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Business

As domestic options wane, Japan turns to U.S. acquisitions

Apr. 14 | 04:00 pm JST | 10 Comments

By Julian Ryall for The ACCJ Journal

TOKYO — Japanese companies continued their recent spree of mergers and acquisitions (M&As) in 2018, with an impressive number of deals coming to fruition. Some of these involved eye-catching agreements with US companies. And analysts suggest that the prospects for this year appear similarly positive, despite the clouds of geopolitical tension hinting that a global economic downturn may be on the horizon.

Prime for Expansion

"Many Japanese companies have enjoyed record profits in their operating businesses and have access to low-cost capital from banks," said Frank Packard, chair of the American Chamber of Commerce in Japan (ACCJ) Alternative Investment Committee and president of cross-border financial services provider Triple A Partners Japan Co., Ltd.

"Abenomics and Prime Minister Shinzo Abe's desire to reinvigorate the economy is encouraging companies to focus on returns and growth," he added. "With the maturity of Japan's economy and its aging population, more companies are looking overseas. Also, Japanese companies have limited domestic M&A opportunities that would gain antitrust approval from the Japanese government."

Companies in Japan are also trying to find a way around the relatively lower rate of domestic economic growth, smaller domestic markets, and the need to increase revenue opportunities. These are all things the United States can provide, Packard told The ACCJ Journal, thanks to "a higher rate of economic growth, a dynamic venture capital industry, a spirit of technology development, and innovative businesses."

Eric Sedlak, ACCJ vice president and a partner at US-based global law firm K&L Gates LLP, agreed that cash-rich Japanese companies are looking to "either retain or expand their positions globally by moving into growing markets with better return-on-investment prospects."

And the United States is the ideal destination for investment, he said, as it "gives them an opportunity to expand vertically, horizontally, and geographically."

China Connection

Japanese companies are also taking advantage of the "relative decline of Chinese buyers," said Scott Sugino, vice-chair of the ACCJ Foreign Direct Investment Committee and partner at O'Melveny & Myers law firm in Tokyo.

"That decline is due to both Chinese restrictions on getting currency out of China and increased regulatory scrutiny of Chinese buyers in the United States, which has opened the door for Japan to win deals they were previously losing to Chinese buyers," he said.

There is also an element of anti-Chinese sentiment in the United States and other countries that are members of the Organisation for Economic Co-operation and Development, he said, as evidenced by the ongoing problems involving telecommunications and consumer electronics giant Huawei Technologies Co., Ltd.

"In contrast, Japan is now viewed as a friendly country and a welcome alternative to Chinese buyers," he said.

Safer Bet

For target companies, Japanese buyers may even be preferable to some US private equity buyers, said Packard. "US financial investors often have short-term goals and seek to sell the company again in three to five years, because they have pressure to return money to their investors.

"By contrast, a Japanese company may have more to offer, potentially a better strategic fit, the opportunity to quickly achieve global scale, deeper alignment of business interests, and more corporate stability and job security," he suggested.

Sedlak agreed that Japanese investors are more welcome nowadays, and may even be "somewhat underappreciated."

"Local communities are much less apprehensive about Japanese buyers than they were in the 1980s," he said. "They realize that if a Japanese investor buys the company, the jobs are secure—at least in the near-term. Japanese companies have also become much more adept at building ties to local communities and governments."

Deal Makers

Analysts point to a couple of particularly significant deals that went through in 2018, including Fujifilm Corporation's acquisition of California-based Irvine Scientific Sales Co., Inc., which specializes in cell culture media. Fujifilm said the addition would help advance its growth strategy in biopharmaceuticals and regenerative medicine.

SoftBank Group Corp. has also been busy over the past 12 months or so, investing in Uber Technologies Inc. in January 2018 and moving ahead with the merger of T-Mobile and Sprint Corporation, with SoftBank Chairman and Chief Executive Officer Masayoshi Son expected to sit on the board of the new company.

For Sugino, however, the purchase by Recruit Holdings Co., Ltd. of Glassdoor Inc. lays down a marker.

"The Glassdoor acquisition was notable because it is unusual for Japanese companies to acquire US market leaders in the consumer internet space," he said. "Glassdoor is the leading employer review site in the United States and a pioneer in its space. Recruit previously acquired Indeed, the employment-related search engine for job listings, and seems to have done a good job of integrating the company into its Japanese business."

Recruit, he added, is making some bold acquisitions and seems to be able to do a good job of integrating the companies and retaining top talent.

Connecting Cultures

Integrating operations and holding on to a company's best people are just some of the challenges that await the unwary looking to expand abroad, cautions Gerhard Fasol, CEO of Eurotechnology Japan KK.

"Japanese companies acquire US companies for their technology and market access—in large part because the United States is still the largest international market, and it's much easier to do business there than in China. But, it is important to remember that an acquisition is not finished when the deal is closed.

"Quite a few Japanese companies then run into problems managing their overseas acquisition," he said. "A textbook case is a Japanese company that acquires a US company and places a member of the Japanese board as the new US CEO. But this person cannot speak English sufficiently or lacks knowledge of how to manage a global company based in the United States. This happens more often than one would expect."

Jiri Mestecky, an attorney with the Osaka office of Kitahama Partners, agrees that "Japanese companies are looking to US companies to provide not only technology, but also talent, and this requires the appropriate human resource management and communication skills.

"Historically, it has been our experience that the most difficult aspect of Japanese acquisitions of US and other foreign companies is the post-merger-integration (PMI) phase, which, if not handled properly, can turn an otherwise very promising venture into a nightmare," said Mestecky, who also serves on the executive committee of ACCJ's Kansai chapter.

"The key to success is forward planning, in which both sides clearly understand the structure, capabilities, and limitations of the other party and have a plan in place as to how to address known and potential obstacles well before the merger officially takes place."

Japanese companies, through their own experience as well as studying other mergers and acquisitions, are now rapidly realizing the importance of this phase of the deal and are becoming much more proactive in addressing the relevant issues, he added.

"As the number of Japanese acquisitions increases, we are also finding that US and other foreign companies are learning how Japanese companies operate and are adjusting their PMI plans accordingly," Mestecky pointed out.

Fasol summed up this situation. "The main point has to be the long-term success of each acquisition or investment. Unfortunately, some M&A transactions destroy value."

And not all planned mergers even make it that far. Shigetaka Komori, chairman of Fujifilm Holdings Corporation, admitted in late December that the $6.1 billion acquisition of Xerox Corporation—originally announced in January and then cancelled by the US side in May—had become "difficult" after an activist investor was granted an injunction by a New York court to block the merger.

Stay the Course

Nevertheless, there is particular appetite among Japanese companies for M&As in the artificial intelligence space, he said, as well as other areas of cutting-edge technologies. The biological, pharmaceutical, life sciences, and logistics sectors are particularly enticing. Among large Japanese banking groups, fintech, and venture capital startups, attractive targets are medical devices, automotive tech, specialized heavy equipment, and factory automation. Property, in contrast, appears to have waned in its appeal.

Already a quarter of the way into 2019, analysts say there is little sign that Japanese demand for M&As involving US companies is drying up.

"To be fair, uncertainty around the renegotiation of the North American Free Trade Agreement did give some Japanese companies pause, but as that negotiation concluded without creating major disruptions, the worry abated," said Sedlak. "Sudden policy shifts around tariffs, steel, and aluminum caused disruption and significant supply chain uncertainty—and uncertainty causes potential buyers to hit the pause button. But, the size and volume of deals should nevertheless continue to increase.

"Japanese companies need to expand abroad to continue to grow," he said. "Acquisitions are a faster route to increasing revenue and profits than organic growth and greenfield projects."

Sugino concurs. “While there is a lot of uncertainty in global trade, the US–Japan relationship is stable,” he said. “The global trade turbulence does not change corporate Japan’s need to find growth, and that is mostly going to be abroad.”

Custom Media publishes The ACCJ Journal for the American Chamber of Commerce in Japan.

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10 Comments

Yubaru Apr. 14 | 05:23 pm JST

Right, more money for the shareholders and board members, and no raises for the worker bees!

Abe knows this, and urges businesses to raise wages, and sits by while stories like these pop up!

Thanks for nothing!

5 (+6 / -1)

JJ Jetplane Apr. 14 | 05:56 pm JST

> *Companies in Japan are also trying to find a way around the relatively lower rate of domestic economic growth, smaller domestic markets, and the need to increase revenue opportunities.*

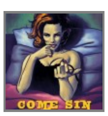
Lack of investment in Human capital is one of the major reasons for this. Purchasing power is shrinking for many people here. Even if they have the purchasing power, lack of time to actually use it is another reason. People either can't afford the money or the time to help reinvigorate the economy here.

4 (+5 / -1)

Cameron Apr. 14 | 06:21 pm JST

Most North Americans living in NA (that I have met) still think Seven Eleven is an American company. They have no idea that it became Japanese almost 15 years ago! Maybe that's the way it should be to reduce "acquisition shock".

1 (+3 / -2)



commanteer Apr. 14 | 06:45 pm JST

> *Most North Americans living in NA (that I have met) still think Seven Eleven is an American company.*

It's pretty much that way now everywhere. Companies are global, it's just the people who are corralled into little geographical areas and told that their right to leave is actually a privilege.

2 (+3 / -1)

yoshisan88 Apr. 14 | 08:11 pm JST

After some breweries in Australia are bought by Japanese company. Asahi and Sapporo beers are brewed in Australia, not imported anymore. I prefer a Japanese beer brand should be made in Japan. One time I was kinda shocked when I found an Asahi I bought was brewed in China. I am not saying it is bad but it sure is interesting.

0 (+1 / -1)

Reckless Apr. 14 | 09:40 pm JST

Much of US technology originates in government funded universities and should not be sold to foreign buyers.

-1 (+2 / -3)

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socrateos Apr. 14 | 11:37 pm JST

JJ Jetplane:

> *Lack of investment in Human capital is one of the major reasons for this. Purchasing power is shrinking for many people here.*

It's more about domestic population decrease. You have less people to buy and less people to work. This pushed Japanese companies to become international. Internationalizing gives them both consumers and workers abroad as well as profits. The world as a whole, population is still increasing. This is one of the reasons why Japan may be able to survive domestic population crisis.

-5 (+1 / -6)

JJ Jetplane Apr. 15 | 08:13 am JST

> *It's more about domestic population decrease.*

The lack of a living wage is one of the main reasons and a more immediate reason than the population crisis. Most of the Japanese population is still in the working age. The baby boomer generation has not retired yet. The population crisis has a more drastic affect down the road. Currently, the biggest issue is the lack of a living wage and overwork. You can’t afford to spend or you don’t have time to spend.

Focus on the extended golden week gripes that many people are saying. They can’t really afford to go anywhere right now or they need the money and want to work.

3 (+3 / -0)

Reckless Apr. 15 | 10:39 am JST

> *@JJ Jetplane: The lack of a living wage is one of the main reasons and a more immediate reason than the population crisis.*

I would agree with this. I am in a high income profession where the salaries and opportunities in the US for the same job are about double. When I look around to find jobs in Japan with higher salaries there is absolutely no interest by J firms in being internationally competitive with pay. I have family reasons to be here, but I am sure someone in a competitive field would not want to work in Japan simply for the low pay. Even when you do get high pay like Carlos Ghosn, the Japanese will despise you for it.

3 (+3 / -0)

Insane Wayne Apr. 15 | 08:27 pm JST

Its not the 80s anymore. The Stratojet just made its maiden fight yesterday. Japan is struggling to launch a rocket and America has developed a plane that can launch objects from 35,000 feet. No wonder they use their fake money to buy US companies they have lost

0 (+0 / -0)