

Japan's M&A Deals in 2008 & Prospects

By Yutaka TAKAHASHI

Amid the global financial woes, Japanese companies are aggressive in contrast to slower activities elsewhere in the world...

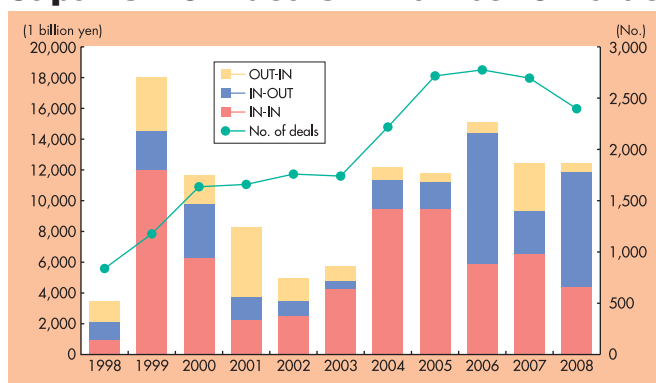
Amid the global credit contraction triggered by the US subprime mortgage woes and the collapse of Lehman Brothers, worldwide M&A deals reportedly declined about 29% in value terms in 2008 for the first setback in six years. This report reviews Japan's M&A activities last year and dwells on their future outlook.

M&A deals involving Japanese companies numbered 2,399 last year, 297 cases, or 11.1%, fewer than the year before. However, the value involved was little changed at ¥12,428.4 billion. (Chart 1 & Tables 1 & 2)

Big Firms in Same Business Step Up Integration via "In-In" Deals

"In-in" domestic deals, or those between Japanese companies, numbered 1,824, down 9.7% from 2007. They accounted for 76%

CHART 1
Japan's M&A deals in number & value



Source: Recof Data Corp.

TABLE 1
M&A deals classified by market entry style

Year	IN-IN		IN-OUT		OUT-IN		Total
	Number	Portion(%)	Number	Portion(%)	Number	Portion(%)	
1998	488	58.5	236	28.3	110	13.2	834
1999	721	61.7	266	22.8	182	15.6	1,169
2000	1,066	65.2	368	22.5	201	12.3	1,635
2001	1,190	72.0	289	17.5	174	10.5	1,653
2002	1,352	77.2	264	15.1	136	7.8	1,752
2003	1,352	78.2	213	12.3	163	9.4	1,728
2004	1,680	76.0	320	14.5	211	9.5	2,211
2005	2,129	78.1	411	15.1	185	6.8	2,725
2006	2,174	78.3	421	15.2	180	6.5	2,775
2007	2,020	74.9	367	13.6	309	11.5	2,696
2008:Jan-Dec	1,824	76.0	377	15.7	198	8.3	2,399

Note: M&A deals inside the same group are excluded.
Source: Recof Data Corp.

of the total M&A transactions. Their combined value came to ¥4,435.9 billion, down 32.5%. (Tables 1 & 2)

In one of the typical deals, leading oil wholesaler Nippon Oil Corp. and sixth-ranking Nippon Mining Holdings Inc. agreed to integrate their management. The merged entity will become the world's eighth largest oil distributor with an overwhelming 33% market share in Japan. In the consumer electronics industry, Panasonic Corp. (former Matsushita Electric Industrial Co.) took over Sanyo Electric Co. while major dairy producer Meiji Dairies Corp. and second-ranking confectioner Meiji Seika Kaisha agreed to integrate under a joint holding company. Thus, integration between rivals in the same business line characterized Japan's M&A transactions last year.

"In-Out" Deals Involving Japanese Firms Grow 2.6-fold in Value

"In-out" cross-border transactions meaning acquisitions of foreign interests by Japanese firms gathered momentum. These numbered 377 valued at ¥7,462.1 billion last year, 10, or 2.7%, more in number and up 2.6-fold in value from the year before (Tables 1 & 2). The value was the second highest on record after the ¥8,608.9 billion registered in 2006. Capitalizing on depressed global stock prices and the yen's steep appreciation, cash-rich Japanese firms stepped up acquisition of and purchase of equity stakes in foreign businesses with the aim of expanding their share in the global market.

Particularly active were players in the pharmaceutical, electric appliance, trading and banking industries. For example, Mitsubishi UFJ Financial Group acquired a 21% stake in Morgan Stanley while Nomura Securities Co. purchased Asia-Pacific operations, including those in Japan and Australia, from Lehman Brothers. These big

TABLE 2
M&A values classified by market entry style

(Unit: 1 million yen)

Year	IN-IN	IN-OUT	OUT-IN	Total
1998	991,528	1,151,168	1,335,109	3,477,805
1999	12,039,371	2,587,444	3,467,008	18,093,823
2000	6,279,760	3,432,301	1,901,372	11,613,433
2001	2,291,164	1,494,989	4,495,304	8,281,457
2002	2,561,864	925,283	1,454,741	4,941,888
2003	4,260,439	528,630	1,008,897	5,797,966
2004	9,482,763	1,882,869	743,432	12,109,064
2005	9,536,022	1,652,396	553,226	11,741,644
2006	5,843,242	8,608,978	636,371	15,088,591
2007	6,575,382	2,819,202	3,018,750	12,413,334
2008:Jan-Dec	4,435,925	7,462,180	530,322	12,428,427

Source: Recof Data Corp.

deals pushed up the total value last year. In fact, in-out deals accounted for 13 of the top 20 M&A deals in value terms (*Table 3*).

“Out-in” Deals Down 82.5% in Value

“Out-in” transactions, or acquisitions of Japanese firms by foreign capital, are said to account for more than 80% of annual direct foreign investment (FDI) inflows into Japan. In 2008, the number of such deals fell by 111, or 35.9%, to 198. The value involved came to ¥530.3 billion, down 82.5% from the record ¥3,018.7 billion logged the previous year. The biggest factor for the setback was funding difficulties amid

the credit crunch and the yen’s appreciation, which prompted investment funds, the traditional core players, to suspend fresh investment. The number of M&A deals made by investment funds plunged 51.2% to 85 from 174 the year before. The fall was steeper than the 28.2% setback they suffered in in-in deals. Their share in overall M&A deals also dropped to 10.3% from 14.9% the year before.

US investment fund Steel Partners, which drew much attention in Japan, sold out its stakes in Ezaki Glico Co. and Yushiro Chemical Industry Co. Steel Partners had held stakes of 5% or more in 22 Japanese companies at the end of 2007. The number has now fallen close to 10. Britain’s Children’s Investment Fund had demanded time

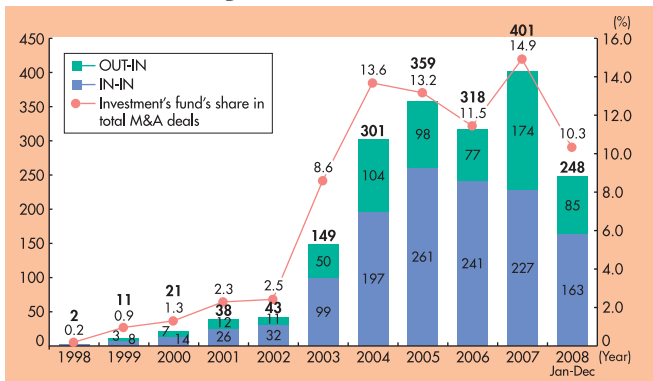
TABLE 3

Top 20 M&A deals in value

No.	Deal value (million yen)	Acquirer	Sector	Target	Sector	Domicile	Formation	Market entry style	Announcement Date
1	948,060	Mitsubishi UFJ Financial Group	Banking	Morgan Stanley	Securities	USA	Equity participation	IN -OUT	23-Sep
2	899,888	Takeda Pharmaceutical Co.	Pharmaceutical	Millenium Pharmaceuticals Inc.	Pharmaceutical	USA	Buyout	IN -OUT	11-Apr
3	580,000	SHINSEI Bank, APLUS Co.	Banking	GE Consumer Finance Ltd.	Other financial institutions	USA	Buyout	IN -OUT	11-Jul
4	567,098	Panasonic Corp.	Electronics	Sanyo Electric Co.	Electronics	JPN	Buyout	IN -IN	7-Nov
5	499,491	Daiichi Sankyo Co.	Pharmaceutical	Ranbaxy Laboratory Ltd.	Pharmaceutical	IND	Buyout	IN -OUT	11-Jun
6	498,700	Tokio Marine Holdings	Insurance	Philadelphia Consolidated Holding Corp.	Insurance	USA	Buyout	IN -OUT	24-Jul
7	390,000	Nippon Life Insurance Co. & 6 other life & nonlife insurance companies	Insurance	Mitsubishi UFJ Financial Group	Banking	JPN	Extra share purchases	IN -IN	14-Nov
8	312,000	Japanese-Korea industrial consortium of Itochu Corp., POSCO (Korea) and others	Trading	NAMSA (CSN)	Steel	BRA	Equity participation	IN -OUT	17-Oct
9	300,000	Vondotyium of Nomura Financial Partners Co. Next Capital Partners Co. & JAFCCO	Other financial institutions	Ashikaga Bank Ltd.	Banking	JPN	Buyout	IN -IN	14-Mar
9	300,000	Consortium of Marubeni Corp. Kansai Electric Power Co., GDF Suez	Other financial institutions	Senoco Power Ltd. (Singapore)	Electric/Power/Gas	SIN	Buyout	IN -OUT	6-Sep
11	264,000	NTT DoCoMo	Telecommunications/Media	Tata Teleservices Ltd. Tata Teleservices (Maharashtra) Ltd.	Telecommunications/Media	IND	Equity participation	IN -OUT	12-Nov
12	223,204	Mediceo Paltec Holdings Co.	Pharmaceutical wholesaler	Alfresa Holdings Corp.	Pharmaceutical wholesalers	JPN	Amalgamation	IN -IN	10-Oct
13	200,000	TDK	Electronics	Epcos AG	Electronics	GER	Buyout	IN -OUT	31-Jul
14	198,047	Marubeni Corp.	Trading	Antofagasta plc	Mining	CHI	Transfer of operation	IN -OUT	25-Apr
15	197,643	Meiji Dairies Corp.	Food	Meiji Seika Kaisha Ltd.	Food	JPN	Amalgamation (Equity transfer, Holding company)	IN -IN	11-Sep
16	163,200	Richo Americas Corp.	Electronics	IKON	Other wholesalers	USA	Buyout	IN -OUT	28-Aug
17	158,592	Mitsubishi Reyon Co.	Textile	Lucite International Group	Chemical	GBR	Buyout	IN -OUT	11-Nov
18	154,916	Shionogi & Co. (Tall Bridge, Inc.)	Pharmaceutical	Sciele Pharma Inc.	Pharmaceutical	USA	Buyout	IN -OUT	2-Sep
19	153,500	Mitsui & Co. Sojitz Corp., Mizuho Corporate Bank, Nippon Oil Corp., etc.	Trading	Japan Air Lines	Transportation/Warehouse	JPN	Extra share purchases	IN -IN	1-Mar
20	152,725	Mitsubishi UFJ Financial Group	Banking	ACOM Co.	Other financial institutions	JPN	Buyout	IN -IN	9-Sep

Source: Recof Data Corp.

CHART 2

M&A deals by investment funds

Source: Recof Data Corp.

and again that Electric Power Development Co. (J-Power) increase its dividend payout. It later sold all its shares to the power utility. (Chart 2)

In one of the deals valued at more than ¥50 billion each, IMC International Metalworking Companies B.V. (IMC) agreed to acquire Tangaloy Corp. IMC has under its wing Iscar Ltd., the world's fifth biggest producer of precision carbide metalworking tools, based in the United States. By taking in Tangaloy's technology, the Iscar group is aiming to set up a foothold in the Japanese market and catch up with Sweden's Sandvik, the leader in the industry.

US investment fund Carlyle Group has purchased NH Techno Glass Corp., a Yokohama-based producer/distributor of glass substrates for LCD televisions equally owned by NSG and Hoya Corp. Carlyle will be injecting money to boost production capacity at the company's plants in South Korea and Taiwan, hone its competitive edge and have it listed on the stock exchange in the future.

Scrapped Deals Hit Record, TOBs Drop in Number

A record 60 M&A deals were either cancelled or suspended last year, 16 cases, 36.3%, more than in 2007. Most of the cancellations were blamed on growing difficulties in assessing corporate value amid the global financial turmoil and fast changing management environment brought by the credit contraction. Takeover bids (TOBs) also dropped 27.8% in number. (Chart 3)

Mediceo Paltac Holdings Co., Japan's leading pharmaceutical wholesaler, and second-ranking Alfresa Holdings Corp. announced an agreement on their merger last year. The deal ranked 12th among the top 20 in value terms, but the two partners scrapped the deal this year.

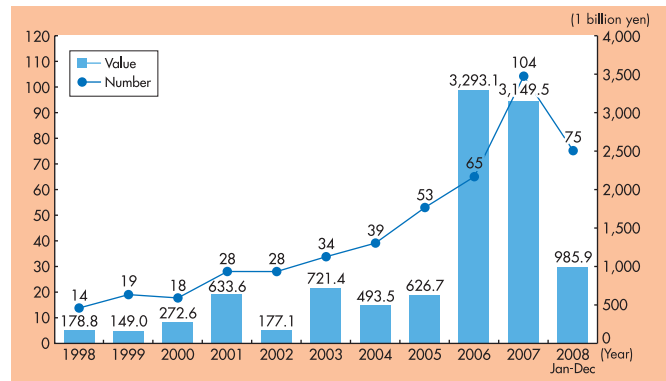
Nidec Corp., which has expanded its business through M&A deals, offered to buy out Toyo Electric Mfg. Co. last year. It drew industry attention as a hostile TOB, but later, Nidec withdrew its offer.

M&As to Recover in Latter Half of 2009

M&A activities in Japan are expected to remain slow in the first half of this year as companies will choose to wait and see amid lingering uncertainties over the future of the global economy and stock markets.

They may resume their strategic activities toward the middle of the year as the uncertainties and the possibility of the worst scenario subside. M&A deals will begin to increase in number in the latter half of the year, with the total reaching about the same level as in 2008.

CHART 3

TOBs in number & value

Source: Recof Data Corp.

In the first half, in-in deals will center on those aimed to prompt reorganization of affiliates within a group and those aimed to promote restructuring and secure liquidity on hand. In the latter half, activities will spread across all industries including, in particular, the electrical appliance and retail sectors where some specific proposals are in the offing. Capital and business alliances and mergers between big players aimed at corporate consolidation and enhanced financial capacity are likely to accelerate. Reorganization of regional financial institutions will make headway, possibly leading up to M&A deals involving local enterprises.

In-Out Deals to Remain Active

Acquisitions of foreign businesses by Japanese firms may slow in the first half of the year as many will opt to see how the money and stock markets will move. But in the latter half, Japanese companies will step up their M&A bids for foreign businesses on the back of a stronger yen and lower stock prices. Their motives will be manifold. They may seek to ensure a stable supply of resources and materials, hedge against risks of price fluctuations, expand market share for further business expansion, get additional production facilities outside Japan or salvage troubled business partners. The number of in-out deals this year will be as high as last year.

Out-In Deals to Remain at Low Levels

Foreign private equity funds, the key players in the past, fared rather poorly in 2008. Out-in deals will be slow this year as many of them will stay quiet. Faced with difficulties in getting fresh funds, more of them may move to sell their stock holdings as their clients pull out their investments. Activity funds are also drawing off, irked by Japanese managers' intensified efforts to foil TOBs. Out-in deals will tend to decline in number.

Even when the financial market heads for recovery, foreign investment funds may shift away from Japanese businesses and choose to invest in emerging countries with greater growth potential. **JS**

Yutaka Takahashi is President, Recof Data Corp. He started his financial market career in 1969 when he joined Yamaichi Securities Co. (now defunct). He became a Recof board member in 1993 before assuming the current post in 2008.