Australia Japan Business Co-operation Committee
AJBCC

# WHY ARE JAPANESE COMPANIES INVESTING IN AUSTRALIA?

## 2020 Update

OCCASIONAL SERIES
JUNE 2020

Analysis of the reasons driving acquisitions by Japanese companies in Australia in 2019 reinforced the AJBCC's findings from the data of the **previous year**. This indicated that the Japanese acquirers had:

- significant size
- many years of corporate history since establishment
- substantial overseas experience

However, there was one anticipated characteristic which is yet to materialize - this is the significant entry of "second tier" Japanese companies.


Last year the AJBCC published an analysis of the publicly stated reasons why Japanese companies were investing in acquisitions in Australia. The source data for this was based on AJBCC member Herbert Smith Freehills' (HSF) annual survey.

Analysing the data contained in HSF's latest report **Japan-Australia M&A Review and Trends (2017-20)**, 37 acquisitions by 30 Japanese companies took place during 2019.

While the HSF report concentrated on the **companies being acquired in Australia**, the AJBCC has taken this data and examined the **reasons behind these acquisitions**. To conduct this analysis, the AJBCC used, amongst other metrics, the publicly stated reasons why those 30 Japanese companies undertook these investments.

# What Emerged from the Analysis?

The AJBCC's **previous analysis** suggested that the Japanese companies most likely to be candidates for investing in Australia would have the following profile:

- well established - with a history of perhaps 70 years or more.
- significant turnover (in the billions of AUD equivalent).
- operate globally - especially if they already have investments in other South East Asian countries.
- be looking to acquire 'Australian know-how' or simply to extend their sales network.

These features were replicated in the latest 2019 results. However, it was noticeable that the profile of the Japanese acquirers during 2019 was slightly different, being:

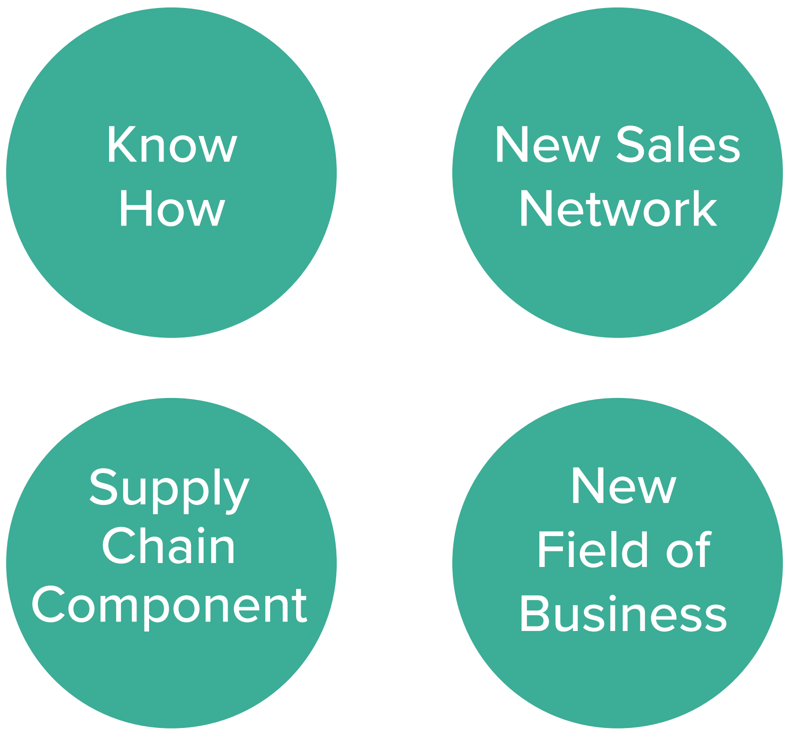
- much larger (measured by turnover) than companies in the previous year.
- more experienced in overseas investments in more countries.

The large size of the Japanese acquiring company, together with the track record of operating in numerous overseas countries, confirms that these are experienced investors. What is absent from the list however, is large Japanese companies in the "second tier". It would be expected that these companies should also be active in overseas acquisition and this is an omission which could provide future opportunities.

## A | Reasons for Acquisition

“Reasons for Acquisition” were classified into the same four categories used in our previous report. A company’s reason could also be classified under more than one category. Explanation of the definition of the four categories, together with examples, can be found at the conclusion of this report.

The four identified categories were **to gain**:




*Note: Full definitions of these categories are given at the end of this document or click on the category above.*

Our analysis reveals that about 49% of the companies made the acquisitions in order to gain “know-how” from the target (Australian) companies, almost exactly the same result as the last report. This shows that about half of the Japanese companies were seeking know-how, intellectual property, technologies, skills and/or other expertise through acquisitions.

Still, the biggest reason for acquisition was to gain sales networks and 73% (85% in 2018) of the companies said this was one of the reasons for making the acquisition.

## B | Profile of Acquirers' Overseas Investments

### Number of countries

The number of countries in which acquirers had existing operations was higher compared to the last analysis. The median number of countries was 20 (last year it was 12), indicating the acquirers were even more experienced with overseas operations and have a more extensive overseas network.

| Number of Countries | 2019* | 2018* |
|---|---|---|
| Less than 10 | 20% | 45% |
| 10 - 30 | 50% | 36% |
| Over 30 | 30% | 19% |
| **TOTAL** | **100%** | **100%** |

** Based on the sample of 30 companies identified in the HSF report in 2019 and 47 companies in 2018.*

## C | Age of the Japanese Acquiring Company

The median age of establishment of the Japanese companies who made acquisitions during this period was 72 years – not vastly different from the 75 years recorded in the previous year. As shown in the table below, about 76% of the companies in 2019 had been established prior to 1980.

| Year of Establishment (Japanese Acquiring Company) | 2019* | 2018* |
|---|---|---|
| Less than 20 years | 10% | 11% |
| 20-40 years | 13% | 13% |
| 40-75 years | 33% | 40% |
| Over 75 years | 44% | 36% |
| **TOTAL** | **100%** | **100%** |

** Based on the sample of 30 companies identified in the HSF report in 2019 and 47 companies in 2018.*

## D | Turnover of the Japanese Acquiring Company

The **median annual turnover** of these acquiring Japanese companies was **A$17.4 billion**, which was about **A$12 billion higher** than in our last report. A$1=75yen

| Annual Turnover (AUD) (Japanese Acquiring Company) | 2019* | 2018* |
|---|---|---|
| Less than $1bn | 3% | 17% |
| $1bn to $10bn | 38% | 43% |
| $10bn to $30bn | 21% | 20% |
| Over $30bn | 38% | 20% |
| **TOTAL** | **100%** | **100%** |

** Based on the sample of 30 companies identified in the HSF report in 2019 and 47 companies in 2018.*

Reflecting the large size of these companies, 5 out of the 30 companies are in Japan's top 20 largest listed companies by annual turnover and eight companies are ranked in the top 50.

Source: Nikkei.

## E | Acquiring Japanese Companies Sectors

More than half of the companies' sectors were "Manufacturing" and "Services". The sector was classified based on the acquiring companies' major business activities.

The most acquisitive sectors accounting for 86% of the companies were:

- Manufacturing (30%)
- Services - professional, financial, IT/technologies (26%)
- Natural resources and energy (17%)
- Consumer (foods/beverage) (13%)

Note: Based on the sample of 30 companies identified in the HSF report.

Again, this was broadly in line with the 2018 results.

Another interesting trend over recent years has been that Japanese companies in the manufacturing, resources and energy sector seem to be seeking technology and software acquisitions in Australia to complement their existing involvement in Australia's mining sector.

# Conclusion:

Compared to the AJBCC's previous analysis, the size of the companies who made acquisitions over the period of 2019 was more than **3 times bigger** with the **median annual turnover of A$17 billion** and with a **wider overseas investment network** with the median number of countries of 20. A majority of the companies were over 40 years old with the median year since establishment being 72 years.

Based on this analysis, Japanese companies who might consider acquiring Australian companies once again can be characterised as follows:

Corporates with:

- **a history of 72 years or more**
- **turnover in the billions of AUD equivalent**
- **a wide overseas network with numerous existing operations outside of Japan**
- **an aim to acquire Australian know-how - or simply extend their sales network.**

## Definitions and Examples - Reason for Acquisition

*This section explains how definitions used in this analysis were derived. It also gives examples under each category.*

*For full information on the specific transactions mentioned below, please refer to the HSF report.*

**Download HSF Report**

### Know-How (49%)

**How was this defined?**

The Australian (target) company was acquired to gain intellectual property, technologies, skills and other resources as a substitute for their own internal R&D. This type of acquisition allows the acquirer to get the market position quickly.

In particular, the target company often possesses systems, processes or distribution channels significantly different from practices in Japan's domestic market. This know-how has applicability to growing the market quickly and efficiently outside of Japan.

Some specific examples of acquisitions that fall into this category were:

- **Komatsu** acquired **Immersive Technologies** who develops and manufactures mining equipment simulators used for machine operators training. Komatsu intends to utilize Immersive Technologies' know-how to enhance safety, productivity and competitiveness in mining operations.
- **Trend Micro** acquired **Cloud Conformity** (Cloud Security Posture Management Company). The acquisition brings "valuable expertise and experience along with the technology" to Trend Macro.
- **Nippon Paint** acquired **Dulux Group** to gain new sales networks as well as "highly-talented employees and management team" and "cutting edge factory equipment".
- **Sumitomo** invested in **Relialytics**, a software developer of AI-based predictive maintenance analytics for mining equipment, which helps reduce maintenance costs and improve mining equipment availability. Sumitomo aims to "build a next-generation new business using AI and improve the operations of the existing mines it owns".
- **Mitsui & Co** acquired a 20% stake in **Position Partners** who specialises in providing intelligent positioning solutions technologies and systems integration services for survey & civil construction and mining operations. This acquisition helps Mitsui further expand its business optimization through digital transformation and utilize its worldwide network to make Position Partners' products and services available in new markets.
- **Daifuku** acquired **Intersystems** who provides "airport information management systems, including its world-leading flight information display software".

### New Sales Network (73%)

Under this category there are two variations. The first is where the Japanese company was seeking "market extension". This can be defined as:

*The Australian (target) company offers the same types of products or services and the acquisition provides a new market by entering a new geographical market in order to reach out to a larger customer base.*

The second variation is "product extension". This can be defined as:

*The acquisition of a company who sells complementary products or services and offers an extended product line to the existing market using similar or same sales network.*

Examples of the first type are:

- **Sumitomo Forestry**'s acquisition (51%) of **Scott Park Group**, who operates custom-built housing business in WA, enables Sumitomo Forestry to enter into WA markets, expanding its network from eastern Australia where Sumitomo already operates a housing business.
- **Nippon Paint** wholly acquired **Dulux Group** to further expand its overseas business. Dulux holds the largest market share in Australian paints market with its strengths in the decorative paint business. The acquisition will enable Nippon Paint to "secure a strong market position in the decorative paint business" in Australia.
- **Nisshin Seifun** acquired **Allied Pinnacle** who holds the top market share (40%) in Australian flour milling market. The acquisition provides Nisshin Seifun with a strong market position and opportunities to accelerate its business using Allied Pinnacle's existing sales network and potentially to strengthen procurement network and capabilities.
- **Asahi**'s acquisition of **Carlton & United Breweries** would enable Asahi to gain about 50% market share in the Australian beer manufacturing sector, further expanding its Australian presence.
- **FUJIXEROX** acquired **CSG** aiming to "further expand business operations in relation to small- and medium-sized businesses (SMEs) in Australia and New Zealand". This move is complementary for Fuji Xerox as a majority of their clients are from large companies while CSG is mainly focused on SME customers.

Examples of the second type are:

- **Kirin/Lion** has acquired a 50% stake in the distillery **Four Pillars**, craft gin producer. The acquisition allows Lion to add a new product line as they seek "new categories outside core beer business".
- **Asahi** has wholly acquired a Brisbane-based craft beer brewer, **Green Beacon Brewing**. Through this acquisition, Green Beacon's brands will be added to Asahi's product line.
- **Kyocera** acquired **Huon IT**, IT consultancy firm, specialized in IT infrastructure and services. Combining with Kyocera's expertise, the acquisition enables Kyocera to expand its product offering and ICT (Information Communication Technologies) services.

## Supply Chain Component (24%)

In this category can be found examples where the Japanese company made the acquisition because:

- The Australian [target] company operates in the same supply chain or is a distributor or supplier of the acquirer's products.

Example of this type of company is:

- **Japan Pulp and Paper (JP)** acquired **Ball & Doggett Group** as part of their goal to "strengthen its worldwide procurement and supply capability" while utilizing its global networks to grow "Non-Japan Wholesale business". Through this acquisition, JP gains greater market share in the paper and packaging wholesale market.
- **S Foods** who are engaged in meat processing, wholesale and retail has acquired **Monbeef** as they pursue working on "vertical integration" in their supply chain. Monbeef has been S Foods' supplier of beef and the acquisition enables S Foods to integrate Monbeef (beef processor and supplier) into its supply chain. S Foods intends to expand "the most upstream segment of its business: production and procurement of meat".

## New Field of Business (19%)

In this category were the cases where the company was acquired because it gave the Japanese company access to a new industry or a new field within the same industry in Australia. It was noteworthy that although the Japanese acquirers may already have experience in this particular field in Japan (or in other countries), they had not yet entered that particular market in Australia.

Specific examples are:

- **Daifuku** acquired **Intersystems** who provides "airport information management systems, including its world-leading flight information display software". The acquisition enables Daifuku to "diversify Daifuku's business unit for airport systems and complement its existing hardware" and "enter the information management fields".
- **Nippon Paper Group** acquired **Orora**'s paperboard fiber based packaging business in Australia and New Zealand. Through this acquisition, "Nippon Paper Group will be entering the integrated corrugated paperboard manufacturing business in the Oceania region".
- **Kokusai Pulp and Paper** has acquired **Direct Paper** through its subsidiary **Spicers**. This acquisition brings packaging, papers and boards business to Spicers. The acquisition allows Spicers to diversify its portfolio and expand the market.

Australia Japan Business Co-operation Committee
AJBCC

Level 26, 44 Market Street
Sydney NSW 2000 Australia

www.ajbcc.asn.au

**View the 2019 Report**

*Subscribe to*
**AJBCC's Japan Business Alert**