Japanese Chemical Mergers and Acquisitions Activities Focused on External Opportunities

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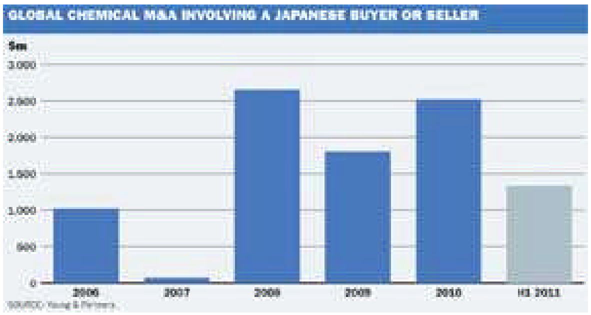
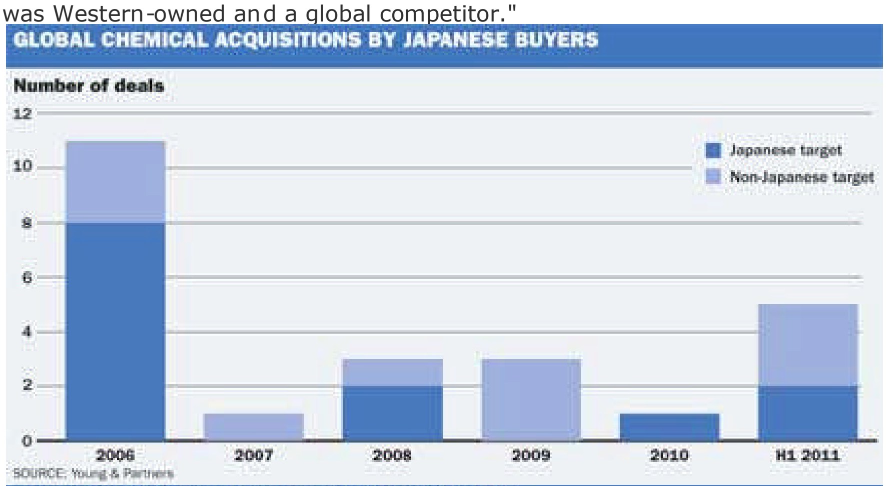
Mergers and acquisitions (M&A) have never been a huge priority for Japan's chemical companies in advancing their growth plans. Over the past five-and-a-half years, activity has been moderate, with some minor consolidation within Japan and a smattering of external deals. But the incentive to acquire in the West is growing, as Japan's currency gains in strength and Western public asset values fall.
"Japanese chemical companies will continue to selectively acquire in the West, but the majority have come to the realization that acquisitions are not necessarily the answer," says Peter Young, president of US-based investment bank **Young & Partners**. "They are more confident building plants where there are growing markets and feedstock advantages - such as China and the Middle East - as well as creating joint ventures."

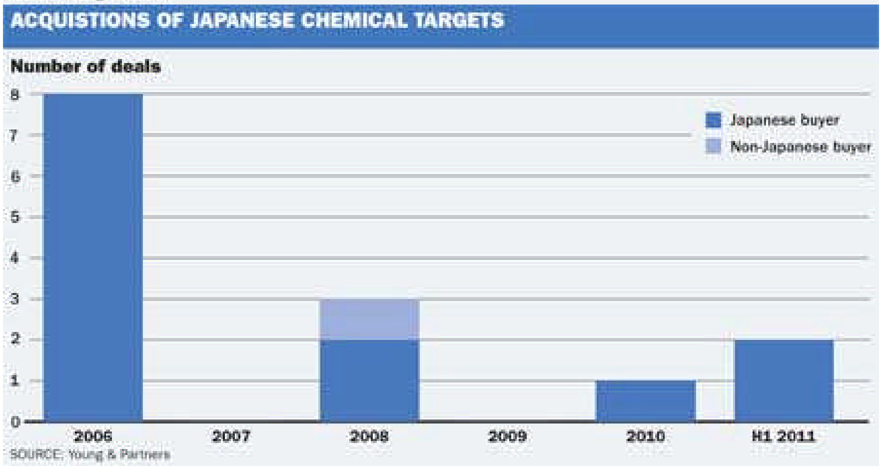


Japan's chemical companies have tended to pay full prices for acquisitions in the past and been less comfortable managing the acquired Western businesses due to management cultural differences.

$9.4BN IN DEALS SINCE 2006
From 2006 through the first half of 2011, there were 25 chemical deals involving a Japanese buyer or seller worth a total of $9.4bn (€7.0bn), according to Young & Partners. Out of the 25 deals, 14 involved buyouts of Japanese targets worth $6.4bn, while 11 were buyouts of non-Japanese targets worth $3.0bn.
Attempts at consolidation within Japan's chemical sector took place in 2006, with eight Japan-to-Japan deals. But that was followed by no such transactions in 2007, two in 2008, zero in 2009, one in 2010 and two through the first half of 2011, according to Young & Partners.
"Japanese companies have actually tried to consolidate - they felt they could get stronger by getting larger and cutting costs. But mergers in Japan are challenging and 11 deals over the past five-and-a-half years is not a lot," Young points out. "They have also come to realize that merging among themselves in Japan does not necessarily solve their broader global competitive problem."
Since 2006, Japanese targets were almost exclusively acquired by Japanese companies. Out of the 14 deals involving Japanese targets, all but one were by Japanese buyers - the sale of agricultural

chemicals producer Arysta Life Science from global private equity firm Permira to Ireland-based Industrial Equity Investments for $2.4bn in 2008, Young points out.
"Japanese companies don't like to sell to non-Japanese owners. Plus, buyers of chemical assets don't consider Japan a priority location in which to acquire," says Young. "Arysta was an exception because it was Western-owned and a global competitor."





A strong yen provides motivation for Japanese buyers on two fronts, notes Young.
Aside from making acquisitions in countries with weaker currencies cheaper, "it also weakens Japanese manufacturers' cost position," says Young. "This makes it less attractive to make things in Japan, so it could favor acquiring production elsewhere."