

Japan highlights

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

Executives from Japanese companies expect slow economic recovery extending until 2021, but M&A activity intentions remain strong in the long term

Business leaders in Asia-Pacific, including Japan, are focusing on navigating the immediate impact of COVID-19 on supply chains, revenue and profitability while reconfiguring capital allocation and M&A plans for the post-crisis world. According to the latest EY Capital Confidence Barometer, which surveyed more than 900 Asia-Pacific C-suite executives (113 from Japan) between 4 February and 26 March 2020, the vast majority (96%) of Japanese executives expect COVID-19 to have a severe impact on the global economy. Companies expect to be particularly affected by supply chain disruptions and declining consumption. Asia-Pacific respondents are more pessimistic than global respondents (73%). However, they are relatively less concerned about their local economy at this point of the survey period. That said, over half (58%) of Asia-Pacific respondents and 70% of Japanese respondents said COVID-19 will severely impact the local economy.

Nevertheless, every sector is experiencing the direct or indirect impact of COVID-19, with almost all global and Asia-Pacific respondents reporting that COVID-19 will cause a decline in profitability. Half of Japanese respondents expect a longer period of slower economic recovery extending into 2021. Expectations have changed significantly from a year ago, when 93% of Japanese respondents were positive about economic growth. The sentiment plunged to 23% in early February, and further worsened to 13% when the EY survey closed in March. There was a clear shift in business sentiment in both global and local economy.

Smith says: "While executives are necessarily dealing with the immediate impact of the crisis, they still need to reassess their outlook for growth and consider the future 'new normal' for businesses. As countries in Asia-Pacific, led by China, East Asia and Southeast Asia, are gradually moving toward stabilization, we are expecting to see large-scale transformation by companies in many sectors as companies adopt agility, flexibility and resilience into their business strategies. This is also likely to apply to Japan, albeit Japan is at an earlier stage in dealing with the impact of COVID-19."

Executives are reviewing their operating models in response to the crisis. The increasing shutdown of activity in many parts of the world has exposed vulnerabilities in many companies' supply chains, and the majority of Asia-Pacific companies (67%), including Japanese companies (74%), are taking steps to change their current setup.

At the same time, governments around the world are proactively offering stimulus packages for their countries to help them weather the impact of COVID-19. In Asia-Pacific, including Japan, governments are providing public welfare and business support to strengthen local economies.

Preparing for what comes next

Despite boardrooms focusing on an unprecedented global health emergency, executives are also planning their future beyond the crisis. Already, 74% of Japanese companies are taking steps to change supply chains and address digital transformation (28%), speed of automation (50%) and management of workforce (50%). Many Japanese companies (76%) already had major transformation initiatives underway, triggered as a result of pressure on revenue and profitability goals, according to respondents. Pre-crisis, transformation was high on the corporate agenda, and together with the current COVID-19 environment, the urge for transformation and reshaping of business portfolios will be stronger than ever.

Tamura says: "Japanese companies have been focused on adapting their business models in response to global trade tensions, and this is now further accelerated by the COVID-19 crisis. One senior Japanese executive noted that 'due to COVID-19, the company had to realign procurement, manufacturing, distribution and retail to cope with the disruption including but not limited to a shutdown in parts of Asia. Immediately after addressing the crisis in Asia, the trade routes and supply chains and distribution networks in Europe and Americas also had to be dealt with. It is an unprecedented crisis and it will permanently change our global trade routes and supply chains.'"

Smith says: "Companies are not expecting COVID-19 as a one-off event. As most Japanese executives expect regular disruption would be the 'new normal' business strategies centered around sustainability will be the top priority. The unwelcome and unexpected emergence of COVID-19 will further cement transformational strategies in the boardroom."

Post-crisis recovery points through M&A

With the majority of companies assuming a recovery in the medium term, 57% of Japan respondents will actively pursue M&A in the next 12-24 months. Eighty percent of Japan respondents are expecting to see an increasing competition for assets in the next 12-24 months, with 67% expecting the competition to come from private capital, including private equity, which has record-high funds available for investment.

Smith says: "While the crisis is having a severe impact on M&A in the short-term, there's evidence from EY clients that M&A will remain the priority transformation strategy in the mid-to long-term. There are no significant change in their current transformation strategies involving M&A although the timing may be delayed. EY clients expect the COVID-19 crisis will generate opportunities to create value through M&A."

96%

expect COVID-19 to have a severe impact on the global economy.

50%

expect a longer period of slower economic recovery extending into 2021.

57%

are planning to actively pursue M&A in the next 12-24 months.

74%

are taking steps to change their current supply chain setup.

76%

are undergoing a significant transformation program.

84%

are conducting more frequent strategic and portfolio reviews.

*The result reflects the percentage of Japanese respondents with headquarters in Japan and operating businesses globally.

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