

Going for growth in Asia: Navigating the way

Financial Services M&A – Japan



Key figures

Japan tops the Asian league table of financial services M&A, with US\$36.2bn worth of deals last year, more than triple the amount completed in 2006 (US\$10.3bn). A substantial 75% of Japanese financial services firms responding to our survey had completed deals in the last three years. The biggest disclosed deals were:

- Citigroup's acquisition of a 61% stake in Nikko Cordial for US\$7.7bn and subsequent purchase of an additional 33% for US\$4.7bn.
- Shinko Securities' purchase of Mizuho Securities for US\$6.6bn.
- Mitsubishi UFJ Financial Group's acquisition of a 39% stake in Mitsubishi UFJ Securities for US\$3.2bn.

Summary of 2007 financial services M&A transactions*

Country	Number of deals	Banking	Securities and capital markets	Mutual funds and asset management	Insurance	Value (US\$m)
Japan	61	10,615	23,546	1,872	144	36,177
China	94	7,264	6,123	2,604	212	16,203
South Korea	24	10,059	784	1,095	1,069	13,006
Australia	69	1,990	1,497	2,828	725	7,040
India	100	1,486	4,345	974	101	6,905
Malaysia	38	5,373	794	70	324	6,561
Hong Kong	67	1,896	2,015	1,226	1,312	6,450
Taiwan	14	4,522	9	390	145	5,066
Thailand	16	2,239	10	35	6	2,290
Kazakhstan	1	2,175	-	-	-	2,175
Vietnam	13	605	101	217	329	1,252
Pakistan	4	498	504	-	-	1,002
Macau	3	619	-	-	-	619
Indonesia	9	325	93	13	-	431
Singapore	13	-	329	67	6	402
Philippines	9	27	120	14	6	167
New Zealand	7	8	59	21	8	95
Laos	3	19	-	-	-	19
Sri Lanka	1	-	2	-	-	2
Total**	546	49,720	40,330	11,426	4,386	105,862

Source: PricewaterhouseCoopers based on data from M&A Asia.

* Based on deals disclosed.

** Please note that the totals within the tables in this report do not always tally due to rounding and/or multiple responses.

Future dealflow

Just 19% of Japanese financial services firms say they expect to launch a deal this year, compared to 50% in China. But 69% believe they will undertake significant M&A over the next five years, and 63% say joint ventures and partnerships are key to their expansion.

Do you agree or disagree with the following statements?	Agree	Disagree	Don't know
Our organisation will undergo significant M&A in the next year	19%	63%	19%
Our organisation will undergo significant M&A over the next five years	69%	13%	19%
Our organisation will seek a foreign strategic investor or a partner in a significant new venture in the next five years	56%	25%	19%
Joint ventures and partnerships will be key to our expansion plans in Asia	63%	19%	19%
Our organisation will undergo a significant business disposal over the next five years	19%	44%	38%
Our organisation is already structured in the way we want	31%	63%	6%
Our organisation has a track record of success in M&A and restructuring	44%	44%	13%

Drivers of deals

The main M&A goals of Japanese firms are to increase shareholder value (cited by 44%), and to enter new product markets (cited by 38%). In most other Asian countries, geographical expansion is the top priority, suggesting that Japanese firms see untapped potential in their home market as well as abroad—and they recognise the need to access additional expertise in order to capitalise on these new opportunities. Indeed, competition from domestic players (56%) as well as foreign institutions (44%) were seen as the main external drivers of M&A activity.

Deal targets

Half of Japanese financial services firms say they will seek major deals in Japan in the next five years, whereas firms in other countries are less focused on their domestic markets. Nevertheless, 38% of Japanese firms say they will expand in China and 31% in Singapore.

The most likely targets for financial buyers today are predominantly securities firms. But, in five years, 50% of survey respondents say specialist funds will be the biggest deal targets for financial buyers and 38% say retail banks. This implies that securities sector consolidation will soon be complete.

Five years from today, in which sectors do you think a financial buyer is most likely to be successful in acquiring a domestic company in your country?	
Specialist funds such as REITs	50%
Retail banks	38%
Securities companies	25%
Mutual fund or asset managers	25%
Life insurers	25%
Outsourcing service providers	25%
Niche markets (eg, in distribution, intermediaries)	25%
Private banks	19%
Wholesale banks	13%
Reinsurers	13%
Islamic finance	13%
General insurers	6%
None of the above; financial buyers are unlikely to be successful in acquiring a domestic company	0%
Don't know	0%

Barriers to M&A

Valuations for financial services firms in Japan have fallen dramatically over the past two decades. That may explain why a quarter of firms say lack of capital is preventing them from doing deals – few firms elsewhere in Asia identified this as a barrier to M&A.

From your company's point of view, what are the principal barriers to undertaking M&A deals?	
High pricing of M&A deals	38%
Lack of attractive targets	31%
Poor shareholder value	31%
Resource constraints within management team/inability to recruit senior managers for new operations	31%
Lack of capital	25%
No capacity to integrate further acquisitions	25%
Competition restrictions	19%
Compliance issues	19%
Potential exposure to reputational risk	13%
Uncertain regulatory requirements	13%
Lack of information on target organisation	0%
Difficulty obtaining financing	0%

In terms of obstacles to M&A activity, 25% of firms think the local regulator is a hindrance to deals. But the biggest obstacle to M&A, according to Japanese institutions, is corporate defensiveness – that is, unwillingness by managers and owners to consider selling stakes in their companies, cited by 56% of respondents.

What are the main obstacles to increased M&A activity in the financial services sector in your country?

Defensiveness; owners or managers resort to defence mechanisms to halt M&A activity	56%
Corporate culture; the potential for corporate culture clashes in merged organisations	38%
Tax issues	31%
Stakeholder opposition; protests from employees and business partners	31%
Cross-shareholdings; friendly shareholders protect managers	25%
Regulations and regulators' attitudes	25%
Public sentiment; fear of the public reaction to M&A	25%
Familiarity; limited history of M&A in our chosen market	19%
Management goals; managers do not focus on increasing shareholder value	13%
Capital/borrowing constraints	13%
Regulations requiring joint ventures	0%
High pricing of M&A deals	0%
Other, please specify	0%

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