

Robert F. Grondine Tokyo Office

An Overview of M&A in Japan and Structural Points of Interest

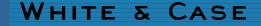
innovative solutions



I. Overall Numbers and Environment in Recent Years

A. High Increases in Transaction Value from Very Low Base

B. Absolute Numbers of Transactions Still Small



- C. Domestic Mergers and Acquisitions Still Predominate
- Very big numbers from financial institution mergers
- Very slow process from date of announcement to actual integration



None have produced any significant immediate savings in terms of reduced costs or other synergy benefit

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Classic concern is the Daiichi and Kangyo Bank merger of the early 1970's

D. Cross-border Transactions Distressed Sales are the Only Game in Town a. Financial Institutions b. Autos and Auto Parts



Positive Alliances

a. Very Few Examples

b. 2000 Experience



E. Political Environment for Continuing FDI

- Prospects in 2001-2002: the economy and fundamentals versus the Yen-Dollar exchange rates
- The Japan Management "Discount": why do so many TSE First Section Companies trade below break up value?



II. Structural Considerations

A. Past Barriers Mostly Removed
 Securities Laws for Take Over Bids

Other General Technical and Legal Barriers

Limitations on capitalization in kind

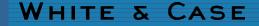
Proxy fights and other hostile actions



B. New Potential Structures SPC Acquisition Vehicles Stock Exchanges under the Commercial Code: not available for cross-border deals directly, but some uses Spin-offs and the Potential for an MBO Market

WHITE & CASE

 C. Corporate Governance
 Largest Continuing Obstacle: Japanese Board Practices, in Both Targets and Institutional Investors



No transparency or reliable process requirement

No accountability for shareholder value

No accountability by pension managers to pension beneficiaries under current system of defined benefit plans: will institutional shareholders sell into a hostile bid Accounting Principles and Practice
 Improvements in principles are largely in place, but vigilence required against back-sliding
 Practice standards still not up to international, so still requires very substantial consideration in valuations



Pension Obligations into the Future

- Valuation Issues
- Prospects for conversion from
 Defined Benefit Plans at present to
 Defined Contribution Plans

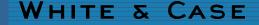


D. Work Outs: Attempts to Develop a More Rational Market
Corporate Revitalization Law: Early Intervention
Lessons of Yamaichi Securities and others
Sogo and other cases

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New Debt Forgiveness Proposals

- Original Tax Rule Against Writing Off Bad Debt
- Yanagisawa Proposals to focus on direct write-offs rather than loss reserves



Traditional Bankruptcy and Financial Institution Variants Will Continue to Predominate in 2001-2002



 E. Labor Issues
 Service Rationalization
 Service Pension Conversion Issues
 ✓ Foreign Parent Company Stock Options



F. Availability and Use of Advisors By Foreign Acquirer By Japanese Target

