Continued development of the group of companies closely associated with Mitsui & Co., and upgrading their capabilities to provide specialized and sophisticated services have a high priority among Mitsui's corporate objectives.

This issue reviews the scope of the Mitsui & Co. corporate group, the business rationale for investments in new and ongoing enterprises, and trends in Mitsui's investment strategies.

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Note: U.S. dollar figures have been calculated, for comparison only, at the rate of ¥127.30 = US$1, the approximate rate of exchange on Jan. 20, 1988.

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From My Viewpoint: No. 36

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Demystifying M&A

Yet the vast majority of leveraged buy-outs, acquisitions, mergers, joint ventures, divestitures, and so on are pursued with little or no hostility for legitimate reasons in response to changes in the business and economic environment. Clients and not investment bankers make the acquisition decisions for basic business reasons, not because they want to gobble up another corporation. M&A is another tool assisting top executives in restructuring their firms to implement changes in strategy and corporate direction.

During the 1960s, there was a tendency for many firms to branch into everything to diversify their business risk. However, the oil crisis, the inflation of the 1970s, rising global competition, and cross-border investments created many economic dislocations. Many companies then found it was often cheaper to acquire oil reserves, for example, in the form of stock in other oil companies than to drill new wells. Others found it cheaper to acquire someone else's brand or to enter a new market via acquisition.

Further, many conglomerates of the 1960s found that just being in good markets did not assure overall success. They thus began divesting assets where they were not a leading competitor. Businesses began to focus on what they did well. Japan's trading companies and traditional industries have been subject to similar changes. Major Japanese manufacturers have taken over their own distribution and exports. The growth in bulk commodity imports has leveled off. Traditional Industries are subject to competitive decline. Further, rapid technological change has affected their ability to keep up with new products. This has forced major trading companies and large traditional corporations to reevaluate their strategies to do more third country trade and production, to focus on areas of particular strength, and to diversify based on existing services. Others have integrated back into manufacturing, sometimes commodities, sometimes high tech. Others have expanded into telecommunications, value-added networks, and similar information services. Some like Mitsui have pursued all these avenues. Acquiring equity positions in foreign companies or projects has certainly been an active part of these strategies. Indeed, many of our high technology clients have developed strategic alliances with Japanese firms. These alliances serve both parties' interests. They yield needed capital and access to the important Japanese market for U.S. entrepreneurial firms while providing Japanese firms with a business window on the leading edge of U.S. technology and economic growth. But most decisions have been driven by operating decisions and not by central M&A departments.

In Japan, there is no history of selling companies unless they are in trouble. The Japanese corporation is the modern form of the clan or uji, and one doesn't sell family. Thus, major Japanese corporations on the whole have not participated in the Western acquisition boom that is restructuring the Western, particularly the U.S., corporate world. However, there is an active history in Japan of joint ventures and corporate alliances, particularly between bigger companies and their suppliers or customers. In this way, Japanese companies have also been active in the West, investing in and developing business combinations from large transactions to smaller investments. Thus, certain similarities do exist between large Western corporations and their Japanese counterparts in using M&A as a tool for corporate expansion and diversification. That is, acquiring a technology, product, or expertise they don't have remains an active option. We believe these investment relationships are good for both sides, and are very active in promoting such ventures.