Nippon and Sanyo Agree Merger

Japanese chemical producers Nippon Shokubai and Sanyo Chemical Industries entered into a basic agreement on May 29 to consider a merger of equals in response to declining domestic demand and a deteriorating outlook for superabsorbent polymers (SAPs), a core business of both companies.

Nippon Shokubai is the larger of the two with capital of just over 25 billion yen and nearly 4,300 staff while Sanyo Chemical is capitalized at just above 13 million yen and has around 2,000 employees. Nippon Shokubai also owns a 5% stake in Sanyo Chemical, which in turn holds 3.17% in Nippon Shokubai.

The companies said demand for chemicals in Japan is expected to decline as a result of its ageing and falling population, which is causing intense competition between chemical producers.

In addition, although demand for chemicals is rising in emerging countries, the increasing number of manufacturers in these countries and a growing disparity in scale between Japanese companies and their European and American counterparts, has led to the Japanese chemical industry becoming less competitive.

With regard to the SAP market, although global demand growth is expected to remain stable, given a rising population, the outlook is worsening because of a downturn in profitability resulting from oversupply in emerging countries where new players are entering the market.

Consequently, Nippon Shokubai and Sanyo Chemical believe that combining their complementary businesses would be the best way forward and resolve their respective challenges.

Specifically, Nippon Shokubai said it is challenged by the need to create new businesses that meet users’ needs while Sanyo Chemical said its weakness lies in its dependence on buying raw materials from external suppliers, including Nippon Shokubai.
The companies believe the move will boost their competitiveness and profitability by improving their scale, which will allow them to grow their existing businesses, accelerate the development of new business and harness demand for chemicals in emerging countries.

For the SAP business in particular, they said the merger would improve quality and reduce cost by uniting their production technologies and R&D capabilities.

The merger will see the companies conduct a joint share transfer and establish an integrated holding company. Nippon Shokubai and Sanyo Chemical would then become wholly owned subsidiaries of the new parent company.

The companies are expecting to sign a final agreement in December 2019, with a share transfer taking place on Oct. 1, 2020, also the proposed date of listing for the holding company on the Tokyo Stock Exchange.

A name for the parent company has not yet been decided but will be reached following further discussions between the two groups. It is anticipated that the holding company will have its registered head office in Kyoto, with head office functions in Osaka and Tokyo.

The companies added that there will be no reductions in staff as a result of the merger.

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