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Japan Highlight

Global Capital Confidence Barometer

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A note from Vincent Smith, EY Japan TAS Leader and Koichi Tamura, EY Japan TAS Markets Leader, regarding the result of the 21st edition of the EY Global Capital Confidence Barometer (CCB), a biannual survey of more than 2,900 senior executives across 45 countries, including 106 from Japan region.

Business leaders continue to target M&A opportunities amid global uncertainty

The search for technology and talent is driving deals: 52% of Japanese respondents plan to allocate more than 25% of their total investment capital to technology, mostly solutions that drive top-line growth. Almost half of Japanese executives will invest in technology through acquisition, joint ventures or external venture funds. At the same time, almost two-thirds of respondents (65%) are experiencing difficulties securing the right skills and talent.

Smith says: "In terms of investing in technology, the answer to the buy-versus-build question for most companies is tilting toward buy. At the same time, the shortage of talent is a constraint on growth and acquiring the skills needed to underpin future growth is increasingly part of the current M&A story."

No economic downturn in sight for many Japanese executives

The likelihood of a recession in the near-to mid-term is not considered a significant threat: most Japanese respondents (74%) are not expecting an economic downturn.

Companies are managing through trade and tariff issues that could be perceived as undermining economic confidence. 41% of Japanese businesses are actively planning to mitigate the impact of trade and tariff issues in ways such as reconfiguring supply chains and relocating production facilities. A further 30% are actively considering their options to respond to this fast-changing situation.

Variety in competitive and hostile deal making expected

In the context of this bullish economic outlook, the deal market going into 2020 looks set to be highly competitive. Eight in ten (78%) Japanese respondents expect to see an increase in hostile and competitive bidding in the next year and 80% of Japanese respondents expect private equity to be a major acquirer.

Japanese respondents expect increased megadeal activity (US$10b+), with half foreseeing an increase in deals topping the US$10b+ mark. Almost three-quarters (76%) do not anticipate any slowdown in M&A activity overall and a similar number (73%) of Japanese corporate executives forecast an increase in cross-border deal making.

US regains top spot; UK remains attractive to investors; Japan active with large-scale corporate carve outs.

The latest CCB finds that more than half of Japanese respondents expect the M&A pipeline to increase in the next 12 months.

Tamura says: "The Japan market in the last few years has experienced several large scale corporate carve outs from large conglomerate groups, and is expecting more de-conglomeratization and carve outs in the years ahead. As more global and regional private equity houses focus on what is seen as a once in a life time opportunity in Japan, the competitive landscape (and associated valuations) is becoming more fierce. In order to remain competitive, bidders are looking at value creation and operational and EBIDA optimization and improvement as the key differentiators and success factors for large scale corporate carve out deals."

The latest CCB also finds the US is the preferred place for M&A investment globally. While Brexit uncertainty continues, the survey finds UK attractiveness strong as investors rank it the second preferred investment destination globally. For Japanese investors Japan and the US outpace the UK (in third), China (fourth) and France (fifth).

Smith adds: "The ongoing trade issues in a number of the major economies have not caused dealmakers to shelve plans. The imperative to transform outweighs the risk of uncertainty. As long as this continues, the drumbeat for M&A will go on. Deals continue to be powerful means to reshape portfolios and accelerate the transformation imperative facing CEOs."

Articulating purpose and long-term value creation

Purpose and social impact are rising on the boardroom agendas and are fundamentally reshaping the way companies measure success. Some 85% (global 84%) of Japanese companies already have, or plan to have, social value reporting metrics in place for the next year.

Smith says: "Business leaders are increasingly paying closer attention to investors' demands to see evidence of broader responsibilities. They are recognizing and responding to the need to be good corporate citizens, knowing that any business on the wrong side of this debate will likely find themselves on the wrong side of history."

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*The result is the percentage of Japanese companies respondents which has the headquarters in Japan, and operate the businesses globally.

Action outweighs uncertainty in the C-suite and the majority remain optimistic in the near-term economic outlook.

41%

are actively planning to respond to ongoing geo, trade and tariff concerns

74%

do not expect an economic slowdown in the near to mid term

M&A intentions remain strong and the C-suite predicts the prolonged dealmaking upcycle will continue.

70%

are expecting the M&A market to improve in the next 12 months

57%

are planning to actively pursue M&A in the next 12 months

Finding the right talent and technology at speed is driving deals as executives articulate long-term value beyond traditional financial metrics.

65%

of Japanese companies have difficulties securing the right talent

85%

already have or plan to have social value reporting metrics in place in the next year

Top five investment destinations

1. Japan
2. US
3. UK
4. China
5. France

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