

Making the Break:
Selling and disposing non-
core and under-performing
assets in Japan

CFO Forum | 5 November 2015



With You Today

Introductions



Brian Lightle

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Brian is a U.S. M&A partner with Deloitte & Touche LLP, who is on secondment to the M&A practice of Deloitte Tohmatsu Financial Advisory LLC in Tokyo, Japan. Brian has over 20 years of professional experience with Deloitte with over 14 years dedicated to M&A (12 years in Deloitte's San Francisco office and over 2 years in Deloitte's Tokyo office). Brian's experience includes deal management, due diligence for both strategic and financial buyers, structuring and modeling considerations, Day-1 readiness, sell-side assistance and carve-out transactions, purchase price adjustments, contract review and negotiations assistance.



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Michael is a manager in Deloitte's Strategy & Operations practice and based in the Tokyo office. Michael has been based in the Tokyo office since 2004. He has more than 13 years of professional services experience serving a number of global clients in Europe, Japan, and Asia. He has worked across industries with a focus on the private sector. From a competency perspective, Michael has a Financial background and possesses project experience from strategy to execution across main corporate functions.

Michael leads Deloitte's CFO Program for foreign companies in Japan.

Preface

Economic uncertainty and disruption from market competitors are placing higher demands on Japanese corporates to be nimble and adaptable. Yet those with a diverse corporate portfolio, the result of years of acquisitions in domestic and foreign markets, may find it difficult to remain agile. Many may even have loss-making or under-performing business units draining resources. As a result, these corporates are increasingly using divestitures to scale back in certain sectors and bolster activity in others as they reassess their long-term business objectives.

Deloitte worked with MergerMarket to survey a select group of 60 market participants that had engaged in a recent divestiture and is now pleased to invite you to this roundtable to facilitate a discussion of the findings from the survey.

Sample survey questions asked

- ✓ What was the rationale behind your most recent divestiture?
- ✓ What were the greatest internal and external challenges with your most recent divestiture?
- ✓ What would need to change in your organization to increase the level of divestitures?
- ✓ If a divestiture failed to close, what will you do differently to increase the likelihood of closing the next divestiture?
- ✓ If you plan to utilize an auction process for a divestiture, what are the most concerning and compelling reasons for choosing an auction process?
- ✓ What are the most important factors considered when selecting a buyer?

Quotes from survey participants

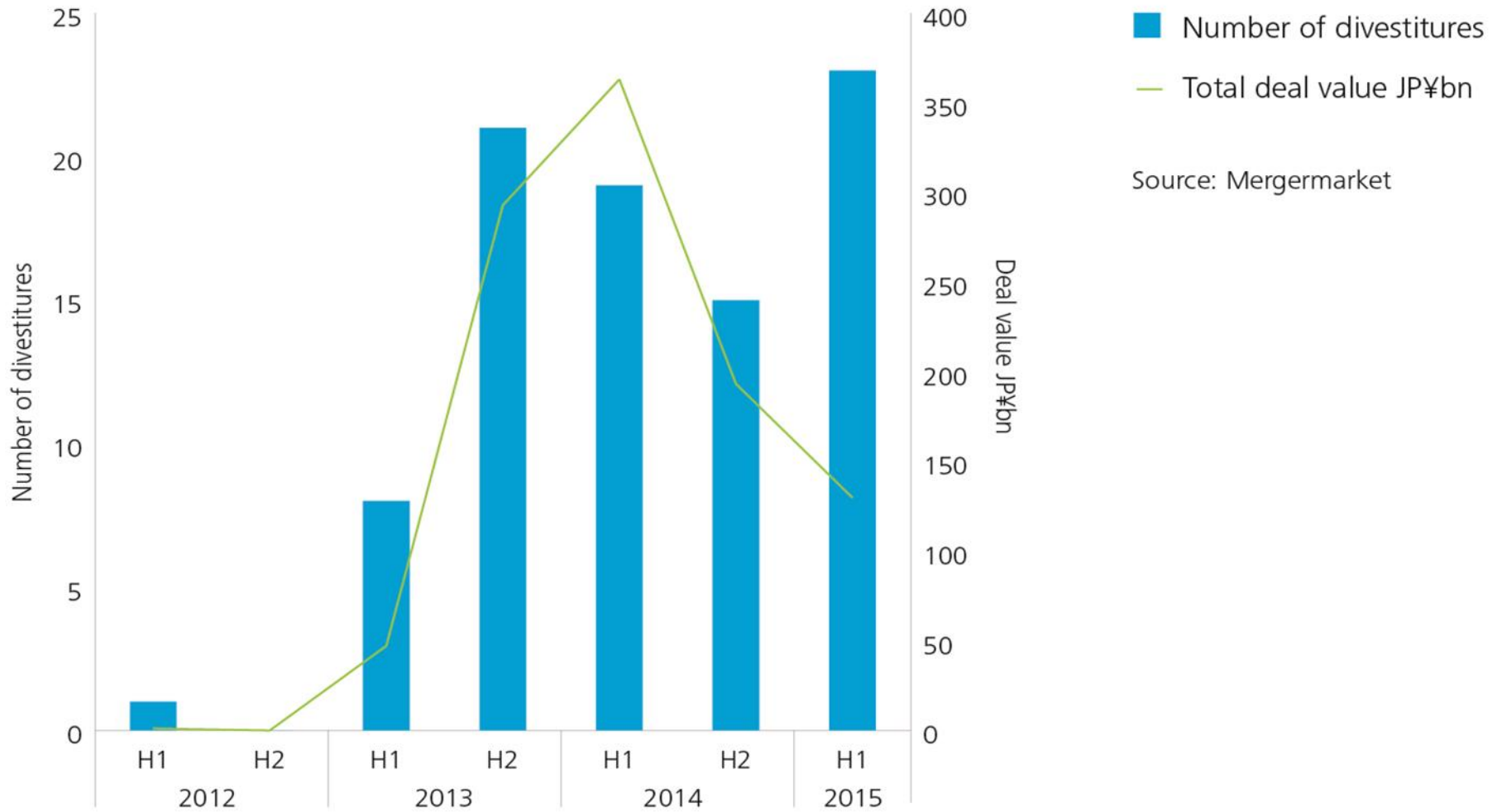
“In recent years some of our businesses have lost profitability. Where they once were catalysts for growth, some quickly became burdens to our bottom line. After careful consideration we decided that selling these businesses was the best option.”

“We had to constantly review our portfolios and understand our strengths and weaknesses in a timely manner to stay competitive and ensure profitability. Reviewing in six month intervals allowed us to evaluate the portfolio amid changing market conditions and, once we’d determined that a divestiture was the best option for certain assets, we plotted out an appropriate exit strategy for that business.”

“Acquisitions and divestitures are not as simple as buying or selling a product. These are far more complex processes that require a clearly defined, articulate strategy. Considering the future market and need for corporations to downsize to remain competitive, divestments will be just as important as acquisitions to maintaining growth. As such, when divesting assets we take an almost surgical approach, one that matches our acquisition process in terms of corporate-wide understanding and commitment as well as resource allocation.”

“Morale took a noticeable downturn during and after the divestiture and we saw a significant increase in employee turnover. Making employees understand the decision behind the sale was not easy, and their attachment and comfort with the business only added to the difficulties of separating from the parent company.”

Corporate divestitures in Japan



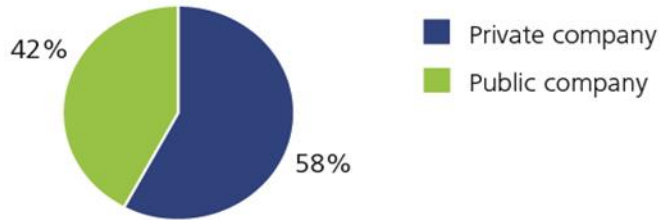
Source: Mergermarket

Corporate divestitures in Japan

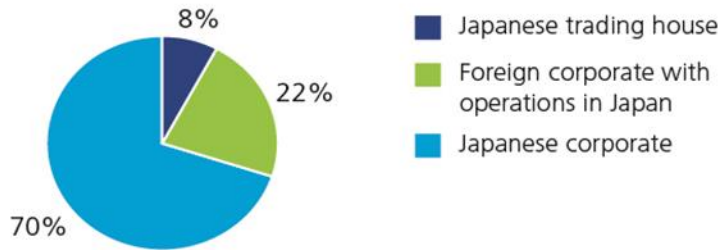
Top divestitures in 2014-H1 2015							
Announced date	Divested asset	Asset details	Bidder company	Bidder country	Seller company	Seller country	value JP¥m
4/28/14	Hartford Life Insurance	Japanese annuity subsidiary	Orix Life Insurance Corporation	Japan	Hartford Life Inc.	USA	110,980
1/30/14	NEC Biglobe Ltd.	Internet service provider	Japan Industrial Partners	Japan	NEC Corporation	Japan	110,112
11/17/14	Bushu Pharmaceuticals Ltd.	Phamaceutical drug manufacturer	Baring Private Equity Asia	Hong Kong	Tokio Marine Capital Co., Ltd.	Japan	82,460
9/16/14	Pioneer DJ Corporation	DJ entertainment business unit	Kohlberg Kravis Roberts	USA	Pioneer Corporation	Japan	57,908
5/12/15	Santen Pharmaceutical	Anti-rheumatic pharmaceutical business	Hyperion Pharma Co., Ltd.	Japan	Santen Pharmaceutical Co., Ltd.	Japan	46,563
3/31/15	Citi Cards Japan Inc.	Credit card business	Sumitomo Mitsui Trust Holdings Inc.	Japan	Citi	USA	41,334
2/3/15	Hitachi Metals Techno Ltd.	Construction business	The Carlyle Group Nippon Television Holdings	USA	Hitachi Metals Ltd.	Japan	30,627
11/21/14	TIPNESS Ltd.	Fitness club chain	Nippon Television Holdings	Japan	Suntory Holdings Ltd.	Japan	25,172
4/22/14	Net Japan Co., Ltd.	Precious metal, jewelry, and diamond recycling company	ORIX Corporation	Japan	Baring Private Equity Asia	Hong Kong	24,056
3/25/15	FXCM Japan Securities Co., Ltd.	Commodities futures trading service	Rakuten Securities Inc.	Japan	FXCM Inc.	USA	7,719

Methodology and respondent profiles

Which of the following best describes your company/firm?



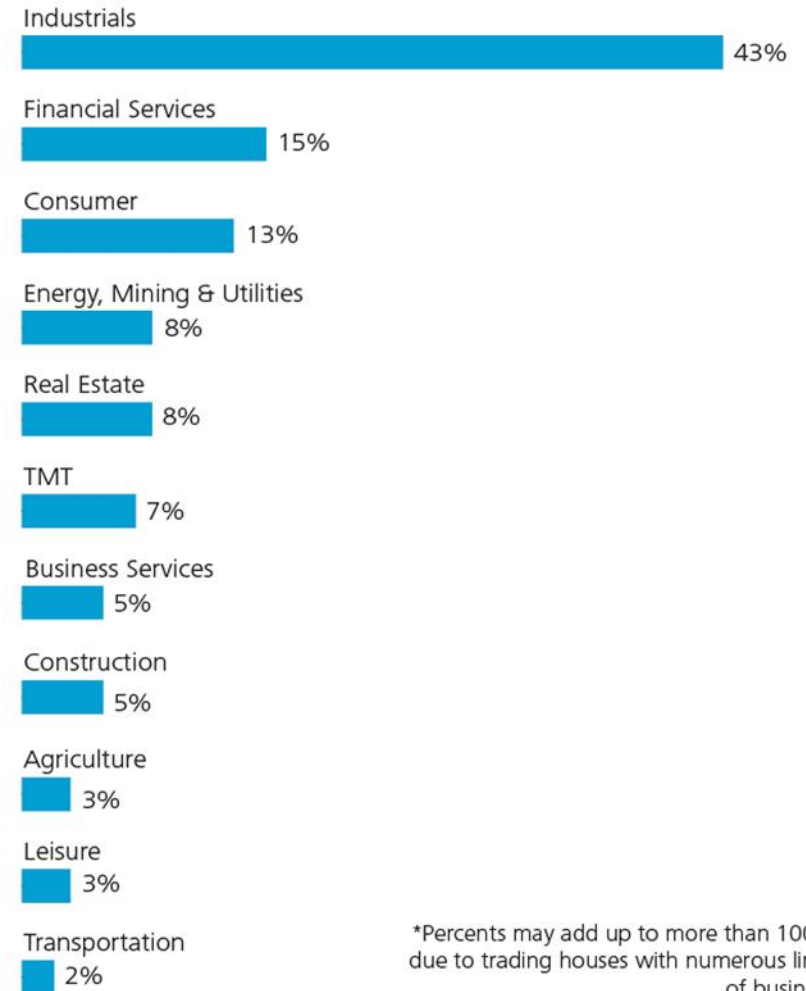
How would you categorize your company?



What was your company's most recent annual revenue in US\$?



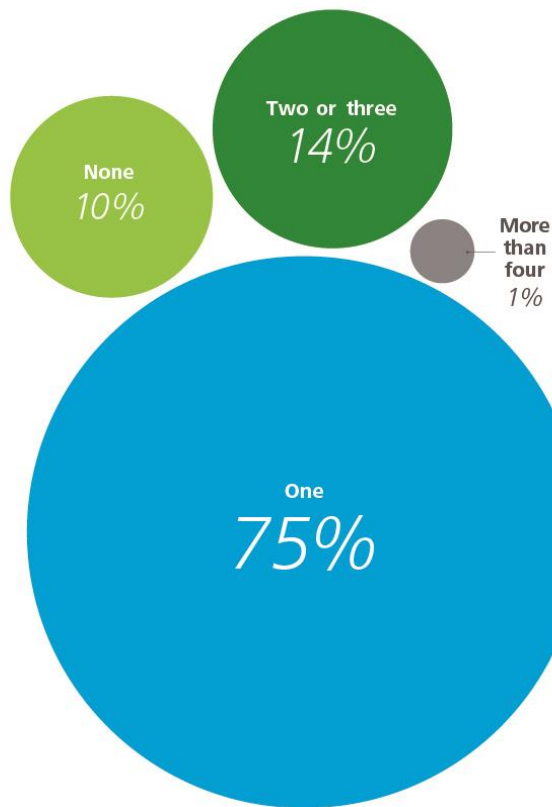
Within which industry does your main line of business operate?*



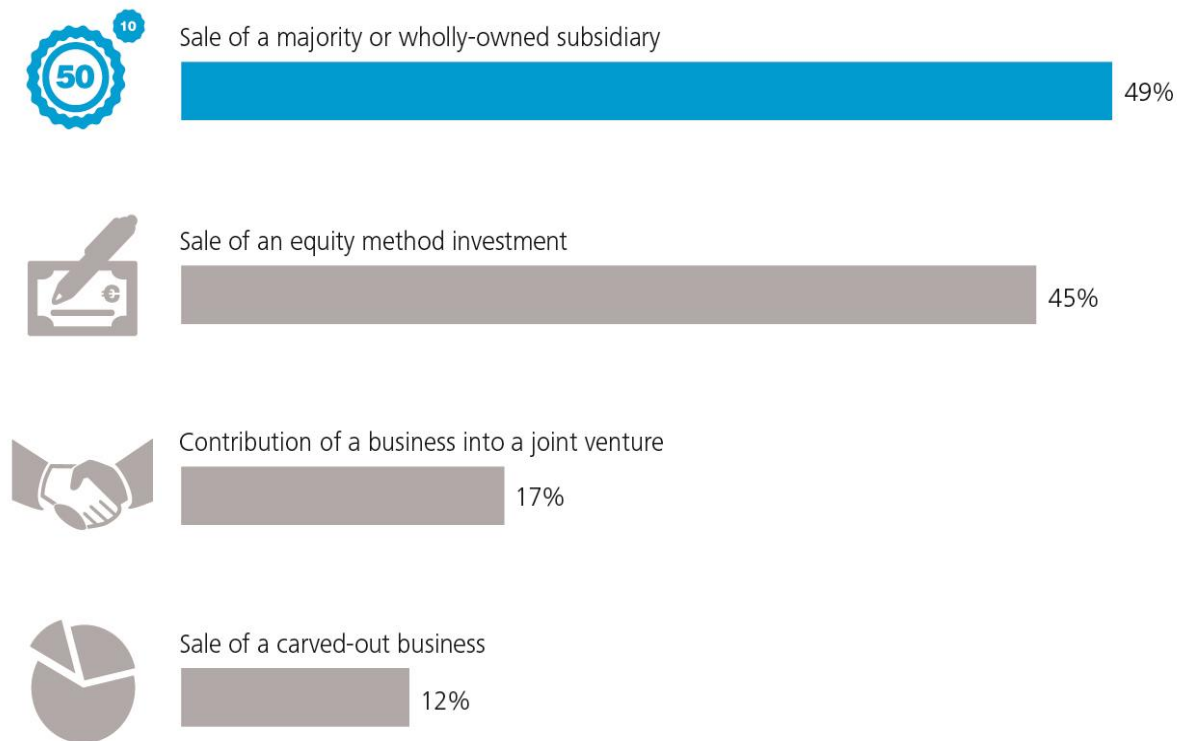
*Percents may add up to more than 100% due to trading houses with numerous lines of business

How many and what types of divestitures have you completed?

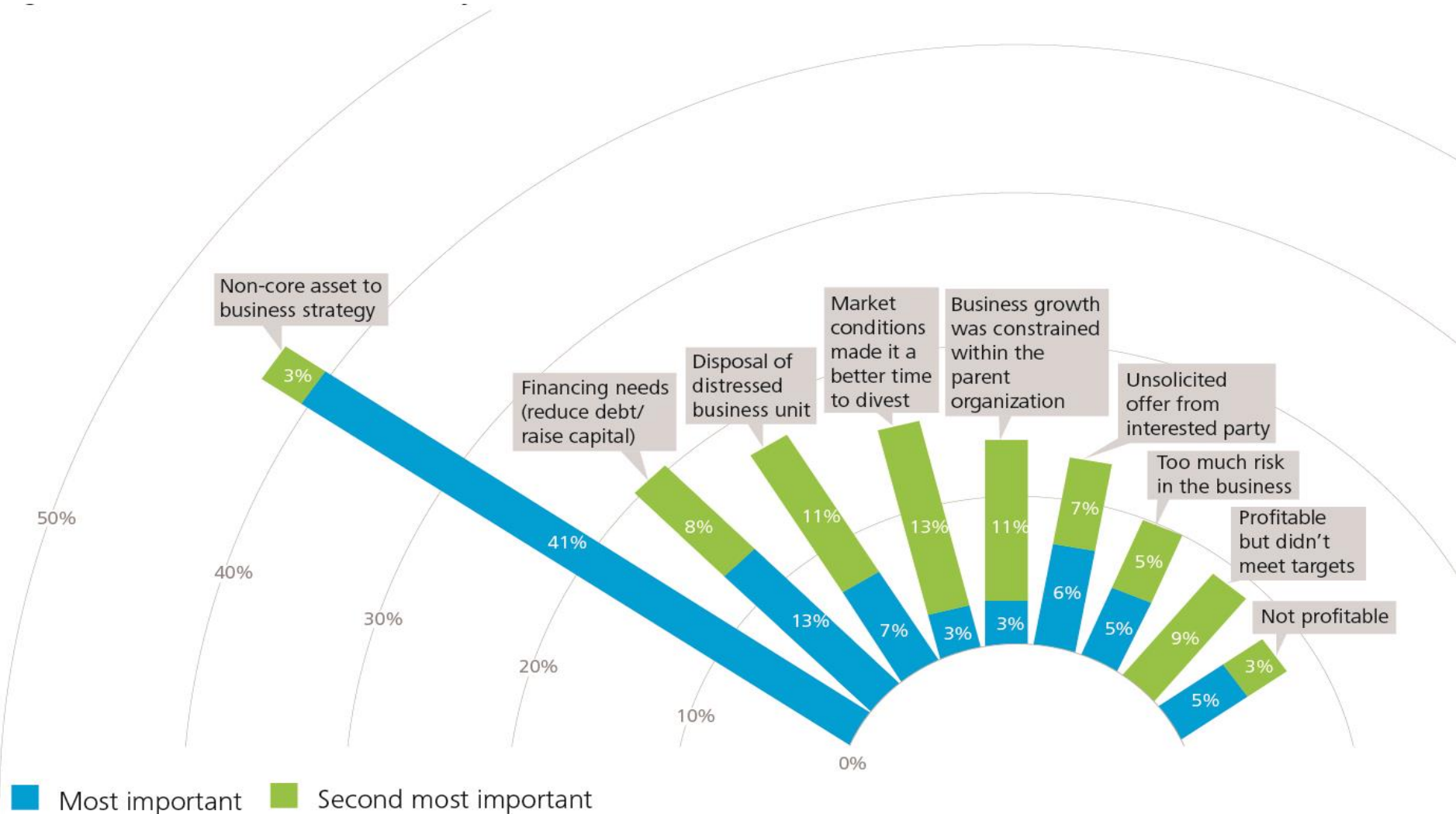
How many corporate divestitures have you completed in the past 12 months?



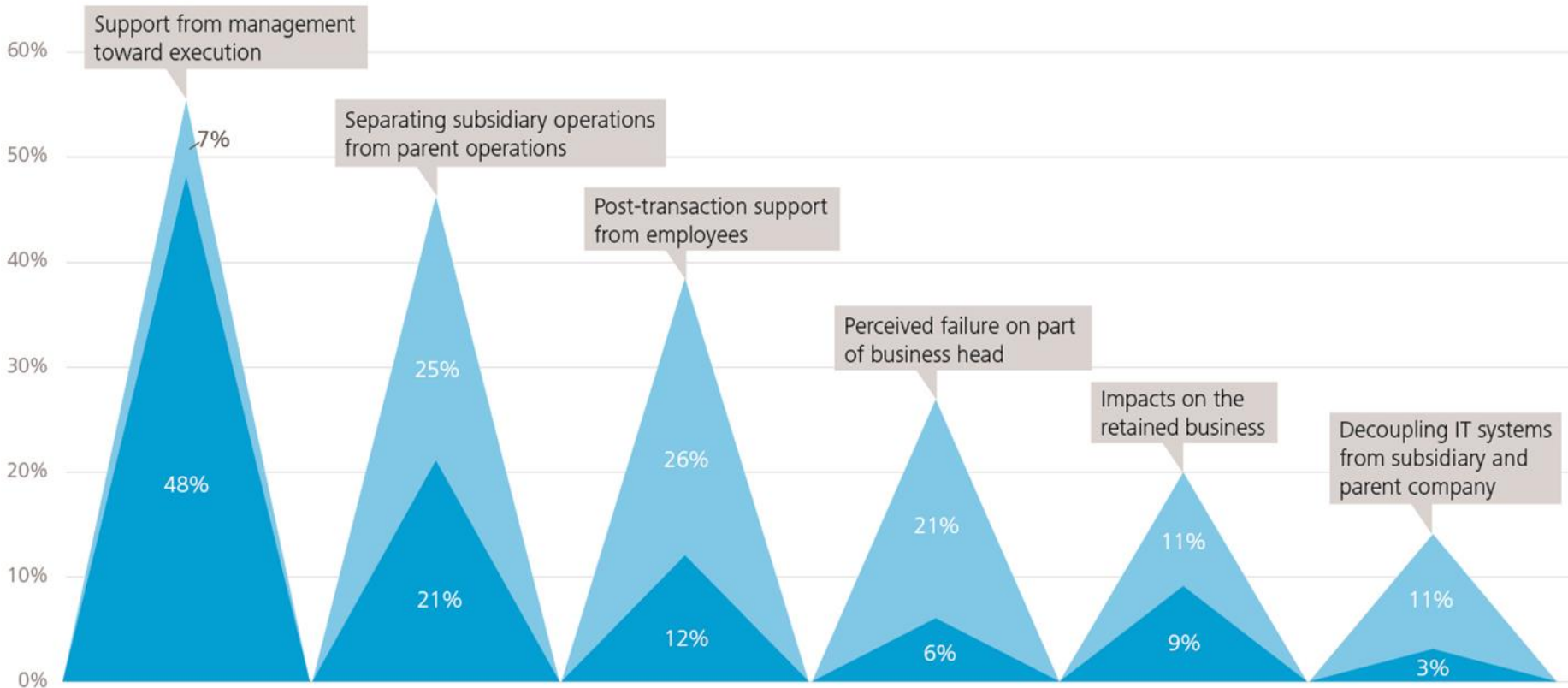
Which of the following divestiture types have you completed in the past 12 months?



What was the rationale behind your recent divestitures?



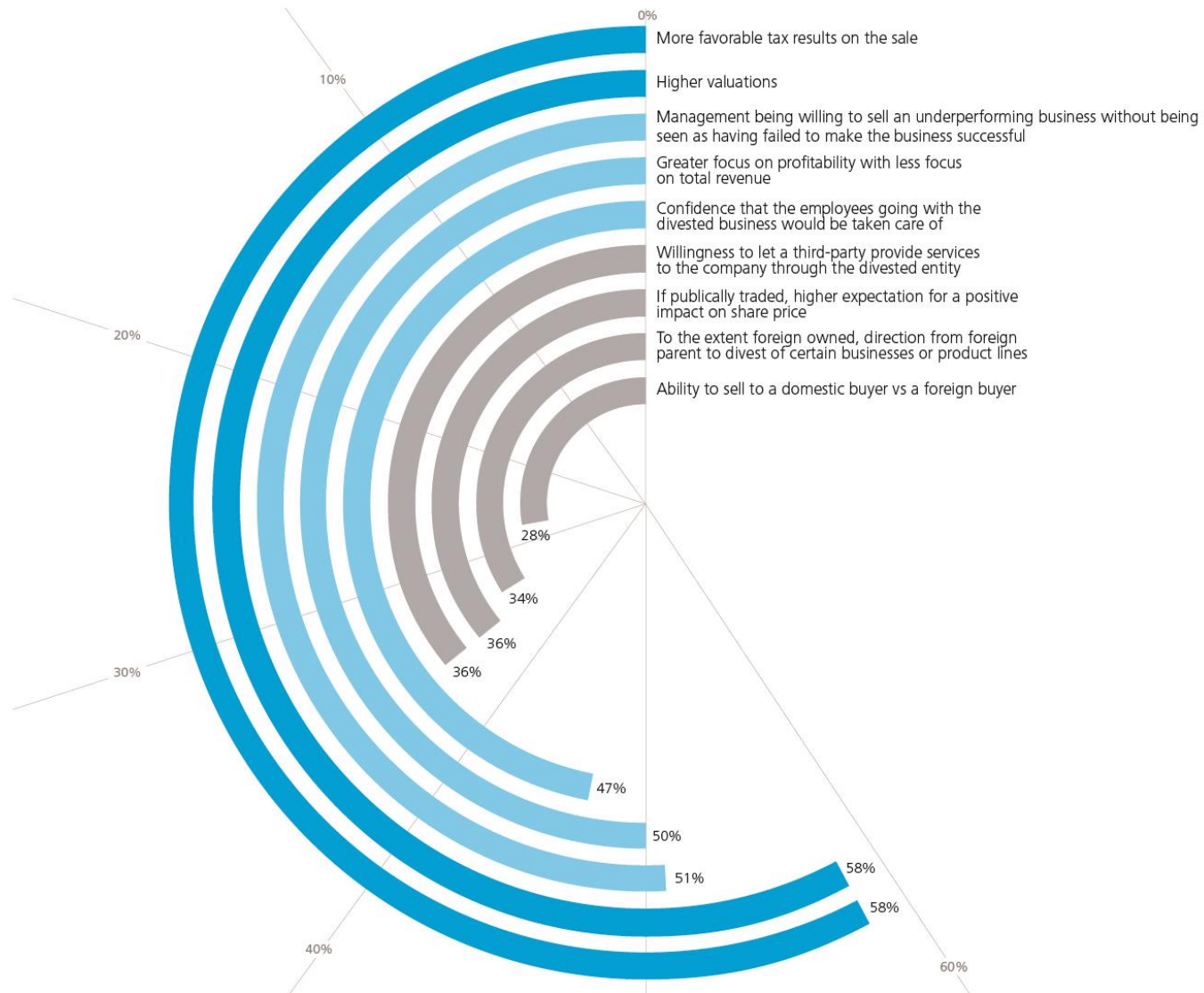
Which of the following were the greatest internal challenges in your recent divestiture?



▲ Greatest challenge

▲ Second-greatest challenge

What would need to change inside your organization to increase the level of divestitures?



If one of your divestitures failed to close, what will you do differently to increase the likelihood of closing the deal or increasing the success rate next time?



Prepare our own management team more thoroughly



35%



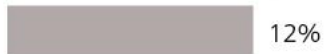
Reduce operational complexity of the business



30%



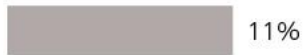
Perform more extensive pre-sale preparation for due diligence



12%



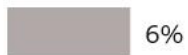
Invite a larger number of bidders to participate in the diligence process



11%



Lower the price



6%



Offer a more extensive due diligence process



3%

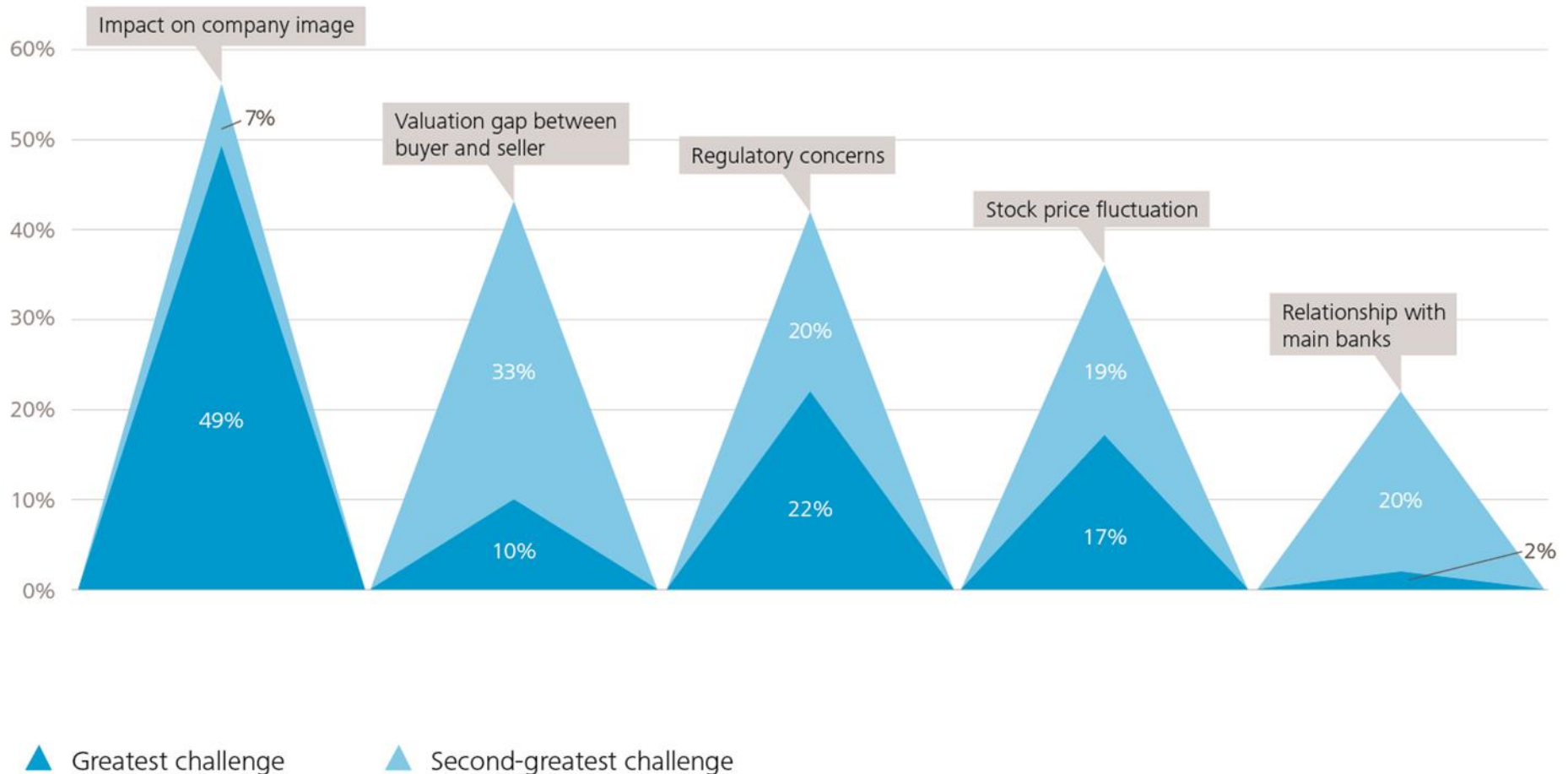


Change negotiation tactics



3%

Which of the following were the greatest external challenges in your recent divestiture?



What are the pros and cons to utilizing an auction process to divest of a business?

Figure 15: If you plan to utilize an auction process for some or all of your upcoming divestitures, what is the most concerning aspect of an auction?

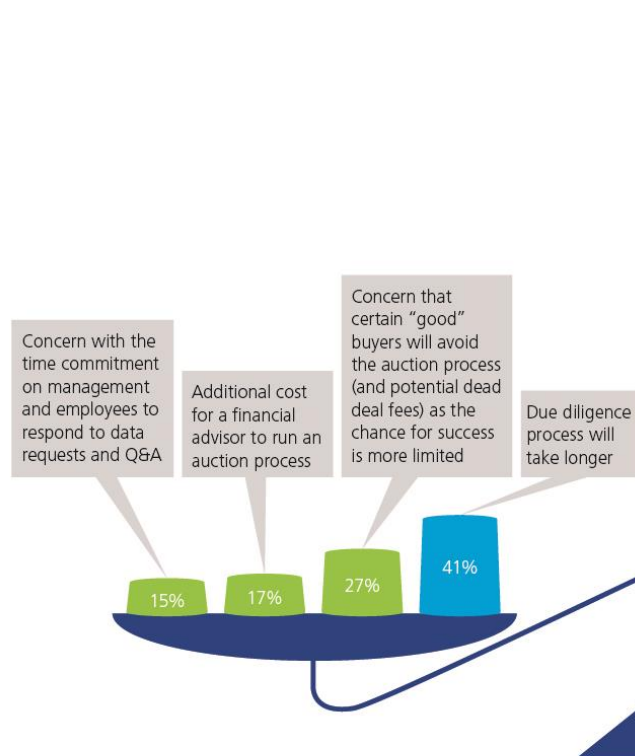
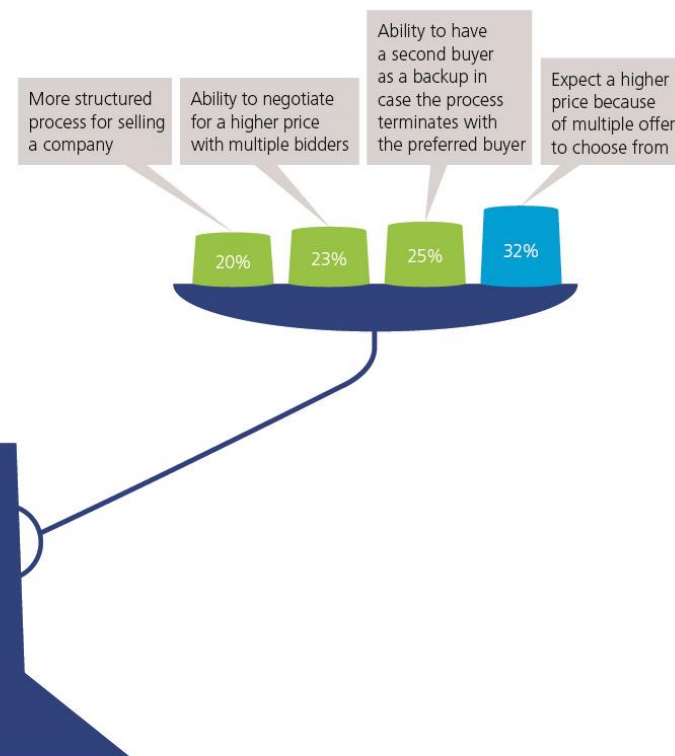
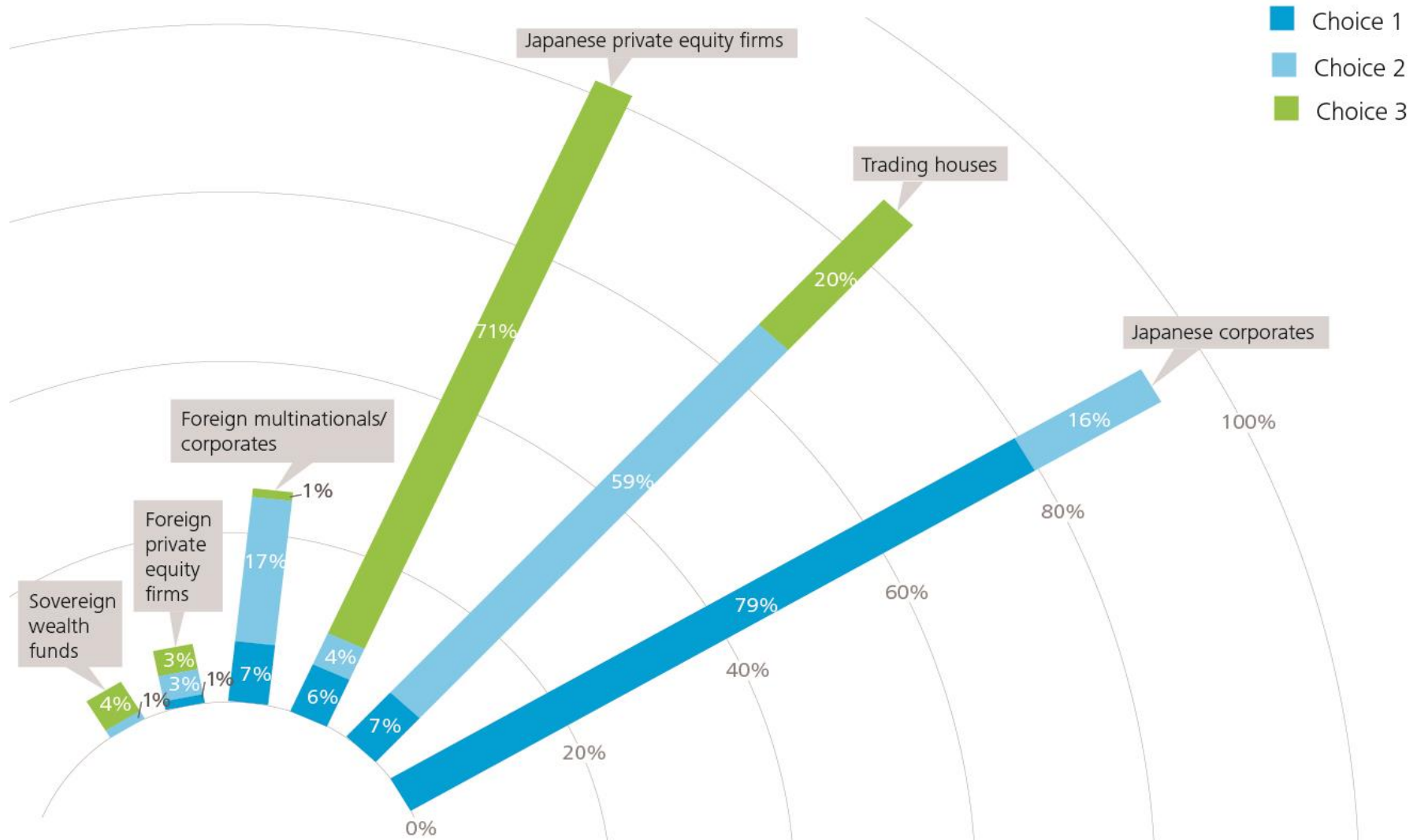


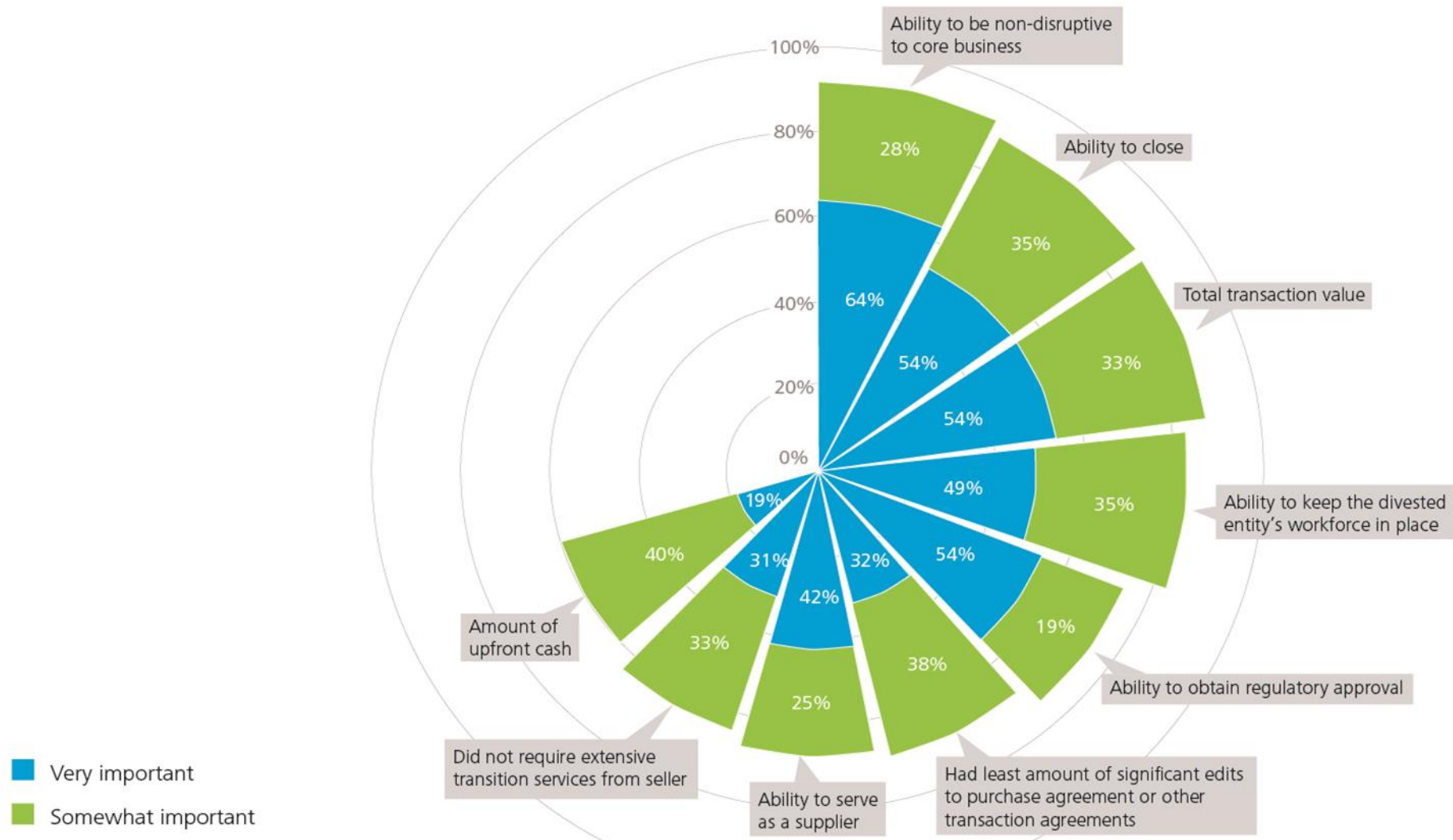
Figure 16: If you plan to utilize an auction process for some or all of your upcoming divestitures, which is the most compelling reason for selecting to sell through an auction?



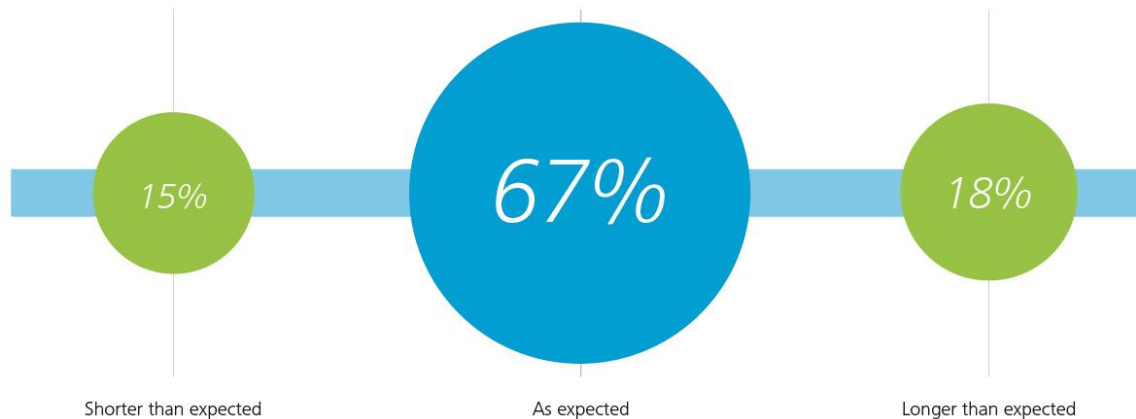
For your recent divestiture, which was your preferred buyer type (top 3 choices)?



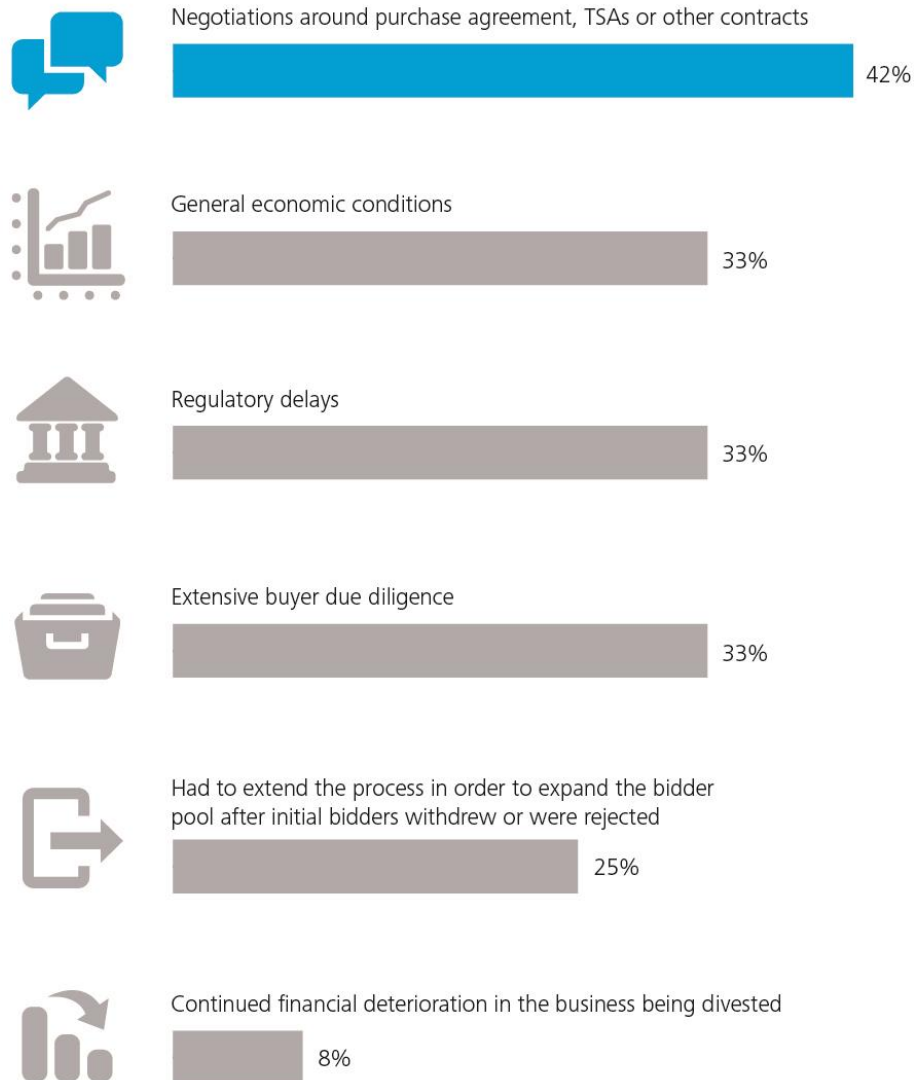
Please rate the importance of the following factors in selecting a buyer?



How did the time required to execute your most recent significant divestiture compare with original expectations?



If you answered “longer than expected”, why was this the case?



The CFO Program | Japan Announcements

Upcoming Events in the CFO Program

**Thursday, 12 November 2015, 7:00p.m. | CFO Reception
Autumn Reception 2015**

**Thursday, 10 December 2015, 8:00a.m. | CFO Forum
Breakfast Roundtable “Economic Outlook 2016”**

(subject to change)

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