Mergers and Acquisitions No Longer Shock Japanese
Martin Fackler

A fund manager in "Vulture," portrayed by Nao Omori, left, uses foreign capital to raid Japanese businesses. Osamu Nishino plays a technology entrepreneur whose parents' inn was sold off by Mr. Omori's character.

One of the hottest new shows on Japanese television is called "Vulture," though it is hardly a nature program. It is about a fictional New York investment fund that buys ailing Japanese companies and imposes harsh American-style management changes.
That may strike Americans as dry finance instead of family entertainment. But the program's popularity in Japan underscores a new openness in this country's business culture. After being virtually taboo for decades, corporate mergers have risen sharply in the last three years and are becoming something of a preoccupation even among ordinary people.

While Japan is a long way from the dog-eat-dog world of corporate America and Europe, takeovers and buyouts are becoming a common, if not always welcome, feature of the business landscape. The number of mergers involving Japanese companies as buyers or sellers more than quadrupled in a decade, to 2,775 deals last year from 621 in 1996, according to Recof, a Tokyo-based market research company.

In most such deals, the buyers were Japanese companies, which have also begun snapping up overseas businesses in large numbers for the first time since the late 1980s.

Corporate takeovers used to be rare here because of a deep cultural aversion to selling one's company, which had been seen as a humiliating failure by founders and owners.

But confronted with years of sluggish growth, and with the nation's birthrate among the world's lowest, companies are finding themselves with little choice but to seek new ways to increase revenue and profit — by gobbling up competitors, for instance.

"Japan's in an M.& A. boom," said Nobuo Sayama, a professor of management at Hitotsubashi University in Tokyo and president of GCA, a merger advisory firm. "The thinking has changed here."

Analysts and bankers say the rise of mergers is part of Japan's embrace of less-fettered competition that has helped revive its $5 trillion economy from a decade of stagnation. The emergence last year of the first hostile takeover attempt between Japanese companies — when Oji Paper tried but failed to buy the rival Hokuetsu Paper Mills — was widely seen as a nail in the coffin for the old Japan Inc. collegial brand of capitalism.

Hostile takeovers remain rare because of a cultural aversion to confrontation, and even friendly acquisitions can still carry a social stigma. Companies often go to great lengths to characterize takeovers as "mergers of equals" to save face for the company being bought. Healthy companies resist the idea of putting themselves on the block, even if a sale would enrich management and shareholders.

This mind-set prevents Japan from becoming as active a merger market as other advanced economies, bankers say. In the United States, an economy 2.6 times the size of Japan's, there were nearly four times the number of mergers last year as in Japan: 10,634, according to Thomson Financial. European countries had 12,091, Thomson said.

"Japan has definitely embraced M.& A. as a tool for strategic growth," said Yasushi Hatakeyama, head of the Tokyo office of Lazard Frères, an investment bank specializing in mergers. "But there's still the perception left that selling your business is a defeat."

And selling to foreigners often seems to be the biggest defeat of all, bankers and analysts say. As a result, foreign investors get only a small slice of the market, acting as buyer in just 171 deals last year — a little more than 6 percent of all mergers involving Japanese companies, according to Recof.

But these deals grab most of the headlines in Japan, where foreigners, and particularly foreign funds, are often viewed as hagetaka, or vultures, that have come to feed on hapless Japanese companies. To avoid scrutiny, an American fund, Steel Partners, does not even list the phone number of its office in the Marunouchi district of Tokyo, and it refused requests for an interview.

Last month, Steel faced a wave of alarmist press reports about its "greedy" intentions after making a $1.2 billion bid for one of Japan's top brewery companies, Sapporo Holdings. Two American buyout firms, Texas Pacific and Cerberus, are among those bidding for the Victor Company of Japan, an ailing electronics producer that makes JVC products. On March 6, Citigroup offered as much as $10.8 billion to buy a troubled brokerage firm, Nikko Cordial, in what would be the largest foreign takeover ever here.

The fear of an influx of foreign capital has been building ahead of a rule change in May that will allow overseas companies to acquire Japanese businesses with their own shares instead of cash, easing the way for more international mergers. This has many of Japan's salarymen looking over their shoulders for fear of foreigners swooping down on their companies. But many other Japanese seem to accept a Darwinian model as inevitable.
When the national broadcaster NHK showed the first episode of "Vulture" last month, the show's director expected the audience to view the American fund, which was called Horizon Investment, as the villain. But to his surprise, about half the viewers responding supported the fund and faulted the Japanese acquisition targets for getting into trouble in the first place, the director, Keishi Ohtomo, said.

Mr. Ohtomo said NHK decided to go ahead with the show after seeing the intense popular interest in mergers. The first episode attracted an impressive 3.5 million viewers in Tokyo alone, according to Video Research, a television ratings agency.

"The show struck a chord among Japanese because M.& A. is suddenly something that is close to our lives," he said. "Japan is still trying to decide whether M.& A. is a good thing or a bad thing."

The level of interest was apparent on a recent evening in a Tokyo subway station, where commuters thumbed tabloids with articles speculating on foreign vultures' next victims. Nobutaka Yamada, a 37-year-old bank manager, said Japanese had to adapt to the competition, or risk being left behind in the global economy. "Japan must learn to live with these vultures," Mr. Yamada said, "or it will face takeover from an even bigger vulture, China."

Despite such sentiments, it is often the Japanese company that is buying the foreign one. Rich with cash from a rebounding economy, Japanese buyers acquired 412 foreign businesses last year, double the number of three years ago and the highest level since 1990, according to Recof.

And analysts and bankers say Japanese companies have learned their lesson from their last overseas buying binge in the late 1980s, when they often paid extravagant amounts for trophy acquisitions like Columbia Pictures. This time, the acquisitions are making sounder business sense, they say.

These include the office equipment maker Ricoh's $725 million purchase of I.B.M.'s digital printer unit, announced late in January; the $5.4 billion takeover early last year of Westinghouse Electric, which has evolved into a nuclear reactor maker; and Bridgestone's $1.05 billion agreement in December to buy Bandag, a Muscatine, Iowa, company that specializes in retreading worn tires. The deal will give Bridgestone entree into the retread market with control of Bandag's technology and 900 worldwide dealers.

Saul A. Solomon, a vice president at Bridgestone's American subsidiary in Nashville, who is overseeing the merger, said, "It would have taken us a number of years to build this kind of business up on our own."

Over the next few years, many bankers and fund managers expect mergers to become even more common here. The biggest reason, they say, is more assertive shareholders.

While the largest shareholders in Japan used to be companies and banks that silently supported management, these days they are outnumbered by individuals and foreign institutions. These new stock owners are making demands on management.

Last month disgruntled shareholders, unhappy with the terms of a proposed merger, vetoed such a deal for the first time. In that case, the American manager of a Japanese fund rallied the Japanese shareholders of a small steel maker, Tokyo Kohtetsu, to block its purchase by a rival, Osaka Steel.

"Shareholders are starting to stand up and they are powerful," said the fund manager, Scott Callon, chief executive of Ichigo Asset Management. "Japanese management is increasingly being driven to do things differently, including M.& A."

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