Ranbaxy CEO Malvinder Mohan Singh with Daiichi Sankyo Chief Takashi Shoda

WITH A SOARING YEN, JAPAN IS BUYING

The currency's surge and market's crash are inflicting pain at home, but it sees a buyer's market abroad

By Ian Rowley and Kenji Hall

TOKYO

With the yen's recent surge to a 13-year high against the greenback and Tokyo stocks near their lowest levels in a generation, Japan seems to be losing some of its allure as a safe place to stash cash. In late October, Sony, Canon, and Honda slashed their earnings forecasts, and analysts fear that the slowing global economy and strong yen could halve profits even at mighty Toyota Motor. The yen has surged so fast that the Gy group of industrialized countries has publicly fretted about the currency's impact on global economic stability.

For some companies, though, there's an upside to a strong yen. Since January, Japan Inc. has spent a record $59 billion abroad, on 291 deals everywhere from Brazil to Germany, according to Thomson Reuters. That's more than double the amount for all of last year and far exceeds the $25 billion tossed around at the peak of the bubble economy in 1990, when Japan's titans were snapping up trophies such as the Pebble Beach golf course in California and New York's Rockefeller Center.

Even the ongoing global turmoil hasn't stopped the dealmaking. On Oct. 17 trading company Itochu led a $3.1 billion purchase of 40% of Brazilian iron ore miner Nacional Minerios. A week later, Suntory, Japan's No. 3 brewer, announced it would buy New Zealand's Frucor Beverages for $800 million, beating out rivals Kirin and Asahi. Those deals come on the heels of earlier blockbusters such as Daiichi Sankyo's $3.4 billion purchase of a controlling interest in India's Ranbaxy Laboratories and Mitsubishi UFJ bank's $9 billion grab for 21% of Morgan Stanley.

A strong yen, plunging valuations overseas, and the scarcity of rival bidders are all fueling the shopping spree. Japanese companies also have big stockpiles of cash and relatively low debt after years of restructuring and risk-shy investing. Until recently that seemed to make them takeover bait, but now it's working in their favor. And as Japan's population grays, companies are seeking new markets. "This should be a great opportunity for many Japanese corporations," says Shinsei Securities analyst Yasuhiro Matsumoto.

Japan's big banks have so far been able to fund deals. For years, they were hobbled by bad loans left over from the 1990s banking crisis. Today they have trillions of dollars of savings in their accounts and limited losses from subprime mortgages-though they're starting to feel some pain from the global financial crisis. While there has been no need for a government bailout, Mitsubishi UFJ on Oct. 27 said it would raise as much as $10 billion to shore up its capital base. Plummeting stock prices could spur other banks to do the same. And if the strong yen's corrosive effect starts to extend beyond exporters, the dealmaking could slow. For now, though, there are e few signs of things cooling off, says the mergers-and-acquisitions chief at a Western bank in Tokyo. "There's activity," he says, "in every single sector.

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