



M&A trends 2017/2018—From Japan to Australia

MARCH 2018

Japan ranks second only to the United States of America in terms of foreign direct investment into Australia. Data from the Australian Bureau of Statistics showed that Japanese investment amounted to a cumulative A\$91 billion in May 2017—double the level of investment in 2009.

The importance of Japanese investment remains unchanged from the time of the signing of the 1957 Commerce Agreement, but its nature has continued to evolve. From the 1960s to the mid-2000s, Japanese investment was primarily focussed on securing minerals, energy and food for export to Japan. This was achieved through minority interests in joint ventures.

The last 10 years has seen a distinct ‘second trend’ of direct investment in the Australian domestic market. These recent acquisitions have targeted revenue and profit growth in overseas markets as Japanese investors seek a natural hedge to Japan’s demographic challenges of an ageing and declining population.

Prompted by Australia’s strong population growth forecasts, position in Asia, stable economy and legal system, diversification in Japanese investment has led to a number of mid-market deals in ‘non-traditional’ consumer-focused sectors.

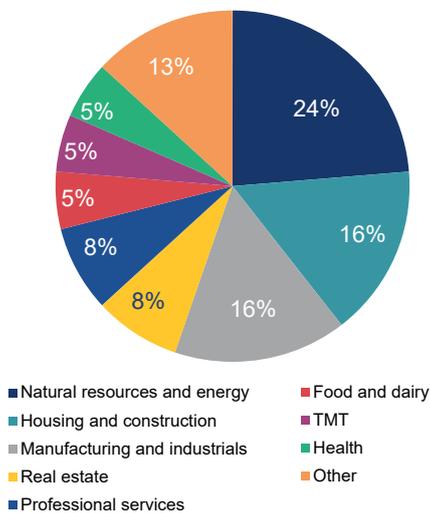
We identified 38 announced and completed M&A deals from Japan into Australia between January 2017 and February 2018. The trend begun by Kirin, Asahi and Dai-Ichi Life between 2007 and 2010 has continued and accelerated under *Abenomics*.

The average investment value was A\$243 million and only 4 transactions exceeded A\$500 million. Interestingly, and importantly for Australia, there were 19 new entrants into the market, reflecting a deepening of the bilateral relationship.

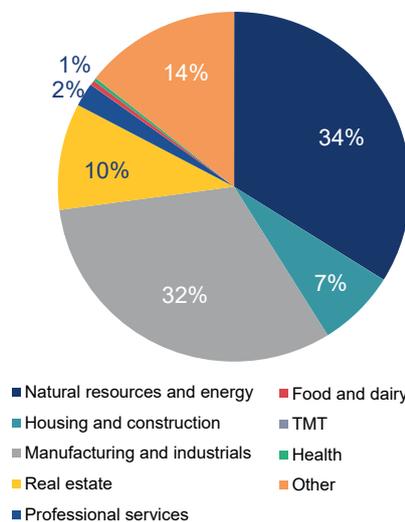
From major Japanese listed companies to small and medium-sized companies, Japanese businesses continue to see Australia as a source of opportunity within their investment portfolio.

Details of the transactions surveyed are set out on page 3.

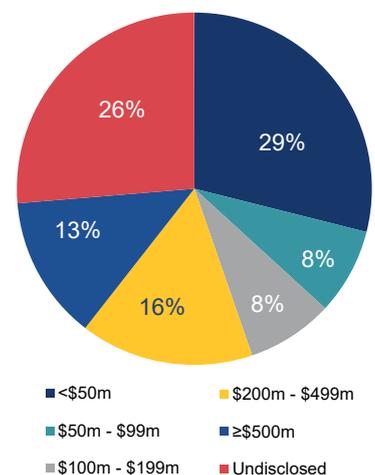
Volume by sector



Disclosed value (by sector)



Value (by deal size)



Key trends

Takeover bids and 'cornerstone' shareholdings

Takeovers of ASX-listed companies (**Persol** re Programmed Maintenance, **Mitsui** re AWE, **Hitachi Construction Machinery** re Bradken, **Nomura Research Institute** re SMS Management and Technology) and the acquisition of 10% to 20% shareholdings in ASX-listed companies (**Toyota Tsusho** re Orocobre) are becoming more common, demonstrating that this 'second trend' of investment is focussed on growth rather than just security of supply.

Residential and commercial property—Bullish on demographics

Two of Japan's largest home builders acquired interests in local builders—**Asahi Kasei Homes** entering the market with a 40% shareholding in McDonald Jones Homes, and **Daiwa House** building on its presence with the 100% acquisition of Rawson Group.

Established player **Sekisui House** continued to expand its investment pipeline, announcing a 10-year A\$14 billion book of Australian projects.

In addition to its Rawson Group acquisition, **Daiwa House** also expanded into the serviced apartment market, acquiring a majority shareholding in the Australian and New Zealand business of Waldorf Apartments, which owns 1,500 serviced apartments across the two countries.

Investments were not limited to residential property. New entrant **Prince Hotels Group** acquired the Australian portfolio of Staywell Hospitality Group, the operator of the Park Regis group of hotels, signalling a potential return to the hospitality market for Japanese hotel operators.

Park24 acquired an 80% shareholding in Secure Parking and **Daisho Group** acquired a 50% interest in the Hotel W development in Melbourne.

Sumitomo Mitsui Banking Corporation led Japanese mega-banks in stepping up exposure to Australian property, which included backing **Sekisui House's** \$800 million West Village development in Brisbane.

Construction—Anticipating the project pipeline

Buoyed by major public-private infrastructure programs led by the NSW, Victorian and South Australian governments, the booming construction sector also saw interest from Japan. The industry's biggest story of the year was **Kajima Corporation** taking a majority stake in Melbourne-based general contractor Cockram Constructions, following its 2015 majority investment in property developer and general contractor ICON.

Towards the end of the year, **GIKEN** completed their acquisition of a majority stake in J Steel Group, the Sydney-based supplier of steel materials and construction services.

Funds and financial services—Expanded targets

Following on from a number of recent mega-deals in the sector, there was strong interest from Japanese financial services companies in the major banks' sell-off of non-core assets. However, no deals materialised from that process.

MS&AD Insurance Group's acquisition of a 6.26% shareholding in financial services and life annuity provider ASX-listed Challenger was the only notable transaction.

Nevertheless, the Australian market continues to attract strong interest from Japan:

- **Nikko Asset Management** in December 2017, launched a \$300 million fund to help private equity finance takeovers.
- **Sony Life** considered whether to make a takeover offer for **Clearview**.
- **Mizuho**, **MUFG** and **SMBC** (in alphabetical order) continue to grow their presence in the Australian market as major financiers of infrastructure.
- **The Norinchukin Bank** established a presence in Australia in early 2017, with a goal of exploring project finance and asset finance opportunities in Australia, and has participated in debt offerings for several projects.
- **Rakuten** established an Australian securities trading business.

Other services—B2B dominates

There were a number of acquisitions across the diverse services sector of primarily business-to-business targets. The recurrent theme was Japanese businesses taking greater control of their supply chains and distribution channels, highlighted by:

- **Daikin's** acquisition of Airmaster.
- **Japan Pulp and Paper Company's** purchase of a majority stake in BJ Ball, which it also recently used as the platform to acquire a further business in New Zealand (Aarque Group Limited).
- **Takara Holdings** taking a majority stake in Nippon Food Supplies Company.
- **Oji Paper** opening a new fibre production facility in Queensland.

Further synergies were achieved by the acquisition of businesses providing complementary offerings, as seen by **Komatsu's** acquisition of MineWare, and equipment rental giant **Nishio Rent's** acquisition of an 80% stake in the Fork Force Group, a forklift dealer and logistics services company.

Significantly, the resourcing and recruitment sector has become established as a mainstay for investments by Japanese companies looking to leverage their own expertise. Following resourcing giant **Recruit Holdings'** entry in 2015 with a string of acquisitions of ASX-listed Chandler Macleod, Peoplebank and Advantage Professional, one of Japan's largest labour hire companies **Persol** undertook a \$778 million acquisition of ASX-listed staffing business Programmed Maintenance and **Will Group** acquired a majority share in DFP Recruitment and Ethos BeathChapman.

The food and beverage sector, which has seen a number of investments from Japan in the past, saw acquisitions by **Megmilk Snow Brand**, while the tech sector saw acquisitions by **Toshiba Mitsubishi-Electric Industrial Systems** and **Nomura Research Institute**.

Energy & resources—Deal traction, asset recycling and new directions

Widespread adoption among major trading houses of asset recycling policies (requiring underperforming and non-strategic assets to be sold before a new acquisition can be approved) has meant that a company's exit from an investment may now also signal future acquisitive behaviour.

Japanese companies are relatively new to selling assets since the burst of the Bubble economy in the 1990s, but a recovery in commodity prices coupled with a waning but continued focus on 'non-resources' investment saw a number of sale processes eventually find buyers, including:

- **Mitsubishi Development**'s sale of its interest in the Rio Tinto Hunter Valley Operations and Warkworth coal assets to Yancoal.
- **Idemitsu** selling its 30% interest in the Tarrawonga coal mine to Whitehaven Coal Limited.

- **Mitsui** selling 1.37% of its shareholding in Sims Metal Management to a group of institutional buyers, and its 30% stake in the Loy Yang B Power Station to Alinta Energy.

There was a distinct increase in Japanese investment in newer energy technology, led by **Eurus Energy** partnering with local Australian developer Windlab on Australia's first combined wind, solar and battery storage farm Kennedy Energy Park in Queensland, which ultimately aims to generate up to 1,200MW (approximately 400,000 households) of electricity.

Mitsui sold its Bald Hills Windfarm to Infrastructure Capital Group, announcing plans to continue reinvesting in the renewable energy sector over coming years. Japanese suppliers are now also actively researching opportunities to leverage technology and group company interests to support renewable energy platforms.

Details of the transactions surveyed

Buyer	Seller	Description of Transaction	Deal Value (\$ m)	Industry	Date Announced
Bunka Shutter *	ArcPac Garage Doors	Bunka Shutter acquired ArcPac Garage Doors from Crescent Capital Partners	65.08	Housing	22-Feb-18
Mitsui	AWE	Mitsui announced a takeover bid for 100% of AWE	602	Natural resources and energy	29-Jan-18
Toyota Tsusho	Orocobre	Toyota acquired a 15% stake in Orocobre under a private placement and an accelerated entitlement offering	292	Natural resources and energy	16-Jan-18
Will Group *	DFP Recruitment Holdings	Will Group's Singapore based subsidiary WILL Group Asia Pacific acquired 60% of DFP Recruitment	14	Professional services	19-Dec-17
Mimaki Engineering *	Rimslow Global	Mimaki acquired Rimslow Global	Undisclosed	Industrials	1-Dec-17
Daiwa House Industry *	Rawson Group	Daiwa House Industry's acquisition of Rawson Group	413	Housing	28-Nov-17
GIKEN *	J Steel Group	GIKEN's acquisition of a 50.10% stake in J Steel Group	11.02	Industrials	27-Nov-17
Alinta Energy	Engie and Mitsui	Mitsui and Engie's sale of its Loy Yang B Power Station to Alinta Energy. Alinta purchased the total 100% interest for the power station, of which Mitsui owned 30%	1100	Natural resources and energy	23-Nov-17
Sumitomo Chemical	Botanical Resources Australia	Sumitomo Chemical's 82.9% acquisition of Botanical Resources Australia	177.09	Chemicals	22-Nov-17
Whitehaven Coal	Idemitsu	Idemitsu's sale of its 30% interest in the Tarrawonga Mine to Whitehaven Coal	Undisclosed	Natural resources and energy	6-Nov-17
ZE Holdings *	Sydney College of English and Australian College of Business	ZE Holdings acquired 100% of each of Sydney College of English and Australian College of Business	Undisclosed	Education	1-Nov-17

*Indicates a new entrant to Australian market

Mitsui and BHP Billiton	Peabody Energy Corporation	BHP Billiton and Mitsui acquiring a 50% stake in the Red Mountain Joint Venture from Peabody Energy Corporation	26	Natural resources and energy	27-Oct-17
Megmilk Snow Brand *	Udder Delights Group	Megmilk Snow Brand acquiring a 90% stake in Udder Delights Group	14	Food and dairy	29-Sep-17
Yancoal	Mitsubishi	Mitsubishi's sale of its 28.9% interest in the Warkworth and 32.4% interest in the Hunter Valley Operation coal mines to Yancoal	289	Natural resources and energy	26-Sep-17
ASG / Nomura Research Institute	SMS Management and Technology Limited	Nomura Research Institute's subsidiary ASG acquired SMS Management and Technology	124	Professional services	26-Sep-17
Beijing Enterprises Water	Mitsubishi (60%) Innovation Network (30%) JGC (10%)	Mitsubishi, Innovation Network and JGC sold their respective interests in the water plant operator TRILITY Group to Beijing Enterprises Water	250	Utilities	13-Sep-17
Nishio Rent *	North Fork	Nishio Rent acquiring an 80% majority stake in Fork Force Group	33	Industrials	11-Sep-17
I'rom Group *	IDT Australia	I'rom Group acquired CMAX Clinical Research Pty Ltd from IDT Australia	16.16	Health	23-Aug-17
MS&AD Insurance Group Holdings *	Challenger	MS&AD Insurance Group Holdings acquiring a 6.26% shareholding in Challenger	500	Financial services	15-Aug-17
Blackstone Group	Astro Japan Property Group	Blackstone Group acquiring all interests in Japanese assets from Astro Japan Property Group	430	Real estate	1-Aug-17
Asahi Kasei Homes *	McDonald Jones Homes	Asahi Kasei Homes acquiring a 40% shareholding in McDonald Jones Homes	Undisclosed	Housing	1-Aug-17
Persol Holdings *	Programmed Maintenance Services	Persol Holdings' acquisition of Programmed Maintenance Services	978	Manufacturing	14-Jul-17
Toshiba Mitsubishi - Electric Industrial Systems Corp. (TMEIC) *	Real Time Consultants	TMEIC's acquisition of Real Time Consultants	Undisclosed	TMT	14-Jul-17
Prince Hotels *	StayWell Hospitality Group	Prince Hotels' acquisition of StayWell Hospitality Group's Australian portfolio	50	Leisure / hotels	3-Jul-17
Daikin Industries	Airmaster Australia	Daikin Industries' acquisition of Airmaster Australia	100	Manufacturing	21-Jun-17
WingArc1st *	Space Time Research	WingArc1st Inc acquired Space Time Research from Starfish Ventures	Undisclosed	TMT	5-May-17
Japan Pulp and Paper Company *	Maui Capital	Japan Pulp and Paper Company's acquiring a 51% shareholding in BJ Ball AU from private equity firm, Maui Capital	75	Manufacturing	12-Apr-17
Hitachi Construction Machinery	Bradken	Hitachi Construction Machinery completed its takeover of 100% of Bradken	976	Manufacturing	10-Apr-17

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Komatsu	Mining3	Komatsu's acquisition of MineWare (a solutions provider for mining equipment) from Mining3	Undisclosed	Natural resources and energy	31-Mar-17
Kajima	Cockram Constructions	Kajima's acquisition of a majority shareholding in Cockram Constructions	Undisclosed	Construction	2-Mar-17
Institutional buyers	Mitsui	Mitsui's sale of 1.37% of its shareholding in Sims Metal Management	5.9 (approx.)	Natural resources and energy	28-Feb-17
Infrastructure Capital Group	Mitsui	Mitsui's sale of its renewable energy asset, Bald Hills Windfarm, to Infrastructure Capital Group	Undisclosed	Natural resources and energy	28-Feb-17
Daisho Group	Cbus Property	Daisho Group acquired a 50% interest in Hotel W (Melbourne)	235	Real estate	3-Feb-17
COSMOS INITIA and Daiwa Living Management *	Waldorf Apartments Group	COSMOS INITIA acquiring a 75% shareholding in Waldorf Apartments Group	35	Real estate	1-Feb-17
Will Group *	Ethos BeathChapman	Will Group's acquisition of a 71.43% shareholding in Ethos BeathChapman	11	Professional services	20-Jan-17
Fujifilm	Cynata Therapeutics	Fujifilm acquires a 10% shareholding in Cynata Therapeutics	3.97	Health	19-Jan-17
Park24 *	Secure Parking	Park24's acquisition of Secure Parking	206	Real estate	18-Jan-17
Takara Holdings *	Nippon Food Supplies Company	Takara's acquisition of a 51% shareholding in Nippon Food Supplies	16.5	Food and dairy	16-Jan-17

We anticipate the following trends in 2018



Asset recycling: asset recycling by Japanese trading houses will continue, particularly in thermal coal.



Life Insurance and Wealth Management: Japanese life insurance companies will continue to enter the Australian market and existing businesses will experience growth. Life insurance companies will expand into wealth management businesses.



Financial services: investment in infrastructure will increase and real estate management businesses will leverage know-how from investments in similar assets.



Housing and Property: a combination of new entrants and established players will continue growing both organically and through further acquisition.



Building materials: suppliers to Japanese housing companies will enter the Australia market in order to maintain their relationships and look for growth opportunities.



Retail: retailers such as **Fast Retailing (Uniqlo)** and **Ryohin Keikaku (Muji)** will look to expand their offerings and footprints, and other brands are likely to follow.

*Indicates a new entrant to Australian market



B2B: Activity will continue to be focused on B2B business with IT or other value adding productivity tools that complement existing business.



Major infrastructure: Major integrated infrastructure projects like Sydney's Western Sydney 'Aerotropolis' at Badgerys Creek and the medical precinct at Westmead, as well as numerous transport infrastructure projects will attract interest in machinery, construction services, logistics, financial services etc.



Renewable energy: There will be further activity and new entrants in the renewable energy sector, including suppliers of equipment and storage and battery technology but enthusiasm may dampen as the viability of long term offtake arrangements await further clarity on the specifics of the National Energy Guarantee (NEG).



Energy & Resources: There will be continued interest in metallurgical coal, LNG, oil & gas (see **Mitsui's** A\$602m takeover of AWE), lithium (see **Toyota Tsusho's** A\$282 million share placement in ASX-listed Orocobre) and other materials (rare earths) for new technologies; and a continuation of the move away from thermal coal by trading houses.

*Indicates a new entrant to Australian market

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Ian Williams
Partner, Australia
T +61 2 9225 5980
ian.williams@hsf.com



Damien Roberts
Partner, Tokyo
T +81 3 5412 5453
damien.roberts@hsf.com



Natalie McDowell
Senior Associate, Australia
T +61 2 9225 5306
natalie.mcdowell@hsf.com