



Logistics Industry Update

In my November 2005 *ACCJ Journal* article entitled, "Storm over Logistics," I explained the key structural features including laws, regulations and business practices that had shaped Japan's postwar logistics industry; and I explained how they had allowed local players of all shapes and sizes to putter along in a cozy world where costs could be passed along to customers who had little recourse. Fast-forwarding to the early 2000s, structural protections had been eliminated in the industry. Hence, the industry's players would have to either go on the offensive, seek shelter, or do both. Here is a look at what has, in fact, transpired.

In the 16 months since the article appeared, there have been more M&A transactions than in the previous 40 years. Clearly the reshaping has begun, but not entirely in the manner that I predicted. Yes,

global operators like UPS, DHL and FedEx are sniffing around for opportunities; however, it is in the red-hot markets of India and China where they are stepping over each other to build or acquire service infrastructure. Meanwhile, it is Japan's homegrown players who are doing the reshaping here.

First prize for going on the offensive clearly goes to Vantec Group Holding Corporation. Many readers will remember that Vantec formerly was Nissan Automotive's in-house logistics subsidiary. Vantec's management in 2001 conducted a PE supported MBO, restructured the company and set it on a path of growth. Three years later, Mizuho Capital Partners, recognizing the value of the company's scaleable infrastructure, invested ¥45 billion or so and, from then, has been supporting (read: insisting upon) further growth. And

grow the company has. In 2005 Vantec purchased the Tokyu Group's air cargo subsidiary for ¥4.1 billion, and absorbed its operations and more than 300 employees. Then, in summer of 2006, Vantec acquired French automotive equipment-maker Valeo's Japanese logistics subsidiary, and absorbed it and its 345 employees. Further, Vantec looked into purchasing Sanyo Electric's logistics subsidiary in early 2006, but was rebuffed when Sanyo, instead, chose to rationalize the subsidiary's operations on its own.

While not as aggressive as Vantec, Hitachi Transport System Ltd. (a company that long ago outgrew dependence on parent company business) has clearly demonstrated that it intends to acquire, rather than be acquired. Late in 2005, the company took over Clarion Company Ltd.'s in-house distribution division, including its employees and

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11 distribution bases, and now provides Clarion with logistics services that heretofore were self-provided. This transaction mirrors a November 2004 deal by which Alps Logistics Co. Ltd., another former in-house subsidiary, took over TDK Corporation's logistics subsidiary.

Consider also Sumitomo Trading Company, normally a slow moving behemoth. The company last year conducted an in-house roll-up of three separate logistics businesses (i.e., a warehousing company, a freight-forwarding company and a domestic distribution company) into a single subsidiary, Sumitomo Warehouse. With this integration apparently going well, in the fall of 2006 the subsidiary acquired listed Enshu Truck Co. Ltd., and took over its operations and absorbed its over 500 regular employees.

Next, consider some players who are suiting up to get in the game. Itochu Corporation in March 2006 announced that it had reached an agreement with Temasek Holdings, the Singapore government's investment arm, whereby Temasek subsidiary Seletar Investments would take a position in Itochu's logistics subsidiary, i-Logistics, equal to a 10% stake. Apparently both Itochu and Temasek believe that i-Logistics has the kind of scaleable infrastructure that will allow it to purchase and absorb other players.

Similarly, Mitsui and Co. in

January 2006 increased its stake to 25% in Hong Kong-based, US\$2.1-billion-per-year BALtrans Group. At the time of the transaction, BALtrans's CEO Anthony Lau was quoted, by the air-cargo trade magazine *Payload-Asia*, as saying "I will spend my time to develop business in China and Japan."

Then there are the players who are using Japan Inc.'s old playbook of defensive moves to keep suitors at bay. Consider Yamato Holdings Co. Ltd. and Nippon Yusen KK (NYK Lines) which, in May 2006, agreed to swap shares and to fund the formation of a new logistics joint venture. The JV's primary service offering will be freight forwarding, which is strange when one considers that both companies offer this service already via existing logistics subsidiaries. So now, instead of having two company infrastructures to support, there will be three. Similarly, Kintetsu World Express and Mitsui OSK Lines in 2005 struck a stock-swap agreement that called for both to seek deeper business cooperation. Lastly, observers of the Hanshin Electric Railroad-Hankyu Holdings-Murakami Fund drama of spring 2006 will recall that the impetus for Hanshin and Hankyu to strike a deal was entirely defensive. But, at least, these two companies can point to the real value their merger will create – i.e., combining two very similar companies, each with an air freight-forwarding subsidiary, into a more efficient operation,

which is something that cannot be said – not straight-faced anyway – about the Yamato and Kintetsu transactions.

Further, consider the announcements that come out almost every week of companies adopting anti-takeover provisions seemingly copied from some central script. For example, shipping company "K" Line (Japan) Ltd. announced in May 2006 its intention to adopt anti-takeover provisions. The gist of these announcements call for the companies to issue new stock warrants to all but the unwanted suitor, whenever an unwanted suitor attempts to acquire a stake of 20% or more without first satisfying all of the company's rules regarding takeover bids. (But, to "K" Line's credit, it later announced a plan to combine separate air- and ocean-forwarding subsidiaries into a single company. Just as with Sumitomo Trading's in-house roll-up, this has the chance to create real value.)

Despite the heel-digging, it is clear that the industry's leaders will continue to absorb small and mid-sized companies. As the industry becomes more efficient, old-style conglomerates will find it harder to explain to shareholders the logic of holding on to logistics subsidiaries that are under-scale and marginally profitable. Stay tuned.

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