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Mergers and Acquisitions in Japan: An exploration
of Conglomerate Deals

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Mergers and Acquisitions in Japan: An exploration of Conglomerate Deals

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Abstract

This essay delves into the evolving landscape of mergers and acquisitions (M&As) in Japan, with a particular focus on conglomerate deals. Despite the traditional preference for internal growth among Japanese firms, there has been an overall increase in M&A activities since late 1990s, including a noteworthy rise in conglomerate M&As post-2011. This study leverages the RECOF M&A Database to analyze market trends, deal characteristics, and sector-level patterns from 2000 to 2021. The analysis highlights a significant increase in conglomerate M&As post-Global Financial Crisis, suggesting a strategic pivot towards diversification and risk mitigation amidst economic uncertainties. Moreover, the study reveals a distinct preference of conglomerate M&As for smaller-scale deals, particularly relevant for small and medium-sized enterprises (SMEs) navigating succession challenges. Sector synergy analysis further identifies specific sector pairs that demonstrate a proclivity for conglomerate deals. The findings open new avenues for future research in exploring the strategic rationales behind conglomerate M&As, their impact on economic resilience, and their potential in facilitating corporate transformations in Japan.

Keywords: Mergers and Acquisitions, Conglomerate M&A, M&A in Japan, Business Succession, Economic Uncertainty

1. Introduction

Japan has witnessed significant growth in mergers and acquisitions (M&As) over the past few decades. Traditionally, Japanese managers have shown a preference for internal growth over M&As (Odagiri & Hase, 1989), yet the landscape of M&As in Japan has expanded considerably since the late 1990s (Arikawa & Miyajima, 2007), with the number of deals hitting an all-time high in 2022.¹ Remarkably, this growth occurred not just in the deal numbers (extensive margin) but also in the deal value (intensive margin). Despite a global downturn in M&A activities in 2023, Japan bucked the trend with a 23% year-on-year increase in deal value, according to a recent report by Bain & Company.²

Amidst the growing attention on M&A activities in Japan, a notably underexplored area is that of conglomerate M&As. These transactions differ from vertical and horizontal integrations, which create economic value by lowering transaction costs and spreading fixed costs (Gibbons & Roberts, 2013). Instead, the value of conglomerate deals primarily lies in their diversification effect, mitigating the risks of the merged entities, particularly under imperfect market conditions (Levy & Sarnat, 1970; Scott, 1977). This aspect of conglomerate M&As, offering a cushion against the growing global economic uncertainties, is increasingly pertinent yet remains sparsely studied in the context of Japanese market.

This essay aims to explore the fundamental features of conglomerate M&As in Japan, examining market trends, deal characteristics, and identifying sector-level patterns. The goal is to

¹ <https://asia.nikkei.com/Business/Business-trends/Japan-domestic-M-A-spending-at-18-year-high-as-buyout-deals-surge>

² <https://www.bain.com/insights/japan-m-and-a-report-2024/>

shed light on literature of M&As in Japan through explorative data analyses on conglomerate M&A deals of Japanese firms and discussion on future research in this field. Accordingly, this essay is intended to stimulate further inquiry and discussion rather than provide conclusive answers, potentially raising more questions about conglomerate M&As in Japan than it resolves.

2. Data

To analyze conglomerate M&As in Japan, this study utilizes the RECOF M&A Database. Renowned as the most comprehensive and reliable database for M&As in Japan, this database marks a unique resource for our analysis, providing insights into the Japanese M&A landscape.³ To mitigate the potential overlaps in business activities between the entities involved in deals, this study concentrates on transactions across different sectors. This distinction enables a precise investigation into conglomerate M&As, setting them apart from M&A deals that merely span different industries within the same sector. Table 1 displays the classification of 40 industries into 11 sectors, serving as the basis for assigning sector labels to each entity within the deals analyzed.

Table 1. Industry to Sector Classification

Sector	Sector Name	業種 (Industry Name in Japanese)
COMS	Communication Services	通信・放送, 出版・印刷
CDIS	Consumer Discretionary	サービス, 外食, スーパー・コンビニ, 百貨店, アミューズメント, 家電量販店・HC, その他販売・卸, その他小売
CSTP	Consumer Staples	食品, 食品卸, 農林水産
ENGY	Energy	石炭・石油
FINA	Financials	証券, 銀行, 生保・損保, 信金・信組, その他金融
HLTH	Health Care	医薬品, 医薬品卸
INDS	Industrials	総合商社, 輸送用機器, 機械, 運輸・倉庫, 精密, 電機, 建設, その他製造
INFO	Information Technology	ソフト・情報
MATL	Materials	化学, 窯業, 鉄鋼, 非鉄・金属製品, 鋁業, ゴム, 繊維, 紙・パルプ
REAL	Real Estate	不動産・ホテル
UTIL	Utilities	電力・ガス

Note: The RECOF M&A Database specifies industries of entities involved in deals, without providing sector details.

³ <https://b.kobe-u.ac.jp/marec/research.html>

To analyze the recent growth in M&As in Japan, this study focuses on deals after 2000. Notably, this timeframe encapsulates the Global Financial Crisis (GFC) of 2007-2008, capturing the potential strategic shifts in Japan's M&A landscape pre- and post-crisis. Moreover, to enhance the analytical rigor and validity, this study selects M&A deals with explicitly recorded monetary values. The final dataset includes 28,242 deals from 2000 to 2021.

3. Trends and Trajectories: Japan's M&A Market Post-GFC

In examining the trends in the Japanese M&A market, particularly in the context of GFC that commenced in 2007, we observe distinct patterns of activity as depicted in Figure 1. The Japanese M&A market experienced a significant surge in number of deals from the year 2000 but encountered a downturn as GFC started in 2007. The deal number then plummeted to the bottom of approximately 900 in 2011, reaching the levels observed in 2000. Subsequently, the market exhibited resilience, embarking on a steady recovery trajectory, and demonstrating sustained growth in the years following.

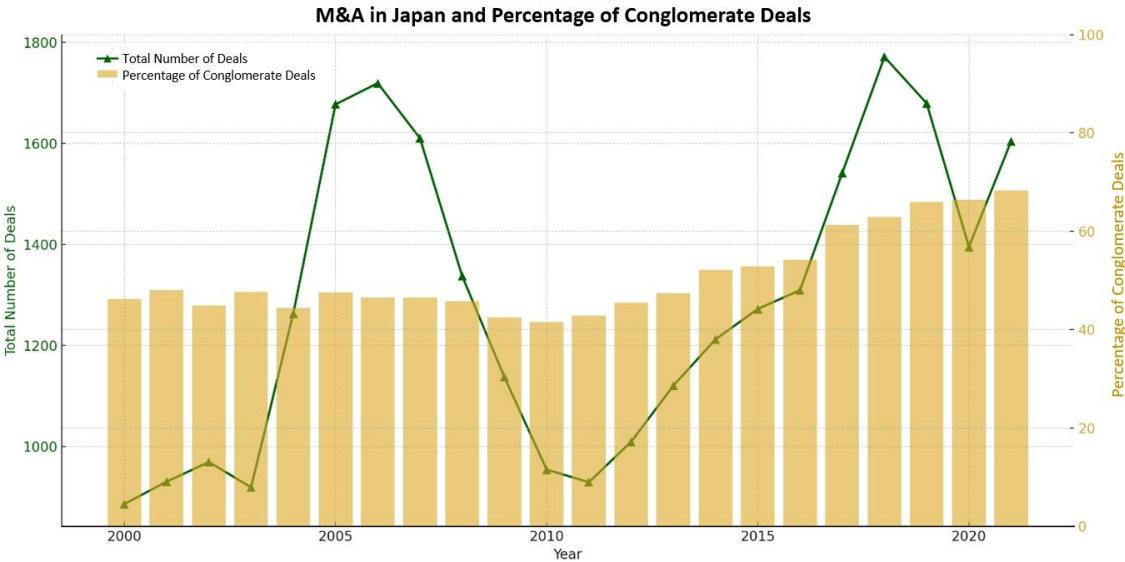


Figure 1. Number of M&A Deals in Japan and Percentage of Conglomerate M&As

The observed downturn in M&A activities during and after the GFC aligns with literature highlighting the negative impact of crises on M&A activities (e.g., Rao & Reddy, 2015; Cotei et al., 2022). A notable development in Japan's post-GFC M&A scene is the changing mix of deal types, especially between conglomerate and intra-sector deals. Before the GFC, conglomerate deals consistently represented about 50% of all transactions. After the GFC, their proportion began a steady rise, with their market share approaching 70% by 2021.

The shift towards a greater share of conglomerate M&As post-GFC may indicate a potential strategic evolution in the Japanese M&A landscape. The diversification benefits associated with conglomerate deals—where firms acquire entities with minimal business overlap—may have become more appealing. Firms may prefer these types of transactions as a hedge against market uncertainties, favoring them over traditional horizontal integrations and vertical expansions. This trend towards conglomerate deals underscores a potential recalibration of M&A strategies in Japan, emphasizing risk mitigation through diversification in an uncertain economic landscape.

The increasing predominance of conglomerate M&As in Japan post-GFC presents a compelling case for academic inquiry, particularly concerning the strategic recalibrations prompted by economic uncertainty. The apparent shift towards conglomerate deals in the face of fluctuating market conditions raises several research questions of significance to both scholars and practitioners in the fields of strategic management and corporate finance.

First, a critical examination of the strategic underpinnings driving the preference for conglomerate M&As post-GFC would enrich the literature corporate responses to financial crises. Future research could explore the extent to which these deals are motivated by a desire for risk diversification versus other strategic objectives, such as acquisition of new technologies or business transformation. This inquiry would benefit from a comparative analysis with sectors less

impacted by the crisis, to delineate the unique attributes and outcomes of conglomerate M&As in more volatile economic environments.

Second, the resilience and recovery patterns of the Japanese M&A market post-2007 invite further examination of the mechanisms and strategies that enabled this rebound. Future research could focus on the role of government policies and institutional environments in facilitating this recovery, shed light on crisis management and economic resilience.

Lastly, considering the market's evolving preference for conglomerate deals in response to economic uncertainties, future research could investigate the potential of integrating this relationship into predictive models of M&A success rates.

4. Conglomerate M&A Deal Size: Strategic Implications for SMEs in Japan

Figure 2 illustrates the annual average size (i.e., monetary value) of M&A deals in the selected sample period, covering both conglomerate and intra-sector deals for comparison. The size of conglomerate deals has remained modest over time when contrasted with the average size of intra-sector deals, which has notably increased post-2011. Remarkably, the difference in deal sizes between conglomerate and intra-sector deals widened significantly in recent years. Such a difference peaked in 2018, where the intra-sector deals were, on average, four times larger than conglomerate deals.

Moreover, the volatility in the size of conglomerate deals in Japan is relatively low, indicating a consistent preference for smaller-scale deals in the market. Despite an increase in the number and market share of conglomerate M&As, the deal sizes have mostly remained within the 2.5 to 10 billion JPY range, unaffected by the GFC. Even as the market showed a stronger preference for

conglomerate deals over intra-sector deals post-2011, the typical size of these conglomerate deals remained stable.

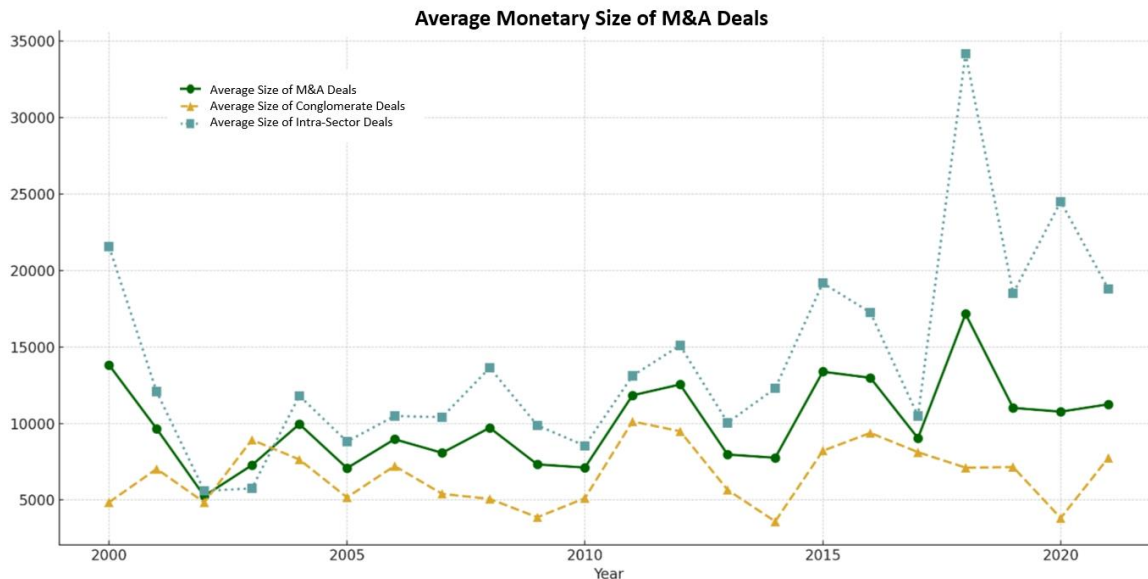


Figure 2. M&A Deal Size in Japan

The observed size attributes of conglomerate M&A deals relate to an emerging question concerning the advantages of M&As: Are M&As capable of offering resolutions to the succession challenges faced by small and medium-sized enterprises (SMEs) in Japan? According to the Ministry of Economy, Trade and Industry (METI), over 3,000 M&A deals involving SMEs occur yearly in Japan, with many deals driven by corporate succession purpose.⁴ For SMEs, the smaller-scale deals are financially accessible and operationally manageable, enabling them to access complementary assets for diversification or business transformation, without the complexities and challenges associated with larger-scale mergers. Given the difference in deal size between conglomerate and intra-sector deals, conglomerate M&As may stand as a preferred candidate for strategic choice in SME succession planning.

⁴ <https://japannews.yomiuri.co.jp/editorial/yomiuri-editorial/20210910-35550/>

Future studies might investigate if conglomerate M&As serve as a more effective strategy for addressing corporate succession issues in Japanese SMEs compared to other M&A types, contributing to the literature on corporate strategy concerning SMEs and family business. In addition, recognizing corporate succession as a societal issue, could evaluate whether a targeted policy favoring conglomerate M&As offers a superior solution over a generalized policy approach within Japan's M&A landscape.

5. Sector Synergies: Sector Pairs of Conglomerate M&As in Japan

As conglomerate deals flourish in Japan's M&A market, firms across various sectors may show a tendency to favor specific sector pairs for these transactions. This preference would result in certain sectors demonstrating a stronger inclination towards conglomerate deals. Figure 3 illustrates the distribution of M&A deals across 121 sector pairings throughout the sample period, with darker cells corresponding to larger deal number.

The analysis reveals several sectoral level characteristics of conglomerate M&A in Japan. First, the sector-specific numbers of deals suggest a less pronounced concentration in conglomerate M&As compared to intra-sector M&As. Specifically, the heatmap diagonal—which represents intra-sector transactions—demonstrates larger deal numbers, exemplified by the Consumer Discretionary (CDIS-CDIS) and Industrials (INDS-INDS) pairings. Second, some sectors like Financials (FINA), Industrials (INDS), and Information Technology (INFO) are more frequently involved in conglomerate M&As. Future research could delve into the unique contexts of these sectors to explore the sector-specific determinants behind such transactions.

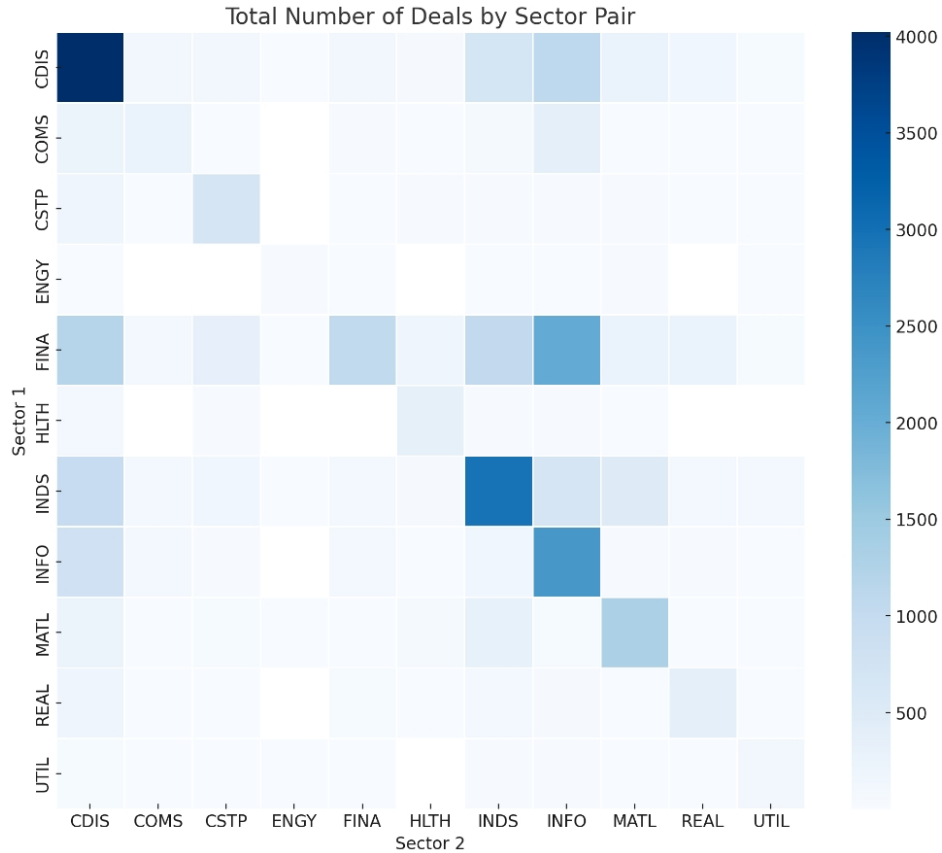


Figure 3. M&A Deal Numbers in Sector Pairs

Lastly, unlike other sectors, where most M&A deals occur within the same sector, transactions with the Financials (FINA) sector are broadly distributed across various sectors, with the largest number of deals observed with the Information Technology sector (FINA-INFO). This pattern could be attributed to the financial sector's emphasis on investment-driven strategies, which inherently require diversification.

6. Concluding Remarks

The evolution of M&A activity in Japan, especially the rise in conglomerate deals, marks a significant shift in the strategic landscape of Japanese business. This study explores a unique dataset and provides an overview of the market trends, strategic underpinnings, and sectoral

patterns of conglomerate M&As in Japan. Amidst global economic uncertainties, conglomerate M&As may have emerged as a pivotal strategy for Japanese firms, aiming to diversify risks and leverage synergies across diverse sectors. The findings open new avenues for future research in exploring the strategic rationales behind conglomerate M&As, their impact on economic resilience, and their potential in facilitating corporate transformations in Japan.

Disclaimer

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