Buying up the world
Japan’s outbound M&A spree and the bid for value

An Economist Intelligence Unit report
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Preface

This report is based on in-depth interviews with numerous senior executives, experts and officials involved in Japanese mergers and acquisitions. In order to encourage candour among interviewees, in certain cases we agreed not to disclose their identity. The views expressed herein are solely those of the interviewees, where attributed, or the Economist Intelligence Unit, and do not necessarily reflect the opinions of the sponsors.

Interviews were conducted face-to-face in December 2011-February 2012, in English and Japanese, by the author, Miki Tanikawa. Amie Nagano, Takato Mori, Gavin Blair and Andrew Hutchings provided additional reporting and research. The report was written in English and translated into Japanese. The English version should be regarded as definitive. The report was edited by David Line of the Economist Intelligence Unit; the Japanese translation was edited by Takato Mori and Amie Nagano. Gaddi Tam was responsible for design and layout. The cover design is by Wai Lam.

About the author

Miki Tanikawa is a Tokyo-based business journalist. Over the past 15 years he has written nearly 700 articles on business, finance, real estate and higher education. His journalism career includes a stint as a business news reporter for the New York Times, contributions to BusinessWeek and Time magazine and a regular column for the International Herald Tribune. He also teaches modern Japanese history, Japanese society and culture, and international relations at various universities and a national government agency.
Executive summary

Japanese companies are on another cross-border buying spree. After binges in the late 1980s and late 1990s—fuelled first by soaring asset prices at home and then a global technology boom—Japanese companies are again acquiring foreign assets in record numbers. In 2011, according to Thomson Reuters, they did a total of 642 deals, the highest in history and a 21% increase on the previous year. The aggregate value of all outbound deals last year was US$69.5bn, up 81% from 2010 and another all-time record.

The first two buying sprees were arguably as notable for their hubris as much as their success. Is this time any different? Certainly the conditions are more favourable. With economies in Europe and the US struggling and the yen soaring, foreign assets are cheap. The macroeconomic drivers—shrinking domestic demand, higher production costs at home and increasing competition for resources with high-growth neighbours—are similarly compelling. Notably, rather than buying “trophy assets”, Japanese buyers now seem more likely to take full control of businesses overseas in areas of core strength, for a variety of sound strategic reasons. Do these trends mean they will be more successful in creating value from their investments?

To find out, the Economist Intelligence Unit interviewed a variety of senior managers at Japanese companies about their outbound M&A strategies and processes. Why and where are they pursuing foreign assets? What are the internal processes that they follow in doing so? What lessons have they learned from their previous successful (and not-so-successful) cross-border transactions? What pitfalls should be avoided in various stages of the deal and post-merger process? Can Japanese buyers overcome these challenges to ensure that buying foreign assets actually creates value for shareholders?

Generally, many mergers and acquisitions, even of firms within the same country, fail to pass this simple test.¹ Japanese companies are no better equipped than others to make M&A work. Indeed, research for this report suggests they face a set of additional challenges when pursuing overseas M&A, particularly those that entail the acquisition of a controlling stake and require a measure of integration to yield returns (the principal focus of this report). These challenges underpin most of the issues discussed below and can be summarised as follows.

* Japanese buyers that rely only on long-term strategy, without plans for quick action on integration, risk failure. Japanese companies typically sustain a longer-term outlook for their

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investments than many target companies are used to. This often bodes ill when pursuing M&A if a Japanese buyer’s strategy does not include plans for immediate implementation. The buyer might have certain ideas for achieving synergies, but it might not think they require immediate action as soon as the deal is complete.

- **Failure to act quickly can result in lack of control over management at the target company.** Going into a transaction with only a long-term strategy might mean acquirers fail to incentivise the target’s management to deliver short-term results at specified times, post-completion. Managers in the target firm who don’t understand this mentality will come away believing their new shareholders do not have a clear strategy. This destroys morale and increases professional uncertainty for managers in the acquired firm.

- **Many processes recommended for successful outbound M&A go against established Japanese business culture.** For instance, many Japanese managers retain an “insider-outsider” mindset, meaning they are unwilling and unprepared to impose the parent firm’s philosophy on “outsiders”, challenge the target’s management or establish full control of the acquired business. As a result, the two entities remain culturally, organisationally and philosophically distinct, and potential synergies remain unrealised.

- **Cultural differences also make Japanese buyers slow to take action and reluctant to walk away if prospective deals become unattractive.** Japan’s typical consensus-driven and bottom–up decision-making process means that opportunities that require swift action may be lost to rivals. More significantly, it means that once consensus is reached, reversing a decision often becomes impossible, even if due diligence suggests it is wise to do so.

Consequently, interviewees for the report recommend the following best practices for Japanese acquirers of overseas businesses:

- **Establish special M&A teams empowered to make top-down decisions, and conduct thorough due diligence.** Experienced dealmakers stress that acquirers should ensure decisions are made top-down, and quickly. Establishing special taskforces empowered to take charge of the transaction is often effective. Due diligence should involve a thorough investigation, particularly of the target’s human resources. Communication should be open, direct and explicit. Depending on the sector, it may also be necessary to conduct due diligence on the potential impact of changing regulations and the political environment.

- **Be willing to walk away if the deal becomes unattractive.** Some analysts estimate that only a quarter of Japanese buyers are prepared to abandon deals during the latter stages of the acquisition process, compared to three-quarters of Western firms. Being able to walk away from a deal, even after time and effort has been invested in the approach, is crucial.

- **Establish control from the word go.** If a deal is to proceed, control should be established from the very beginning. Telling the target, “Please continue as normal,” sends the wrong message. Buyers should establish authority and set time-specific targets immediately, based on thorough (and independent) research during the due diligence phase.
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Key points

- The latest wave of outbound M&A from Japan appears to be qualitatively different from previous waves. In the late 1980s and late 1990s, acquisition binges followed asset-price bubbles and were driven by a degree of deal fever that meant many transactions underperformed.

- The third wave has been growing more steadily in a time of slow global growth and involves a broad range of industries, generally with companies buying in areas of core strength or expertise.

- While market conditions are more favourable, on a corporate level opinion is divided as to whether Japanese buyers are better equipped to make outbound M&A a success. Some think Japanese companies are falling into the same traps.

1) The third wave

The last two years have been banner years for overseas mergers and acquisitions—outbound M&A—by Japanese companies. In 2011 they did a total of 642 deals, the highest in history and a 21% increase on the previous year, which was itself a record. By market value, the surge in 2011 appears greater still. The aggregate value of all outbound deals totalled US$69.5bn, up 81% from 2010 and an all-time record.

Over the past 30 years or so, as Figures 1 and 2 illustrate, there have been three waves in which outbound M&A from Japan has surged. The deal-making in the first wave was driven in part by Japanese companies’ desire to acquire (or develop) manufacturing facilities in other countries—such as car plants in the US—but also by the desire of particular companies to acquire prestigious assets, such as prime real estate in Manhattan and movie studios. Thanks to an extraordinary bubble in the prices of real estate and securities in Japan, companies were able to access capital at a very low cost. Access to cheap capital was also a key factor in the second wave. On this occasion, though, deal making was focused on the globally booming technology, media and telecommunications sectors.

In either case, the result was considerable asset price inflation. In the first wave, top-of-the-market
transactions included Sony’s acquisition of Columbia pictures (for US$5.7bn, including debt) in 1989; Matsushita Electric Industries’ purchase of MCA for US$6.1bn in 1991; Mitsubishi Estates’ US$846m acquisition in 1989 of a controlling interest in the Rockefeller Center; and Minoru Isutani’s purchase of the Pebble Beach golf course for US$841m in late 1990. In the second wave, NTT DoCoMo’s acquisitions of stakes in AT&T Wireless in the US (for US$9.8bn), and in the Netherlands’ KPN Mobile NV (for €4bn) were indicative.

Each of the first two waves was followed by a slump in both the number and the value of outwards M&A deals, as the Japanese and global tech bubbles burst (and recessions in the US, in 1991 and 2001, forced a re-evaluation of many deals that had been done and that were being considered).

In short, Japanese dealmakers bought assets at inflated prices at the top of the market in both of the first two waves of outwards M&A. Arguably, with many of these deals, the Japanese buyers did not properly understand the assets or businesses they were buying. In some cases, the gulf between the highly distinctive corporate culture of Japan and the very different corporate cultures of the US and other countries resulted in the departure of key foreign managers. In other cases, the Japanese buyers found out that they could not realise the synergies or other strategic advantages that they were seeking.

Third time luckier?

Is this likely to be the case this time round? Encouragingly, the third wave of outbound M&A did not begin at a time of over-inflated stock prices—whether in the US or in other countries. In early 2012 global financial markets face several major challenges, but these do not include rampant speculation. The steady increase in the number of transactions over nearly a decade, and the diversity of companies and industries that are involved...
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(Figure 3) indicate that deals are being put together carefully on a case-by-case basis: this is in stark contrast to what happened in the first two waves.

There are other important differences. In the latest spree, higher numbers of smaller firms, including companies that traditionally have a home-market focus such as human resources firms and restaurant chains, are also contemplating and executing overseas M&A. (For instance, in January this year, staffing agency Recruit bought Advantage Resourcing America and Advantage Resourcing Europe for US$410m (¥60bn), boosting the firm’s presence in developed markets with its third overseas acquisition in the last two years.)

Moreover, the targets are no longer principally high-priced, prestigious assets in developed markets, but include many investments in the acquirers’ core strengths or value chain, often in emerging markets (Figure 4). The ideal takeover targets for Japanese firms seem to be those that can provide access to these markets. The biggest deal of 2011, Takeda Pharmaceutical’s ¥1.1trn (US$13.7bn) takeover of Nycomed, fell into that category.

Figure 4
Top outbound acquisitions in 2011 by Japanese companies (US$m)

<table>
<thead>
<tr>
<th>Region</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Americas</td>
<td>30,569</td>
</tr>
<tr>
<td>Europe</td>
<td>24,336</td>
</tr>
<tr>
<td>Asia-Pacific</td>
<td>13,811</td>
</tr>
<tr>
<td>Africa/Middle East/Central Asia</td>
<td>766</td>
</tr>
</tbody>
</table>

Source: Thomson Reuters

Figure 5
Top overseas acquisitions by Japanese companies in 2011

<table>
<thead>
<tr>
<th>Rank</th>
<th>Value* (US$m)</th>
<th>Target name</th>
<th>Target nation</th>
<th>Acquirer name</th>
<th>Target industry</th>
<th>Acquirer industry</th>
<th>Status (as of February 2012)</th>
<th>Stake/notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>13,683</td>
<td>Nycomed</td>
<td>Switzerland</td>
<td>Takeda Pharmaceutical</td>
<td>Pharmaceuticals</td>
<td>Healthcare</td>
<td>Completed</td>
<td>Entire share capital</td>
</tr>
<tr>
<td>2</td>
<td>5,390</td>
<td>Anglo American</td>
<td>Chile</td>
<td>Mitsubishi</td>
<td>Copper mining</td>
<td>Industrials</td>
<td>Completed</td>
<td>24.5% stake</td>
</tr>
<tr>
<td>3</td>
<td>2,648</td>
<td>Delphi Financial Group</td>
<td>United States</td>
<td>Tokio Marine &amp; Nichido Fire</td>
<td>Insurance</td>
<td>Insurance</td>
<td>Pending</td>
<td>Entire share capital</td>
</tr>
<tr>
<td>4</td>
<td>2,625</td>
<td>CaridianBCT</td>
<td>United States</td>
<td>Terumo</td>
<td>Healthcare equipment</td>
<td>Healthcare</td>
<td>Completed</td>
<td>Entire share capital</td>
</tr>
<tr>
<td>5</td>
<td>2,523</td>
<td>Aleadri-Schinni Participacoes e Representacoes SA (Schincariol)</td>
<td>Brazil</td>
<td>Kirin</td>
<td>Beer</td>
<td>Beverages</td>
<td>Completed</td>
<td>Entire share capital</td>
</tr>
<tr>
<td>6</td>
<td>2,300</td>
<td>Landis &amp; Gyr</td>
<td>Switzerland</td>
<td>Toshiba</td>
<td>High tech manufacturing</td>
<td>High technology</td>
<td>Completed</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>1,950</td>
<td>CBMM</td>
<td>Brazil</td>
<td>Investor group</td>
<td>Niobium (rare earth) mining</td>
<td>Various</td>
<td>Pending</td>
<td>15% stake acquired by group including Nippon Steel, JFE Steel, Sojitz, and Japan Oil, Gas &amp; Metals National Corp (state-owned) of Japan, and Posco and the National Pension Service of South Korea. Upon completion, Japanese investors will take a combined 10% stake.</td>
</tr>
<tr>
<td>8</td>
<td>1,644</td>
<td>Westinghouse Electric</td>
<td>United States</td>
<td>Toshiba</td>
<td>Nuclear energy</td>
<td>Energy</td>
<td>Pending</td>
<td>Additional 20% stake (Toshiba to raise interest to 87% from 67%)</td>
</tr>
<tr>
<td>9</td>
<td>1,524</td>
<td>Drummond</td>
<td>Colombia</td>
<td>Itochu</td>
<td>Coal/lignite mining</td>
<td>Trading group</td>
<td>Completed</td>
<td>20% stake</td>
</tr>
<tr>
<td>10</td>
<td>1,489</td>
<td>Sony Ericsson Mobile Communications</td>
<td>United Kingdom</td>
<td>Sony</td>
<td>Mobile handsets</td>
<td>Consumer electronics</td>
<td>Pending</td>
<td>Remaining 50% interest</td>
</tr>
</tbody>
</table>

* Includes net debt of target

Source: Thomson Reuters
with more than a third of the Swiss-headquartered company’s 2010 revenues coming from emerging markets.

Given this context, the key question is: do Japanese companies now have the experience and expertise to make more out of their acquisitions than they have done previously? Keita Nishiyama, executive managing director at Innovation Network Corporation of Japan (INCJ), an investment fund financed in part by the Japanese government, thinks things are different this time.

“Japanese companies once did M&A in areas far removed from their main businesses, picking up ‘luxury assets’ when they were flush with cash,” he admits. “But today, they are buying in areas of their core strength.”

Others are less certain, contending that too often the Japanese approach is ad hoc, non-strategic and reactive rather than proactive. Atsushi Horiba, president and CEO of Horiba, an industrial-testing equipment maker based in Kyoto, thinks Japanese companies are still not sufficiently focused on their core competence when buying assets abroad.

“It’s important that you can make a common-sense judgment about the target’s business, otherwise, it is not going to work in most cases,” he says. “Japanese companies paid a high price for the errors made during the bubble era. I wonder if they really learned their lesson.”

To answer this question requires posing others. What is driving this “third wave”? Why are Japanese companies now seeking acquisitions overseas in record numbers? And, perhaps most important, how are they deciding what to buy?
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Key points
- Macroeconomic drivers for Japanese companies looking overseas are compelling, including shrinking domestic markets, low asset prices and a strong yen. Many years of deleveraging mean Japanese buyers are cash-rich.
- Although such factors are often used to justify overseas strategies in broad terms, the success of any deal also relies on a company picking an appropriate target and focusing on assets in areas of core expertise.
- It is highly unlikely that Japanese companies would proceed without specific firm-level strategic goals. Nevertheless, problems can arise when the acquirer’s strategic timescale does not match the target’s expectations, undermining morale. Cultural and organisational misconceptions can also hinder clear strategic planning.

2)  Why buy, and what to buy?

On a macroeconomic scale, the factors driving Japanese companies to look for assets abroad seem more compelling than they were in previous waves. The long-term consequences of relying on a shrinking home market are even more apparent. And far from buying at the top of the market, Japanese companies can take advantage of a global slump that has driven down asset prices in many industries—as well as a currency that has been trading at or near record levels (relative to the US dollar) of the past 30 years.

In addition, the US$69.5bn spent on foreign acquisitions in 2011 is dwarfed by the US$2.79trn in cash held by Japanese non-financial companies at the end of 2011. Japanese companies therefore have the means to ensure the latest wave will continue for some time.

Japanese companies understand the logic of these imperatives well. Indeed, they have created pressure at the management level to acknowledge the need for outbound expansion, almost regardless of specific circumstances. In the past year or two it has become seemingly obligatory for Japanese companies to acknowledge in their IR messages that the current economic, demographic and regulatory environment calls for an overseas M&A plan—lest the management seem out of sync with the corporate currents of the day. Indeed, some think the surge of transactions in recent years has every hallmark of deal fever.

Strategy first

Many executives think an approach dictated by market conditions risks jeopardising the success of the deal before the process has begun. M&A begins with a firm-level corporate strategy, and this strategy alone should guide a company’s moves throughout the deal process.

“M&A ought to be the means to [achieve] your goal,” says Hirosuke Matsueda, chairman of Taiyo Nippon Sanso, a leading industrial gas company based in Tokyo, with revenues of ¥483bn (US$6.1bn) in the year to March 2011. “M&A as a goal itself should never be your strategy. And the most fundamental thing is that your target should fit your strategy.”
The allure of emerging markets

The appeal of emerging markets to Japanese companies isn’t difficult to understand. Young populations and the prospects of dynamic growth offer almost the polar opposite of the environment back home.

Overseas investments are rarely straightforward, and those in emerging markets often throw up additional challenges. Nomura’s purchase of GE Capital in China is a case in point. The Chinese government signed off on the multi-billion yen deal to buy the local operations of the GE subsidiary in February 2012, but Nomura will have to jump through further regulatory hoops to be allowed to offer certain local-currency-denominated products. If it wants to underwrite share and bond issues, it will still have to partner with a local brokerage. Nevertheless, with the growing presence of Japanese and global firms in China, along with the rise of local companies, Nomura sees enough potential value to persist with the deal.

Some are put off by the risk. “I am not very inclined to do M&A in emerging markets,” says Atsushi Horiba, president and CEO of Horiba, an industrial-testing equipment maker based in Kyoto. Mr Horiba cites concerns about uncertain regulations and a lack of trustworthy information about targets. “I would prefer to wait till our local operation matures to a level where we can make a proper judgment.”

Plenty of others have calculated that the risks of not getting into high-growth markets outweigh those associated with buying into them. NTT Communications recently announced plans to buy a majority stake in Netmagic Solutions, a major data centre firm in India, for ¥10bn (US$130m). Netmagic already serves over a thousand corporate clients in seven locations across India, and with the number of Japanese manufacturers in the country on the rise, NTT will be looking to tap that sector too.

Doing business with emerging economies is no longer simply a matter of buying stakes in local companies or buying them outright. Deals where Japanese corporations link up with partners from emerging markets and make investments, some of them in third-party territories, are also on the increase.

In November last year, China’s Winsway Coking Coal Holdings and Japan’s Marubeni announced they were jointly purchasing Canadian coal-miner Grande Cache Coal for approximately C$1bn. The following month, Mitsui and Malaysia’s Khazanah Nasional sovereign fund joined forces to buy 60% of Acibadem Group, Turkey’s largest chain of private hospitals, for ¥50bn (US$650m).

Emerging market acquisitions may also offer innovative solutions to other business challenges. Japanese stationer Kokuyo, which bought Indian notebook maker Camlin last year, is taking over Chinese rival, Hotrock Stationery, this summer. Kokuyo already sells about 2m of its flagship “Campus” notebooks in China annually and is targeting sales of ¥10bn by 2020. Kokuyo plans to consolidate production in Shanghai. Integration of the businesses may be aided by the remarkable similarity between the appearance of its Campus notebooks and Hotrock’s own Gambol range.

Taiyo Nippon has long sought to be a major world player in industrial gases, and to strengthen its presence in Asia and North America in particular. The company, itself a product of a merger between Japanese firms Taiyo Toyo Sanso and Nippon Sanso in 2004, has a string of overseas acquisitions to its credit, including Matheson Tri-Gas and Valley National Gases of the US, National Oxygen of Singapore, and Ingasco of the Philippines, among others. These acquisitions were driven by strategic necessity as its Japanese customers began from the 1980s to move their operations offshore, principally to North America and Asia. Taiyo Nippon followed them, focusing on buying out gas distributors in new markets.

Yasushi Shingai, executive deputy president and representative director of Japan Tobacco, also argues the strategic fit between the acquirer and the target is of utmost importance in executing mergers and acquisitions.

“The purpose of an M&A must be made patently clear by repeatedly interrogating yourself,” says Mr Shingai, who oversaw the purchase and integration into Japan Tobacco of Gallaher Group of the UK. JT, which had bought RJR International of the US in 1999 for ¥942.4bn (then US$8.3bn), acquired Gallaher in 2007 for ¥2.25trn (US$19.3bn), the largest cross-border acquisition yet on record by a Japanese company.
A particular merger or acquisition can be justified by any number of firm-specific strategic rationales, Mr Shingai explains: to expand geographic scope, to acquire new products, or to obtain technology and/or management talent. In JT’s case, “In the period leading up to buying Gallaher, we had been growing organically, and our human resources were stretched to the limit. Acquiring Gallaher was to a great extent a way of obtaining experienced talent.”

The same reasons are driving some Japanese firms into making their first major overseas forays: to acquire an internationalised management team and strategy along with its other assets. Toy specialist Takara Tomy made its first overseas buy in March 2011, snapping up US toymaker RC2 Corp for US$640m (¥50bn). In November, Toyo Seikan, the country’s biggest plastic bottle and can maker, made its first major overseas acquisition when it took over Stolle Machinery Company, a leading US manufacturer of cans and the machines that make them, for US$775m (¥60bn).

Picking the right target

Maintaining a sharp focus on strategy allows the acquiring company to stay on course, avoid internal distractions, and—most importantly—identify the right target. According to successful practitioners, this is an arduous process of finding solitary flowers amid a bed of weeds. It also means avoiding suspiciously easy targets.

“To find a good target you have to establish a wide network of contacts,” explains Norio Tadakawa, general manager of international business planning at Shiseido, one of Japan’s leading cosmetics companies. Shiseido has expanded internationally through the purchase of several small luxury brands, including France’s Carita (which it acquired in 1986) and Laboratoires Decléor (2000). The US$1.7bn purchase of US cosmetics group Bare Escentuals in March 2010 was a landmark deal for the company.

“We are always looking aggressively and looking for targets as a way to fulfil our strategy,” Mr Tadakawa says. “Looking”, in this case, includes systematically building relationships with individual targets and thereby positioning the company to get to the table as soon as a deal looks likely.

An absence of strategic focus and a lack of proactive engagement to identify targets suggest a higher likelihood of buying for the sake of buying—or taking an offer made by a seller perhaps with less scrutiny than it deserves. Experienced buyers interviewed for this report are cautious about the idea of vendor-initiated overtures as a result.

“Of all the vendor-initiated deals [I have been involved in], none has ever gone successfully,” says Taiyo Nippon’s Mr Matsueda. “You should independently seek to identify your target and to that end, you must independently gather information and search for deals.”

Shiseido’s Mr Tadakawa agrees. “If it is put on the block, there is a reason it is put on the block,” he says. “I would want to know why someone wants to sell it. Usually, they want to sell because they are unable to fix [its problems]. That means it makes sense to buy only if you have the means and the synergy propositions to overcome them.”

Atsushi Horiba is not a fan of solicited deals either. “Bankers bring plenty of stuff to me. Out of 100, I end up showing interest in only 1 or 2,” he says, adding that he has never actually proceeded with a vendor initiated transaction.
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Solid rationales, fluid timescales

Today, it is highly unlikely that a Japanese company would attempt to justify a deal without a clear strategic rationale. Listed companies in particular usually release detailed statements outlining the intended strategy for the buyout; these could include obtaining missing pieces in the value chain, or seizing markets in new regions.

Junji Horinouchi, head of global M&A consulting at Mercer Japan, agrees that Japanese corporations are accelerating their moves to identify core strengths and devote greater resources to beefing them up. They are asking in which regions of the world they should strengthen their operations, and what functions of their business they should solidify, using M&A as a tool to do so.

The one area in which Japanese companies seem to be still off-course is strategic time horizons: their time perspectives are often too long-term, preventing them from launching quick and effective integration plans, which many view as critical to M&A success.

“[Japanese companies] think, ‘Maybe we should buy this because it is going to help us in future,’” Mr Horinouchi explains. “They think it might nicely complement the rest of the business at some point in time, or it may eventually complete the picture in this or that region or aspect of the business. But if that is the thinking, the issue of what to do immediately after the purchase becomes blurry,” he says.

The common consequence is that management of the acquired firm loses momentum, and morale. “Companies that are bought out by Japanese firms often face a situation where the morale becomes stagnant,” says Mr Horinouchi. “The target firms cannot see the benefits of having joined a Japanese group, leaving the workers asking, ‘So, why did they buy us?’”

Not all industries are alike, of course. The need to seize opportunities as soon as they arise explains why some Japanese firms buy first and consider the details later.

“In certain industries and types of business, there are only so many players you can buy,” Mr Nishiyama of INCJ explains. “If you don’t buy and get in [immediately], you lose the chance to enter the race. It’s not like the buyers have a choice; they cannot wait till their strategies mature.”

This is the case with resources businesses, Mr Nishiyama says, where Japanese trading companies, for example, are moving in rapidly. “The industries are quickly privatizing around the world and this is the chance to buy.”

In addition, with resources or other upstream, business-to-business assets, integration may be less a factor than for B-to-C industries. Handling consumer products overseas is more delicate and requires sophisticated skill, because the speed of change is rapid, Mr Nishiyama notes. Here, swift action is essential.

Stick to what you know

From the buyer’s perspective, whether or not they take immediate action, the deal often offers the enticing prospect of adding to the consolidated accounts and boosting overseas income at a time home revenues may be declining. This helps solve the “shrinking home market” dilemma. Even without acting immediately to take control of the acquisition, “It would appear as if the buyers are succeeding,” Mr Horinouchi says.
Trading houses: Raising the stakes

As most sectors of Japanese industry spent 2011 struggling to deal with the combined effects of the strong yen, March’s triple disasters and global economic jitters, the nation’s trading houses were racking up record profits. While their bottom lines have been boosted recently by higher commodity prices and the need for more imported fuel, overseas earnings have been rising for the last decade.

Combined income from the overseas investments of the seven biggest trading companies—Mitsubishi, Sumitomo, Itochu, Marubeni, Mitsui, Sojitz and Toyota Tsusho— are expected to top ¥1trn (US$12.9bn) for 2011, triple the level of ten years ago. Total outbound investment by the seven firms is estimated to be over ¥3trn for the year to March, with a similar level maintained for fiscal 2012. Mitsubishi alone will account for approximately ¥1trn of overseas investment.

Many trading house deals still involve taking stakes in overseas operations—such as the ¥420bn (US$5.4bn) Mitsubishi is sinking into Anglo American’s Chilean copper mining project—rather than outright takeovers. However, there are signs that the “shosha” are becoming more willing to actually run foreign operations rather than just collect dividends.

Mitsubishi announced in January 2012 it was buying a controlling stake in a subsidiary of AR Industrie Alimentari SpA, a major tomato processing company. Mitsubishi carried out the takeover, paying an undisclosed amount to the privately held Italian firm, through its UK food and drink subsidiary, Princes. In February, the trading house was back in the resources sector as it took control of a Western Australian iron ore mine and an associated port and rail development. Mitsubishi will pay about ¥25bn (US$325m) to Murchison Metals for 50% stakes in both operations, hoping to attract Chinese partners to invest in the ¥775bn (US$10bn) project.

In the biggest deal so far involving Japanese companies picking up assets being offloaded by debt-laden European financial institutions, Sumitomo Corp, along with Sumitomo Mitsui Financial Group (SMFG), agreed in January 2012 to buy Royal Bank of Scotland’s aircraft-leasing business. The acquisition, reportedly worth over US$7bn (¥543bn), will see Sumitomo take 30-40% of RBS Aviation Capital, and SMFG 60-70%.

In an attempt to both compensate for the tightening of credit in Europe and help stem the rise of the yen, the government, through the Japan Bank for International Cooperation, has made ¥10trn (US$130bn) worth of credit available for investment in overseas natural resources. With the trading houses’ history and experience in the sector, they look set to be actively acquiring abroad again in 2012.

The financial appeal of such deals may be undeniable, but interviewees for this report stress that a fundamental principle of successful M&A strategy is to buy only in areas of core competency—which implies a sounder rationale than a temporary boost to the bottom line, or the pursuit of an acquisition because it looks cheap.

Ryo Sasaki, president of Sun Ace, a manufacturer of polyvinyl chloride stabilizer that has expanded through acquisitions in Australia, the US, Germany and elsewhere, stresses the importance of buying what you know.

“If you have the core expertise, you know intuitively what the essence of the business is, and when the business is not going well. You have a gut sense of what’s wrong: are they buying too pricey a material? Do they have the wrong processes? Is something wrong with their machines?”

Mr Horiba shares the same perspective. “What’s crucial is that you can make common-sense judgments about the business,” which acquirers can do only if it lays squarely within their expertise. “It could be your knowledge of technology, the market or the people. You need to have the competitive basis that allows you to make a judgment. Otherwise,” he warns, “things can go horribly wrong.”
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Key points

- Many processes recommended for successful outbound M&A go against established Japanese business culture. Experienced buyers say acquirers must ensure decisions are made top-down, and quickly. Due diligence must involve a thorough investigation, particularly of the target’s human resources. Communication must be open, direct and explicit.

- Being able to walk away from a deal, even after time and effort has been invested in the approach, is crucial, yet many Japanese buyers are still unwilling to take this route at the risk of losing face.

- If a deal is to proceed, control should be established from the word go. Saying “please continue as normal” sends the wrong message. Buyers should establish authority and set targets immediately, based on thorough research during due diligence.

3) Steps to success: Best practice in outbound M&A

Even if Japanese companies are pursuing outbound deals for sound strategic reasons and have identified targets that fit that strategy, many acknowledge the difficulty inherent in making the most out of such investments. Successful M&A practitioners interviewed for this report identify various organisational issues that often act as barriers to success in each stage of the deal process (and in post-deal integration). To avoid or mitigate these problems is to give the transaction a better than average chance of creating value for the acquirer.

Top-down decision making

The decentralised structure of large Japanese organisations is problematic when executing big investment decisions such as mergers and acquisitions. Decision making is generally slow for oft-cited reasons: departmental fiefdoms in effect wield veto power that demands consensus must be built for all decisions. And departmental bosses must confer with lower line managers, who then must consult with those who are technically involved.

The result is that Japanese buyers may end up either missing good opportunities or paying high prices because they cannot make decisions speedily enough. To make matters worse, once a consensus is achieved, it becomes extremely difficult to undo it—even if a critical flaw should be uncovered during due diligence.

Especially during the tricky integration process, “Decision making has to be top-down,” says Mr Shingai of Japan Tobacco. “Doing M&A is an emergency and this type of emergency requires intensiveness. If you cannot generate that intensiveness in handling the process, you should not do an M&A.”

At JT, during the integration phase of overseas acquisitions, decision-making is largely delegated to JTI, the company’s international division. When the “integration headquarters” manages the process,
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decision making is thoroughly top-down. Decisions flow from an integration steering committee, composed of executive officers, through the integration HQ, to functional taskforces that deal with specific integration tasks.

“The key is making decisions in a top-down fashion,” Mr Shingai says. In addition, he stresses the importance of ensuring that the people involved in the initial planning and strategy are also in charge the implementation phase, to ensure they take responsibility for its success.

“You want to avoid a situation where you have those whose job is to plan, and those whose job is to implement,” Mr Shingai says. “If your job is only to implement, you don’t have a sense of ownership.”

Shiseido similarly went to great lengths to make sure organisational impediments would not hamper decision-making in the company’s takeover of Bare Escentuals. The company established an eight-member steering committee that involved most top officers: Shinzo Maeda, the company’s then president (now chairman) was the chair, and various committee members headed specific task teams.

“The top management all shared a sense of crisis,” says Mr Tadakawa, “—that we had to do a deal and do it right in order to be a global player.”

**Doing due diligence right**

Due diligence is more than a financial check; it is a critical period in which the buyer should comprehensively and exhaustively take stock of the target company’s operations, business track record, undisclosed liabilities, and resources—especially its human capital. Shrewd buyers use this period to establish governance and control, and prepare the target organisation for a new era of business in which the two firms will work in unison.

However, this is far from a natural process for many Japanese acquirers of foreign companies. All the recommended best-practice courses of action—digging deep inside the target company, communicating plainly with personnel, and quickly reaching a common ground of understanding—run counter to traditional Japanese corporate culture in one way or another. (To put it the other way: to refrain from being intrusive, to leave some things unsaid lest you should offend or cause misunderstanding, and to allow relationships to build slowly over time are far from the best ways of proceeding with M&A.)

“[During due diligence] I am most concerned about the non-asset, human aspects of the company,” says Mr Sasaki of Sun Ace. “I would want to know what kind of performance the business unit can achieve and how it can contribute to earnings and profits.” Central to that assessment is the potential of the target’s human capital. “If that capability is absent, it means we are going to have to dip into our own ranks [to compensate], and in a rather small company like ours, that’s difficult.”

Mr Horiba also cites “people assessment” as a chief concern in due diligence. “Basically, we think we are buying human capital and we would want to make certain that key personnel in the company will continue to work there after purchase. This is also the time to make an evaluation of what kind of resources you need to pour into the venture. If the needed resources are missing, that is going to add to your cost.”

Mr Horiba warns against regarding the price paid as the total cost of the acquisition. “People tend to pay attention to the acquisition price, but you need to pay attention to the resources you might need to invest post-acquisition, as well as to the need to integrate corporate cultures.”
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The message these practitioners are sending is clear: take stock of your own company’s resources while assessing those of the target. Mr Horiba continues: “The reason we do not buy one [target] after another is that we don’t want to exceed our capacity to do M&A”.

Indeed, Horiba’s few deals have been carefully selected: examples include the purchases of ABX (1996), a French company that makes medical testing devices, Jobin Yvon (1997), a French company manufacturing optical ray measurement equipment, and Germany’s Carl Schenck-Development Test Systems (2005).

According to Bertrand de Castelnau, president of Horiba ABX (and head of Horiba’s medical equipment business), cultural sensitivity has been key to the success of Horiba’s acquisitions; Horiba’s approach emphasises patience and tenacity. Others are evidently not so careful.

Another factor Mr Horiba recommends checking is the readiness of personnel at the target to work with the acquirer. “If they don’t see the benefit of joining our group and working with us, it could take 10 years to change their mind,” he says. “But if they see the benefit and can picture a future being with us, we can get up to speed in four or five years.”

CASE STUDY Hitachi-IBM—Shifting markets

In April 2002 Hitachi agreed to combine its global hard disk drive (HDD) business with that of IBM in a joint venture (JV) in which the Japanese company would hold a 70% stake, prior to moving to full ownership by the end of 2005. IBM provided 18,000 of the 24,000 employees and most of the business. Hitachi paid IBM US$2.05bn. Although IBM’s HDD business had been unprofitable, both parties were confident about the growth prospects for HDDs—important components for personal computers, servers and storage devices.

Even before the two businesses were combined to form Hitachi Global Storage Technologies (HGST) in the first quarter of 2003, Hitachi had had to revise down sales forecasts by one-fifth. Although HGST was the third-largest player in the global market for HDDs, with a 19% market share, it was continually subject to intense price competition. As time progressed, it turned out that many of the growth opportunities in the global technology sector involved products that used flash memory drives—not HDDs.

HGST was consistently unprofitable for the first five years of its life, during which time it accumulated losses of ¥120bn. In early 2007, Hiroaki Nakanishi, the CEO of HGST, oversaw the laying-off of 4,500 workers at the company’s plant in Guadalajara, Mexico. During the year to September 2008, the CFO, CAO and CIO of HGST were all replaced, as were a number of other executives who had been with the company when it was still a part of IBM. HGST made operating profits in 2008 and 2009. Mr Nakanishi was promoted to director and president of Hitachi in 2010—the fourth person to hold the position since the original deal was made with IBM.

In March 2011 Hitachi announced that it would sell HGST to Western Digital of the US for US$4.3bn. Hitachi had hoped that the transaction would be completed by September 2011. However, in December last year, the company indicated that it had taken longer than expected for Western Digital to obtain all the necessary regulatory approvals. Hitachi has stated that it hopes that the sale of HGST will be completed by the end of March 2012.

Analysts suggest Hitachi underestimated the pressures that HGST would face from competitors and from technological change. They also suggest the key problem may have been Hitachi’s loyalty to long-standing managers and the concept of job security for workers. Hitachi arguably moved too slowly to change the leadership group of HGST and to undertake the necessary, and fairly drastic, restructuring of the business.
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Being able to walk away

Global studies of M&A point out that once executives dive into the transaction process, they often become so invested in the deal that they cannot pull out even when necessary. In most markets today, however, common wisdom prevails that being able to walk away is a hallmark of M&A sophistication. That notion is rare among Japanese practitioners of outbound M&A.

“In the case of Western companies doing due diligence, three out of four companies walk away,” says an M&A consultant in Tokyo, “whereas the rate is the reverse among Japanese companies: only a quarter decide not to pursue the deal.” Translation: many Japanese buyers proceed with the deal even when there are obvious flaws. (For an example, see the case study on Daiichi Sankyo-Ranbaxy below.)

To be sure, troubling information uncovered during due diligence need not dictate abandonment and could be used as a negotiating tool. But should information arise that makes the risks of proceeding outweigh the benefits, Japanese companies may not be inclined to cut their losses. The demands of Japanese-style consensus building, requiring the hard-won agreement of many parties, make abandoning a deal particularly hard. The potential loss of face in such a decision makes participants reluctant to suggest it, even if the logic of proceeding is undermined by new information. (This also underscores the importance of having a crystal-clear strategy, which makes such a decision easier to justify.)

“If you are not prepared to pull out any time, you lose,” says Mr Sasaki of Sun Ace. This is especially the case when the buyer needs to make a determination on price. Indeed, one reason Japanese buyers sometimes end up overpaying is that they are unable to pull out in the final phase and are compelled to settle for an outsized price tag—sometimes merely because senior management applies pressure to wrap things up if negotiations are dragging on.

Mr Sasaki suggests that Japanese buyers should condition themselves mentally to accept that even after all the initial hard work and commitment they might not end up acquiring the target.

“In the advanced stages of due diligence, you might start imagining a future working with the target company and start feeling excited about the prospect,” he says. “You should cool down.”

Establishing control

Control is the main factor separating mergers or acquisitions from joint ventures and licensing deals. When the transaction succeeds, the owner claims all the benefits. If it fails, the owner sustains all the losses. Lack of control, and the negative consequences this entails, is perhaps the most frightening scenario for the acquirer in a transaction, particularly for one in which the target is overseas.

Practitioners and M&A consultants place a particular emphasis on establishing control for this reason. They strongly discourage a slow approach to integrating the target, especially the nonchalant attitude of telling the acquired management, “Please continue as normal.”

“That’s tantamount to abandoning the purpose of buying,” says Mr Horiba. “The first six to 18 months is the time to invest intensively. Strike while the iron is hot.” Acquirers that fail to do this risk a loss of morale—and often talent—at an acquisition. (See the case study on Dainippon Sumitomo-Sepracor below.)
CASE STUDY  Daiichi Sankyo–Ranbaxy—Pushing on regardless

In June 2008 Daiichi Sankyo, one of Japan’s leading pharmaceuticals companies, announced that it would pay up to US$4.6bn for a controlling stake in Ranbaxy Laboratories, one of the largest manufacturers of drugs in India. This deal valued all of Ranbaxy at US$8.5bn, or a 31% premium to its stockmarket capitalisation prior to the announcement.

From the point of view of Daiichi Sankyo, Ranbaxy had several attractions. It was, and is, a leading producer of generic drugs—including a version of Pfizer’s Lipitor, a cholesterol-reducing treatment described as being the largest selling drug of all-time. As a major multinational company in its own right, Ranbaxy would lift the Japanese company’s global footprint from 21 countries to 60 countries. It would also substantially boost Daiichi Sankyo’s ability to sell pharmaceuticals in rapidly growing emerging markets.

Within weeks of the transaction being announced, the US Food and Drug Administration (FDA) announced an investigation into HIV drugs made by Ranbaxy. In September 2008 the FDA announced that as a result of manufacturing problems at some Ranbaxy plants it would impose a ban on the import to the US of 30 of the company’s generic drugs.

During this time, the share price of Ranbaxy fell sharply. However, in spite of the issues raised by the FDA and a global financial crisis that was entering its critical phase, Daiichi Sankyo maintained that it would continue with the transaction—and at the price that it had originally offered. By November 2008 the Japanese company had bought 63.9% of Ranbaxy for 199.8bn rupees (US$4.20bn). In January 2009 Daiichi Sankyo announced that its result for the fiscal year ending March 2009 would include a ¥354bn (then US$3.9bn) write-down on its investment. This caused the company to post its first ever loss for an entire financial year.

Problems with the FDA continued. At the end of 2011, Daiichi Sankyo said that it would make a provision of US$500m for costs relating to the settlement of Ranbaxy’s disputes with the FDA. As a result of this provision, the Japanese company revised its guidance for earnings in the current year by nearly half, to ¥26bn. In the meantime, in December 2011, Ranbaxy had introduced to the US the first generic version of Lipitor.

Problems with the deal arguably arose on two grounds. Daiichi Sankyo’s due diligence prior to making its offer evidently failed to consider the possibility of adverse action by the FDA in relation to manufacturing issues at Ranbaxy’s plants in India (and, indeed, the US itself). Second, and more remarkably, Daiichi Sankyo did not try to lower the purchase price—or to extricate itself from the transaction altogether—even after news of disaster started to break around the middle of 2008 and the greatest financial crisis in history was forcing a brutal downwards adjustment in asset prices.

There are two broad areas in which establishing control of the target company becomes critical. The first concerns aligning the company’s organisational procedures to those of the parent.

“[The buyer] needs to clarify the board’s authority to determine business goals and make personnel appointments, and then make it clear precisely what needs to be reported back to the parent,” says Mercer’s Mr Horinouchi.

Equally important is to set and monitor performance targets, and, in so doing, establish that the parent is fully aware of the subsidiary’s performance potential. The successful acquirer immediately sets performance targets for the acquisition for definite periods post-merger. “If you cannot set the target [immediately], you can never do it,” warns Mr Horiba.

Crucially, the performance goals drafted must have significant input from the parent—using independent research, if necessary, to obtain a firm grasp of the potential.

“The acquired company might come up with target sales of 103% [of the previous year’s level] for next year, for example,” says Mr Horinouchi. “But if they tried hard and invested more, it might be really possible to achieve 110%, or even more. The buyer should be in a position to make that judgment.”

If the subsidiary significantly under-achieves and someone from the parent company flies over mid
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CASE STUDY  Dainippon Sumitomo-Sepracor—Taking the slow road

In September 2009 Dainippon Sumitomo Pharma (DSP), one of the ten largest listed pharmaceuticals companies in Japan, announced a US$2.6bn bid for Sepracor of the US. Sepracor’s varied products focus on respiratory and central nervous system disorders.

From the point of view of DSP, Sepracor was attractive for a number of reasons. It would lift the overseas sales of the Japanese company from around 9% to about 40%. It had a pipeline of new products. Its distribution network could be used to sell Lurasidone, DSP’s schizophrenia drug, in the US from 2011. At the time of the deal, analysts fretted that the Japanese company would exhaust its cash reserves, and borrow US$2.2bn in bridging finance, to buy Sepracor: this was at a time that two of the US company’s products—which generated around 80% of its revenues—would lose their patent protection in the coming years.

Sepracor was merged with DSP’s existing US business by the end of March 2010. However, some suggest DSP took the slow approach to integration and made no attempts to immediately implement any strategy, nor incentivise the target’s management to raise performance. Sepracor’s CEO Adrian Adams left by the time the merger came to fruition, and there had been a number of other changes to the combined group’s senior management. In mid-July 2010, the name of the combined group was changed to Sunovion Pharmaceuticals “in order to foster a sense of unity” within the organisation.

As of early 2012, it remains to be seen whether the acquisition justifies the original optimism shown by DSP when it announced the deal 30 months ago. However, the loss of an experienced CEO probably added to the risks faced. The change in the name of the company points to cultural conflict and raises questions about the value of the Sepracor brand.

way through the year to find out what’s going on, “It is too late. This is a prime example of not having control.”

To establish a solid, ground-view understanding of the target’s business, Shiseido hired a market research firm and conducted consumer surveys during the due diligence with Bare Escentuals in 2010. “We even analyzed and tested Bare’s products in our research centres,” says Mr Tadakawa. “It was all about doing careful planning which served as a basis for the final judgment by the top management.”

The communication challenge

Successful M&A practitioners are unanimous about the importance of one thing: to communicate effectively with the target company throughout the process. In global M&A literature, the importance of communication is often given strong emphasis. The need to heed this advice is all the greater for Japanese companies doing M&A overseas.

“On management strategy and policy, communication must be close and intense,” throughout the process, says Mr Matsueda of Taiyo Nippon. “In Japanese companies, some people just simply listen, accept and obey. But overseas, people might pose questions about something quite simple and basic, and keep asking you ‘why?’” Such questions must be answered.

Mr Matsueda warns of the dangers of making assumptions about what people know and understand, and what they don’t, in communicating strategy and policy. Indeed, making unfounded assumptions about the target company or its country and culture—which Japanese businesspeople are apt to do—should be consciously avoided.

“We deal with partners from 25 different countries, so we make no assumptions about anything,” agrees Mr Sasaki of Sun Ace. “That everything is different is our premise.”
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The need for communication in a systematic and planned way becomes acute, especially in the post-merger phase. That’s because actually implementing integration falls on the shoulders of lower-ranked employees, and the importance of systematic communication takes on a different level.

Following the closing of Japan Tobacco’s acquisition of Gallaher in April 2007, Mr Shingai (then deputy CEO) and the CEO of JTI visited the Gallaher offices in Europe extensively, along with the former CEO of Gallaher, explaining why JT bought the company.

“People are overcome with uncertainty and fear when your company is taken over. We had to explain what our aims were from a management point of view, what our goals are and what kind of company we want to be.” To further remove uncertainty, JT supplied meticulous details of the new setup along with a broader explanation of the general policy and post-merger direction.

“We prepared an HR handbook and shared that extensively,” Mr Shingai explains. “It outlined what the salary and benefits would be in the new company, for example, and who to talk to if you had questions or issues. All of these things were ready on the day the deal closed.”

Embracing global management

Many of the cultural precepts that underpin the management of traditional Japanese companies are liabilities when conducting cross-border M&A. Considering the lack of diversity in the management of a typical Japanese organisation, it is not surprising that few have embraced the ways of international corporations. Those who have been successful in cross-border M&A are of the view that such deals transformed their companies as much as they transformed their targets—although the first step has to be taken by the acquirer.

Shiseido is a leading example of this process. It was one of the first among big Japanese companies to appoint female and non-Japanese board members, and it led the movement to popularise the concept of diversity in corporate Japan. Shiseido are also introducing a single, global HR policy. This is a radical move for a large Japanese company, where the tradition of lifetime employment for Japanese staff has often thwarted such steps. All such internal developments prepared Shiseido for making the most of large cross-border M&A—although Mr Tadakawa admits the process is still only partially complete.

“It is critical that the acquiring firm takes steps towards becoming a global company” before conducting cross-border M&A, Mr Tadakawa warns. “Otherwise the acquired firm will become isolated and the personnel won’t become integrated into the group.”

This would undermine a core benefit of buying abroad, one that often gets overlooked in the focus on acquiring market share, branding or technology. Indeed, the buying firm often ends up using acquired management talent beyond the target company. Today, for instance, of Horiba’s five leading business segments, three are headed by non-Japanese. And most of the top management at Sun Ace are non-Japanese, including a Singaporean CFO.

Mr Sasaki says he is always looking to find talented individuals in the target company to promote, regardless of nationality. “You are buying a company with money,” he says, “but you really are buying a partnership with different people.”

Conclusion

Buying and selling companies inevitably involves numbers, laws and accounts. But few things in business could be more people-oriented than M&A. Most of the traps Japanese companies fall into when buying overseas assets seem to arise from a lack of understanding of the human element involved in M&A transactions.

If the human dimension of M&A is so pronounced, then it follows that cultural and organisational issues have a dramatic impact on transactions. In this context, the challenges are all the greater for Japanese corporations, since traditional Japanese corporate culture is often more of a liability than an asset in cross-border transactions.

To be sure, over the long term these same cultural attributes might come to be beneficial. “[Japanese companies’] commitment to job stability and training employees so they will improve over time—a culture that values people—can be an asset, especially in Asia,” suggests Mr Matsueda of Taiyo Nippon Sanso. Still, that same attribute can be a hindrance in the short term, especially when it is coupled with indecision in senior management to take necessary—if unpopular—steps. “Japanese management tends to hesitate to take drastic steps to restructure when certain parts of the [target] do not fit the parent’s strategy,” Mr Matsueda says. Hitachi’s deal with IBM is a case in point.

Nonetheless, successful Japanese companies seem to have honed their skills over time, testing and learning as they go. It often takes strong leadership from the top to kick old habits (as Shiseido and JT demonstrate). Their example also seems to affirm that old mantra: practice makes perfect. Many interviewees admit that they learned the hard way.

Individual companies, and their shareholders, will continue to suffer if managers mess up overseas acquisitions. But in a broader sense it is vital for the country that they improve returns on cross-border investments. In an economy with a sagging international trade balance—which dipped into the red in 2011 for the first time in three decades—a healthy current account surplus, buttressed by a stream of investment income earned on the nation’s net overseas assets, could be a lifeline.
For that to happen, Japanese companies must pursue M&A for the right strategic reasons, with careful consideration of targets, and the determination to shake up their own management culture to take control of the assets they buy. Otherwise this wave of outbound M&A is destined to be no more durable or profitable than the first two.
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