



Deal Drivers: Japan

A spotlight on M&A in Japan Q1 2020 and beyond

Q&A with the speakers

Q: What will Japanese investors investing overseas be looking for in terms of target countries, target industries, ticket size and timeline? What is their investment outlook for Southeast Asia and Asia in general?

Yoshinobu Agu, Managing Director, Head of M&A Division, Citigroup Global Markets

I don't think that the trend has largely changed from the pre-coronavirus situation. I think Japanese companies continue, depending upon the industry, clients or company, to look for US opportunities, as well as in Europe, Southeast Asia, and/or India.

However, given deglobalization, I think Japanese companies would continue to shift towards Western countries and other developed countries. Secondly, I think another theme is diversifying the supply chain, which would trigger, I believe, more investments into Southeast Asia potentially, in addition to Japan.



Q: How should the impact of COVID be considered in business valuation? How do we protect deal value in creating a business projection that considers the impact of COVID?

Yoshinobu Agu, Managing Director, Head of M&A Division, Citigroup Global Markets

It's a very good but difficult question. I think people are considering it very seriously in terms of how to value the business in this current situation. There would usually be a gap in valuation expectations between the buyer and the seller in these circumstances. We just have to think about the various risk scenarios and think about the various impacts and reflect that into the valuation.

The other thing is that – this may not be a real sort of answer to protecting the value – but I would expect more stock consideration deals as opposed to cash deals because the relative valuation would be less of an issue compared with cash considerations. We have also seen discussions on contingent considerations including earn outs and sellers' notes, etc.

Q: What sectors of outbound acquisition do you think will arise post-COVID?

Yoshinobu Agu, Managing Director, Head of M&A Division, Citigroup Global Markets

I think the less impacted sectors like technology, healthcare, and some of the consumer products will continue to see activity. But in the mid-term, generally all Japanese industries need to invest outbound so when the situation relaxes many corporates will come back to consider outbound deals. In the short term, the mentality of management (whether they perceive this as rather an opportunity to grow or rethink their business strategy vs. being more conservative) is a more critical driver than which industry you are in.



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Yoshinobu Agu



Q: How might the impact of COVID-19 be different on domestic, inbound, and outbound M&A?

Yoshinobu Agu, Managing Director, Head of M&A Division, Citigroup Global Markets

Compared to domestic transactions which have been less impacted, I think logistically it has become difficult to execute crossborder deals but companies that have aspirations for outbound investments still continue to prepare for an approach. I don't think the overall situation has largely impacted outbound crossborder aspirations, but if circumstances last longer than expected, I think it would change the mentality of some Japanese corporates who would be relatively more conservative compared with the past.

In terms of inbound, the situation has been active, particularly for global companies who will be perceived as or have the aspirations to continue to be or become the winners in the industry or the global consolidators. I think they would continue to look for opportunities, including in Japan. We have had quite a few discussions with non-Japanese corporates in terms of making a potential approach to Japanese companies very recently.





Q: After COVID-19, will the drive to diversify production bases, and the Japanese government subsidy for relocating production bases, lead to a substantial increase in outbound activity to Southeast Asia? And if so, which countries are likely to benefit?

Mai Mizuta, Editor, Mergermarket Asia-Pacific

Japanese manufacturers are exploring their options with regards to diversifying their production bases and it is our understanding that there are ongoing consulting projects and sourcing strategies being discussed at the moment. Companies are busy trying to figure out alternatives in preparation for a potential second wave of COVID-19.

We do expect there to be an increase in investments into Southeast Asia for this reason, particularly to countries such as Vietnam, Thailand, Malaysia, and Indonesia. These countries have manufacturing expertise across various industries – for instance, Thailand has a robust auto industry, Vietnam’s top export is electrical machinery and is among the top suppliers for apparel/textiles and footwear. Meanwhile, in addition to its mainstay manufacturing sectors, Malaysia has emerged as a top supplier in the medtech sector.



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Mai Mizuta



Q: How do you think the COVID-19 pandemic will affect expansion into India from Japan, including M&A? Will it increase with the reconsidering of supply chains from China?

Mai Mizuta, Editor, Mergermarket Asia-Pacific

India is still under lockdown due to COVID-19 with the possibility that it could be extended further. While India M&A and investment activities have understandably slowed for now, once the situation improves I think we can expect activity to return to pre-coronavirus levels. In terms of supply chain relocation, what we are currently hearing is more centered around Southeast Asian countries for now.

Q: Is the power sector a target for Japanese investors? Thermal power plant vs renewable energy?

Mai Mizuta, Editor, Mergermarket Asia-Pacific

Japanese utility companies are seeking various M&A and investment opportunities in power, including renewables like onshore/offshore wind, solar, and hydroelectric projects. Oil and energy companies are also looking to increase exposure to renewables to offset its oil-related businesses. Although sustainability appears to be playing an increasingly important role in driving corporate strategy, thermal power plants still remain an important source of energy.

In terms of target region, the interest is global but Southeast Asia appears to be attractive for many corporates due to its close proximity to Japan. There also are not too many operational wind assets, for example, of a certain scale that are up for sale in Japan. The larger projects are mostly running under attractive FIT rates so there is not a lot of motivation to sell these assets right away, resulting in the need to look overseas.





Expert Insights

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In partnership with  **Mergermarket**
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