

Global Ambition

Japan firms snap up US partners to grow sales and boost expertise

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Japanese corporations are conducting forays into the US market, buying up some big names in America across a wide cross-section of business.

From SoftBank Corp.'s purchase of Sprint Corp., to pharmaceuticals giant Daiichi Sankyo Co., Ltd. paying \$410 million for Ambit Biosciences Corp., and Ajinomoto Co., Inc. investing \$800 million in Windsor Quality Holdings LP, there is clearly a new-found interest in gaining assets to increase Japanese companies' footprints in America.

But these are not the spontaneous splurges of the 1980s, often seen as spends on acquisitions that were more trophies than investments. Many of the Japanese companies that had sunk billions into the US market soon found themselves haunted by many of those deals, such as Mitsubishi Estate's \$400 million purchase, in 1989, of the

iconic Rockefeller Center complex in New York.

This time around, it is apparent that the lessons of those heady but ultimately costly days have been taken to heart in Japanese boardrooms.

"My impression is that the circumstances and approaches are different today. These deals are driven by a coherent strategy, not by currency arbitrage or hubris," Paul Ford, a partner in KPMG's Transactions Services Group in Tokyo, told the *ACCJ Journal*.

"These transactions are well thought out from a business enhancement perspective, more so than what was going on 25 years ago," Ford said.

"The level of sophistication and professionalism going into these deals is very high," added Ford, who has been closely involved in a number of trans-Pacific transactions for Japanese clients. "The mergers

and acquisitions teams at companies like Rakuten and SoftBank are world-class and can compete globally with just about anyone."

Ford pointed to one particularly symbolic arrangement as being indicative of the strength of Japanese deal-making in the United States. On April 30, Suntory Holdings Ltd. announced that it had completed the acquisition of all outstanding shares in Beam Inc., the company behind the 219-year-old Jim Beam brand of bourbon whiskey.

The deal created the third-largest company in the world in the premium spirits market. The new entity—Beam Suntory Inc.—is based in Deerfield, Illinois, and headed by Matt Shattock, who was the CEO of Beam from 2009.

Shattock immediately made it clear that the new company is looking for further international expansion.

"By combining the world leader in bourbon and Japan's leading spirits company, we have created a stronger global business with an even better premium portfolio," Shattock said in a statement.

"We will be focused on continuing our momentum, growing in developed and emerging markets,



Left: Windsor Quality Holdings LP President Greg Geib (left) and Ajinomoto Co. President Masatoshi Ito at a news conference to announce their merger.

Right: Yamazaki Sherry Cask 2013 was named best whisky in the world in November 2014.



and building on our combined strengths,” he added. “Those strengths include a dynamic portfolio across key categories, powerful routes to market, and passionate people.”

The executives of Suntory are equally delighted. The Japanese producer is behind the Yamazaki Sherry Cask 2013 whisky, which was recognized as the best in the world by the *World Whisky Bible* in November 2014.

“Since its founding, the Suntory Group has always shared the spirit of *yatte minahare* (go for it) in taking on new challenges, creating new opportunities, and living our corporate values,” said Nobutada Saji, president and chairman of Suntory.

“Beam’s heritage of over 200 years is also characterized by a spirit of entrepreneurialism, creativity, and courageous decisions that exemplify the same *yatte minahare* spirit,” he added.

Hasumi Ozawa, a spokesperson for the company in Tokyo, said the group’s portfolio will be “unmatched throughout the world” and will allow Suntory to achieve further global growth.

“The US spirits market is big and growing, according to the international wine and spirit organization, so that makes it attractive for us,” Ozawa told the *Journal*, adding that Beam operates an advanced research and development program “and they value quality and innovation, as we do.”

E-commerce ventures

And, while Suntory has purchased a single big-name brand, Rakuten Inc. is snapping up a US-based series of companies that share synergies with its own core business.

Over the past 18 months, Japan’s e-commerce and Internet behemoth—the largest of its kind domestically, and among the biggest in terms of sales in the world—has acquired US-based logistics company Webgistic, global video streaming service Viki, purchase-history data aggregator

Slice, and leading membership-based, online, cash-back site Ebates Inc.

Rakuten Marketing, meanwhile, has acquired Data Analytics Engine from Product Feed, and deals content aggregator PopShops.

James Bell, of the company’s public relations department, said the following about the acquisitions: “As well as being strong individual brands themselves, these companies offer services that complement our own, and provide us with opportunities to strengthen and develop our e-commerce and content offerings not just in the US, but globally.

“These acquisitions allow us to expand our operations into the US, as well as strengthen our global services by integrating the technology, experience, and know-how held by each company into our businesses.” Bell also hinted that further deals are planned for the years ahead.

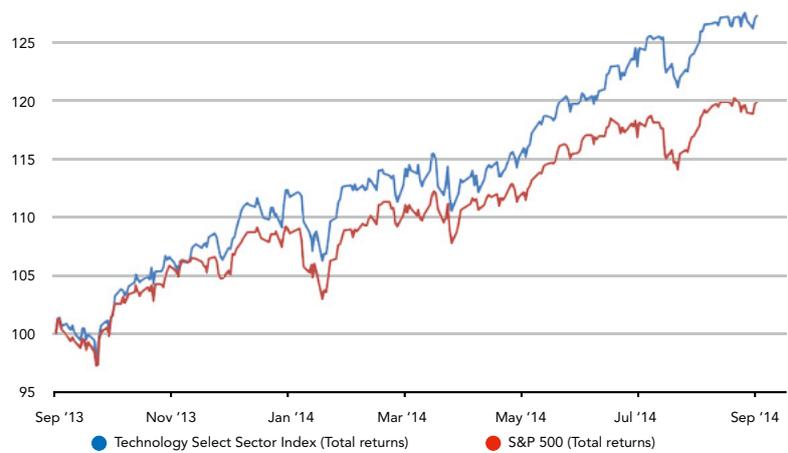
“The US has a history of entrepreneurship, and we see a lot of innovation coming from the country,” he said. “This makes it very attractive for investment.

“In fact, along with Israel and the Asia-Pacific, the US is one of the main focus areas of our corporate venture capital fund, Rakuten Ventures.”

New competitor: private brands

Roy Larke, a professor of international marketing and Japanese business at Tokyo’s Rikkyo

Technology Sector Outperforms S&P 500



University, and a senior lecturer at New Zealand’s Waikato University, said that Japanese companies are seeking a larger market to play in, as well as new research and development opportunities. They are seeking allies because they are aware that few domestic firms have successfully made the leap on previous occasions, he explained.

“Japanese companies excel at R&D and other systematic disciplines,” he said. “Marketing, speaking very generally, is a different matter. At home, within the cultural norms of Japan, there are some companies that excel in marketing, but there are few that stand out.

“In particular categories—beverages, toiletries, chilled desserts, for example—there are a few big players at home who are all heavy marketers, but none of them are particularly skillful or innovative,” he added. “This weakness has been a major issue whenever they’ve been overseas.”

That makes the brand, and the marketing know-how that comes with it, the overriding factor in such deals.

“Lastly, these companies are beginning to be squeezed at home by the introduction of private brands—and this will boom in the coming years,” he said.

Aeon and Seven & I both confirm that between 12 percent and 15 percent of their sales are derived from their own brands; in some categories, the proportion is much

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higher. These companies will be aiming for between 40 percent and 50 percent of total sales from private brands in the medium term.

“At that point, even today’s biggest makers will need to have really powerful brands and marketing messages to command shelf space,” warned Larke.

There is still risk attached to overseas acquisitions, however, and SoftBank Corp. was forced to slice about \$1 billion off its annual profit forecast in early November. The primary reason behind this is the poor performance of Sprint Corp., the US carrier it purchased for \$22 billion in 2013, which has been losing customers in droves.

Masayoshi Son, chief executive of the Japanese parent company, has plans to turn SoftBank into a global mobile media powerhouse, but its second-quarter operating profit for 2014 fell 23 percent year on year.

Speaking to reporters in Tokyo at the announcement of the company’s figures, Son admitted, “Sprint’s battle will be long and tough, and it’s not something that can be fixed in a short time.”

He insisted that the focus is on Sprint’s long-term business potential and that there are already indications that management is turning around the losing streak.

Waning domestic market

“There is continued strong appetite among Japanese firms to invest

JAPANESE PARTNER	US COMPANY	PRICE	DATE
Rakuten, Inc. (Online marketplace)	Webgistix (Cloud-based fulfillment technology for e-commerce)	Undisclosed (Believed to be \$30 million)	Jun '13
	Viki (Global video streaming)	Undisclosed (Believed to be \$200 million)	Sep '13
	Slice (E-commerce data aggregator)	Undisclosed	Aug '14
	Ebates (Cash-back shopping site)	\$1 billion	Sep '14
SoftBank Corp. (Wireless and wireline communication services)	Sprint Nextel Corp. (Mobile communications, broadband services, fixed-line telecommunications, portal services)	\$21.6 billion	Jul '13
Suntory Holdings Ltd. (Alcoholic, non-alcoholic drinks)	Beam Inc. (Spirits)	\$16 billion	Apr '14
Ajinomoto North America, Inc. (Seasonings, processed foods, beverages, amino acids, pharmaceuticals, specialty chemicals)	Windsor Quality Holdings, LP (Asian/ethnic frozen foods)	\$800 million	Nov '14
Daiichi Sankyo Co., Ltd (Pharmaceutical products)	Ambit Biosciences Corp. (Biopharmaceuticals)	\$315 million	Nov '14

overseas,” said KPMG’s Paul Ford. “In the last six or seven years, there has been steady Japanese investment outside Japan. Some expected that would decline when the yen weakened and, while we did see some short-term volatility, outbound M&A [activity] has remained at a high level,” he pointed out.

“These acquisitions are driven by strategic business reasons instead of short-term arbitrage.”

The other side of the coin for domestic firms is the declining Japanese population and, hence, a shrinking home market.

“In a growing number of sectors, the marketplace is global, and Japanese companies know they have to operate on that scale to be successful over the long term,” Ford said. “Logically, they have to expand their global footprints to compete effectively.”

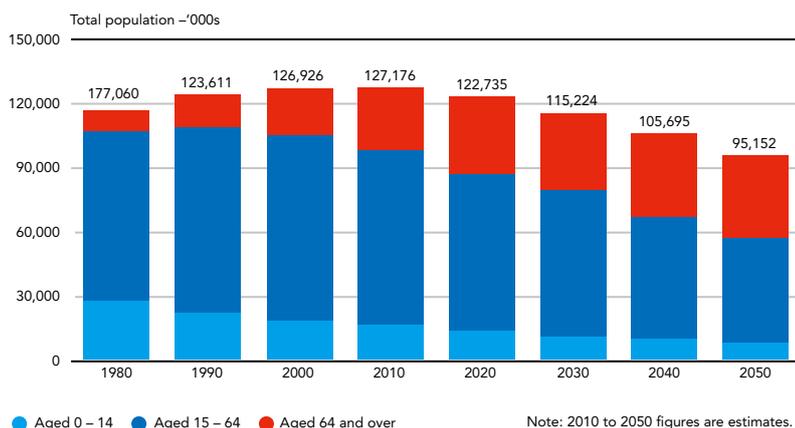
The United States remains an attractive destination.

“The US is a natural fit for Japanese companies because it is an industrialized society with well-defined laws and business practices,” Ford explained. “It is transparent and there is very little incremental country risk, which appeals to Japanese firms.”

The American economy and markets continue to grow, he said, while the US is “a fantastic market” for technology and innovation.

“I think we will continue to see Japanese firms using M&As to grow from market, brand, and technology standpoints, and the US is the logical place for them to do that,” he added. •

Japan’s Aging Population



Note: 2010 to 2050 figures are estimates. Sources: Statistics Bureau of the Ministry of Internal Affairs and Communications, IPSS