

Asia Access Quarterly: Q3 & 2024 Outlook

Pan-Asia M&A highlights, and
deal trends for 2024

Over 200 Asia cross-border deals completed...



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Contents

Overview	3
2023 Pan-Asia M&A trends	4
Regional breakdown (Q4 2022 – Q3 2023)	5-14
2024 Outlook	15
InFocus: Exploring unique drivers of Japan's surging dealflow	16-21

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Overview

Notwithstanding the global slowdown in dealmaking in 2023, Asia's diverse markets have shown individual strengths, with Japan bucking the global trend as the only major market recording M&A growth.

So far in 2023, we have seen the following trends across Asia:

- Slowing economies combined with growing global uncertainties created a perfect storm of risk aversion for global investors
- As we anticipated in our last edition, the sentiment of buyers and sellers in Europe and the US has elevated the significance and influence of Asian outbound acquirers this year, following softening valuations and increased caution among local investors
- A flourishing Japanese M&A market is, in our view, being driven by changes in corporate governance, demographic shifts and the proliferation of private equity in the country

DC Advisory's Asia Access team discusses Asia outbound investment trends and their evolution, and why Japan currently offers a rich pool of opportunities.

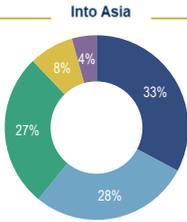


Tosh Kojima
Asia Access Managing Director

Asia activity

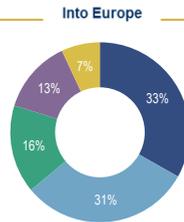
Fig. 1-4: Asia outbound M&A activity by region (Q4 2022-Q3 2023)*

Fig. 1:



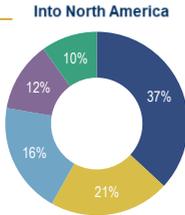
Source: Mergermarket

Fig. 2:



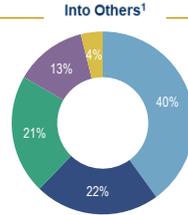
Source: Mergermarket

Fig. 3:



Source: Mergermarket

Fig. 4:

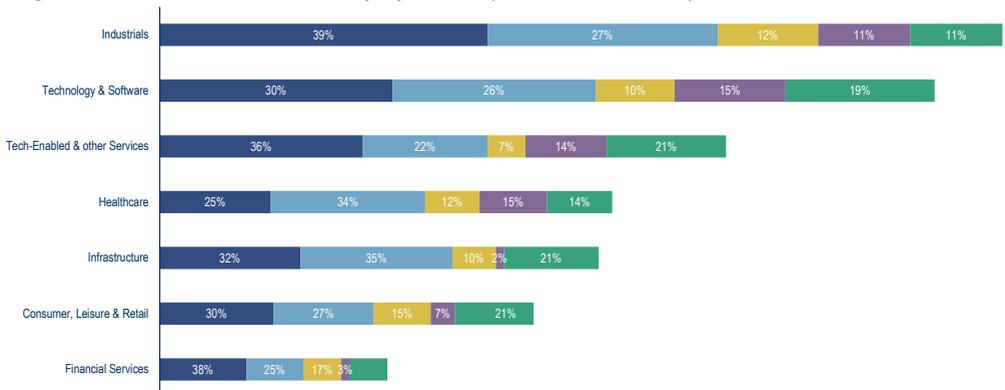


Source: Mergermarket

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



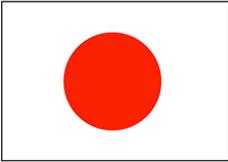
Fig. 5: Asia outbound M&A activity by sector (Q4 2022-Q3 2023)*



Source: Mergermarket

*please see Appendix for Mergermarket search criteria

Regional outbound activity: Japan

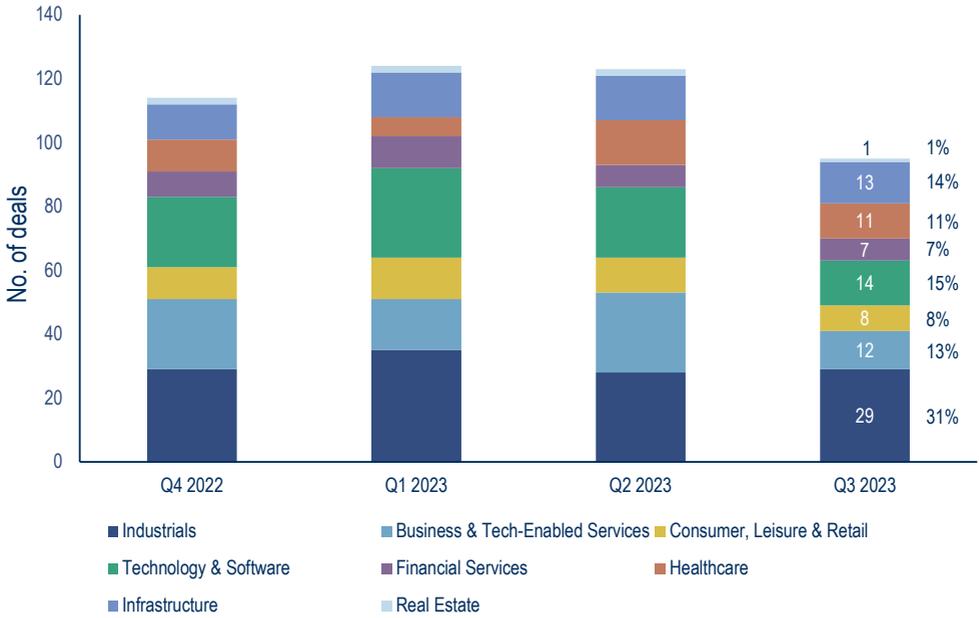


Japan

- The total value of M&A transactions involving Japanese companies grew 14% year-on-year to \$111bn for the first nine months of 2023,ⁱ with this year's most notable deal being the acquisition of Toshiba Corp by Industrial Partners for \$15bnⁱⁱ
- The robust performance of the Japanese M&A market is, in our view, reflective of the convergence of several macro trends including changes to corporate governance, demographic shifts and the rise of Japanese private equity
- North America and Europe remain top targets for acquisitions, with each accounting for c.30% of transactions in Q3 (see fig. 6), with Industrials leading the charge

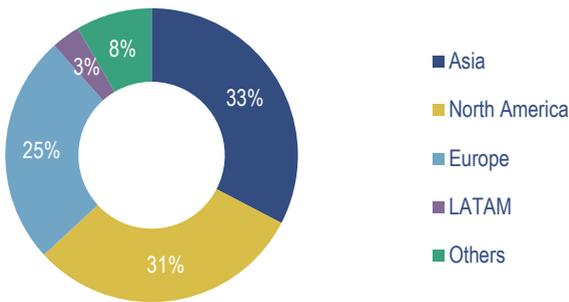


Fig. 6: Japan outbound M&A by sector (Q4 2022 – Q3 2023)*



Source: Mergermarket

Fig. 7: Japan outbound M&A by target region (Q3 2023)*



Source: Mergermarket

*please see Appendix for Mergermarket search criteria

Regional outbound activity: India

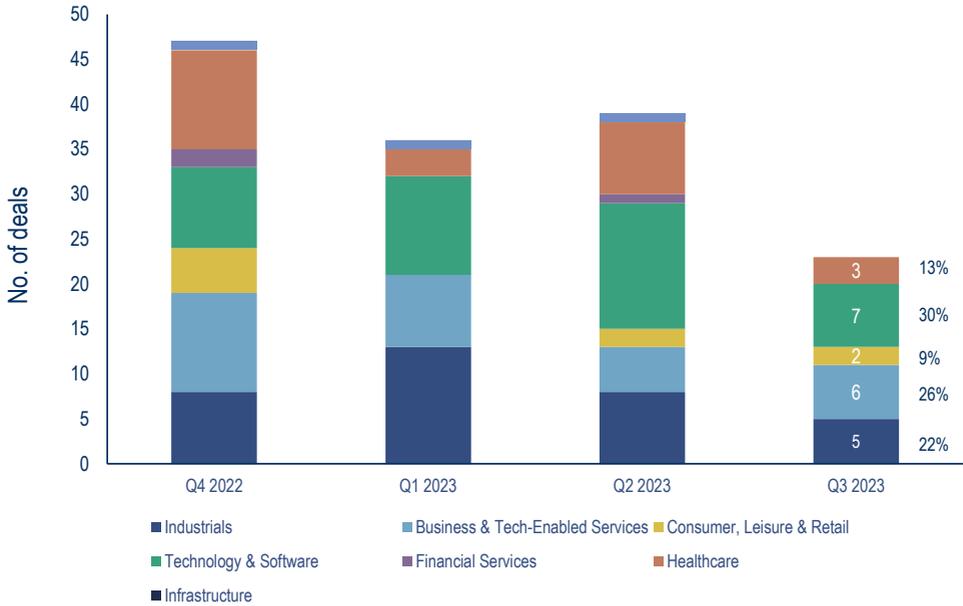


India

- Dealmaking has slowed down in the first nine months of 2023.ⁱⁱⁱ This decline could be attributed to bearish investor sentiment amid rising global interest rates and geopolitical volatility. Despite the slowdown, India remains the only market globally where valuations have not corrected significantly^{iv}
- Notably, Technology & Software has been the standout performer, representing nearly one-third of deal share in Q3 (see fig. 8)
- Indian buyers have realigned their focus, shifting from Europe to North America as their target destination. With the International Monetary Fund (IMF) forecasting GDP growth of 6.3% over the next five years, ahead of China, the US, and Europe, we expect this to be the best-performing major economy in 2024^v
- The outbound deal activity of Indian corporates is likely to witness continued growth as they remain resilient during a high global inflationary environment
- Indian firms with healthy cashflows are likely to capitalize on global opportunities available at attractive valuations. Technological enhancement and digital initiatives will likely be the driving force for M&A activity in 2024
- Companies within sectors such as technology, financial services, and medical and pharmaceutical may use M&A to benefit from the opportunities presented by technological disruption to gain a competitive edge

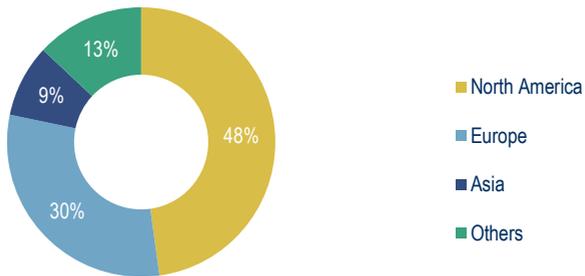


Fig. 8: India outbound M&A by sector (Q4 2022 – Q3 2023)*



Source: Mergermarket

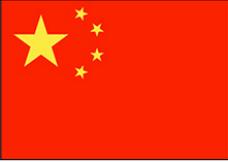
Fig. 9: India outbound M&A by target region (Q3 2023)*



Source: Mergermarket

*please see Appendix for Mergermarket search criteria

Regional outbound activity: China

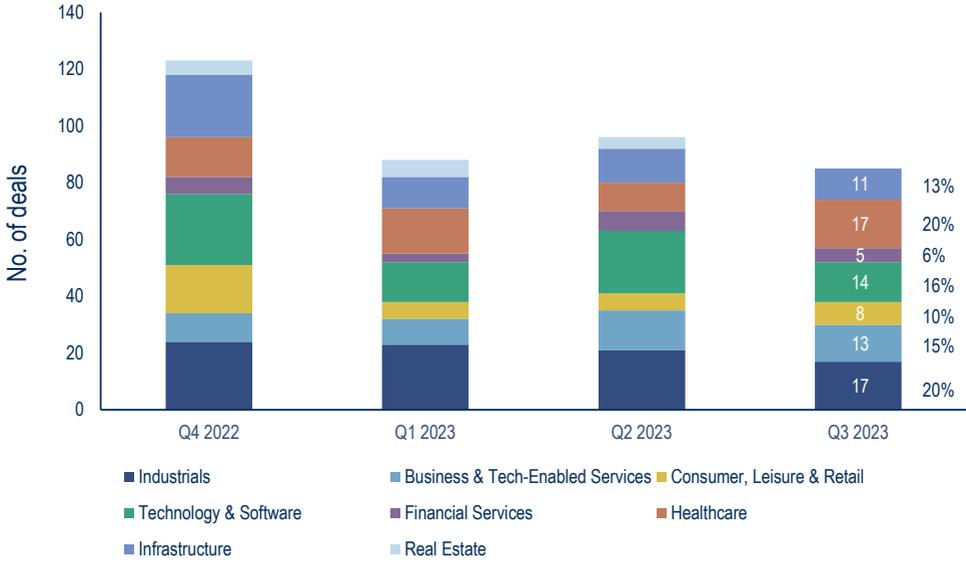


China

- China's post-pandemic rebound is losing momentum earlier than expected, leading to a slowdown in Chinese companies acquiring foreign counterparts. This is driven, in our view, by supply chain disruptions and tightened regulations, particularly from European and North American governments
- Despite the slowdown in outbound activity, 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
- As such, Europe continues to be the most sought-after destination for Chinese investment, accounting for 33% of all transactions in Q3, with Healthcare and Industrials standing out as the most active sectors, each representing 20% of deals (see fig. 10)
- We anticipate a slow recovery as global tensions ease

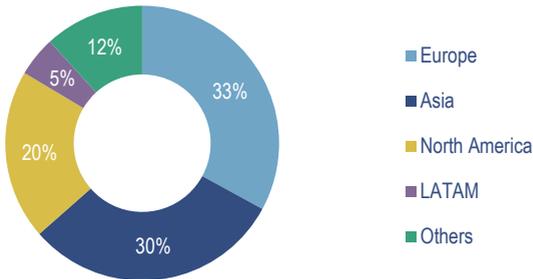


Fig. 10: China outbound M&A by sector (Q4 2022 – Q3 2023)*



Source: Mergermarket

Fig. 11: China outbound M&A by target region (Q3 2023)*



Source: Mergermarket

*please see Appendix for Mergermarket search criteria

Regional outbound activity: Southeast Asia

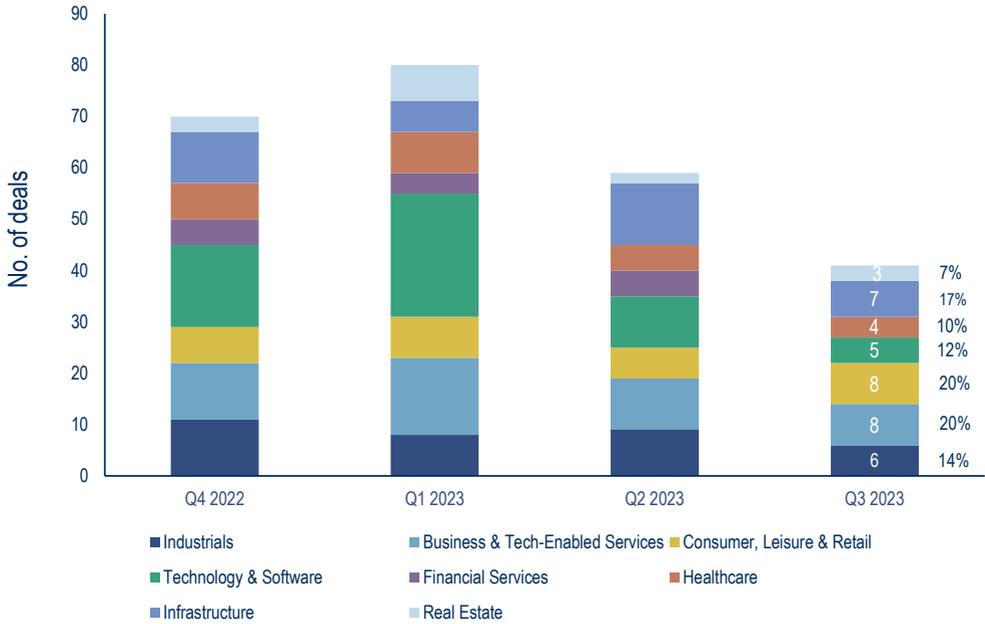


Southeast Asia (SEA)

- By 2030, Southeast Asia is on course to become the world's fourth-largest economy.^{vi} This growth is driven by proactive efforts to attract foreign investment via government-led initiatives advancing security and stability
- We expect that the combination of expanding consumer markets and ongoing global trade tensions will attract businesses to the region
- Bucking the global trend, the Consumer, Leisure & Retail, and Business & Tech-Enabled Services sectors held a significant 20% share of outbound acquisitions in Q3 (see fig. 12)
- Looking ahead to 2024, we anticipate a surge in distressed M&A activity. Southeast Asia's growing embrace of electric vehicles (EV) may reshape the industrial landscape. Foreign direct investment (FDI) regulations will likely remain a pivotal factor impacting dealmaking decisions in the region

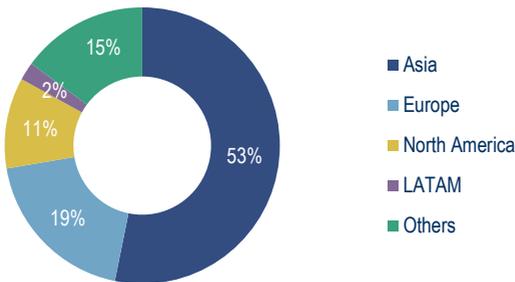


Fig. 12: SEA outbound M&A by sector (Q4 2022 – Q3 2023)*



Source: Mergermarket

Fig. 13: SEA outbound M&A by target region (Q3 2023)*



Source: Mergermarket

*please see Appendix for Mergermarket search criteria

Regional outbound activity: South Korea

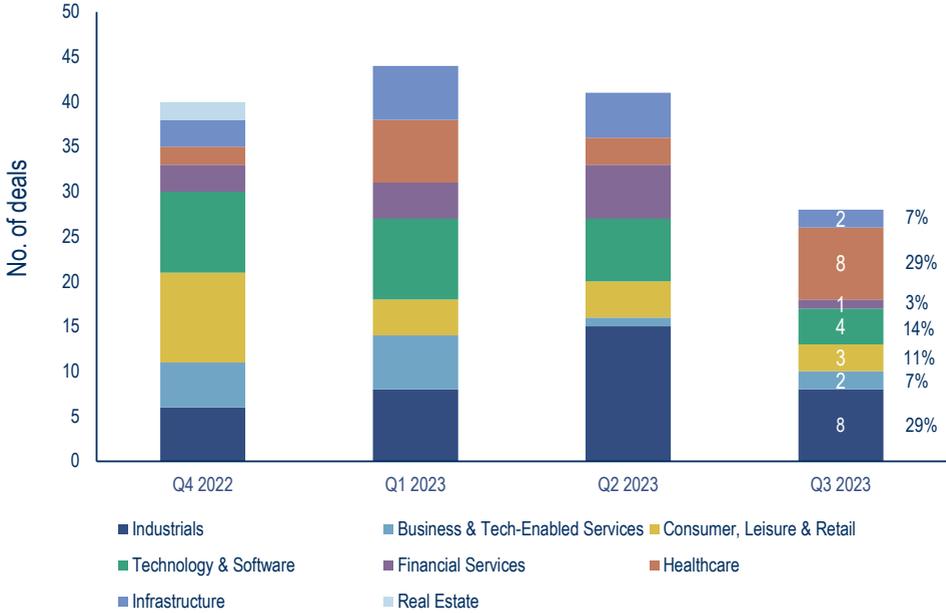


South Korea

- In Q3, South Korea saw a surge in outbound acquisitions, with Industrials and Healthcare sectors leading the way, accounting for 60% of deals. This is likely driven by companies turning their attention to cross-border M&A as a strategic means to scale, bypassing saturated local markets
- The US remains the largest target destination, accounting for 61% of deals. Notably, the US is increasingly interested in localizing key industries like electric vehicle (EV) manufacturing, semiconductor production, and biotech
- Growing co-operation between South Korea and the US aims to reduce China's role in US supply chains, with Industrials and renewable energy sectors likely to be the key beneficiaries of this trend in 2024^{vii}
- Government policies and subsidies are actively fostering a conducive environment for Korean companies to expand globally through outbound acquisitions and investments

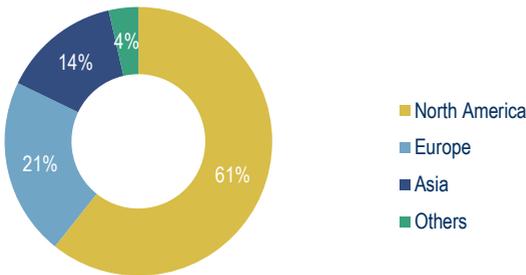


Fig. 14: South Korea outbound M&A by sector (Q4 2022 – Q3 2023)*



Source: Mergermarket

Fig. 15: South Korea outbound M&A by target region (Q3 2023)*



Source: Mergermarket

*please see Appendix for Mergermarket search criteria

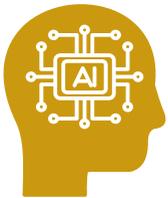
2024 Outlook trends

Rise of mid-cap deals

Activity is likely to be dominated by mid-market deals, as financing restrictions continue to limit the ability of megadeals to happen. As a result of global economic uncertainty and investor nervousness, we expect Asia companies to focus on strategic growth agendas, which should drive increased levels of activity in mid-market M&A.



Consolidation within tech



To future-proof domestic infrastructure and economies, Asian countries are focusing on well-developed digital infrastructure. High technology has been the best performing sector to date, raising \$25bn, an 8% increase from 2022, followed by Industrials and Materials.^{viii} We anticipate acquiring new tech will be the main driver of M&A in Asia markets due to growing competition, along with ongoing government-led initiatives.

Asian outbound acquirers poised to play more prominent role in 2024

Buyer / seller sentiment in Europe and the US has increased the relevance and role of Asian, particularly Japanese outbound acquirers in 2024.

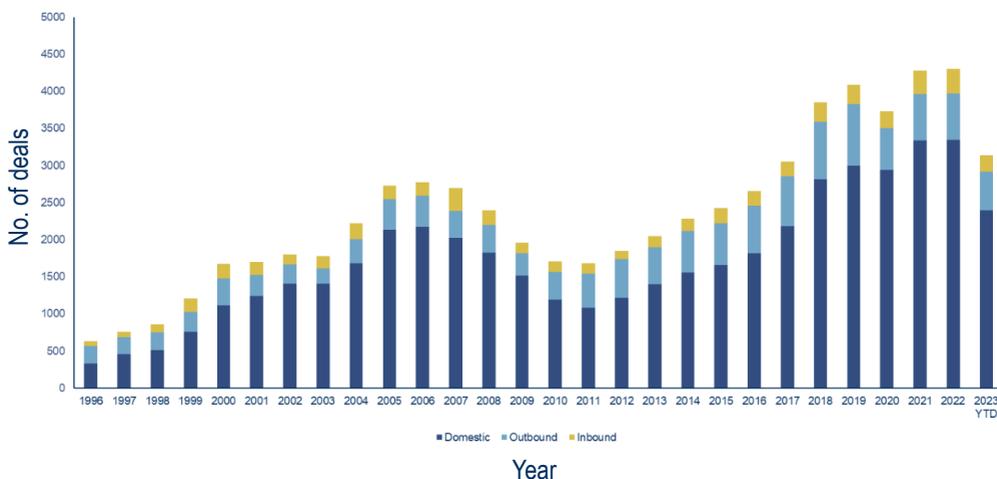


InFocus: Exploring unique drivers of Japan's surging dealflow

Only one major market is recording M&A growth: exploring the unique drivers of Japan's surging deal flow

The recent surge in domestic transactions in Japan's M&A market is defying a global downturn in 2023. Over the first nine months of 2023, the total deal value for Japanese companies rose to \$111bn representing a 14% increase against the same period last year.^{ix} **This essentially means Japan is currently a global outlier as the only major market in the world to record M&A growth.** Changes in corporate governance, demographic shifts, and the proliferation of private equity in Japan have, in our view, driven this activity. We anticipate that the Japanese market will mature and narrow the gap in private equity investment volumes, particularly when adjusted on a GDP basis, placing Japan on a par with Europe and the US.

Fig. 16: Japan M&A market growth



Source: RECOF, Japan (All deal sizes, either buyer or seller or both from Japan, counterparty any region, all sectors)^{ix}

InFocus: Exploring unique drivers of Japan's surging dealflow

Fig. 17: Deal volume / value % difference by region (2022 vs 2023)



Source: Mergermarketxi

A unique corporate and technology ecosystem

Japanese M&A has historically been dominated by publicly listed corporations with household names like Hitachi and Panasonic leading the way,^{xii} either reorganising internally, absorbing smaller competitors, or making strategic minority investments underpinning commercial alliances.

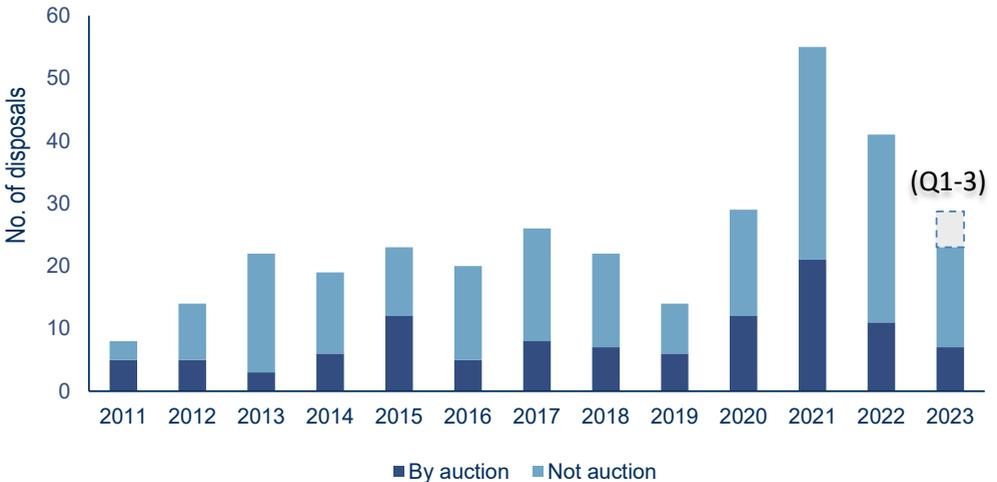
The country has consistently pioneered new technologies and innovative business models but frequently struggled to capitalize on their global potential. Japan chose unique technology standards for products including mobile phones, mobile TV, contactless and mobile payments with the intention they would be adopted globally, whilst making it harder for foreign companies to enter its markets.



This has led to Japan's corporate world being compared to the Galapagos islands as its companies' relative isolation has created unique businesses and technologies that have often not expanded beyond its borders, in the same way the Galapagos Islands have their own unique and isolated evolutionary developments.

This has created a rich pool of acquisition targets for private equity funds, and we expect the current surge in M&A activity to continue to be led by corporate restructurings, disposals, and buyouts. The other side of this coin is that leading Japanese companies will likely add further acquisition capital to their already cash-rich balance sheets, achieved by decades of austerity and conservative spending.

Fig. 18: Japanese corporate disposals in Europe



Source: Mergermarketxiii



InFocus: Exploring unique drivers of Japan's surging dealflow

Confluence of trends driving Japanese and Western private equity activity

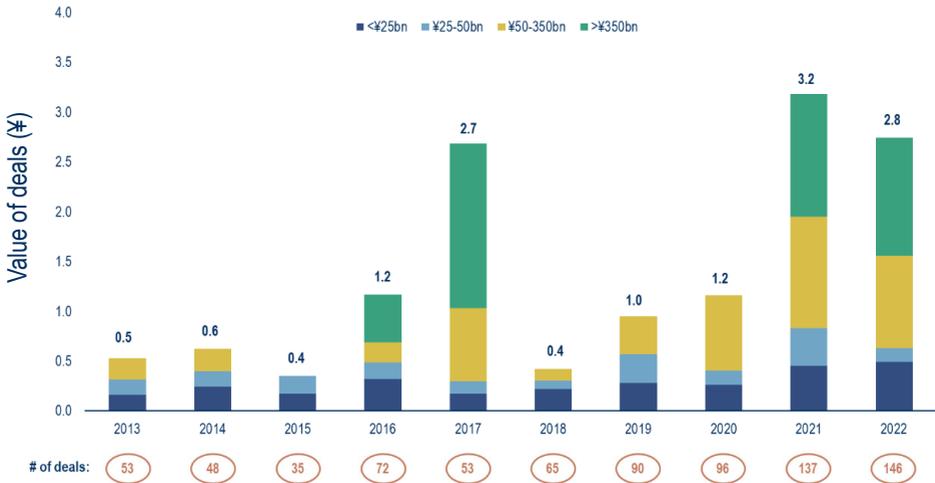
Japanese and Western private equity funds have until now, struggled to make a significant impact in Japanese M&A, particularly in take-private and secondary deals. Deeply ingrained cultural opposition has hindered corporate disposals in Japan as divesting of non-essential or underperforming assets has 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 conglomerates 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.^{xiv}

We believe this shift from a longstanding over-management of non-core assets, coupled with recent government incentivization^{xv} and increased shareholder activism, is stimulating a streamlining of portfolios which could accelerate Japanese cross-border M&A activity. The Financial Service Agency's amendments to the Securities and Exchange Law of Japan in 2007 ushered in Western-style corporate governance practices and M&A standards. Combined with Japan's ageing and shrinking population,^{xvi} **we expect to see a continuation of Japanese corporate disposals as companies sell off domestic non-core assets focused in a country that offers limited long term growth prospects.**



Fig. 19: Value / number of deals in the Japan PE market



Source: The Japan Private Equity Association^{xxii}

Japanese corporates and strategic buyers in pole position for European assets

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 European assets.**

European private equity firms have found themselves grappling with the rising cost of capital, which has made making acquisitions a higher stakes game.



InFocus: Exploring unique drivers of Japan's surging dealflow

When a private equity seller initiates a formal process and fails to secure a sale, it can have a knock-on effect on the perceived valuation of all assets in the private equity fund and can negatively impact investor confidence. Given the large number of parties involved in a deal, even the most carefully controlled process can pose a reasonable risk that the sale process will become known by the market.

In contrast, Japanese strategic buyers traditionally offer a more discrete approach as they typically engage in direct conversations with the vendor. This allows them to explore opportunities with less risk to the vendor so that if a transaction does not materialize, there's no need for the failed process to be known by the wider market.

Long-term strategy

Japanese trade buyers are known for their long-term strategic approach to investments. Rather than being solely driven by immediate financial imperatives, their assessments prioritize product and operational fit, guided by compelling synergies. While it can take time for stakeholders to align internally and agree to proceed with a transaction, given their large and diverse internal stakeholder bodies, once internal consensus is reached, Japanese buyers can act swiftly and on a Western timeline, making them bidders of very high integrity and reliability. **We expect that this strategy, combined with Japanese buyers often outbidding the competition, will give them a significant advantage in the markets going forward.**

This convergence of factors, including changes in corporate governance, demographic shifts, and the increasing presence of Western private equity firms, has set the stage for a flourishing cross-border M&A environment in Japan. M&A in Japan is prospering against a global decline, and we expect to see continued attention from global private equity funds and investors in the unique opportunities the country presents.



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- xvi. World Economic Forum: Japan's ageing population: The implications for its economy | World Economic Forum ([weforum.org](https://www.weforum.org)), September 2023
- xvii. The Japan Private Equity Association (JPEA): Amount and number of projects in the PE market in Japan (Includes only deals with announced deal value over USD > £10M completed in Japan between 2013 - 2022; Excludes real estate deals)

Appendix

All data and charts contained in this Quarterly are sourced from Mergermarket, under the search criteria described below (unless otherwise indicated):

Mergermarket search criteria for chart and graph data	
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 01/10/2022 - 30/09/2023
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 01/10/2022 - 30/09/2023
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 01/10/2022 - 30/09/2023
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 take over or Merger; Undisclosed value deals are included; Announced date between 01/10/2022 - 30/09/2023
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 01/10/2022 - 30/09/2023



In case you missed it...

DC Discusses: Strategic buyers leading the charge in global Industrials M&A

A notable shift has taken place in the Industrials dealmaking landscape, with strategic buyers now accounting for the largest proportion of mid-market acquisitions.

DC Advisory's Industrials Managing Directors, Tom Krasnewich (US) and Andrew Cunningham (UK), along with Asia Access Managing Director, Tosh Kojima, discuss this global trend shaping M&A for Industrials companies.

[Read the article here >](#)

DC Discusses: Exploring cross-border opportunities between China and the West

In today's highly interconnected global market and amid intensifying domestic competition in China, Chinese investors choose to remain open-minded and continuously seek opportunities in the West. Notably, major Chinese private equity funds are expanding their global footprint and establishing new offices in Europe.

In this podcast, DC Advisory's Managing Director Endong Zhai, among the earliest China cross-border M&A deal makers, discusses the key drivers of deal flow between China and the West. [Listen here >](#)

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