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Asia-Pacific highlights
Global Capital Confidence Barometer

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While geopolitical uncertainties and global trade challenges suggest stormier paths for growth, Asia-Pacific M&A appetite shows resilience

Even as trade and political tensions continue to roil economies in the Asia-Pacific region, the 19th edition of the *Global Capital Confidence Barometer* (CCB) indicates that respondents are surprisingly resilient in their deal appetite. Conducted from August 2018 to September 2018, the biannual CCB shows that 45% of Asia-Pacific respondents, compared with 46% six months ago, intend to pursue M&A to fuel their growth ambitions over the next 12 months.

A majority (86%) of Asia-Pacific respondents expect the global M&A market to improve, with a significant proportion (78%) also expecting improvement in their local M&A market. Nevertheless, there is caution in their expectations given the significant trade tensions between the US and China, along with recent US interest rate rises, which are likely to impact liquidity in the Asian emerging markets. This need for caution is also evident in deal pipelines with 43% of respondents, a drop from 65% six months ago, expecting their deal pipeline to improve, although 50% do expect their deal pipeline to remain stable. Additionally, only 53%, compared with 68% six months ago, expect the number of deal completions to increase in the next 12 months.

The report finds that 76% of Asia-Pacific respondents anticipate seeing increased competition for acquisitions in the next 12 months, with 41% expecting competition from corporate investment funds and 38% from private equity. This trend is supported by the historic levels of Asia-Pacific focused dry powder, to the amount of US$379 billion, suggesting that funds are looking for more investment opportunities with deep pockets than ever before. This is also consistent with nearly a quarter (24%) of respondents identifying private equity as a major theme in the M&A market for the next 12 months.

Looking at macroeconomic sentiment, more than two-thirds (69%) of Asia-Pacific respondents see the local economy as improving. However, the survey data indicates a more muted response around corporate earnings and short-term market stability. Unsurprisingly, respondents cite disruptive forces and geopolitical uncertainty as key near-term challenges for businesses in the region.

Looking at where Asia-Pacific companies want to buy, many respondents are willing to look farther afield. China remains a top destination for Asia-Pacific investors. The US ranks second, followed by Australia and Japan. For the first time, the UK slots in at the number five position despite widespread uncertainty regarding the UK and Brexit negotiations. This may indicate that many Asia-Pacific respondents see the UK market as an opportunistic play for the longer term.

86%

expect the global M&A market to improve, and 78% expect their local market to improve.

76%

expect to see increasing competition for assets, mainly from corporate investment funds and private equity.

69%

of Asia-Pacific respondents view the local economy as improving.

39%

of Asia-Pacific respondents think they should start integrating earlier to capture synergies.

84%

of Asia-Pacific respondents review their portfolio at least every six months.

45%

of Asia-Pacific respondents intend to actively pursue M&A in the next 12 months.

Protectionism is undoubtedly impacting sentiment, but the total cross-border deal value for Asia-Pacific companies has increased 69% in the first three quarters of 2018. Despite ongoing and amplified China and US trade relations, many companies continue to view them to be the top investment destinations given the significant market potential for their businesses.

For deals that are completed, integration is moving up on the M&A agenda. This report suggests that global executives are preparing for post-deal integration earlier in the deal life cycle than they have done in the past. It is observed from the data that acquiring companies will capture synergies effectively only if they are mapped out upfront with assigned accountability for ongoing monitoring to assess progress.

Conversely, the survey findings suggest that only 39% of Asia-Pacific respondents think that they should start integrating earlier to capture the synergies required to justify the cost of the transactions – even with 43% of respondents stating that they had achieved lower synergies than they had identified.

The report finds that Asia-Pacific companies are accelerating portfolio reviews. Asia-Pacific executives are more proactively reviewing their portfolios than their global counterparts with results indicating that 84% of Asia-Pacific respondents review their portfolio at least every six months, vs. 66% for global respondents. This is likely to be prompted by the increasingly complex corporate and geopolitical environment.

Identifying potential divestitures appears to have become the focus of portfolio review, with 61% of Asia-Pacific respondents trying to identify underperforming assets and determine assets at risk of disruption to divest. This focus on recycling capital through divestitures will likely underpin deal flow in the next 12 to 24 months.

Asia-Pacific respondents appear to indicate a deep resilience underpinning all corporate activity – with 45% of executives intending to pursue M&A activity that defies the undeniable headwinds. In the coming months, we expect to see a need to consolidate and re-evaluate, a continued search for growth in a challenging geopolitical environment and further accumulation of dry power – all of which are likely to drive the Asia-Pacific M&A appetite.

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