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**Lunch (speech)**

**Finance's role for developing environmental businesses in Asia**

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Since the financial crisis last autumn, there have been remarkable changes in the Asian market. Money supply was so ample before the financial crisis that the market value of a corporation was higher than the real corporate value. However, due to decreased capital in the market after the crisis, market value is now definitely lower than the real value. It is a fact that many Japanese institutional investors are refraining from investing after the financial crisis because of an unclear future economy and continued low Nikkei average stock prices. When we look over the distressed market, capital infusion to this market has rapidly shrunk after the crisis. We must not forget that one of the reasons for slow market recovery is the lack of the human resources who have management capability. Large corporations are trying to have younger people in their 30s and 40s learn management by making them responsible for subsidiary companies, but such a movement is still very rare.

In the buyout market in general, the speed of recovery is slow in such countries as Japan where economic growth rate is low, while in growing countries, such as India and China, investment is rapidly recovering to pre-crisis levels. What does this low market value mean? It means that today is the best investment opportunity for those who are able to judge the real value of an invested company.

There were big changes in the M&A market in Japan throughout the 1990's. In the early 1990's, Japanese companies still had a negative perception about the sell-out of their businesses, which resulted in a preference to buying foreign companies over domestic companies. But in the late 1990's, there was an increased number of domestic M&A deals where Japanese companies were selling. As a

result, the number of M&A and TOB cases have steadily increased. However, the M&A market in Japan is still in its infancy accounting for only 3% of GDP, compared with around 10% in America and Europe. I should say that the Japanese M&A market has a big potential for development.

Next, when we look back over the past 10~20 years, American and European corporations have been expanding their businesses through world-scale M&A. Consequently, the market value of these corporations is far higher than that of Japanese corporations. As Japanese companies adopt a more mature way of thinking about M&A, however, it is very likely that they will execute M&A not only with American and European companies but also with Asian companies.

Effective utilization of M&A methods is necessary to expand into new businesses, such as the environmental business. But this makes it important to properly evaluate the corporate value of the invested company. We have to be careful in that the market value of a listed company does not generally represent its real equity value. Although PBR is being used for investment decisions in many cases, net assets are not equal to liquidation value in the first place, and non-business assets, such as surplus cash, is not reflected in PBR at all. In other words, if you evaluate corporate value based on PBR, the more non-business assets the company possesses, the cheaper its equity price becomes. A similar argument is applicable to PER.

The important point is that the stock price of a listed company merely indicates “the current price per stock at which you can buy or sell”, and the market value, i.e. the sum of this stock price multiplied by the number of issued stocks, is far from the total equity value. In addition, what is important differs between the seller and the buyer. While the buyer considers the full value of the equity important, the seller considers only the price per share to be important.

In recent days, new M&A financing methods have become available, such as mezzanine funds, which provide preferred stocks and subordinated debenture. Some buyout funds have started a hybrid investment that provides both long-term principal money and funded money. The market value of corporations in Japan and other countries that are candidates for investment is currently undervalued. This makes for an excellent opportunity for companies to rapidly increase corporate value through M&A and expand into big businesses.

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