Japanese clothing industry is experiencing an interesting wave of mergers and acquisitions.
Japanese *Cash rich* companies hot summer…

Just another word on the Japanese M&A background, the 10th of august Nikkei published a Japan Refco survey stating that for January July domestic M&A totaled 7 trillion 880 billion Yen (YOY increase of 9 %) a new historic high. The figure was boosted additional 3 trillion yen by recent Hokuetsu/Oji paper and AOKI Holdings TOB operations. TOB acquisitions are mostly related to companies trying to expand domestic market share in order to balance domestic market shrinking.
Nikkei published a very interesting article on the 11th of august edition which illustrates well what I have insisted on recently,
Japanese clothing /Apparel market is mature and getting saturated therefore companies have to make acquisitions to expand, market is putting pressure on them to make profitable use of cash at hand. Recently AOKI holdings made a TOB offer for Kyushu based Futata. Buyout funds would see this as a very profitable operation: after having bought all offered stocks at 700 Yen per stock, dismantling the company means a 5 billion Yen profit. (Investment was 12,7 billion Yen therefore profitability average 40 %).
Futata looked a typical cheap acquisition target before AOKI made its TOB offer: 48 % shareholding equity ratio, 0,4x PBR and no debt by 01/07. The article stresses that within apparel clothing industry Futata is not an isolated example and there are a lot of profitable individual owners businesses with no debt but plenty of idle cash. I fully agree with this. Another example is Tokyo Style (targeted by ex Murakami fund for poor shareholder's return) with 93,1 billion Yen surplus funds by February 2006 that is nearly 70 % of shareholding equity. The company is such awash with cash that recently CEO Takano explored a possible MBO rather than becoming again the target of buyout funds. However considering the mature market the key point is to make a sensible use of cash at hand and the market favored solution is external growth (acquisition). According to above mentioned Refco the number of domestic apparel/clothing industry related M&A deals rose threefold between 2004 and 2005 to 617. By the end of July 06 deals already numbered 311. Fast retailing CEO made clear that the only way to grow short term was through M&A. Fast Retailing February 2006 mid term operating cash flow was 46 billion Yen, against that investment Cash Flow was 13 billion Yen which made available nearly 30 billion Yen surplus funds for first half. Market forces,

especially foreign brokerages, are stressing that idle cash should be used for aggressive M&A push rather than piling up and therefore lowering ROE for shareholders.

Now what to buy?

Well domestic onshore managers have been setting up Cash Rich companies focused mutual funds for a while already (Nikko asset, Daiwa asset, Daiwa Sumitomo Bank asset among others..). But the point is to closely monitor the developments on an individual company basis I believe.

Regarding apparel clothing industry the following comparison was also published on Nikkei 11th of august. (This is no scoop anyone can set up such screening)

company	Capitalization (100millionYen)	Stock price (Yen)	PBR (x)	Shareholders equity ratio%	Cash at hand (100millionYen)
Fast retailing	10,660	10,050	5,22	66,8	1,210
Onward Kashiyama	2,771	1,603	1,35	61,9	561
Aoyama Shoji	2,534	3,760	1,17	68,3	504
POINT	1,569	6,040	9,31	57,8	148
Tokyo Style	1,380	1,347	0,82	82,9	843
AOKI HLDG	1,078	2,195	1,23	59,9	243
United Arrows	937	1,966	6,43	41,2	77
Sanyo Shokai	965	709	1,62	50,0	92
Daidoh Ltd	653	1,733	1,79	43,1	22
Konaka	393	1,751	0,92	77,8	70

* *published in Nikkei 11th of august page 15,* capitalization and stock price as of 10th august closing.