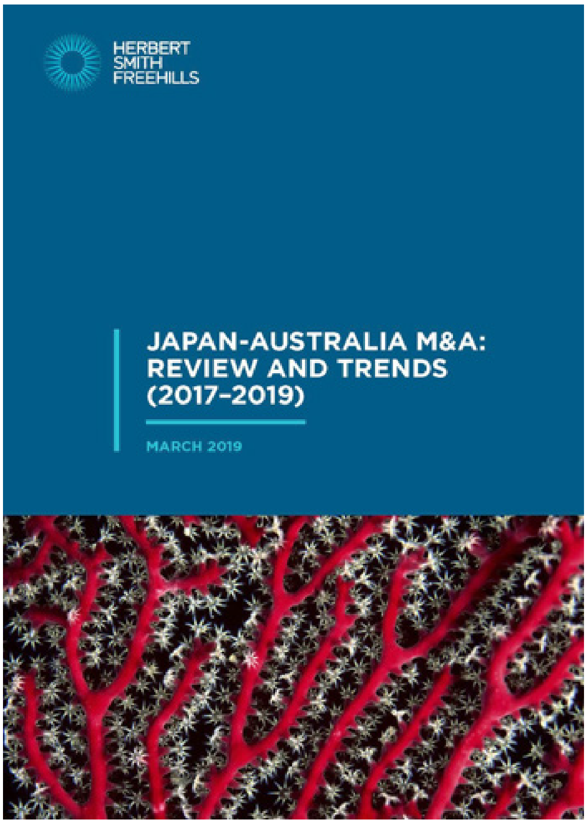
Australia Japan Business Co-operation Committee
AJBCC

WHY ARE JAPANESE COMPANIES INVESTING IN AUSTRALIA?

OCCASIONAL SERIES
JULY 2019

Japanese M&A activity globally continues to break records driven by Japan's long period of ultra-low interest rates as well as the corporate sector cleaning up their balance sheets from the bursting of the "bubble economy" in the 1990s. The resulting massive corporate cash build has been raising a question as to where these funds should be deployed, especially with Japan's shrinking population. All of this has resulted in a continuing surge of Japanese global M&A activity. Australia too, with a long and trusted history of trade and investment from Japan, has been a significant beneficiary of this economic trend.



AJBCC member organisation Herbert Smith Freehills (HSF) recently published a report: **Japan-Australia M&A Review and Trends (2017-19).** This survey listed a remarkable number of 54 acquisitions over this period by 47 Japanese companies. This survey, in both English and Japanese can be downloaded **here.**

The AJBCC examined the data presented in the HSF report and considered what might have been the drivers for the **acquisitions**. To conduct this analysis, the AJBCC used, amongst other metrics, the publicly stated reasons why the 47 Japanese companies undertook these investments.

What Emerged from the Analysis?

A | Reasons for Acquisition

The reasons given for an acquisition could be consolidated into a number of categories. (A company's reason could also be classified under more than one category.)

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

Know How

New Sales Network

Supply Chain Component

New Field of Business

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

Not surprisingly, 85% of the companies identified 'gaining a new sales network' as a driver.

However, what was especially surprising was that 50% of the acquisitions were motivated by acquiring 'know-how'.

Explanation of the definition of the **4 categories** together with examples can be found at the conclusion of this article.

B | Profile of Acquirers' Overseas Investments

It was significant that with one exception, all of the Japanese companies who made acquisitions in *Australia* had investments in other countries. That is, despite there being 24 new entrants into the *Australian* market, the overwhelming majority were seasoned Japanese overseas investors rather than companies investing overseas for the first time.

Where had they invested?

Not surprisingly, of those who had already invested overseas, the region (based on number of countries, not investment amount) most correlated with an Australian investment was "Asia (excluding China) and Oceania", at 87% of the Japanese companies in the sample. By comparison, the regions of China, North America and Europe had broadly similar percentages, with around 70% having existing portfolios in those areas.

Number of Countries

The number of countries in which acquirers had existing operations was significant. The **median number of countries was 12**, suggesting that acquirers had extensive overseas experience.

Number of Countries	Sample Percentage
Less than 10	45%
10 - 30	36%
Over 30	19%
TOTAL	**100%**

Note: Based on the sample of 47 companies identified in the HSF report*

C | Age of the Japanese Acquiring Company

It was striking that the Japanese companies making Australian acquisitions were long established mature companies. The **median age of establishment** of the company in Japan was **75 years**. Over three quarters of the companies had been established prior to 1980.

Year of Establishment (Japanese Acquiring Company)	Sample Percentage*
Less than 20 years	11%
20-40 years	13%
40-75 years	40%
Over 75 years	36%
TOTAL	**100%**

Note: Based on the sample of 47 companies identified in the HSF report*

D | Turnover of the Japanese Acquiring Company

The Japanese acquirers typically had high turnover by Japanese standards. The **median turnover was around A$5 billion**.

Annual Turnover (AUD) (Japanese Acquiring Company)	Sample Percentage*
Less than $1bn	17%
$1bn to $10bn	43%
$10bn to $30bn	20%
Over $30bn	20%
TOTAL	**100%**

Note: Based on the sample of 47 companies identified in the HSF report*

E | New Entrants Versus Companies with an Existing Australian Presence

Half of acquirers were new entrants.

The Japanese acquiring company was classified as a new entrant to the Australian market or having an existing presence in Australia. (In the case of a company which had an existing presence, but one of its subsidiaries had a different name and field of operation, that investment was classed as a new entrant.)

F | Acquiring Japanese Companies' Sectors

As the HSF analysis showed, the acquisitions were diverse. Not surprisingly, the acquirer field was similarly diverse based on the company's major activity.

The most acquisitive sectors were:

- Manufacturers (26%)
- Services - financial, professional, engineering (19%)
- Consumer - foods and retail (13%)
- Construction and housing (11%)

However, other active sectors include: technology (IT and software); health; utilities; real estate; resources and energy, e-commerce, hotel management, and education.

Conclusion:

Future Prospects for Japanese M&A in Australia:

What does this analysis tell us about the cohort of Japanese companies who could be involved in future M&A in Australia?

If the trends evidenced in the 54 M&A transactions continue, the cohort of Japanese companies most likely to invest in Australia in the future will continue to have the following characteristics:

- **a corporate history of perhaps 75 years or more.**
- **turnover in the billions of AUD equivalent.**
- **already having existing operations outside of Japan, especially in South East Asia.**
- **is looking to acquire 'Australian know-how' – or simply extend its sales network – [see both defined below with examples.]**

These characteristics evidence an investor that is well-established and has the resources and industry knowledge to select its target.

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

How was this defined?

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

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

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

- **Daido Insurance:** Acquired the target company Integrity's expertise and know-how in establishing "a Life Insurer with modern IT systems and efficient operational structure".
- **Mitsui Sumitomo & Aioi Daido:** Acquired know-how from Challenger and leveraged Challenger's strengths including its brand power, sales network and technology
- **Asahi Kasei Homes:** Leveraged the know-how of McDonald Jones Homes' expertise in steel-frame structure (including autoclaved aerated concrete - AAC) and combined it with Asahi Kasei's own order-built unit-homes business expertise.

New Sales Network

Under this category there are **two** variations.

The first is where the Japanese company stated its motivation as seeking **"market extension"**. For example:

- The Australian (target) company offers similar products or services to the acquirer and the acquisition provides entry into a new geographical market in order to reach a larger customer base.

The second variation is **"product extension"**. For example:

- The acquisition of a company that sells complementary products or services to the acquirer and offers the opportunity to provide an extended product line to an existing market using similar or same sales network.

Examples of the first type are:

- **Fuji Oil:** Plan to incorporate Fuji Oil's oils and fats technology to improve the target Industrial Food Services' products. Bring Fuji Oil's other product line to a wider range of Australian customers.
- **Prince Hotel:** The acquisition of Staywell adds 30 hotels to the existing Prince Hotel network.

While examples of the second type are:

- **Daikin:** Plans to combine Airmaster's service network and know-how with Daikin's expertise on Heating, Ventilation, and Air Conditioning (HVAC) technologies. Expanded from sales of air conditioning equipment to the field of services and solutions.
- **Fujitsu General:** Currently, Fujitsu General's main business is in air conditioner sales through the retail channel. The acquisition allows Fujitsu General to enter a new business field of "service and maintenance" in Australia.

Supply Chain Component

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

- 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:

- **Sumitomo Chemical:** The acquisition of Botanical Resources Australia, who is a major producer of pyrethrins, enables Sumitomo Chemical to form a major stable pyrethrins supply system.

New Field of Business

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

Specific examples are:

- **Kajima** entered the Australian commercial construction sector for the first time (previously it had been involved in property development)
- **Mitsubishi UFJ Trust Bank:** First time to buy an asset management business. Will become the largest asset management firm in Asia/Oceania.

Australia Japan Business Co-operation Committee
AJBCC

Level 26, 44 Market Street
Sydney NSW 2000 Australia

www.ajbcc.asn.au

Subscribe to
AJBCC's Japan Business Alert