Nippon Sheet Glass Eyes 'Top 3' with UK Pilkington Purchase

– Complementing Each Other in Technology and Sales Areas –

Interviewer: Yamaguchi Junji

NIPPON Sheet Glass Co. (NSG) has decided to acquire major British glass maker Pilkington plc whose sales are nearly double those of the Japanese firm. What intentions lie behind "this M&R"? The acquisition, if realized, would make NSG one of the "Top Three" glass makers in the world, matching Asahi Glass Co. of Japan and Saint-Gobain SA of France in terms of market share. NSG Chairman Izuhara Yozo discusses the company's strategy.

NSG, so far focusing on the Japanese market, has abruptly announced plans to challenge the global market by acquiring a multinational concern. The news came as a big surprise. What objectives do you have for the takeover bid?

Izuhara: We have concluded that the acquisition would create an ideal corporation, in which the two partners maintain complementary relations in main marketplaces in the world as well as in the field of technology. My company has already built up high competitiveness mainly in the domestic market. One of our options was that we continue to focus on this. We have come to the conclusion, however, that the M&R of Pilkington would bring about great economies of scale in terms of research and development as well as the settlement of an array of environmental questions. In 2001, we built a business alliance by obtaining a 20% stake in Pilkington. Subsequent rounds of talks between the two companies' top executives have revealed that the integration of the two firms would bring us great advantages.

Acquisition Costs Not a Heavy Burden

Specifically, what effects do you expect from the acquisition?

Photo: Nippon Sheet Glass Co.

Izuhara: For example, Pilkington has close ties with European automakers but has few deals with Japanese car manufacturers. Little progress has been made in bolstering its ties with Japanese automakers since the British company teamed up with us in 2001. The integration of NSG and Pilkington, however, would greatly change circumstances because our company will take the lead. Although I do not think we will be able to wrest firmly established ties with Japanese automakers from our competitors, we may be able to acquire a greater market share in the course of Japanese companies' expansion of their presence in overseas markets. Technically, Pilkington boasts excellent technology for sharply bending the sheet glass used in motor vehicles while our company has outstanding coating technology for manufacturing shade glass aimed at keeping car interior temperatures from rising. The integration of the two companies' technological prowess makes it possible to set up a system in which we can supply more competitive products. Area-wide sales after the integration are considered well-balanced, with Japan accounting for 30%, Europe 40%, North America 14%, and Asia – except for Japan – 4%. We project synergy effects of the integration such as consolidation of marketing bases and others at ¥4.4 billion a year.

In the planned merger, "a smaller firm swallows a bigger one." Isn't the cost burden heavy for your company?

Izuhara: The acquisition seems to be viewed by industry watchers as a "big buy." But we are planning to cover more than half the estimated acquisition cost – ¥400 billion – with our own funds and the issuance of convertible bonds. A net increase in borrowing is estimated at ¥140 billion – a sum we consider not that large. Pilkington's cash flow stands at ¥70-80 billion a year. Our company also has a large amount of cash flow. The borrowing, I think, can be repaid in several years, though immediate repayment is difficult. One fund-raising option for the purchase was aggressive borrowing. But we have thrashed out ways of minimizing borrowing – so as to keep our management sound. We have sold our headquarters building in Osaka and some of our profitable subsidiaries, achieving concentrated fund raising.

Best Corporate System Setup by Next Spring

NSG does not have so much experience in overseas operations, with domestic business accounting for 85% of total sales. Do you have any worry about overseas operations?

Izuhara: In order to make a success of the acquisition, we have carried out studies in real earnest. For instance, we have hired consultants to learn from specific acquisition case studies such as Bridgestone Corp.'s purchase of Firestone Tire and Rubber Co. We have also learned from unsuccessful examples. Some failures were due to a noninterference policy while others were due to the stationing of too many Japanese in an acquired foreign company. The conclusion is that neither noninterference nor too much intervention pays off. Some people say a leave-it-alone policy may be good for Pilkington because it has experience of operating in more than 20 countries. We also have a long experience of manufacturing glass, however. Therefore, we are planning to send three executives to the Pilkington board, while the British partner will also have the same number of executives on the board. Our company's board will preside over it as the parent and Stuart Chambers, Pilkington Chief Executive, will join it. Basic directions will be decided by the parent board, with specific operations to be determined by each region or country. These are our ideas at present. Coordination of regional operations may be necessary because Toyota Motor Corp., for example, has moved into various parts of the world. We would like to set up a system in which our officials responsible for each customer will get together to check common tasks.

How do you plan to update your group's organization after the acquisition?

Izuhara: We have not yet made any clear-cut decision on whether to maintain separate companies or whether to integrate all of them in the future and reorganize them into sheet glass and other divisions. We will set up a front office in London to promote the integration and work out the best form by next spring.

Focusing on the United States and China

Which areas are you planning to focus on for the time being?

Izuhara: The United States and China. In the medium to long term, other BRIC countries – Brazil, Russia and India – will be included in our strategy areas. In the US market, demand is strong but there are a number of competitors, indicating we cannot make profits easily. Yet the US market is our main battlefield where we are determined to aggressively sell our products for use in the construction of buildings and automobiles. Demand is growing solidly in China. At present, however, demand is centering on low-priced products for use in houses. Moreover, an excessive number of small-sized businesses exist. Yet demand for high-quality products used in automobiles and buildings is expected to grow steadily in the years ahead. This indicates that the acquisition of Pilkington will pay off since it has four factories in China.

Asahi Glass is investing actively in boosting production of materials for flat-TV sets. Are you planning to try to catch up with it in the field of information electronics?

Izuhara: I do not rule out such a possibility. But our basic policy of consolidating our position in the sheet glass area first and foremost and then trying to boost market share in the fields of information electronics and glass fiber remains unchanged. The acquisition of Pilkington means we have firmly laid the groundwork for further bolstering the sheet glass business. Although information electronics is a "growth area," the problem is a sharp volatility in the balance of supply and demand. We do not want to see our financial base greatly shaken by a sharp fall in demand. As long as our foundation is solid, we will not be greatly affected by a drop in demand for new gadgets. Naturally, we attach importance to the information electronics area. But we cannot make sizeable investment in that area for the time being because we need to repay the funds we have borrowed. The period of such retrenchment, however, will only last several years.

What is the outlook for the glass industry?

Izuhara: With the acquisition of Pilkington, the global glass industry is integrated into three major groups. This may be seen as sign of progress in the global integration of the industry. Glass production requires a huge amount of investment, making it difficult for newcomers to challenge the market. The sole exception is China. Small makers are being established one after another to meet the rapidly growing demand for glass for houses amid high-flying economic growth. An excessive supply of glass products for general use, however, may lead to a decline in the number of small businesses in China. JS

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