

M&A Attitude Among Japanese Companies

Dear Friends and Colleagues,

During a visit with Japanese chemical companies in Tokyo in the last week of July we learned that while economic conditions have stabilized, most Japanese chemical companies continue to have a cautious attitude toward M&A.

We met individually with about 10 companies over a two-day period. More than half of the companies we visited on this trip were larger trading companies and the remainder were mid-sized diversified chemical companies in the range of about \$5 - \$10 billion in annual revenue. Some of the topics we covered during the trip included an update on the current state of business in Japan as well as each company's appetite for acquisitions.

In general, we found that conditions in Japan are not very different from the current state of affairs in North America and Europe. Most companies told us they are experiencing stability in their businesses, meaning that overall performance is steady but at much lower levels than one year ago. The big drop in revenue that so many chemical companies worldwide experienced during the first half of the year has largely subsided because the inventory de-stocking has run its course and underlying demand is at a more stable level.

In some cases, the companies we spoke with are benefiting from the government stimulus program in China, which is a major export market for Japan. The benefit is not always noticeable across the board, but is often limited to specific products or product lines such as infrastructure-related products. An open question that most companies are asking themselves is whether the China stimulus represents sustainable demand or is more of a short term benefit. There does not seem to be a consensus answer among the group.

Regarding M&A appetite, with a few exceptions it was clearly down among the group compared to a year ago. Nearly all of the companies expressed a willingness to consider opportunities on a case-by-case basis, but few at this point are taking a proactive approach to acquisitions. This attitude is driven primarily by the desire to focus on their core businesses in the difficult economic environment, and in some cases the need to preserve cash. If an opportunity arises that is close to an existing core business, is strategic, and is not too large, Japanese companies will give it a full hearing and for the right opportunity they will make the investment. However, few are willing to take a big risk right now.

There are of course, exceptions and we did find a few companies that are performing well in this market, have cash, and view the current situation as a buying opportunity. Moreover, these companies are looking outside their borders and are very willing to look in many different regions of the world. They would even consider larger acquisitions. But they are in the minority.

When will this more conservative attitude make a turn for the better? In general, I think it will take continued stability (or ideally, an increase) in demand over several more months. Some companies will also require strengthened balance sheets. Once this occurs, expect a significant increase in M&A interest from Japanese firms.



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