



Deal Drivers: **APAC 2022 Outlook**

Outlook for 2022

M&A has hit record heights in 2021 and the opening months of 2022 are not going to slow down.

The Asia-Pacific (APAC) region has seen record levels of M&A in 2021. According to Mergermarket data, deal value as of December 14, 2021 hit US\$1.2 trillion – surpassing the previous high of US\$941 billion set in 2015. And M&A activity across the region looks set to flourish over the months ahead.

Overall, much of the region, including China and Japan, is ahead of the US and Europe in terms of their recovery from COVID and their preparedness for further onslaughts, making APAC an even more attractive prospect for corporates and PE buyers alike. Heightened M&A activity is expected in the Greater China area, in two sectors in particular: **industrials & chemicals (I&C)** and **technology, media and telecommunications (TMT)**. Other sectors are also experiencing growth spurts, so 2022 could see more records broken.

Note: The Intelligence Heat Charts are based on 'companies for sale' tracked by Mergermarket in the respective regions between 01/06/2021 and 25/11/2021. Opportunities are captured according to the dominant geography and sector of the potential target company.

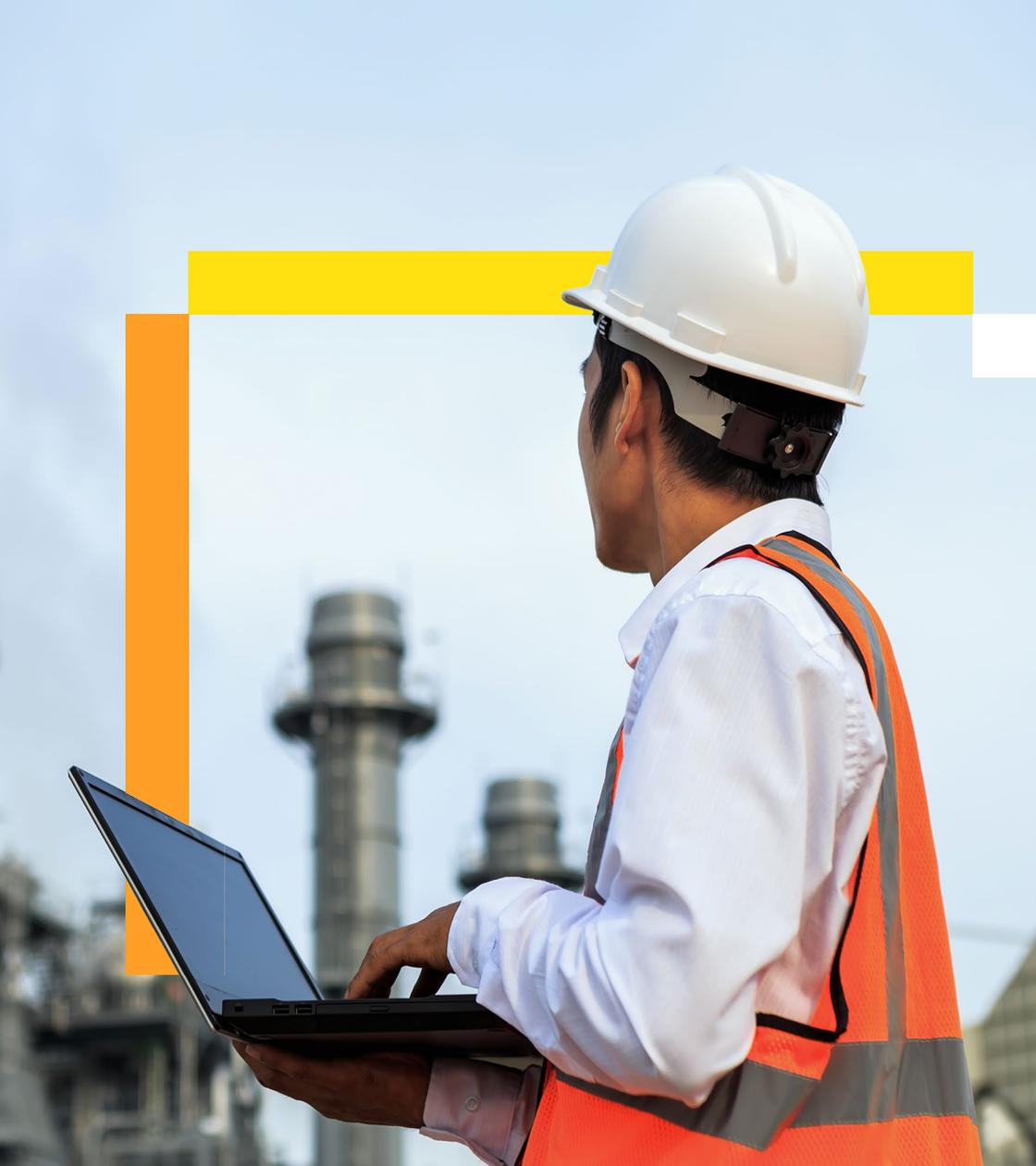
	Greater China	South Korea	Japan	India	Southeast Asia	Australia & New Zealand	Grand total
Industrials & Chemicals	558	52	22	49	48	26	755
TMT	289	58	40	70	76	83	616
Consumer	146	41	15	49	46	64	361
Energy/Mining/Utilities	197	10	4	25	42	53	331
Business Services	173	10	27	25	30	44	309
Financial Services	146	9	7	41	56	36	295
Pharma/Med/Biotech	143	24	8	39	20	39	273
Real Estate	144	2	6	1	35	10	198
Construction	104	10	4	11	14	5	148
Leisure	66	17	13	11	18	21	146
Transportation	56	5	3	13	31	13	121
Agriculture	24		1	2	12	17	56
Defence	3			1	1		5
Total	2049	238	150	337	429	411	3614

1 China defies downturn

In China, more downbeat recent assessments of the country's economic prospects – with many economists reducing their forecasts for 2022 GDP growth in recent months – does not appear to be dampening M&A speculation. Although deal activity in the Greater China region slowed during H2 2021, it was still up compared to 2020, and more transactions are anticipated.

In total, there were 2,049 stories about potential Chinese deals from the beginning of June to late November 2021 (see chart, p1). China accounted for well over half of all stories concerning APAC M&A during the period. No other area of the region came close to matching those figures; there were, for example, only 429 stories on potential deals in Southeast Asia, which suggests it will be the next most active area.

APAC's M&A powerhouse:
China continues to dominate

A man in a white hard hat and orange safety vest is working on a laptop. He is standing in front of an industrial facility with tall chimneys. The background is a clear blue sky. The image is framed by a yellow and orange border.

2 Sector strength

In both Greater China and the broader APAC region, the I&C sector looks likely to be the busiest area of the market, with 755 stories on I&C companies, accounting for more than a fifth of all deal speculation.

As the global economy continues to bounce back from the worst effects of the COVID crisis, the sector should benefit from increased demand. Moreover, many businesses in the sector are focused on transformation, with digital technologies disrupting I&C companies in multiple ways, and this should be a further driver of consolidation and dealmaking.

I&C sector: Digital transformation catalyzes consolidation

3 TMT time

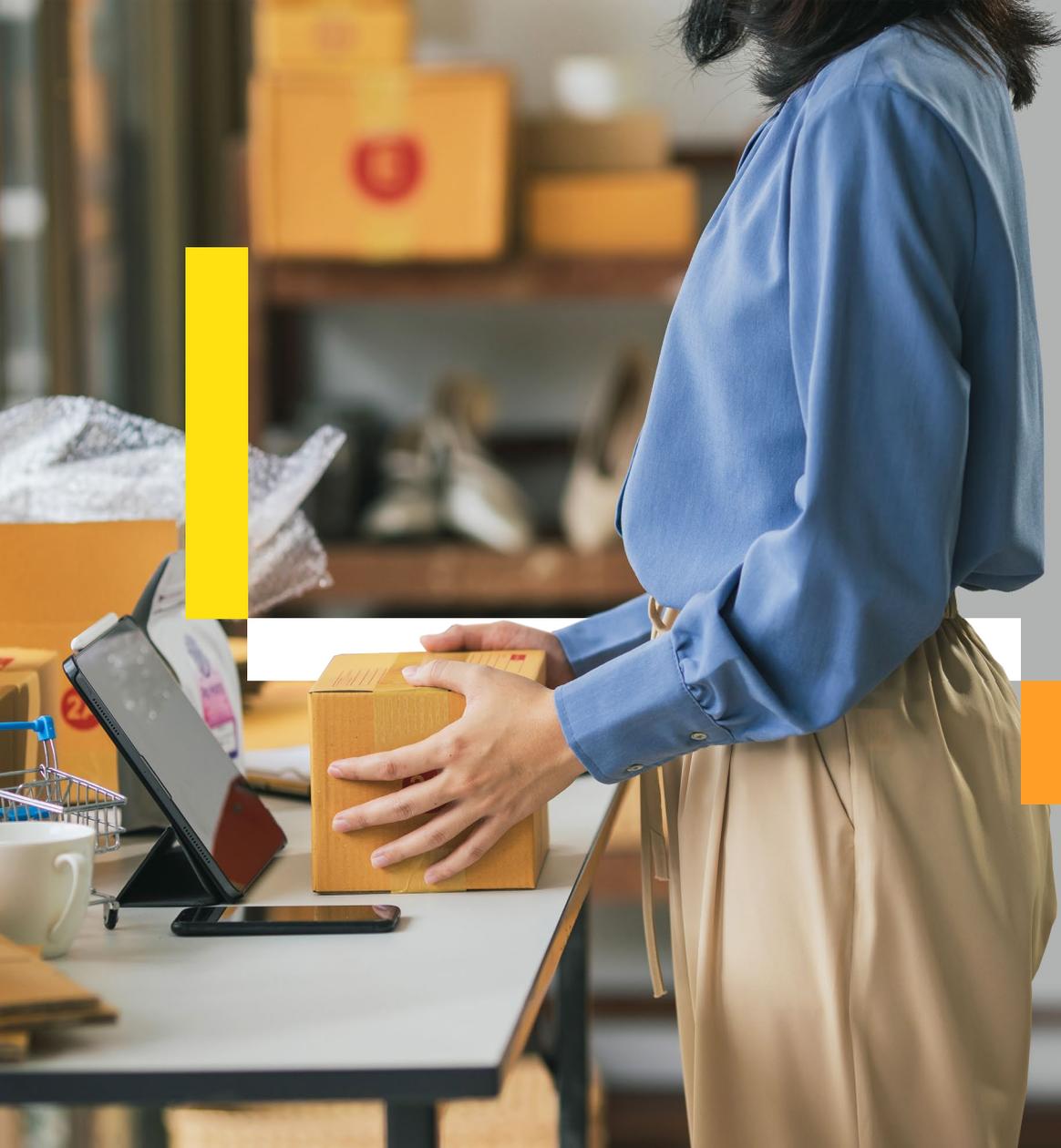
It also seems reasonable to expect more M&A activity in the TMT industry. Certainly, 2021 saw a sharp acceleration in dealmaking involving TMT businesses throughout the APAC region – Q3 2021 alone brought in US\$75.2bn worth of such transactions, including the US\$26.6bn acquisition of Australia’s Afterpay by payments giant Square. There were deals at every level of the market, with TMT topping Q3 2021 deal charts on both value and volume.

While TMT companies are not attracting quite the same level of speculation as their counterparts in the I&C sector, the total of 616 stories was significantly ahead of every other area of the market.

Greater China accounted for close to half of those stories, but there is interest in TMT deals in every area of the region. Australia & New Zealand could be a particular hotspot, perhaps because the Afterpay deal has shone a light on innovative TMT businesses in these countries.

A woman with long brown hair, wearing a white shirt, is looking at her smartphone. She has blue nail polish and is holding a pair of sunglasses. The background is blurred, showing other people in a public space. A yellow horizontal bar is positioned above her hands, and an orange vertical bar is to the right. A dark grey box at the bottom right contains the text 'TMT spotlight: Innovative players in ANZ gain global attention'.

**TMT spotlight: Innovative players
in ANZ gain global attention**



4 Growth spurts

Elsewhere, the consumer sector also looks set to play host to further dealmaking activity in 2022, as evidenced by the 361 stories on potential M&A activity in the sector. As the economic recovery feeds into increased consumer demands – and trends such as the move to ecommerce continue – consumer looks set for more.

However, other areas of the market could also match this activity. Both energy, mining & utilities (EMU) and business services, where M&A activity was also strong during much of 2021, are expected to see further dealmaking.

Set for more: Consumer sector rides on ecommerce wave

Drivers for 2022

The Asia-Pacific region has seen record high volume and value in 2021.

Can this continue into next year? Clearly, some of this year's dealmaking represented a catch-up from the COVID-induced disruption of 2020, with the pandemic prompting a lull in activity, particularly during the first half.

However, economies are strengthening and digital transformation is imperative. There are further good reasons to expect robust levels of M&A in 2022, including ESG-related deals, more mid-market deals, and plenty of dry powder.

- 1 Economic strength in the wake of progress on COVID-19**
- 2 Digital transformation continues**
- 3 ESG issues move center stage**
- 4 The rise of the mid-market**
- 5 Private equity deploys its capital**

1 Economic strength in the wake of progress on COVID-19

China and its APAC neighbors were the first countries in the world to face the pandemic, but the strong response of policymakers in large parts of the region has proved effective in limiting case numbers on an ongoing basis. Many APAC countries have made good progress on vaccinations – with China and Singapore leading the way.

Against this backdrop, the IMF predicts that the economy of emerging and developing Asia will grow by 6.3% in 2021, faster than any other region of the world. There are some question marks over China – facing mounting concern about corporate debt as well as ongoing political tensions with the West – but growth in the country is still expected to be 5.6% next year. This economic landscape provides solid foundations for M&A activity throughout the region.

Unstoppable: Effective response to pandemic accelerates recovery



**Digitalization will be key:
APAC to show the way**

2 Digital transformation continues

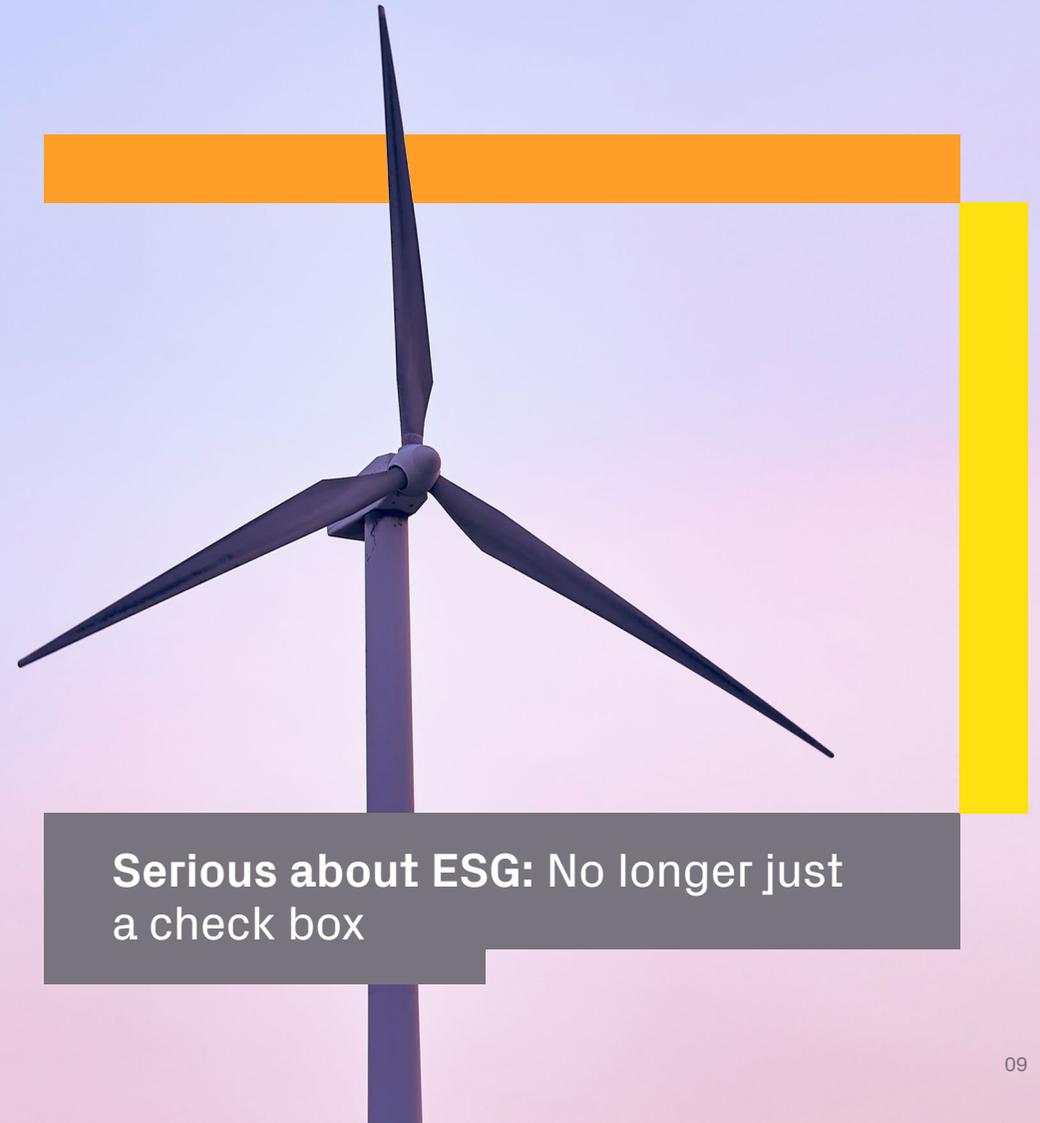
The TMT sector was a mainstay of the M&A market during 2021, but as every industry confronts the imperatives for digital transformation, innovation and technological renewal will drive dealmaking activity in a broad range of areas.

Analysts expect the APAC region to lead the world on digital transformation over the next five years, amid rising adoption of smartphones, the increasing penetration of online business, and government initiatives to digitalize their economies. That said, one question mark hanging over the outlook for the TMT sector is whether the Chinese Government will continue with the more interventionist approach to the sector seen during 2021. President Xi's moves against some of China's largest technology companies have unnerved many in the market, and further regulatory action might act as a brake on M&A.

3 ESG issues move center stage

In the run-up to the COP26 climate change summit in the UK in November 2021, some analysts doubted the commitment of leading APAC nations – particularly India and China. As it turned out, both countries made significant positive contributions to the summit, including India's first pledges on a net zero deadline, underlining the extent to which the ESG debate has become absolutely mainstream across the APAC region.

This has the potential to be a significant driver of M&A in 2022 and beyond. As countries step up demands for greater ESG disclosure and regulators introduce new standards, many businesses will rethink their portfolios and focus on acquisitions that could improve their credentials.



Serious about ESG: No longer just a check box



4 The rise of the mid-market

One feature of APAC dealmaking during 2021 was the significant number of large transactions. Although deal volumes were healthy compared to the previous year, they did not accelerate anywhere near the pace of deal values. In 2022, however, that could change, with many dealmakers now focusing on the potential of the region's mid-market – transactions valued at less than US\$2bn.

The quality of mid-market businesses throughout APAC is increasingly catching the eye, particularly in the context of digital transformation, with the TMT sector's fast-growing young companies offering enabling tools and technologies.

Middle child no more: Mid-market potential shines through

5 Private equity deploys its capital

At a global level, the private equity sector began 2021 sitting on US\$1.9 trillion of dry powder, more than ever before. Some of the cash was deployed – with buyout volumes and values hitting record highs in the first half – but the sector also raised an additional US\$714bn during the first 11 months of the year according to data from Preqin.

With so much capital, private equity dealmakers look set to drive M&A activity worldwide in 2022 – but there is good reason to expect the APAC region to be a particular focus. Research from Mergermarket suggests that PE firms are particularly bullish on APAC markets, where they have previously been underrepresented relative to other regions.



Bullish about APAC: PE firms expected to focus dry powder into region

About this report

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