

# THE PRESENT STATE OF M&A ACTIVITY AND VENTURE INVESTMENTS IN JAPAN

**O**EM Capital visited Japan in late 2003 to meet with key information technology and electronics industry contacts in order to evaluate general market conditions.

We had the opportunity to meet with investment banks, electronics companies, and trading companies. While all had different perspectives, without exception, the mood during this visit was significantly better than anything we have heard in the past two years. Everyone we met believed the Japanese economy was improving, and each was hungry to see new deals.

Investment banks in Japan tend to be relationship-based. For instance, Mizuho Securities has commercial banking relationships with 70% of Japanese publicly traded companies. Therefore, Mizuho and other commercial banks are able to easily get in touch with almost any company in Japan that has debt, which is just about all of them. In Japan, about 90% of transactions are *in-in*, meaning that both parties are Japan-based companies. Division-swapping among large manufacturers has been a common practice in recent years. Because Japanese investment banks believe that this trend will come to an end soon, they are hungry to develop relationships with firms outside of Japan to promote cross border transactions. As the yen

continues to appreciate relative to the dollar, US targets are becoming more attractive.

The industry participants we met in Japan, mostly large electronics manufacturers such as Fujitsu, have restructured greatly in recent years, and cost-cutting efforts and an improving economy have helped many return to profitability. There is a general feeling that the past few years of recession have hindered their development of new technologies and products. While manufacturers are still smarting from the telecom bust and the ensuing drop in value of venture investments, they are cautiously looking at merger and acquisition and new investment opportunities, particularly in companies with innovative technologies. Japanese manufacturers will very rarely be lead investors in such companies, but will often co-invest with groups with whom they have long-term relationships.

The trading companies we met are the hungriest of the bunch. Trading companies, such as Mitsubishi, are traditionally the most aggressive and internationally oriented of

---

THOMAS G. KASTNER  
*OEM Capital*  
*Schaumburg IL*

Japanese firms, and they take the role of feeding technology and new products to their group companies. Large trading firms are in everything imaginable, from electronics to pharmaceuticals to food products to clothing, and are great conduits for merger and acquisition activities and investments. While trading firms are currently hungry to see deals, they are still cautious, and are looking at more later-stage deals rather than start-up or green field opportunities. One company told us they would rather pay ten times the amount later on a less risky bet rather than pay a lower amount for a start-up investment.

The most interesting acquisition opportunities in Japan at this time would be those that help gain market share and service capabilities. However, many medium-sized private companies are heavily in debt and have wildly under-funded pension plans. While many companies have good technology and high product quality, few are truly innovative or have products suitable for competitive export markets. Much of the inbound merger and acquisition activity in Japan has been concentrated on distressed companies and properties. Many of the owners of 'zombie' companies hope to ride things out until retirement or until the bank finally decides to take less than the full amount owed.

For companies looking to acquire private Japanese firms it is almost impossible to get in touch with the shareholders without an introduction from an investment bank. OEM Capital has begun to establish relationships with all types of investment banks in Japan, from large to small. Regarding potential acquirers of US businesses, it is relatively easy to call publicly traded Japanese firms and eventually reach the decision makers *if* one speaks Japanese and is willing to travel. Otherwise, it is often difficult to crack through the 'rice paper curtain' without a contact at a Japanese investment bank. OEM Capital will continue to cooperate with our Japanese contacts to look for buyers, sellers, and potential investors.



*Thomas G. Kastner has over ten years of experience in the electronics industry specializing in semiconductors, semiconductor equipment, wireless and electro-optics components. Mr. Kastner is fluent in Japanese. He spent eight years in Japan as a senior executive for Hakuto Co., Ltd., a publicly-traded (Tokyo Stock Exchange) distributor of semiconductors and associated equipment, reporting to the company's chairman and CEO. More recently, he managed Hakuto's investment program in the US as President of Hakuto America, Inc., where he identified new opportunities, negotiated investment terms and monitored investments in eleven companies. These included Newport Corporation, a supplier of test, measurement and automation systems; Emcore Corporation, a manufacturer of compound semiconductor materials, and production systems; and Micronic Laser Systems, a manufacturer of laser pattern generators for photomasks. Mr. Kastner also served as a director of two private US semiconductor equipment manufacturers that were successfully sold to larger public corporations. He is co-founder of Strategic Switch and Audio, Inc. a distributor of electronic components and remains a member of its board of directors.*

*Mr. Kastner has a Bachelor of Arts degree from the University of California and a Masters of Business Administration degree from Yale University.*

Thomas G. Kastner  
**OEM Capital**  
Tel 847-908-0236  
Fax 847-310-4590  
e-mail [tgk@oemcapital.com](mailto:tgk@oemcapital.com)  
[www.oemcapital.com](http://www.oemcapital.com)

# COMMENTARY

**OEM Capital** specializes in the sale or divestiture of electronics, communications and computer related companies. The firm also helps to secure capital to complete an acquisition or to refinance a company with minimum dilution to existing shareholders.

Since 1985, the firm has initiated and completed numerous transactions for New York Stock Exchange listed, American Stock Exchange listed, NASDAQ listed, and a variety of over-the-counter and privately held companies located throughout the United States. Typically, the companies, subsidiaries or divisions we are asked to help have annual revenues between US\$10 and 50 million. Where we have been financial advisors in the sale of a division or subsidiary, some of our clients have had annual revenues in excess of US\$2 billion.

The firm has been able to realize exceptional results because its senior staff is comprised of professionals who have had extensive prior experience as operating executives in the industry and continue to maintain extensive contacts throughout the world.

Our clients have included companies engaged in a wide variety of areas including software publishing and services, computers and peripherals, microwave and rf components, communication equipment, instrumentation, defense electronics, electronic materials, entertainment electronics, electronic and electromechanical components, electrical motors, power supplies, and product distribution and servicing.

**OEM Capital** is a member of the International Network of M&A Partners ([www.imap.com](http://www.imap.com)). IMAP is comprised of more than 60 member firms worldwide in a select network of independently owned, dedicated merger and acquisition professionals. IMAP gives the firm representation in many of the important cities throughout the world. The success of IMAP is proven by the hundreds of transactions finalized each year by its member firms with a combined value in the billions of dollars.

## OEM Capital

Technology Investment Banking  
Electronics • Communications • Computers

1071 Post Road East • Westport, CT 06880-5361 • Voice (203) 226-7052 • Fax (203) 226-5741  
230 Park Avenue • New York NY 10169-0456 • Tel (212) 319-3435 • Fax (212) 319-3209  
HomePage <http://www.oemcapital.com> • e-mail [oem@oemcapital.com](mailto:oem@oemcapital.com)