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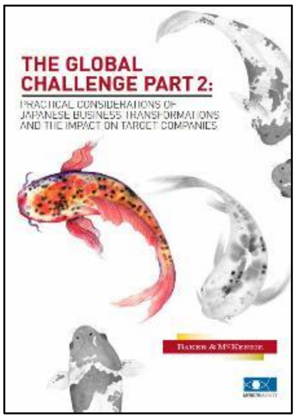
Press Release

For further details please contact:

Yuko Mishima
Public Relations Assistant Manager
Phone +81 3 6271 9408
yuko.mishima@bakermckenzie.com

Corporate Culture Can Make or Break a Deal; Comparing How the Japanese Corporates Fare with the US and European in Bridging Differences



Tokyo, Japan, October 14, 2016 – A Baker & McKenzie report released today reveals that US and European companies enjoy a higher success rate with post-acquisition integrations (PAI) than their Japanese peers, noting that merging companies with different corporate cultures remains one of the problem areas and cause of setbacks in cross-border M&As. On a more positive note, the report also provides key lessons for internationally acquisitive businesses through examining the PAI experiences of a global cross section of acquired companies.

The report, "*The Global Challenge Part 2: Practical Considerations of Japanese Business Transformations and the Impact on Target Companies*", is based on a survey conducted by *Mergermarket* on behalf of Baker & McKenzie in Q1 2016. A total of 200 business leaders from corporations acquired by Japan, the US and Europe were surveyed for their views on what works and what does not in cross-border deal-making. A copy of this report can be downloaded from the Firm's website.

64% of the respondents rated US and European acquirers as "very successful" change agents in driving PAIs, contrasting with 52% for Japanese buyers. This rating partly reflects the fundamental differences in how Japanese and western companies approach PAIs. Japanese buyers tend to develop detailed blueprints for the entirety of the project, which means Japanese management teams are more likely to resist correcting their course after the project has been launched as often this can be perceived as a sign of incompetence. This contrasts with the "launch first, find solutions later" philosophy commonly adopted by US and European companies, which allows them to act swiftly and set a more engaging tone for the integration.

This marked difference warrants attention, particularly as Japan continues its acquisition spree in Q2 and becomes the most active Asian buyer by value in Q3 2016, with 69 deals worth a total of US$44 billion, sparked in part by negative interest rates and strong corporate balance sheets. In fact, Japan ranks third on the world’s most acquisitive country list by value in Q3 2016, behind Germany and Canada. The top three target countries outside of the region for Japanese acquirers by value were United Kingdom, USA and France. Technology, Industrials, Automotive and Pharmaceutical, Medical & Biotech were the sectors that saw the most Japanese M&A activities by value in Q3 2016.

Commenting on the divergent approaches between the Japanese corporates and the US and European acquirers, Hiroshi Kondo, Partner and Head of the Corporate/M&A Practice at Baker & McKenzie's Tokyo office, said, "Japanese corporations should continue to develop their own local methods on PAI while continuing to study their Western counterparts. Learning from their weaknesses and amalgamating what has worked in other PAI techniques is one aspect which will help them succeed in the next wave of outbound acquisitions."

The report identifies four key areas in which the approaches and/or priorities of Japanese and international corporations differ in cross-border PAIs. These are areas which, if managed effectively, can help unlock the full value of the deal, particularly for Japanese corporations.

1. Managing corporate cultures
The survey revealed that many corporations perceive the merging of different corporate cultures remains the biggest problem area, and placed the reshaping of a company's culture among the most unwelcome changes during the integration process. US and European companies are seen to have a somewhat greater understanding of the ways their target companies are working with as much as 74% of the respondents rating them favorably, as opposed to 63% for Japanese acquirers. Better understanding of corporate culture can lead to higher levels of change management commitment from various parties at target organizations, an area where Japanese corporates may not be yielding a full buy-in from their targets' workforces.

2. Identifying and retaining talent
Respondents said across the board that top-performing employees were identified, mostly in the early stages of deals, and given equitable compensation packages to guarantee their continued service. However, only 42% of Japanese acquirers involved these employees in the retention process to select other key talent, compared to 57% of US/European companies. By failing to take these steps, companies from Japan may be missing out on opportunities to retain top talent, as indicated by differences in the effectiveness of retention programs: 59% very effective compared to 68% for US/European companies.

A targeted employee retention program aimed at keeping top talent in the current workforce, if implemented effectively, can impact the ease of integration as employees with key skills contribute to merging businesses and departments. As a further value-add, top talent provides ground-level insight to the market and can contribute to the creation of a globally minded management team.

3. Addressing integration challenges and managing opportunities
A proactive focus on top integration challenges like finance and tax issues, management functions, IT and systems and R&D are key elements in achieving a successful transformation for both Japanese and US/European corporations.

4. Influencing the IT integration process
Prioritizing IT and systems integration can have a positive impact on other aspects of integration, allowing communication and data to flow more easily between departments, teams and management. The timing and strategic planning of these elements may be key to a smoother integration.

About the Report

"The Global Challenge Part 2: Practical Considerations of Japanese Business Transformations and the Impact on Target Companies" (the second part of a flagship series focusing on global transformation comparisons between Japan and the West - see original report), is based on a survey of 200 companies which had been targets of acquisition/integration transactions involving corporations from Japan, the United States, and Europe. Half of the respondents had been acquired by Japanese corporations, with the remaining 100 evenly divided between those acquired by US- and by Europe-based companies. Respondents acquired by Japanese corporations were based in the following regions: North America (32%), Southeast Asia (21%), Europe (20%), South Asia (14%), Australasia (4%), South America (3%), and East Asia (3%), with the remaining percentages based in other geographies. For respondents acquired by US- or Europe-based companies, the breakdown was as follows: Europe (59%), North America (14%), Australasia (9%), South Asia (5%), Middle East (4%), Southeast Asia (3%), South America (3%), and East Asia (1%), with the remaining percentages based in other geographies.

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