisting of a listed company.

3.2. Definitions and explanations of terms (2/2)

Term		Explanation
Management indicators	KPI	An abbreviation of Key Performance Indicator. KPI are indicators that are quantitatively set for interim goals in order to achieve a final goal.
	ROIC	An abbreviation of Return On Invested Capital. ROICs are indicators that express how much profit a company has generated on the invested capital.
	EBITDA	An abbreviation of Earnings Before Interest, Taxes, Depreciation, and Amortization. This refers to cash income over one year and is used for M&A valuation.
	EBITA	An abbreviation of Earnings Before Interest, Taxes, and Amortization. EBITA is used to calculate earnings to calculate ROIC.
	CAPEX	An abbreviation of Capital Expenditure. The expenditure of capital to increase the value of fixed assets.
	CAGR	An abbreviation of Compound Annual Growth Rate.
Start-up company related	Start-up company	Primarily refers to recently founded companies which pioneer new business models and technologies.
	Later stage	A stage of start-up company growth. The stages are: seed, early, middle, and later. The later stage is considered to be the stage in which the company's business becomes established and management becomes stable.
	Series A	The first round of financing once the company passes the seed stage and its product begins to have a place in the market. Series A is followed by Series B, C, and D.
	TAM	An abbreviation of Total Addressable Market. The overall market size that a business has the potential to acquire.
Others	Small and Medium-sized Enterprise	A company meeting the following requirements stipulated in Article 2 of the Small and Medium-sized Enterprise Basic Act: - For Manufacturing and other industries: 300 employees or less, capital of 300 million yen or less - For Wholesale business: 100 employees or less, capital of 100 million yen or less - For Retail: 50 employees or less, capital of 50 million yen or less - For Service industry: 100 employees or less, capital of 50 million yen or less
	Owner-operated company	A company in which the founder and their relatives, etc., are major shareholders and make up the forefront of management in positions such as president and chairman.
	Synergy	A synergistic or multiplying effect between companies or businesses.
	Corporate governance	A system for monitoring and control to ensure fair judgment and operation in corporate management.
	Stock options	A stock option gives a director or executive of a joint-stock company the right to purchase shares at a set price.
	Back office	Back office generally refers to departments that do not deal directly with customers or clients, but performs clerical and administrative work behind the scenes.
	Localization	Localization is adapting a company's products, services, management methods, etc., to the local needs, culture, national character, etc.
	Fabless	When a company does not have its own factories for manufacturing products.

Afterword (Background)

- Foreign direct investment in Japan contributes to the growth of Japan's economy by generating innovation and capturing the vitality of foreign countries' economies. For this reason, in June 2021, the Japanese government formulated the "Strategy for Promoting Foreign Direct Investment in Japan." In the "Project for Study and Examination Regarding Measures for Further Promotion of Investment in Japan and Abroad" conducted by the Ministry of Economy, Trade and Industry in FY2021, as a result of examining the current state of and issues related to M&A transactions by foreign companies and foreign PE funds targeting Japanese companies (inbound M&A transactions), which is one of the methods of foreign direct investment in Japan, it was found that the amount of inbound M&A transactions as a proportion of foreign direct investment in Japan was smaller than in other developed countries.

- In order to promote inbound M&A transactions, in addition to enhancing the attractiveness of Japanese companies themselves, identifying companies and businesses that may be subject to inbound M&A transactions is also an issue. Therefore, it is important to (1) strengthen corporate governance, (2) optimize management decisions such as business portfolio reviews as appropriate, and (3) disseminate the effects and significance of selling a company to foreign capital. While each of these factors are related to a series of policy challenges for M&A and the improvement of management methods used by Japanese companies as previously conducted by the Ministry of Economy, Trade and Industry (e.g. the FY2020 Practical Guidelines for Business Transformations etc.), this time we analyzed the actual situation and issues pertaining to M&A of Japanese companies by foreign companies and foreign PE funds and the subsequent management thereof, from the perspectives of (2) and (3). Additionally, we created this research so as to enable the use thereof as reference for enhancing corporate management of Japanese companies through inbound M&A transactions, while also paying due care to economic security among other considerations. Therefore, this research is intended as a reference material that will facilitate for Japanese companies to potentially consider inbound M&A transactions as one of the options, among other various management methods available to Japanese companies.

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【Related Site】

■Promotion of inward foreign direct investment in Japan (Invest Japan) (Ministry of Economy, Trade and Industry)

https://www.meti.go.jp/english/policy/external_economy/investment/index.html

■The Study Group for Issues Relating to Inbound M&A Transactions and Case Studies

https://www.meti.go.jp/english/policy/external_economy/investment/sg_ma.html

■Case Studies relating to the use of inbound M&A transactions (Website)

https://www.meti.go.jp/policy/investment/5references/tainitima.html

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