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The Japan Times

Stage now set for Hoya's Pentax tender offer in June

By KAHO SHIMIZU
Staff writer

Hoya Corp. announced Thursday that it will launch a tender offer for Pentax Corp. as early as June 4 in an attempt to turn the camera maker into a wholly owned subsidiary, ending a two-month takeover battle that caused Pentax to replace its president.

Hoya, the world's leading maker of optical lenses and glasses, will offer ¥770 per share, which will cost the firm ¥105 billion for all outstanding Pentax shares.

The purchase of Pentax is expected to give Hoya a competitive edge in the fast-growing business of medical equipment, including endoscopes.

Pentax's board of directors formally accepted Hoya's takeover proposal at a meeting later in the day.

"After twists and turns — which may have been an unnecessary process — we finally got approval" from Pentax's board, Hoya President Hiroshi Suzuki told a news conference at the lens maker's head office in Tokyo.

Suzuki was careful in responding to a reporter's question about what would happen to Pentax's camera business after the firm was acquired, saying only that Hoya does not intend to drastically reorganize it.

Pentax had scrapped the earlier share-swap merger agreement that its previous president made and had wanted to go it alone. But that plan got a cool reception from its investors and outright criticism from its largest shareholder, asset management firm Sparx Group Co., so Pentax decided to accept Hoya's new offer.

Economists and mergers and acquisitions experts say Pentax's decision to give in to shareholder and market pres-

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sure to take the deal is a significant development in the corporate world, indicating Japan is becoming more market-oriented.

"From the beginning, Hoya has stuck to the basics of leaving the decision (on the fate of Pentax) to the market," while Sparx has refused the sentimental argument of remaining independent in favor of boosting Pentax's corporate value, said Takuya Okamoto, an accountant who specializes in M&As at Abraham Investment Inc.

Pentax "did not understand what it meant to place the company on the stock market," Okamoto said.

"Japanese companies have long been in the position of being spoiled by their stable shareholders."

But shareholders are becoming more vocal, pressing the companies they have invested in to do more to enhance the corporate value and to look after their interests more.

Pentax had appeared confident when it announced May 11 brisk 2006 earnings and a new midterm business plan. It had hoped the business plan would convince Sparx and other investors that it would be able to continue to compete on its own.

However Sparx, which had supported the earlier share-swap merger with Hoya, called the business plan insufficient and urged the camera maker to agree to Hoya's tender offer.

In addition, Pentax's share price did not rise as management had hoped it would.

Pentax's stock has been moving at around ¥770 over the past few weeks. It closed Thursday at ¥776 on the Tokyo Stock Exchange, only 0.8 percent higher than the price Hoya is offering.

"Pentax management thought they could compete on their own. But the response from the stock market made them aware that they were the only ones who had that idea," independent economist Takaaki Hoda said.

Initially, Pentax and Hoya announced in late December they would merge this October through a share swap. However, Pentax's board pulled out of the deal April 10 and replaced President Fumio Urano, who had set it up, with Takashi Watanuki, who was against it.

Although the deal was called a merger of equals, Watanuki and most of the other Pentax board members reportedly were concerned that the merger would be all on Hoya's terms and would lead to a drastic reorganization at Pentax.

Experts agree that it is obvious looking at their financial conditions that Hoya will swallow up Pentax. Hoya's operating profit for the 2006 business year was ¥107.2 billion, about 19 times Pentax's profit of ¥5.65 billion. Hoya's market capitalization is nearly 18 times that of Pentax.

Naohiro Nishiguchi, an M&A human resource adviser at Mercer Human Resource Consulting, believes the problems at Pentax could have been avoided if the two firms had had more thorough negotiations.

Economist Hoda agreed, saying M&As do not succeed without the support of all the stakeholders — not only the shareholders but also the employees — about the strategical significance of the integration.

Hoda said many people believe M&As are the magic cure to boost corporate value, but a successful merger is not easy.

He said the success rate in Europe and the United States is only 30 percent.

"The lesson learned (from Pentax and Hoya) is that when carrying out an M&A, thorough discussions will be required not only between the two companies but also within the management, workers and shareholders of each company."

Chronology of Hoya-Pentax merger

Kyodo News

Dec. 21, 2006 — Hoya and Pentax agree to merge through a stock swap in October 2007.

April 4, 2007 — A majority of Pentax board members oppose the merger.

April 6 — Hoya threatens to launch a tender offer for Pentax in June.

April 10 — Pentax scraps the merger with Hoya and picks Takashi Watanuki to take over as president, ousting Fumio Urano.

April 23 — Hoya's board endorses the tender offer on condition that Pentax agrees to it.

April 25 — Sparx Group Co., the top shareholder in Pentax, calls for the board to be reshuffled and for Urano to be reinstated.

May 11 — Pentax announces a medium-term business plan.

May 21 — Hoya and Pentax reach a basic accord on the tender offer at a third top-level meeting.

May 31 — Hoya and Pentax directors formally endorse the tender offer and Pentax announces a new management team.