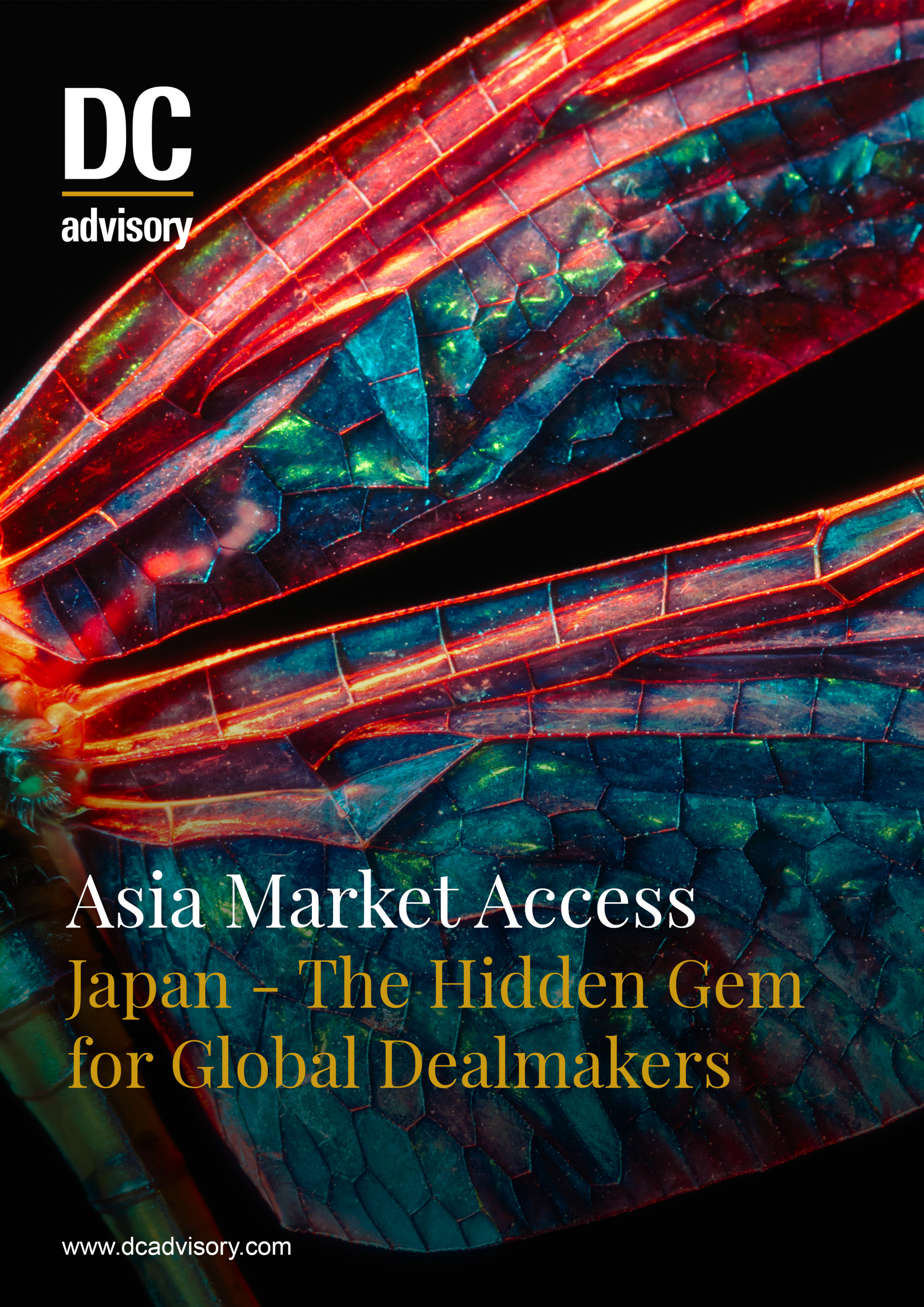

DC advisory

Asia Market Access

Japan - The Hidden Gem for Global Dealmakers

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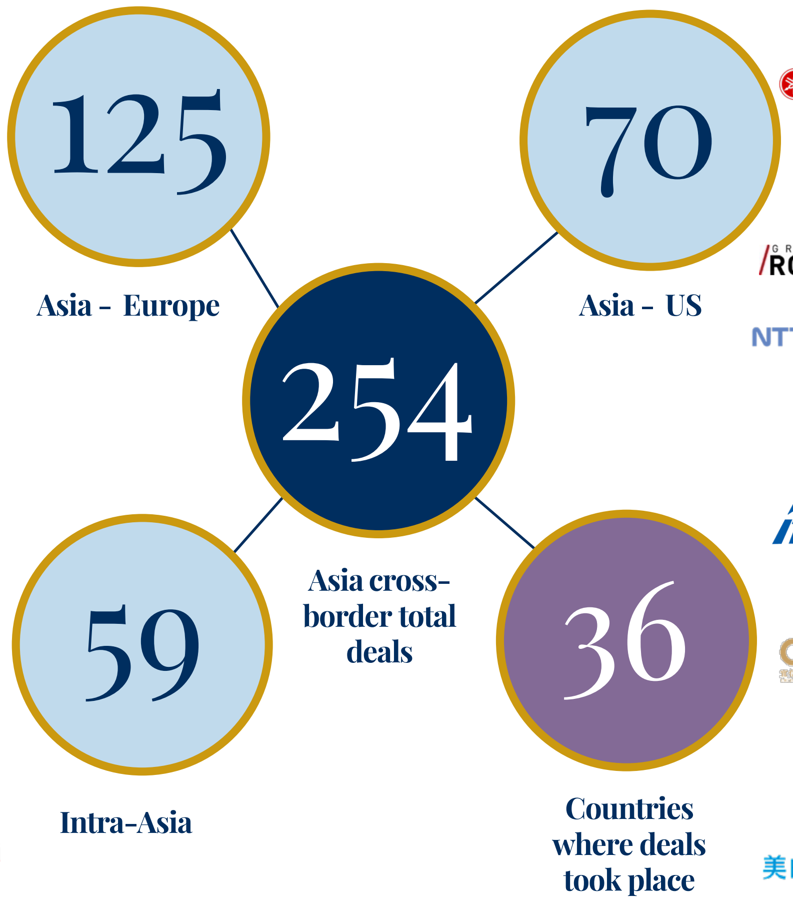
Over 250 Asia cross-border deals completed...



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Contents

Japan - the hidden gem for global dealmakers

Japan has transformed from a perceived premium market to a more cost-competitive landscape, making it an increasingly attractive destination for international investors. While the favorable Japanese yen (JPY) exchange rate has attracted international investors, in our view, it is not the primary reason we are seeing an explosion of cross-border M&A activity with Japan, both inbound as well as outbound.

Leveraging three decades of Japanese cross-border M&A expertise, DC Advisory's Asia Access team discusses the key factors propelling Japan to the forefront of global dealmaking, and the key trends shaping the Japanese corporate landscape, including:

- **The 'Buffett Effect'**
- **Fragmentation of Japanese industry**
- **Transformation of Japan's corporate culture**
- **Government drive for corporate governance**
- **Fundamentally good businesses**
- **Selection and focus**
- **The evolving role of private equity**

Discover how these trends are creating unprecedented opportunities for investors and corporates seeking to capitalize on Japan's dual role as a lucrative investment destination and powerful strategic acquirer.

"To thrive in the burgeoning landscape of Japanese M&A, global dealmakers must become fluent in the language of Japanese business. This requires deep diving into local nuances, building strong partnerships, and understanding the intricate interplay of culture, regulation, and strategy. By mastering these elements, dealmakers can position themselves as indispensable partners to Japanese corporations seeking to expand their global footprint. The best buyer of your business may well come from Japan."

Tosh Kojima, Managing Director
tosh.kojima@dcadvisory.com

Warren Buffett's strategic bet on Japan

In 2020, Warren Buffett's Berkshire Hathaway acquired substantial stakes in Japan's five largest trading houses: Mitsubishi, Itochu, Mitsui & Co., Sumitomo, and Marubeni.[i] This $6-7bn investment, amounting to approximately 5-8% ownership in each company, was driven by Buffett's belief in their undervalued potential and the broader transformation of the Japanese corporate landscape.

Fast forward to 2024, and Buffett's foresight is evident. Berkshire Hathaway has increased its holdings in these trading houses to around 9%, and at the end of 2023, the investment made in 2020 has already translated to unrealized gains of 61% or $8bn[ii]. Buffett expressed strong confidence in the long-term potential of the Japanese economy and the selected trading houses, highlighting their global presence and diversified operations as significant strengths.

The unique business models of these trading houses, known as *sogo shosha*, span a wide range of industries, including energy, metals, machinery, chemicals, textiles, food, and general products. This diversification enables them to leverage synergies, optimize resource allocation, and mitigate risks effectively. For instance, Mitsui & Co. is involved in Infrastructure projects, iron and steel products, mineral and metal resources, chemicals, and energy, while Itochu operates across textiles, machinery, metals, minerals, energy, chemicals, food, and general products.[iii]

Japan's unique growth drivers, such as its emphasis on innovation, its robust industrial base, and strategic geographical location, benefit the trading houses, along with their advanced logistics and technological capabilities. Their holistic views and involvement in many industries across the entire span of various value chains (their hallmark 'vertical integration' business model), can also be leveraged to develop new business models, technologies, and services.

We delve deeper into the factors driving Buffett's success, exploring the broader implications for investors and businesses seeking to capitalize on Japan's evolving market dynamics.

Fragmentation of Japanese industry

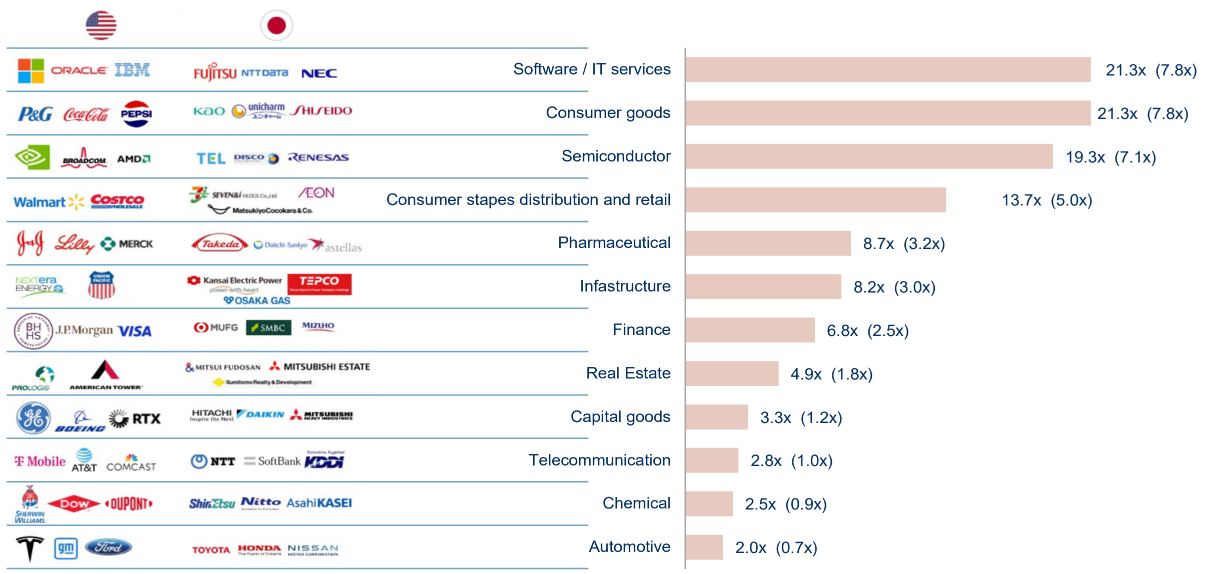
Japan's domestic market has historically spawned a plethora of product variations, particularly evident in consumer electronics and automobiles. From Akihabara Electric Town's array of unique gadgets to distinctive car models, Japan's domestic market has long supported a fragmented landscape.[iv] We believe this has fostered innovation at times, while it has also led to intense competition and limited global market share for many Japanese companies (see Fig.1). Many brands still compete, for example, in digital cameras or mobile phones, offering very similar models and specifications, whist collectively holding a few percent of global market share, far behind Apple and Samsung. Whilst 'selection and focus' and Darwinian competition have not been completely absent, the sheer size of the Japanese domestic market had supported this phenomena for many decades.

Following this trend, an oversupply of similar products in the Industrial sector presents a unique opportunity for international investors. As we will explore later, numerous Japanese companies can represent attractive bolt-on acquisition targets. However, for domestic shareholders, this oversaturation amid a shrinking population and aging demographics poses significant challenges. **The need for consolidation and global expansion have been apparent for some time, and M&A is finally catching up to provide solutions.**

The over-diversification of many large Japanese conglomerates can contribute to a 'conglomerate discount' on their share prices, hindering their global competitiveness. These companies may operate a multitude of disparate business lines, spreading resources thin, hindering their ability to achieve global leadership positions. Hitachi serves as a prime example, with 25 different business lines (organised under three divisions) across its corporate structure[v]. Its sprawling portfolio of businesses can create challenges in terms of focus and scale. Each business inevitably ranks below number 10 against the global competition, with 5–10x size gap against the global sector leader (see Fig.2).

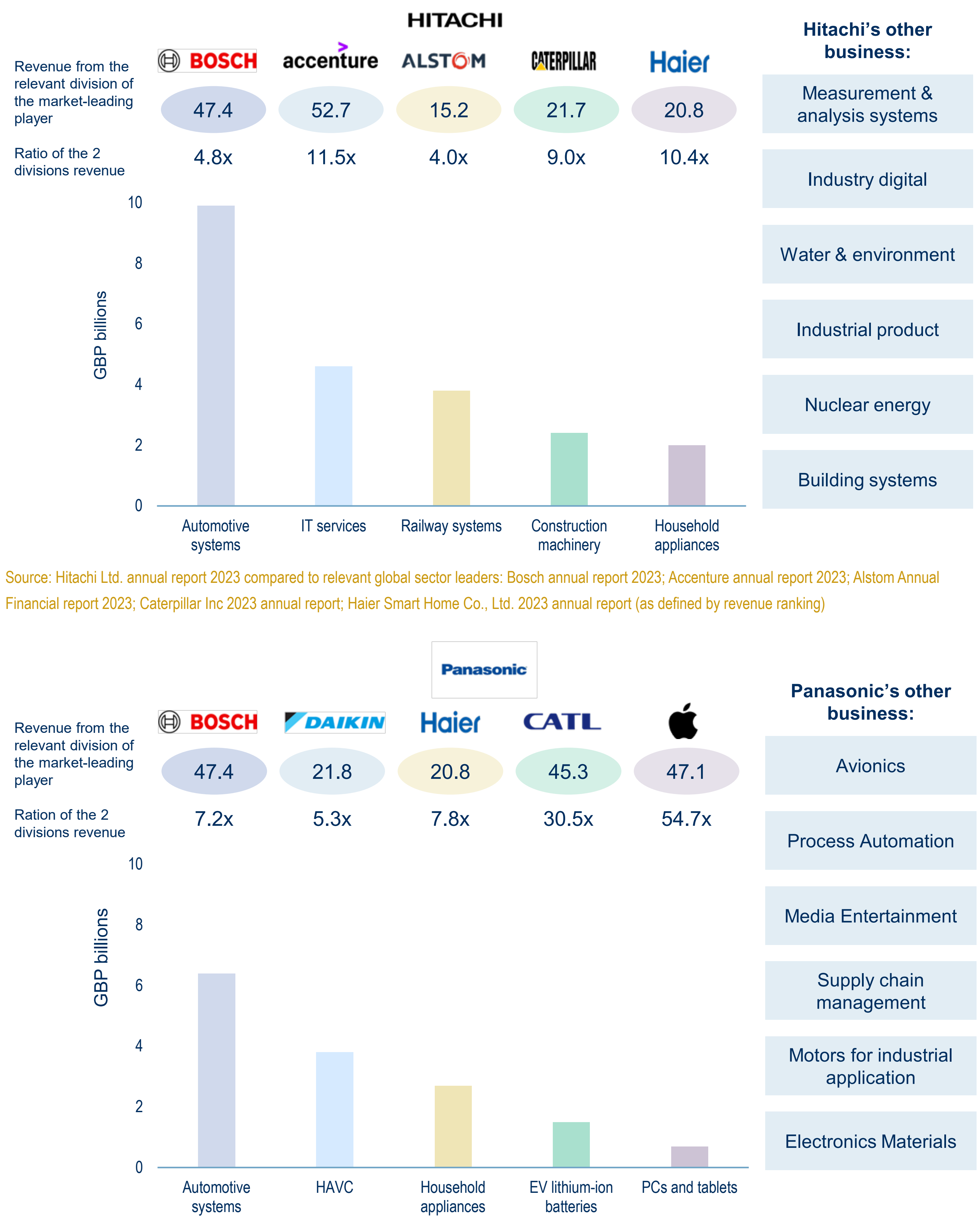
However, it is important to note that Japanese corporates have recognized this issue for some time - both Hitachi and Panasonic have been aware of this for several decades and have started the work of transforming their corporate structures[vi] Today, there are many tools and positive macro trends which can enable the acceleration of such a transformation. **We believe one key catalyst is the emergence of private equity in Japan, both home-grown and foreign imported**. In fact, half of the six formerly TSE-listed Hitachi subsidiaries (Hitachi group companies) which have been taken private in recent years, have been acquired by various Western private equity firms.[vii]

Figure 1: Fragmentation of Japanese industry



Source: Mergermarket; multiples are the ratio of total market cap of top 10 US companies divided by the top 10 Japanese peers in each sector; ( ) denotes per capita adjusted figures (see Appendix* for the list of companies analyzed)

Figure 2: Japanese conglomerates' over diversification limits its competitiveness



Source: Hitachi Ltd. annual report 2023 compared to relevant global sector leaders: Bosch annual report 2023; Accenture annual report 2023; Alstom Annual Financial report 2023; Caterpillar Inc 2023 annual report; Haier Smart Home Co., Ltd. 2023 annual report (as defined by revenue ranking)

Source: Panasonic Corporation annual report 2023 compared to the relevant global sector leaders: Bosch annual report 2023; Daikin Industries Integrated Report 2023; Haier Smart Home Co., Ltd. 2023 annual report; Contemporary Amperex Technology Co., Ltd. 2023 financial report; Apple annual report 2023 (as defined by revenue ranking)

The transformation of Japan's corporate culture

Cultural shifts in the Japanese employment market have driven changes that we expect to further propel cross-border M&A activity. Today, Japan's employee turnover is still considered low, but in many highly specialized sectors such as tech, pharmaceuticals, and services, the notion of 'job loyalty' is an outdated one.[viii] We believe this shift has destabilized the historic competitive strength of large corporates in the market, creating more opportunities for private equity-backed and independent businesses.

A positive trend making M&A a more widely accepted corporate tool is the increase in labor market liquidity in Japan, especially at the senior and upper-middle management level, and the recognition of strategic planning and M&A as tangible and transferable skillsets. Ten years ago, Japanese corporate planning officers, including those overseeing M&A execution, were subject to notorious corporate rotation (or 're-shuffle', as they are called in Japan) every several years, making it difficult to retain know-how and skills in the department. Experience and best practices for M&A were, in our view, also hard to obtain, as few people moved from the professional services sector to corporates (especially to senior decision-making positions), and corporate planning officers were not seen as holders of transferable skills who could move between companies. Rather, they saw these roles as stepping stones to senior management positions.

Today, many Japanese companies have developed highly capable and experienced in-house M&A teams and have actively hired talent from other companies (often across different industries) who are experienced in M&A, as well as hiring advisors from investment banks. **What has been a normal career path in the Western world of M&A has finally become an accepted norm in Japan.**

Government drive for corporate governance

Japanese corporate governance reforms have made management more conscious of capital costs. We believe activist investors have become more active, particularly targeting conglomerates, aiming to propel firms into selling off non-core businesses.

The last decade has seen the unwinding of legacy cross-shareholdings by banks and commercial partners - including customers and suppliers - which once stabilized Japanese corporates.[ix] We saw this stability allow them to make bold investment decisions during the Japanese industrialisation and export-driven expansionist era of 1970's and 80's, but it then acted as a deterrent to inbound M&A activity for decades.[x] We believe it is increasingly difficult for the large, vertically integrated giants - supported by family groups of banks and 'keiretsu' suppliers (a network of businesses with shared historic roots) - to operate economically or remain competitive. The structural shifts are being driven by the breakdown of traditional conglomerates across Japan.[xi]

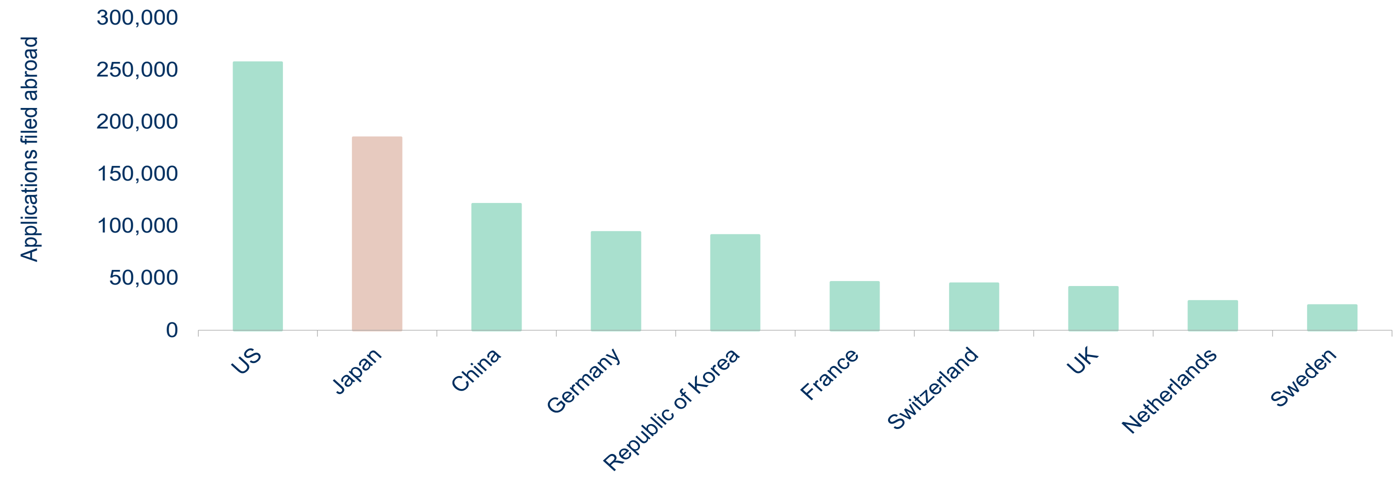
The April 2022 introduction of a new top-tier 'Prime' section of the Tokyo Stock Exchange for globally competitive companies, resulting in a two-tier corporate landscape in Japan, will continue to generate opportunities for Western private equity firms.[xii] **Over time, we expect the Japanese market to mature, bridging the gap in private equity investment volumes between itself and Europe or the US.**

Fundamentally good businesses

Japan has a strong heritage of developing unique and strong Intellectual Properties in-house, and commitment to fundamental research and development (R&D) and innovative productization. Although the domestic industry may be suffering from the red ocean of spiralling price discounts, many of their IPs have international relevance and potential to unlock value when met with the right international distribution; this is a common driver for both inbound as well as outbound M&A.

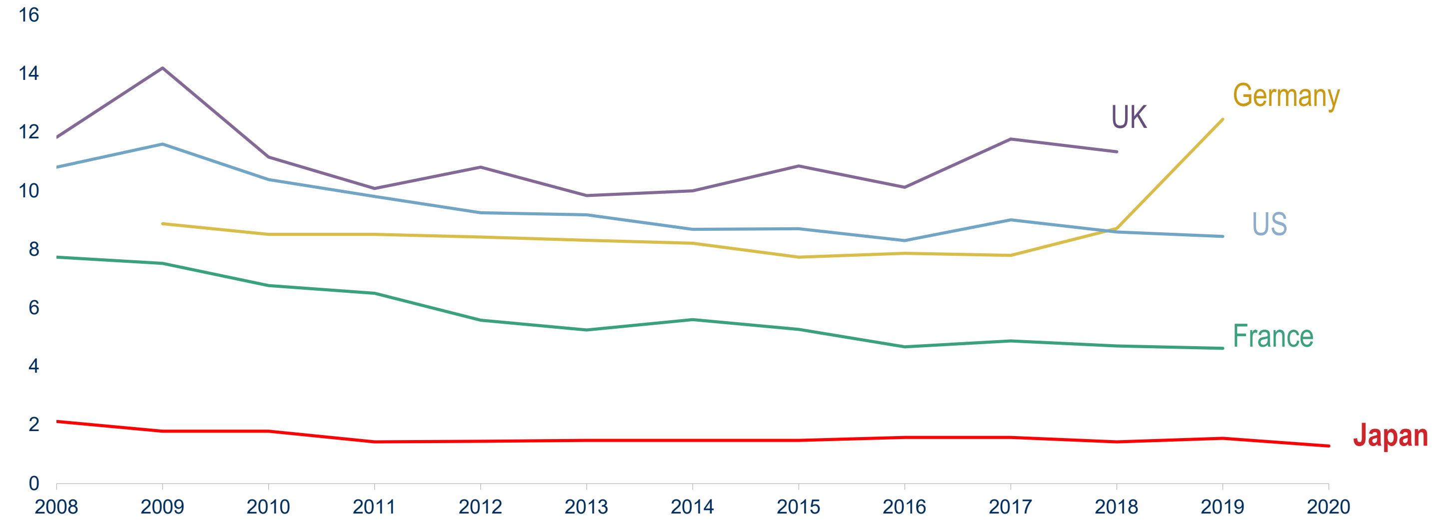
At the same time, Japan's remarkably stable business environment can make the region a lower-risk investment prospect; bankruptcy rate is around 1.5%, significantly lower than the UK's (approximately 11%) and the US (approximately 8%).[xiv] And this is supposedly the 'all-time high' bankruptcy record for Japan, which went up 33% between 2023 and 2024.[xv] Such stability is thought to be provided by the 'inclusive governance' at the heart of Japanese society; a system or approach that ensures all stakeholders are considered and aims to optimize benefits for everyone rather than favouring a select few. Stakeholders in this case include: customers, financial stakeholders, management and employees, all making compromises and forming consensus.

Figure 3: Japan is still a leader of international patent filing



Source: World Intellectual Property Indicators 2023[xiii]

Figure 4: Bankruptcy rate in Japan



Source: Japanese cabinet office, 2024[xvi]

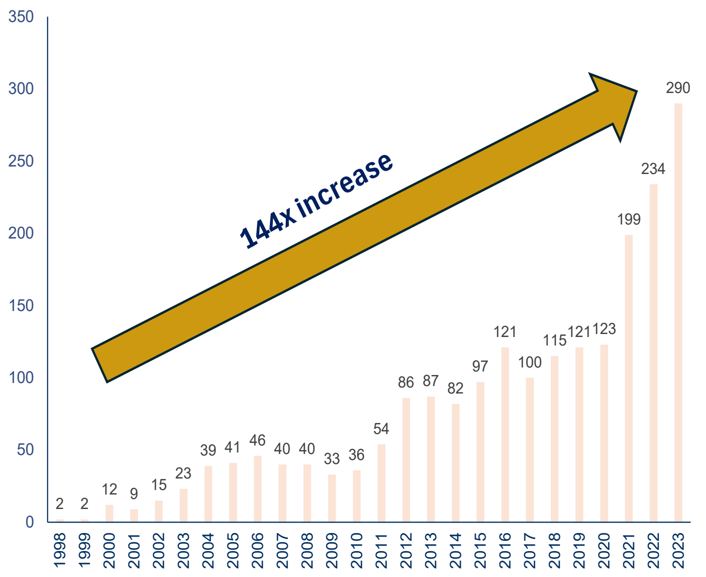
Selection and focus

Deeply ingrained cultural opposition has hindered corporate disposals in Japan as divesting of non-essential or underperforming assets has historically been considered either lazy management or even dishonorable. In many boardrooms, prioritizing the preservation of domestic employment across a wide range of businesses held greater significance than boosting shareholder value. However, Japanese corporates are now heeding the calls of not just the international investors and shareholder activists, but also from the general public who have become more aware of the declining global positions of once world-leading brands which Japan boasted. As a matter of urgency, many corporate boardrooms are reshaping their strategies to focus and excel in one or two core areas, instead of just being competent in many – a strategy which Western management textbooks have cited for half a century.

The recent surge in Japan-related M&A is clearly out-pacing the 'steady' M&A deal activities of the Western counterparts in 2024, who are slowly recovering from the global downturn in 2023. In the last 18 months, Japan was a global outlier as the only major market in the world to record M&A growth (see Fig.5). We also see Japanese companies, particularly those with large cash reserves, having a strong interest in outbound M&A, seeking global markets with more favorable growth prospects and opportunities to develop new revenue streams.

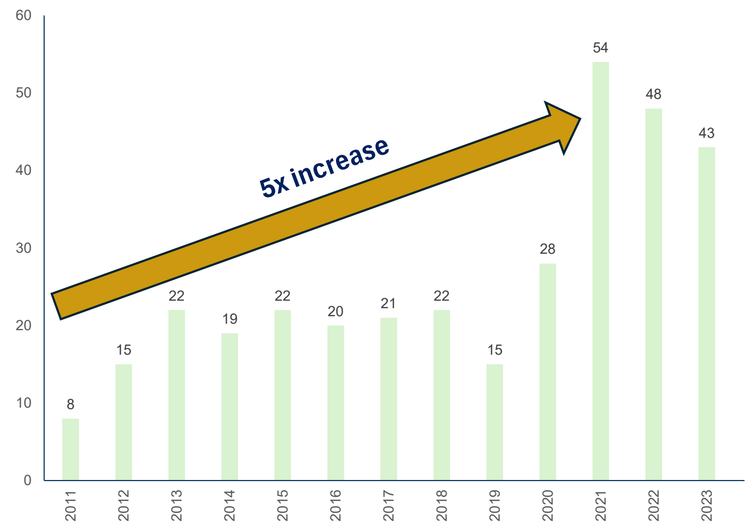
Japanese strategic buyers have, in our view, historically been hindered by their inability to match the speed with which private equity firms transact, often losing out in processes, despite being able to offer premium prices for assets. We believe the tables have turned as the increased cost of capital for private equity means Japanese strategic buyers are in a strong position to acquire significant international assets.

Figure 5: Japanese acquisitions in Europe



Source: Mergermarket (For search criteria, see Appendix*)

Figure 6: Japanese corporate disposals in Europe



Source: Mergermarket (For search criteria, see Appendix*)

Drivers of Japanese M&A

Japan macro
- Demographic challenges
- Hoarding cash

Internal changes
- Changing attitude towards employment
- Cultural opposition to disposals fading
- Selection and focus

Accelerators
- Corporate governance code
- M&A
- Private equity

Western M&A market
- Business of high relevance
- Challenging debt market

Seeking a better ROI overseas

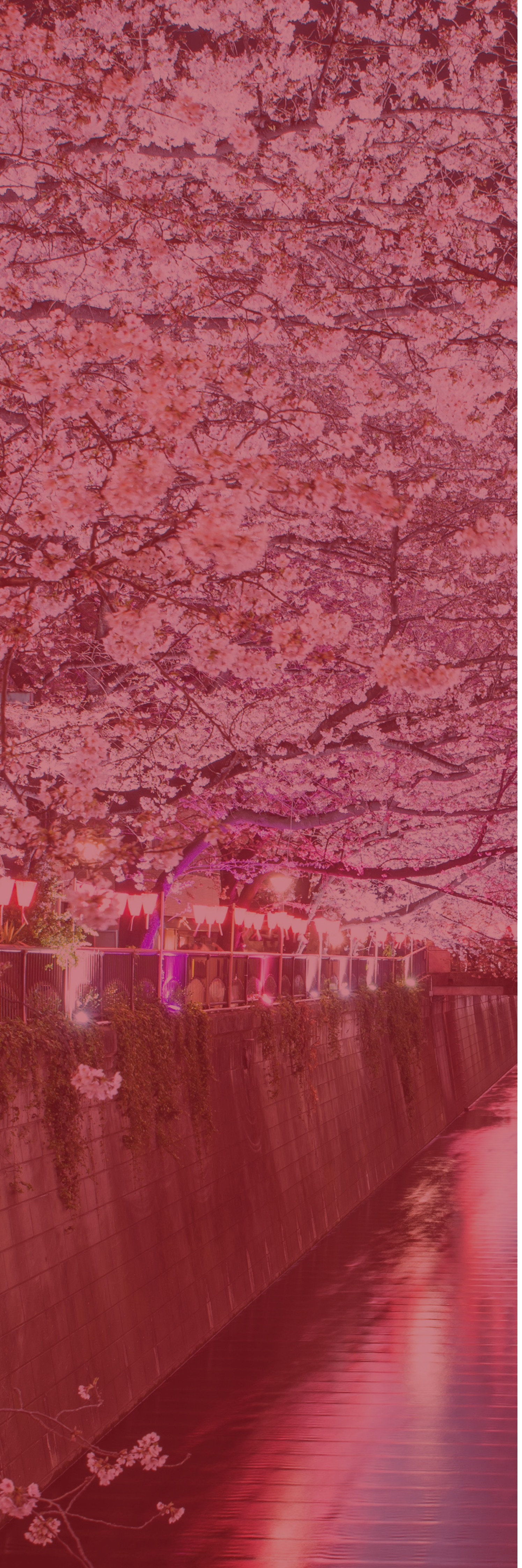
Japanese M&A behaviours

Selling — Japanese-owned businesses are popular (high quality IP)

Buying — Japanese no longer out-paced and out-bid by PE buyers

- Ascribes long-term value to business, synergies
- Slow? Opaque?
- Once committed, buyer of the highest integrity

- Trade buyer focussed "non-process" process
- Bilateral approaches & pre-empts by Japanese



Rise of private equity within Japanese M&A

Private equity has historically grown more slowly in Japan compared to Western markets.[xvii] We believe this lag has largely been due to cultural resistance to corporate disposals and a focus on maintaining domestic employment rather than enhancing shareholder value. However, in recent years, the Japanese market has undergone significant changes, which can pave the way for a more robust private equity landscape for the remainder of 2024 and beyond.

Let's take a look at the evolution of the Japanese private equity market:

In the early 2000s

Slow growth by early Western private equity market entrants

By 2007

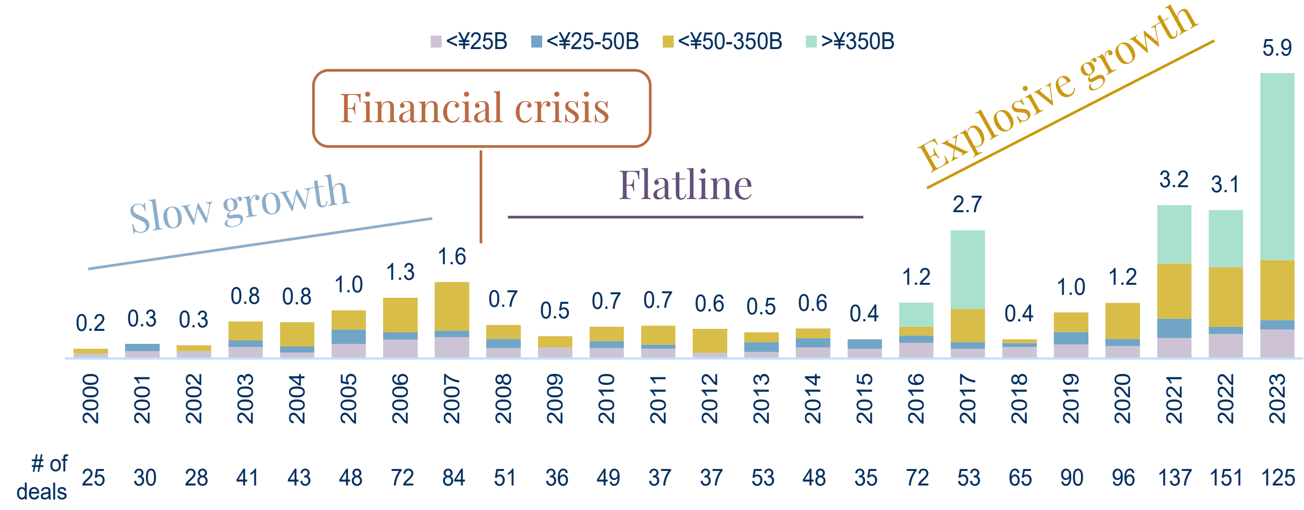
The global financial crisis (GFC) led to a prolonged period of stagnation

Since 2016

The market has seen substantial growth, particularly due to large-scale deals, with annual deal values exceeding $20bn in recent years

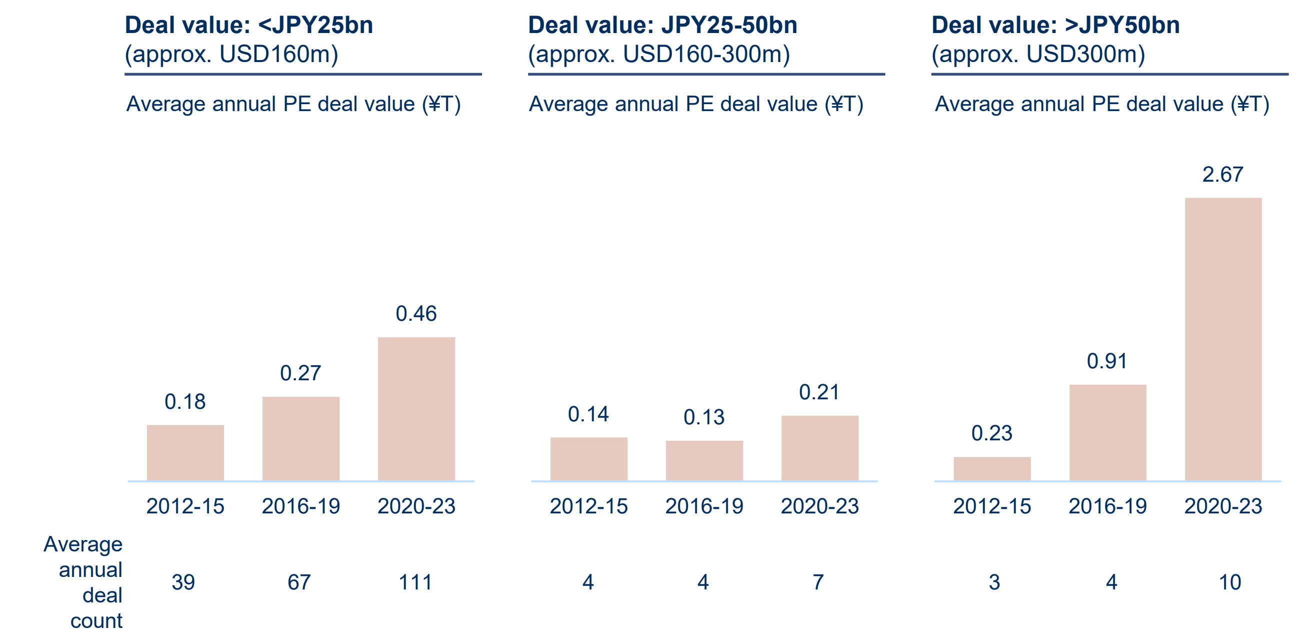
Although the market is prone to fluctuations due to these large-scale deals, the volume of deals has remained stable and is on the rise. This expansion is driven by deals over 50bn JPY (approximately $300mn), which have been instrumental in the market's growth.

Figure 7: Value of private equity deals in Japan since 2000 (¥T)

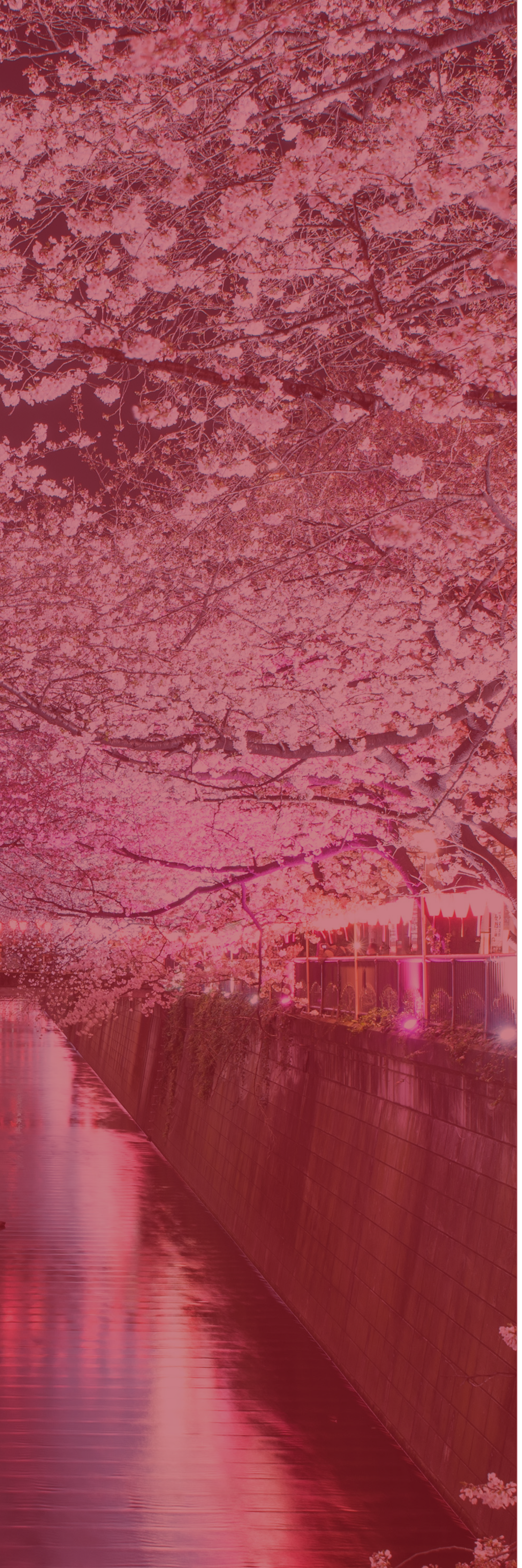


Source: AVCJ (Includes only deals with announced deal value over USD >10m; excludes real estate deals)

Figure 8: Size distribution and growth of Japanese private equity deals



Source: AVCJ (Includes only deals with announced deal value over USD >10m; excludes real estate deals)



Corporate carve-outs and management buy-outs (MBO), especially those involving large-scale deals over 50bn JPY (approximately $300mn) are becoming more prominent. Private equity firms operating in Japan can be broadly divided into domestic firms and the Japanese branches of global firms, with the latter typically focusing on larger deals. Major global players in Japan include US funds such as Blackstone, KKR, Bain, and Carlyle, as well as European funds like EQT (see Fig.9).

In addition to the low default risk of the business, and strong IP and manufacturing basis, there are other drivers of global firms' growing interest in the Japanese market:

- Ultra-low interest rates on LBO loans: the availability and affordability of credit are crucial factors. Senior loan packages for LBOs in Japan are broadly cheaper than in the US, with base rates remaining at -0.1 percent since 2016. We believe the Bank of Japan may hike rates this year, but currently, lenders are willing to offer up to six to seven times leverage in typical transactions
- Increasing need for privatization: activists campaigning against companies with cheap valuations, encouraging public companies to go private[xvi]

Global firms have achieved high returns in Japan. Notably, Carlyle's previous Japan fund has an internal rate of return of 28%, compared to around 8% to 14% for other Carlyle funds with a global, Europe or Asia focus (see Fig.10).

Conclusion

The landscape of Japanese M&A is being reshaped by the rise of private equity, and the trend shows no signs of slowing down. With a favorable environment characterized by low-interest rates, a stable economic backdrop, and ongoing corporate reforms, we believe private equity is set to continue its ascent as a dominant force in Japan's M&A market. Success is reliant on a deep understanding of local intricacies. By harnessing unparalleled local expertise, companies can replicate the strategies of top performers and fully capitalize on Japan's dynamic M&A ecosystem.

Figure 9: Recent notable transactions by global firms in Japan

	Announcement Date	Target	Deal Value	Type
Blackstone	2024 June	Infocom	USD 891m	Carve-out
KKR	2024 May	Alps Logistics	USD 673m	Carve-out
Bain	2024 February	Snow Peak	USD 285m	MBO
Bain	2023 December	Outsourcing	USD 2,514m	MBO
Blackstone	2023 December	Sony Payment Services	USD 280m	Carve-out
EQT	2023 November	Benesse Holdings	USD 1,404m	MBO

Source: Mergermarket

Figure 10: Global private equity fund performance

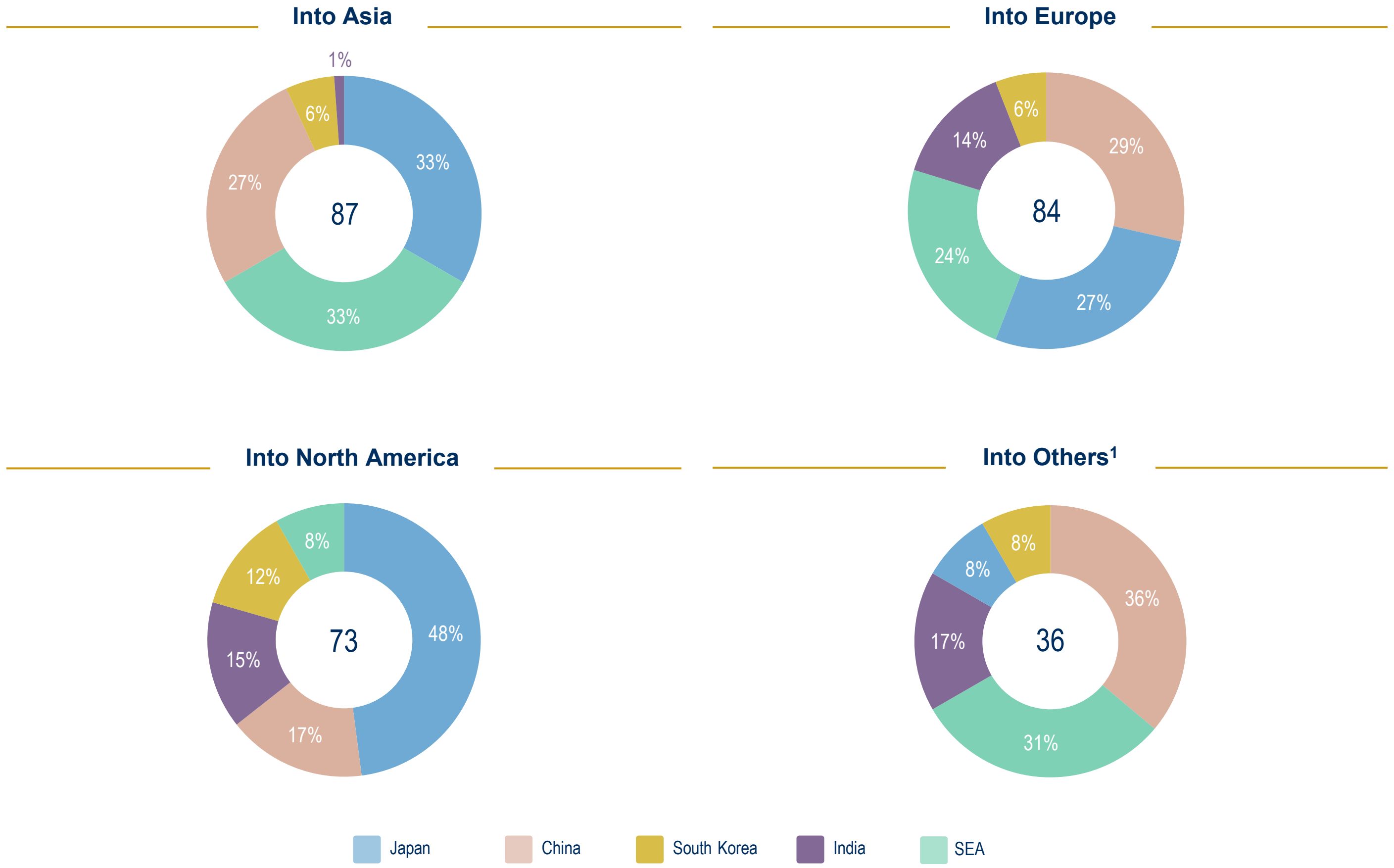
(Reported in local currency, m)

				TOTAL INVESTMENTS As of March 31,2024					
Fund (Fee Initiation Date / Stepdown Date) (28)	Committed Capital (29)	Cumulative Invested Capital (1)	Percent Invested	Realized Value(2)	Remaining Fair Value (3)	MOIC (4)	Grossi RR (6) (12)	NetIRR (7) (12)	Net Accrued Carry/ (Giveback) (8)
CORPORATE PRIVATE EQUITY									
CP VIII (Oct 2021 / Oct 2027)	$14,797	$7,836	53%	$681	$8,849	1.2x	n.m.	n.m.	–
CP VII (May 2018/Oct 2021)	$18,510	$17,740	96%	$2,150	$22,616	1.4x	11%	8%	$3
CP VI (May 2013/ May 2018)	$13,000	$13,140	101%	$24,133	$4,636	2.2x	18%	14%	$170
CP V (Jun 2007 / May 2013)	$13,720	$13,238	96%	$28,102	$803	2.2x	18%	14%	$56
CEP V (Oct 2018/ Sep 2024)	€6,416	€5,545	86%	€1,446	€6,020	1.3x	14%	8%	$11
CEP IV (Sep 2014/ Oct 2018)	€3,670	€3,797	103%	€6,190	€1,380	2Ox	17%	12%	$85
CEP III (Jul 2007 / Dec 2012)	€5,295	€5,177	98%	€11,724	€105	Z3x	19%	14%	$8
CAP V (Jun 2018 / Jun 2024)	$6,554	$6,047	92%	$1,671	$6,582	1.4x	17%	8%	$86
CAP IV (Jul 2013/ Jun 2018)	$3,880	$4,146	107%	$7,678	$995	2.1x	18%	13%	$61
CJPIV (Oct 2020 / Oct 2026)	¥258,000	¥180,016	70%	¥53,996	¥249,645	1.7x	47%	28%	$47

Source: Carlyle Reports First Quarter 2024 Financial Results[xix]

Asia activity

Figure 11: Areas of interest: top Asian outbound investment regions (Q2 2024)

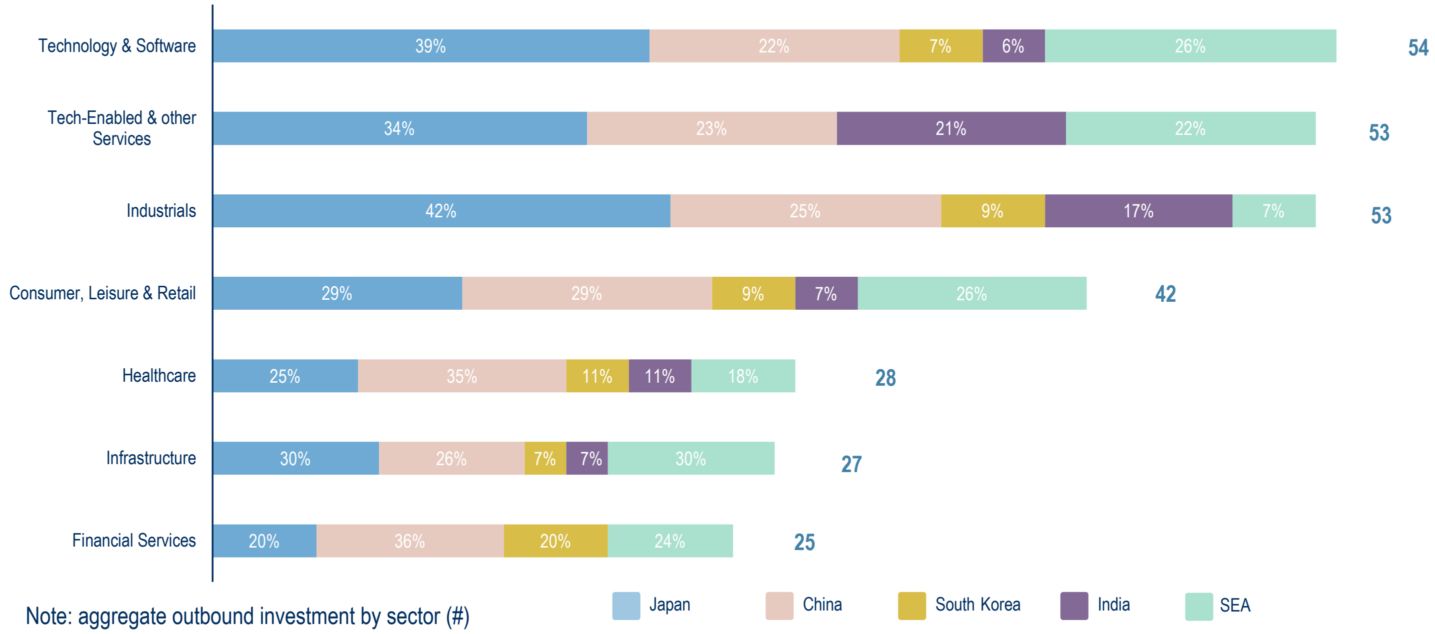


Notes: % denotes share (by deal volume) of aggregate inbound investments in each world region, broken down by Asian investor origin

1. Others include LATAM, Africa, Middle East and Oceania

Source: Mergermarket (For search criteria, see Appendix*)

Figure 12: Outbound trend by sector (Q2 2024)



Note: aggregate outbound investment by sector (#)

Source: Mergermarket (For search criteria, see Appendix*)

Regional overview

China

Despite near-term challenges, China remains steadfast in its long-term pursuit of technology leadership through strategic acquisitions.

Read the full China commentary >

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Japan

M&A activity in Japan has reached a fever pitch.

Read the full Japan commentary >

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South Korea

As South Korean conglomerates seek to expand their Western market presence, private equity firms have a unique opportunity to acquire undervalued assets during this period of strategic portfolio optimization.

Read the full South Korea commentary >

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India

As Indian corporations strive to expand their global presence, strategic acquisitions will play a critical role. Geographical expansion and acquisition of new technological capabilities will be the main themes driving M&A activity in India.

Read the full India commentary >

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Southeast Asia (SEA)

Western companies specializing in grid modernization and smart grid technologies are well positioned to become sought-after acquisition targets, as Southeast Asia accelerates its clean energy transition.

Read the full SEA commentary >

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Japan: M&A activity in Japan has reached a fever pitch

- We have seen Japanese conglomerates accelerate their overseas acquisition activity in Q2 2024, shedding their traditionally cautious image and cementing their position as active global acquirers
- The Industrials and Technology & Software sectors have been the primary catalysts for this growth, collectively accounting for 45% of all outbound deals. The US remains the top target for Japanese buyers (see Fig.13/14)
- In our view, this global buying spree is driven by intensifying shareholder demands for improved capital efficiency and the anticipated strengthening of the Japanese yen as the central bank begins to tighten monetary policy. These factors have made foreign targets more appealing to Japanese companies
- While global investors increasingly view Japan as a promising M&A market, success is reliant on a deep understanding of local intricacies. By harnessing unparalleled local expertise, companies can replicate the strategies of top performers and fully capitalize on Japan's dynamic M&A ecosystem

At a glance

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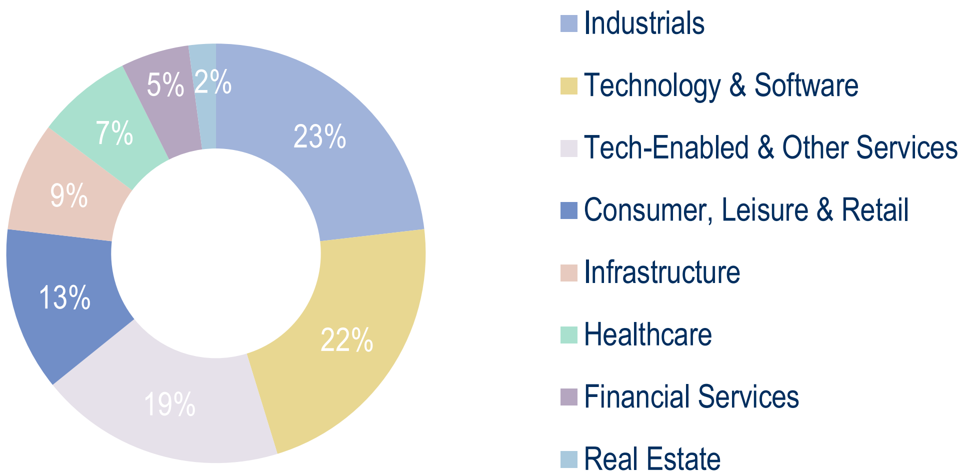
Deals in Q2 2024

Target region:

North America

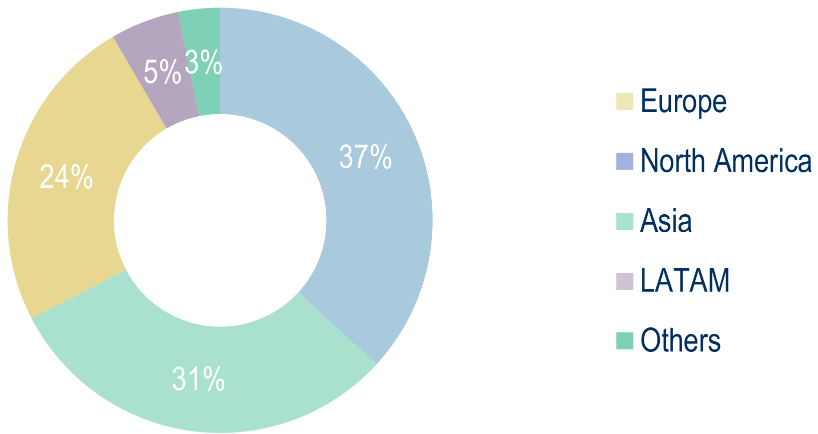
Source: Mergermarket (For search criteria, see Appendix*)

Figure 13: Japan outbound M&A by sector (Q2 2024)



Source: Mergermarket (For search criteria, see Appendix*)

Figure 14: Japan outbound M&A by target region (Q2 2024)



Source: Mergermarket (For search criteria, see Appendix*)

“Despite near-term challenges, China remains steadfast in its long-term pursuit of technology leadership through strategic acquisitions.”

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China

- As we predicted, China’s post-pandemic economic recovery lost momentum earlier than expected, leading to weakening consumer demand and a subsequent slowdown in Chinese companies acquiring foreign counterparts, particularly in Consumer related sectors[xx]
- Escalating geopolitical tensions have intensified regulatory scrutiny in key markets such as Europe and the US, creating a complex and uncertain landscape for cross-border deals – deterring domestic, international, and notably Taiwanese investors from accessing Chinese markets[xxi]
- Despite these challenges, Chinese investors remain open-minded and continue to seek opportunities in the West, as evidenced by our conversations with major Chinese private equity funds who are looking to expand their global footprint by establishing new offices in Europe. Establishing a strong global presence is a key objective for many Chinese investors. Overseas acquisitions provide a platform to enhance brand recognition and access new markets
- Industrials held its position as the most active, followed by Technology-related sectors, with Europe remaining as the top target for Chinese investors, capturing 31% of total deals (see Fig.15/16)
- We believe Chinese companies are actively seeking to bridge the technological gap with Western counterparts through strategic acquisitions of intellectual property and expertise. This targeted approach focuses on key industrial sectors such as renewable energy, semiconductors, and high-tech equipment, aiming to position China as a global technology leader
- The confluence of economic slowdown, tightening regulations, and geopolitical tensions has created a challenging environment for M&A involving Chinese companies. While short-term activity may appear subdued, China’s long-term strategic ambitions and its focus on technology-driven acquisitions suggest that the country will remain a significant force in global M&A going forward

At a glance

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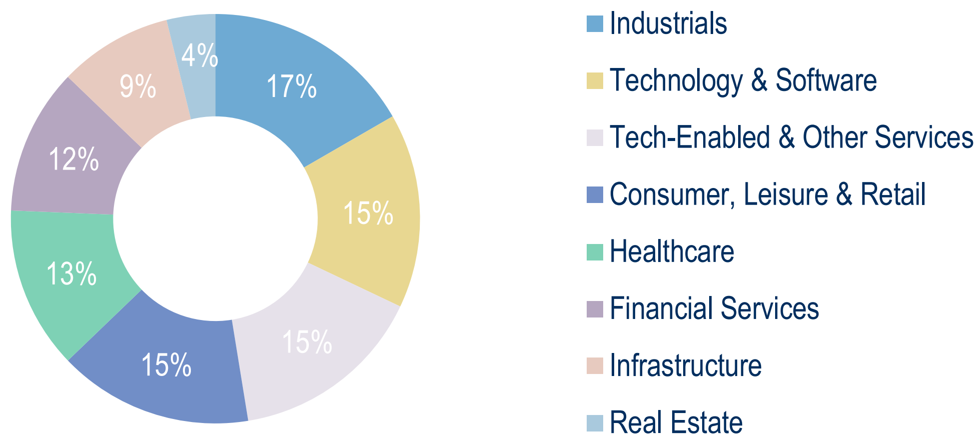
Deals in Q2 2024

Target region:

Europe

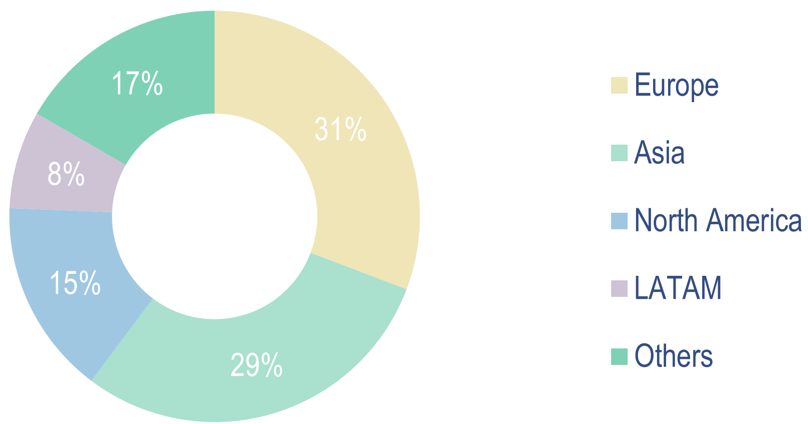
Source: Mergermarket (For search criteria, see Appendix*)

Figure 15: China outbound M&A by sector (Q2 2024)



Source: Mergermarket (For search criteria, see Appendix*)

Figure 16: China outbound M&A by target region (Q2 2024)



Source: Mergermarket (For search criteria, see Appendix*)

In case you missed it...

Read our latest India Private Equity Mid-Market Monitor

In our latest India Private Equity Mid-Market Monitor, the India team discusses how public markets are impacting private markets in India, including the opportunities and the outlook for the next 12 months. Read the full report here >

"As Indian corporations strive to expand their global presence, strategic acquisitions will play a critical role. Geographical expansion and acquisition of new technological capabilities will be the main themes driving M&A activity in India."

Klaas Oskam
CEO India
klaas.oskam@dcadvisory.com

India

- Tech-Enabled and Other Services sectors emerged as key drivers of deal activity in India
- Notably, the US surpassed Europe as the preferred target market. We believe this shift highlights India's continued pursuit of advanced technologies and potential synergies with the US business environment
- Indian Industrial companies primarily focused on expanding their geographic reach through outbound investments, whereas tech-focused firms prioritized acquiring new capabilities to improve their competitive edge. This is exemplified by Happiest Minds' acquisition of Aureus Tech, which bolstered its digital product engineering expertise in key sectors like insurance, Healthcare, and life sciences
- The Indian economy is buoyant and expected to grow to 6.5-7% by 2025.[xxii] With a favorable economic climate and a focus on strategic growth, Indian companies are expected to maintain a robust M&A pipeline
- The pursuit of geographical reach and advanced technologies will remain key themes, with sectors like Tech-Enabled Services and Industrials continuing to dominate deal activity. Consumer and Healthcare sectors may present more opportunistic targets

At a glance

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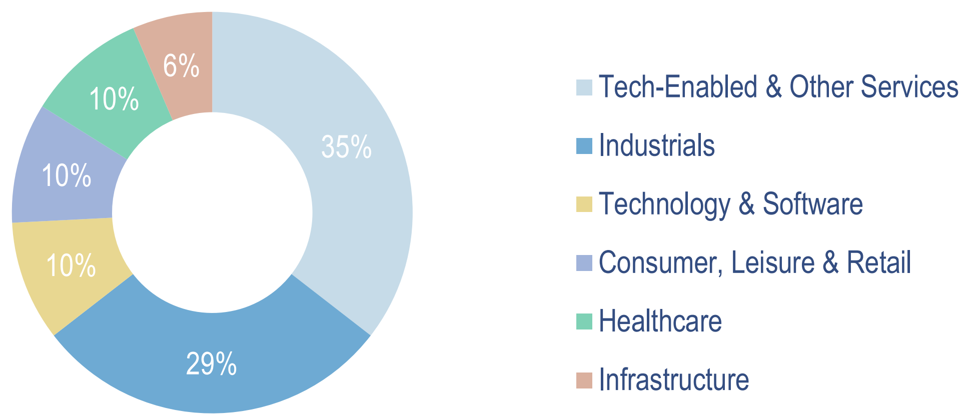
Deals in Q2 2024

Target region:

Europe

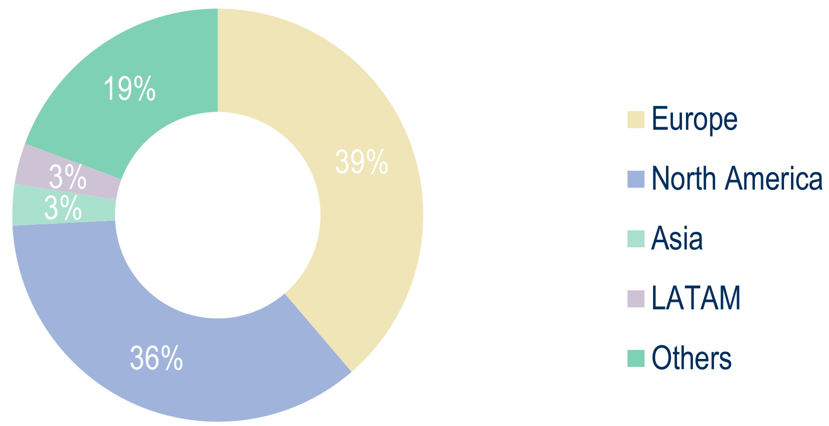
Source: Mergermarket (For search criteria, see Appendix*)

Figure 17: India outbound M&A by sector (Q2 2024)



Source: Mergermarket (For search criteria, see Appendix*)

Figure 18: India outbound M&A by target region (Q2 2024)



Source: Mergermarket (For search criteria, see Appendix*)

> “As South Korean conglomerates seek to expand their Western market presence, private equity firms have a unique opportunity to acquire undervalued assets during this period of strategic portfolio optimization.”

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South Korea

- Korean conglomerates, traditionally active acquirers, are undergoing a significant shift in their M&A strategies - now prioritizing selling assets over new investments. This shift is largely driven by high interest rates, the US presidential election, and the depreciating Korean Won, making overseas acquisitions more expensive[xxiii]
- These challenges have compelled conglomerates to focus on cash preservation and debt reduction rather than ‘growth-at-all-costs’ strategies. Prominent conglomerates such as SK Group are in talks to streamline business practices and sell existing core assets[xxiv]
- Despite the challenges, many Korean strategics are pursuing overseas acquisitions to expand into global markets and enhance their capabilities in production, research, and services, driven by the pursuit of advanced technologies, established market networks, and skilled talent. This trend is particularly pronounced in the Industrial and Technology sectors. Most notably in the Industrials sector, Hanwha Group acquired Philly Shipyard, a US shipbuilding company, to expand its operations into the US commercial and defense markets[xxv]
- Looking forward, we believe US government incentives like the Inflation Reduction Act and the CHIPS Act, aimed at bolstering domestic semiconductor manufacturing and clean energy sectors, will fuel an increase of M&A activity in the region. As South Korean companies seek to enhance their competitiveness on a global scale, strategic acquisitions will be instrumental in accelerating growth and market penetration[xxvi]

South Korea at a glance

23

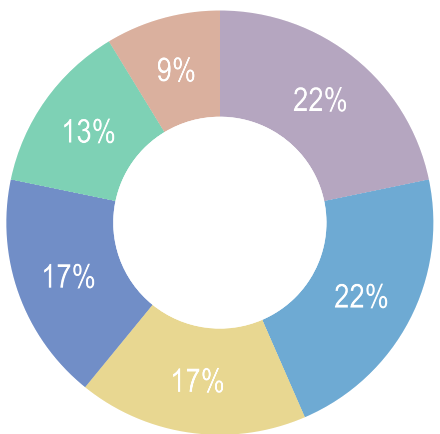
Deals in Q2 2024

Target region:

North America

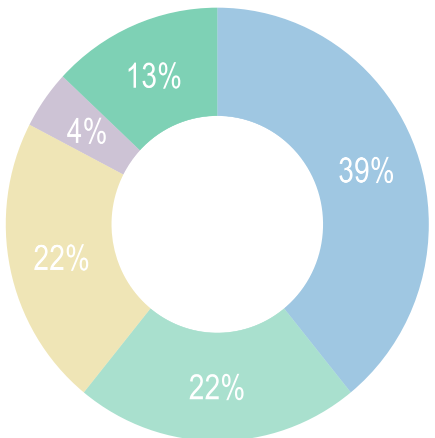
Source: Mergermarket (For search criteria, see Appendix*)

Figure 19: South Korea outbound M&A by sector (Q2 2024)



Source: Mergermarket (For search criteria, see Appendix*)

Figure 20: South Korea outbound M&A by target region (Q2 2024)



Source: Mergermarket (For search criteria, see Appendix*)

"Western companies specializing in grid modernization and smart grid technologies are well positioned to become sought-after acquisition targets, as Southeast Asia accelerates its clean energy transition."

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Southeast Asia

- Acquisitions involving Southeast Asian companies increased by 63% in Q2 2024 vs the same period last year, with a key focus on European assets
- This increase defies headwinds currently faced by the global market, with the region's GDP growth currently at 4.6%.[xxvii] The region's resilience stems from strong economic fundamentals and a growing middle class. These factors, coupled with rapid urbanization, are fueling the surge in M&A activity across various sectors, particularly Technology and Tech-Enabled Services - both of which accounted for nearly 20% of transactions in Q2 2024, respectively[xxviii]
- Notably, Southeast Asia is at the forefront of the clean energy transition across Asia-Pacific. The Asian Development Bank estimates over half the region's infrastructure needs are related to power. As such, emerging markets like Vietnam are leading the charge towards renewables
- Looking ahead, the push for green energy is likely to be a significant driver of cross-border M&A activity. Companies with expertise in grid modernization and smart grid technologies could become attractive acquisition targets for the remainder of 2024 and beyond

At a glance

31

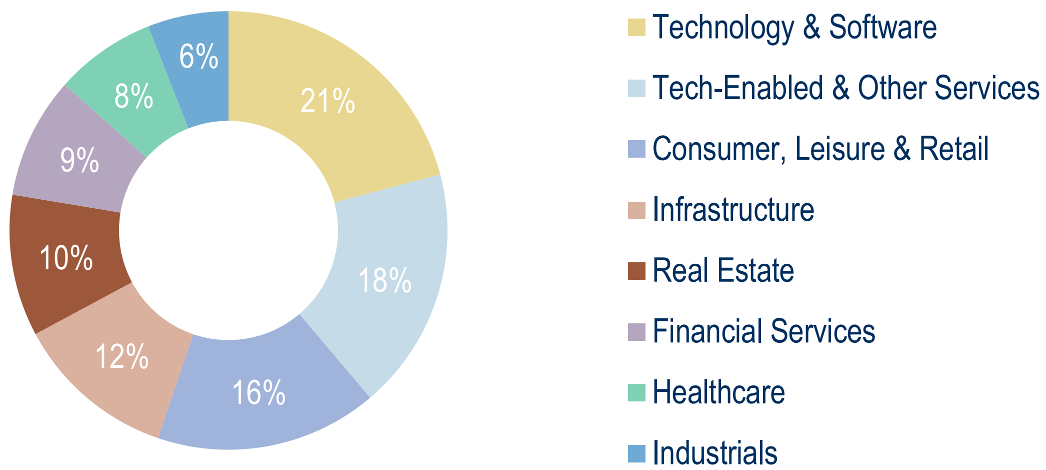
Deals in Q2 2024

Target region:

Asia

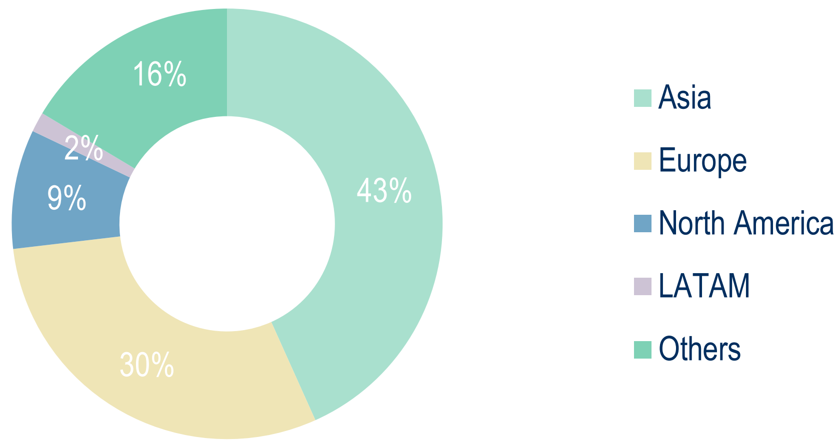
Source: Mergermarket (For search criteria, see Appendix*)

Figure 21: Southeast Asia outbound M&A by sector (Q2 2024)



Source: Mergermarket (For search criteria, see Appendix*)

Figure 22: Southeast Asia outbound M&A by target region (Q2 2024)



Source: Mergermarket (For search criteria, see Appendix*)

*Appendix

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Companies analyzed by sector for Figure 1	
Fig. 1: Fragmentation of the Japanese industry	Automotive – US: Tesla, Inc., Rivian Automotive, Inc., Lucid Group, Inc., General Motors Company, Ford Motor Company, O'Reilly Automotive, Inc., AutoZone, Inc., Genuine Parts Company, LKQ Corporation, Advance Auto Parts, Inc. Automotive – Japan: Toyota Motor Corporation, Honda Motor Co., Ltd., Suzuki Motor Corporation, Nissan Motor Co., Ltd., SUBARU Corporation, Mazda Motor Corporation, Mitsubishi Motors Corporation, Isuzu Motors Limited, Hino Motors, Ltd., Denso Corporation Semiconductor – US: Nvidia, Broadcom, Intel, Qualcomm, Texas Instruments, Advanced Micro Devices, Applied Materials, Micron Technology, Synopsys, KLA Corporation Semiconductor – Japan: Tokyo Electron Ltd, Disco Corp, Renesas Electronics Corp, Advantest Corp, Lasertec Corp, SCREEN Holdings Co., Ltd., Sumco Corp, ROHM Co., Ltd., Shinko Electric Industries Co., Ltd., Tokyo Seimitsu Co., Ltd. Capital goods – US: General Electric Company, Caterpillar Inc., RTX Corporation, Honeywell International Inc., Lockheed Martin Corporation, The Boeing Company, Deere & Company, General Dynamics Corporation, Illinois Tool Works Inc., Northrop Grumman Corporation Capital goods – Japan: Hitachi, Ltd., Daikin Industries,Ltd.. Mitsubishi Heavy Industries, Ltd., Mitsubishi Electric Corporation, SMC Corporation, Fanuc Corporation, Komatsu Ltd., Nidec Corporation, Kubota Corporation, MINEBEA MITSUMI Inc. Pharmaceutical – US: Johnson & Johnson, Eli Lilly and Co, Merck & Co Inc, AbbVie Inc, Pfizer Inc, Amgen Inc, Bristol-Myers Squibb Co, Vertex Pharmaceuticals Inc, Regeneron Pharmaceuticals Inc, Gilead Sciences Inc Pharmaceutical – Japan: Takeda Pharmaceutical Company Limited, Daiichi Sankyo Company, Limited, Astellas Pharma Inc., Eisai Co., Ltd., Chugai Pharmaceutical Co., Ltd., Otsuka Holdings Co., Ltd., Ono Pharmaceutical Co., Ltd., Kyowa Kirin Co., Ltd., Santen Pharmaceutical Co., Ltd., Shionogi & Co., Ltd. Consumer goods – US: Procter & Gamble, Coca-Cola, PepsiCo, Philip Morris International, Mondelez International, Colgate-Palmolive, Altria Group, Target Corporation, Monster Beverage Corporation, Kimberly-Clark Corporation Consumer goods – Japan: Kao Corporation, Unicharm Corporation, Shiseido Company, Limited, KOSÉ Corporation, Rohto Pharmaceutical Co., Ltd, Lion Corporation, Earth Corporation, Kobayashi Pharmaceutical Co., Ltd, S.T.CORPORATION, Fumakilla Ltd Software / IT service – US: Microsoft, Oracle, Salesforce, Adobe, Accenture, Intuit, ServiceNow, IBM, Palo Alto Networks, Synopsys Software / IT service – Japan: Hitachi Ltd, Fujitsu Limited, NTT data, NEC Corporation, Otsuka Corporation, Nomura Research Institute Ltd, TIS Inc., SCSK Corporation, BIPROGY INC., NS Solutions Corporation Telecommunication – US: T-Mobile US, Verizon Communications, AT&T Inc., Comcast Corporation, Charter Communications, Frontier Communications Parent, Inc., Liberty Global, United States Cellular Corporation, Iridium Communications Inc., Cogent Communications Holdings, Inc. Telecommunication – Japan: Nippon Telegraph & Telephone Corporation, Softbank Corporation, KDDI Corporation, Rakuten Group Inc, Internet Initiative Japan Inc., Okinawa Cellular Telephone Company LY Corporation, Japan Communications Inc., Soracom Inc, Tokai Holdings KK Finance – US: Berkshire Hathaway, JPMorgan Chase & Co., Visa Inc., Mastercard Incorporated, Bank of America Corporation, Wells Fargo & Company, American Express Company, Morgan Stanley, Goldman Sachs Group, Inc., The Blackstone Group Inc. Finance – Japan: Mitsubishi UFJ Financial Group Inc., Sumitomo Mitsui Financial Group Inc., Mizuho Financial Group Inc., Japan Post Bank Co., Ltd, NOMURA HOLDINGS,INC., Daiwa Securities Group Inc., Tokio Marine Holdings Inc., MS&AD Insurance Group Holdings Inc., Dai-ichi Life Holdings Inc., Sompo Holdings Inc. Infrastructure – US: NextEra Energy, Union Pacific Corporation, Sempra, Kinder Morgan, Inc., Norfolk Southern Corporation, Crown Castle Inc., Plains All American Pipeline, SBA Communications Corporation, Construction Partners, Inc., Uniti Group Inc. Infrastructure – Japan: Tokyo Electric Power Company Holdings, Inc., Kansai Electric Power Co., Inc., Chubu Electric Power Co., Inc., Kyushu Electric Power Co., Inc., Hokkaido Electric Power Co., Inc., Tohoku, Electric Power Co., Inc., The Chugoku Electric Power Co., Inc., Shikoku Electric Power Co., Inc., Tokyo Gas Co., Ltd, Osaka Gas Co., Ltd Real Estate – US: Prologis, Inc., American Tower Corporation, Equinix, Inc., Welltower Inc., Simon Property Group, Inc., Public Storage, Digital Realty Trust, Inc., Crown Castle International Corp., Extra Space Storage Inc., VICI Properties Inc. 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Mergermarket search criteria for figures 5 – 6	
Fig. 5: Japanese acquisitions in Europe	Target Geography is Europe; Buyer Geography is Japan (region); Seller Geography is (blank); Target or Buyer or Seller sector is (blank); Free text search - (blank); Value in USD (m); Undisclosed value deals are included; Announced date range between 01/01/1998 — 02/11/2023
Fig. 6: Japanese corporate disposals in Europe	Target Sector is (blank); Target Geography is Europe; Target Company name is (blank); Seller Geography is Japan (country); Target or Buyer or Seller sector is (blank); Free text search - (blank); Value in USD (m); Undisclosed value deals are included Announced date between 01/01/2011 - 26/10/2023

Mergermarket search criteria for figures 11 – 22

Region	Search criteria
Japan	Target Sector is (blank); Target Geography is (non-Japan); Target Company name is (blank); Buyer Geography is Japan; Target or Buyer or Seller sector is (blank); Free text search - (blank); Value in EUR (m); Transaction type is Acquisition or Demerger or Divestment or Reverse takeover or Merger; Undisclosed value deals are included; Announced date between 01/04/2024 - 30/06/2024
China	Target Sector is (blank); Target Geography is (non-China, non-Hong Kong (China) and non-Taiwan (China)); Target Company name is (blank); Buyer Geography is China or Hong Kong China or Taiwan China; Target or Buyer or Seller sector is (blank); Free text search - (blank); Value in EUR (m); Transaction type is Acquisition or Demerger or Divestment or Reverse takeover or Merger; Undisclosed value deals are included; Announced date between 01/04/2024 - 30/06/2024
India	Target Sector is (blank); Target Geography is (Non-India); Target Company name is (blank); Buyer Geography is India; Target or Buyer or Seller sector is (blank); Free text search - (blank); Value in EUR (m); Transaction type is Acquisition or Demerger or Divestment or Reverse takeover or Merger; Undisclosed value deals are included; Announced date between 01/04/2024 - 30/06/2024
Southeast Asia	Target Sector is (blank); Target Geography is (non-Southeast Asia); Buyer Sector is (blank); Buyer Geography is Southeast Asia, Target or Buyer or Seller sector is (blank); Free text search - (blank); Value in EUR (m); Transaction type is Acquisition or Demerger or Divestment or Reverse takeover or Merger; Undisclosed value deals are included; Announced date between 01/04/2024 - 30/06/2024
South Korea	Target Sector is (blank); Target Geography is (non-South Korea); Buyer Sector is (blank); Buyer Geography is South Korea; Target or Buyer or Seller or Advisor company is (blank); Free text search - (blank); Value in EUR (m); Transaction type is Acquisition or Demerger or Divestment or Reverse take over or Merger; Undisclosed value deals are included; Announced date between 01/04/2024 - 30/06/2024

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