

A blueprint for future M&A activities between Japan and China

Relationship overview:

Credit Suisse has advised NEC on their overall corporate strategy, not only on M&A discussions but also on other financing activities. Most notably, Credit Suisse has been continuously discussing their business portfolio strategies from an M&A point of view (divestitures and acquisitions). Credit Suisse has also maintained a close relationship with NEC for over ten years.

Key Task(s): To structure and implement a complex cross border joint venture

NEC needed to redress decline in share of global PC market. The PC business used to be absolute core for NEC, with the second largest share of the global market but in 2009 the company withdrew from its PC business in Europe after being unable to turn a profit.

Credit Suisse proposed a joint venture (JV) with Lenovo, then the 4th largest PC maker in the world, with a major research center and sales office in Japan.

The JV provided an opportunity for NEC to efficiently realign its operations and exploit significant synergies between the two companies including:

- Procurement synergies including pricing for key components
- Complementary customer base where NEC is strong in consumer, government and large corporates (especially Japanese) and Lenovo who has found success in multinational companies and SME market
- Enhanced product portfolio and greater economy of scale that would enable both companies to boost the profitability of the business in the matured Japanese PC market

The deal would be the first full-fledged alliance between major Japanese and Chinese players in the technology industry. It reflected a new trend where Chinese and Japanese companies were beginning to look at ways to work together for mutual benefit.

NEC needed a financial adviser able to structure and execute a complicated and potentially sensitive cross-border transaction and achieve a high transaction multiple for the deal.

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Role:

Credit Suisse engaged a highly experienced and dedicated deal team including: Japan Technology Group, Japan M&A Group, Asia Pacific Technology Group and Asia Pacific M&A Group.

Through seamless collaboration between Tokyo/HK teams CS successfully:

- Implemented a complicated cross-border joint venture structure and transaction
- Lenovo would hold a 51 percent stake in the new joint venture, while NEC would hold a 49 percent stake. As the result of this transaction and upon closing, NEC would receive from Lenovo US\$175 million through an issue of Lenovo shares
- Executed the complex transaction negotiating the various agreements in a time sensitive transaction process
- Overcame further complications from continued relationship between the joint venture and NEC group including sale of PC through NEC

Results:

Credit Suisse successfully executed the complex deal and achieved higher transaction multiple (EV/Revenue) compared to Lenovo's largest acquisition of IBM's PC business in 2004.

The transaction gave NEC and Lenovo the No.1 market share in China and Japan which are 2 of the 3 largest PC markets in the world.

NEC maintain a solid customer base in Japan where it remains a leader in PCs with 19% of the market in CY2010 3Q.

Following its operations realignment including semi-conductor etc, NEC is now looking at the global expansion of its information technology business.

Lenovo has benefited considerably from the explosive growth of China's PC market in recent years and has roughly 27% of its home market.

Critically, the NEC-Lenovo JV was a milestone transaction proposing a new approach for Japanese companies suffering from a matured domestic market and commoditized products.

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Market View:

The arrangement looks positive in terms of 1) avoiding risks associated with dwindling PC business and 2) enabling NEC to look into overseas marketing of commercial-use PCs and other options.

27 January 2011, Citigroup Global Markets Japan, Shinji Harada

NEC's PC business is not unprofitable, but we think its growth potential is limited because it targets only the Japanese market. We therefore think the joint venture scheme can be viewed positively.

28 January 2011, JPMorgan Securities Yoshiharu Izumi

Consolidation is positive for the industry as well as Lenovo:

While market has been focused on weaker demand for PCs, share consolidation has also been happening as Asian brands continue to take share from US/Japanese brands (see our report, "PC: Asian Brands gain as new wave of consolidation beckons", Dec 1, 2010). Active consolidation of this sort has usually proved to be good for industry margins (like Acer - Gateway/ Packard Bell in 2007).

Complementary product mix between NEC and Lenovo Japan:

Lenovo's Japan exposure is largely commercial, while NEC has a much higher consumer exposure, which should result in little share loss for combined entity.

27 January 2011, JPMorgan Gokul Hariharan

Future:

As a consequence of this transaction, our relationship with NEC has developed even further and Credit Suisse has become a truly trusted advisor to the company. Credit Suisse aims to continue to help NEC develop successful new business strategies in the future.