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2022 Mergers and Acquisitions Survey Results

Prepared by Jonathan S. Park

Executive Summary

Amidst Omicron and Rising Prices, Economic Recovery on Track and Record-Setting M&A Streak from 2021 Likely to Continue

As the world continues to navigate through the lingering repercussions of COVID-19, respondents to Masuda Funai's 2022 Mergers & Acquisitions Survey are generally optimistic that the U.S. and Japanese economies will continue to perform better in 2022 or at least on par with 2021. Coming off 2021 with a record-breaking volume of M&A activity in the United States, the prospects of further stretching that hot streak through 2022 are still on the positive side. Most respondents expect the overall M&A activity level in the United States, as well as the role which Japanese investments will play in those deal-makings, to be as strong as or stronger than 2021 levels, thanks to strong financial performances reported by U.S. and Japanese firms in 2021. Although we are not yet seeing substantially increased levels of cross-border investment from Japan through May, it is expected that this will change based on discussions with our clients.

Yet, there are also those who hold more cautionary views than the general optimism riding on the successes seen in 2021. Many respondents noted that the economic tapering measures by the Federal Reserve anticipated throughout this year could cool things off. Early setbacks seen already in the beginning of 2022 – the Omicron outbreak, rising energy prices, supply chain disruptions and volatility in the public markets – may have hampered the economic outlook somewhat, with more respondents expecting the U.S. and Japanese economies to weaken in 2022 compared to last year. Other than reasons specific to each company and general economic uncertainty stemming from geopolitical situations or COVID-19, most respondents cite high valuations from increased competition for a diminishing pool of quality targets as the greatest obstacle to further investment in the United States.

Despite these concerns, around three-quarters of respondents report that current geopolitical events and the COVID-19 pandemic have not impacted their decision-making, and forty percent of respondents expect that their companies will engage in a merger, equity or asset purchase, or joint venture in 2022.

According to the most recent data published by the U.S. Bureau of Economic Analysis, Japan is the single largest contributor to foreign direct investment (FDI) in the United States as of 2020, more than any other country in the world. Our respondents cite the attractiveness of the U.S. market as compared to the relatively stagnant economic conditions in Japan as the main factor driving the continued inbound Japanese investments, with cash-rich Japanese firms looking to the U.S. market for access to larger pool of consumers, intellectual property and technology, and regulatory advantages. Moreover, while the United States is still the premier destination for Japanese investments, companies are also considering investment opportunities in Japan, the European Union, Southeast Asia and Canada as further outlets for strategic acquisitions.

The findings of our 2022 survey of executives, professionals, service providers and thought leaders of the Japanese business community in the United States are set forth below, together with a more detailed description of results. We hope that you find this tool helpful in planning your company's growth strategy for the year ahead.

Notable Findings of the Survey

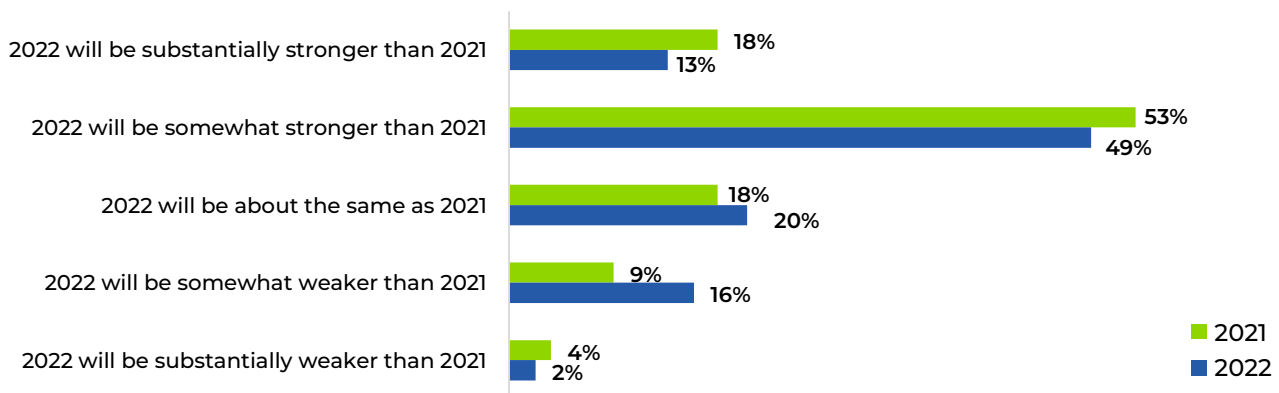
- **U.S. ECONOMIC GROWTH:** A substantial majority of respondents (62%) expect the U.S. economy in 2022 to be stronger than it was in 2021, albeit a slight decline from last year's more optimistic prospect for 2021 (71%). One-fifth of respondents (20%) expect it to be about the same. More respondents (18%) expect U.S. economic growth to be weaker in 2022, up from last year's outlook for 2021.
- **JAPANESE ECONOMIC GROWTH:** Most respondents (46%) expect the Japanese economy to be somewhat stronger than it was in 2021, and no respondent believe that it will be substantially stronger. Nearly a third of respondents (32%) expect Japanese economic growth to stay the same as last year, while over a fifth of respondents (22%) expect that it will be weaker. A small number of respondents expect it to be substantially weaker than 2021 (5%).
- **M&A ACTIVITY LEVELS:** Most respondents (58%) continue to expect M&A activity levels in the United States to improve again this year. Respondents were more mixed about Japanese M&A activity into the United States, with more respondents expecting levels to either improve modestly (36%) or hold steady (36%), and less respondents expecting levels to decline (28%). Respondents listed access to U.S. consumers (73%), access to intellectual property or technology (52%), and economic conditions and trends in Japan (52%) as major factors driving Japanese investment in the United States.
- **IMPACT OF U.S. POLITICS AND GEOPOLITICS:** Most respondents (63%) expect that the Biden administration's attempt to increase capital gains tax rates will have a negative effect on the M&A market in the United States, while over a quarter (27%) of respondents expect a neutral impact. Despite increasing instability in current geopolitics, most respondents (72%) were not considering vertical integration to minimize their exposure to continuing disruptions in the global supply chain.
- **OBSTACLES TO INVESTMENTS:** Respondents identified high valuations (31%) and uncertainty regarding COVID-19 (31%) as significant obstacles to further investment by their companies or their respective Japanese parent companies in the United States. Substantially increased from last year is the sentiment that there is a lack of quality targets to acquire in the United States (27%), over a forty-percent increase from 2021. Many also cited other reasons specific to their individual companies (35%), such as import duty burdens and lack of a clear long-term strategy.
- **IMPACT OF COVID-19:** The impact of COVID-19 on deal-making largely remained the same as in 2020, with a substantial majority (77%) of respondents reporting that the COVID-19 pandemic did not impact their companies' deal-making in 2021. There was also a drop in respondents that had delayed a sale (0%) and an increase in respondents that had made an acquisition (4%).
- **PROFILE OF OUR RESPONDENTS:** Our respondents are predominantly employees of Japanese-owned companies in the United States or Japanese companies in Japan that invest abroad (80%). A small portion (10%) of our respondents are service providers to the Japanese business community in the United States. Half of our respondents (50%) work for a company that considers M&A as part of its growth strategy, and over a third (38%) work for a company that has engaged in a merger, sale or acquisition in the United States within the last decade.
- **THIRD COUNTRY INVESTMENT:** Over a quarter of respondents (28%) indicated that their companies are considering M&A transactions in the domestic Japanese market. Respondents also listed the European Union (22%), Southeast Asia (22%), Canada (11%), Mexico (6%), Brazil (6%) and China (6%) as likely third country targets for investment.

Responses & Notable Remarks

Masuda Funai asked executives and professionals in Japanese and Japanese-owned companies and key service providers to the Japanese business community in the United States to provide their assessment on the future of Japanese investment in the United States for the upcoming year. The collective feedback received from our respondents is set forth below.

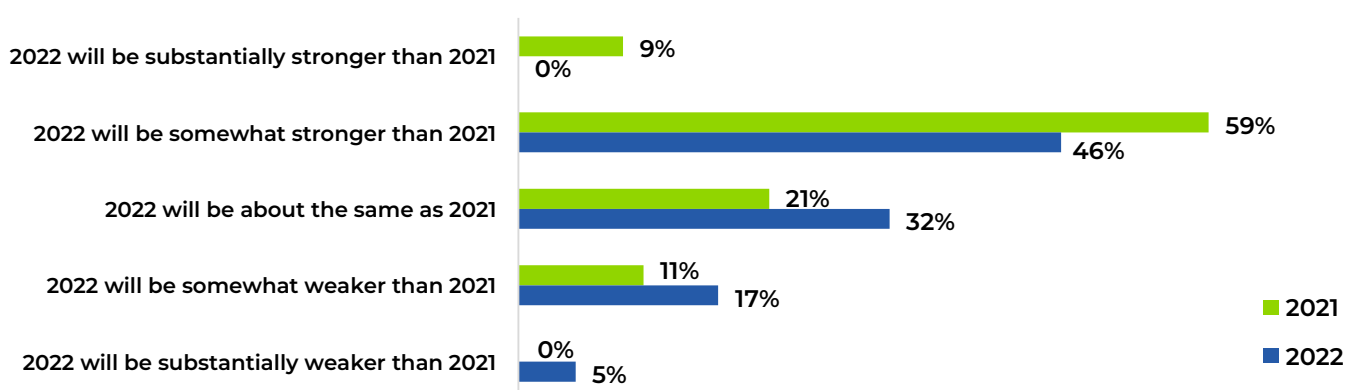
ECONOMIC GROWTH

Q1. How do you expect the U.S. economy to perform in 2022 compared to how it has performed in 2021?



Respondents noted that they expected improved economic growth as a result of continued expansion of the manufacturing sector, contingent on interest rate policy and other economic tapering measures. Some respondents have qualified their positive outlook with the lingering effects from the COVID-19 pandemic and the possibility of new dominant variants like the Omicron variant. Other respondents were more tempered in their outlook due to rising economic headwinds, citing inflation, rising interest rates, energy prices, supply chain disruptions and labor shortages.

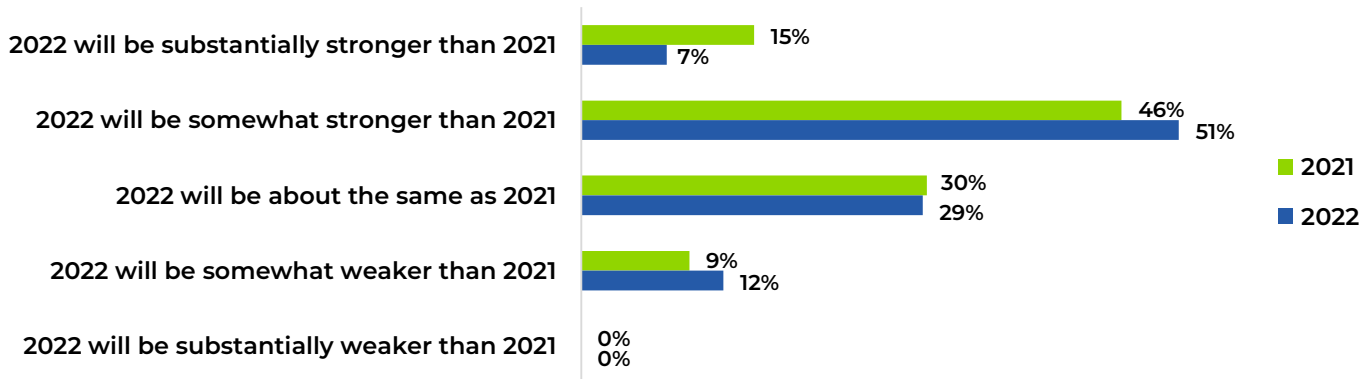
Q2. How do you expect the U.S. economy to perform in 2022 compared to how it has performed in 2021?



Respondents noted that Japan's economic prospects in 2022 will benefit from the expansion of the U.S. manufacturing sector, while anticipating that the trend of rising price of resources, global chip shortage and inflation will hamper positive economic growth. Some respondents worried that Japan's economy will suffer unless the country re-opens its borders by overcoming the fears about the COVID-19 pandemic.

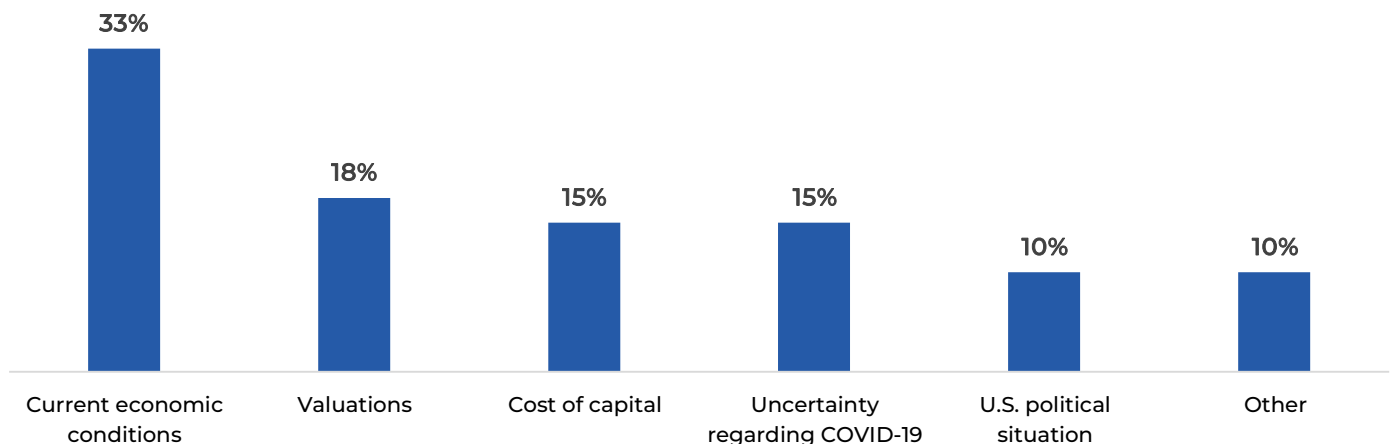
M&A ACTIVITY IN THE UNITED STATES

Q3. How do you expect U.S. M&A activity in 2022 will compare to U.S. M&A activity in 2021?



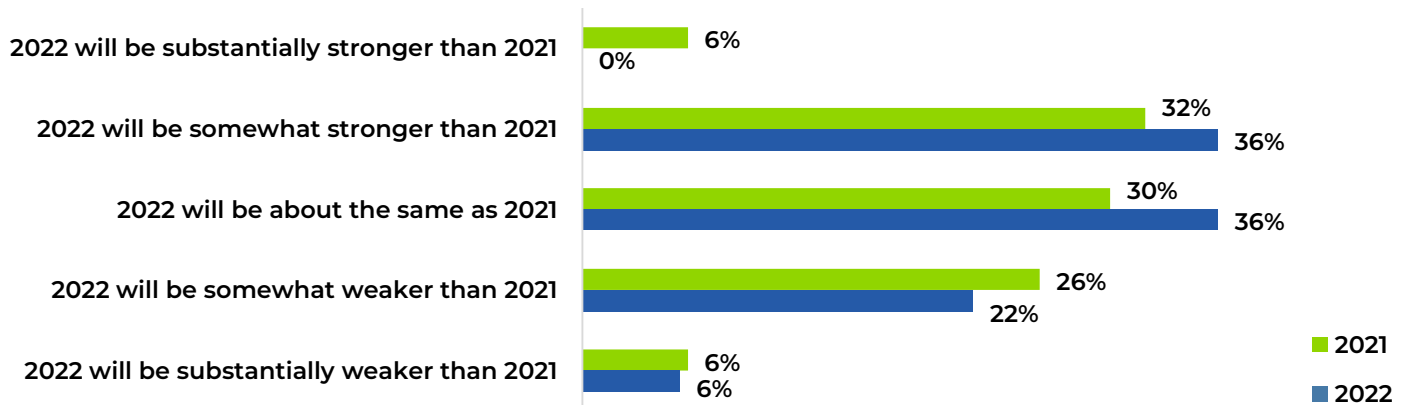
Respondents optimistic about a stronger year than last year remarked that continued recovery from COVID-19 and pent-up demand for M&A activity will drive U.S. companies to pursue more M&A in 2022. Most respondents were cautiously hopeful about a modest increase in U.S. M&A activity, thanks to strong financials reported by U.S. companies in 2021. Some respondents projecting similar levels of M&A activity this year noted that the prolongation of restrictions and reluctance to travel and weak FDI will continue from last year. Other respondents with more reserved outlook pointed out that 2021 was a record year for M&A activities in the United States, and that the Federal Reserve Board's tapering measures (including the anticipated interest rate hike this year) will make it difficult to repeat another record year in 2022.

Q4. What is the primary reason for your response to Q3?



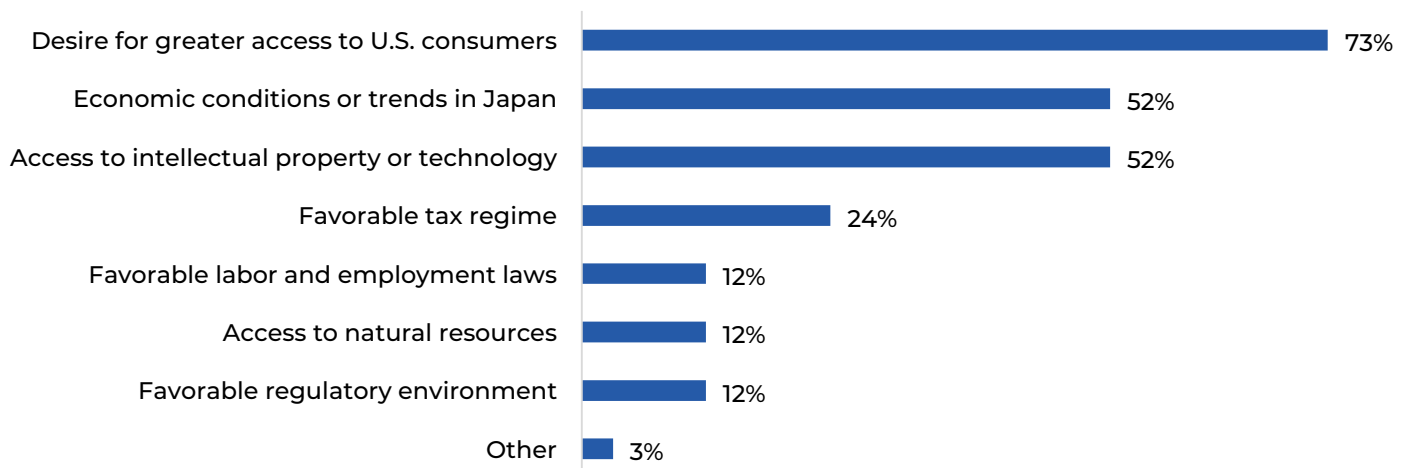
M&A ACTIVITY INTO THE UNITED STATES BY JAPANESE COMPANIES

Q5. How do you expect Japanese M&A activity into the United States in 2022 will compare to similar activity in 2021?



Respondents remarked that the U.S. market remains an important strategic position to pursue and that Japanese companies in strong financial positions will continue their localization efforts through M&A activities.

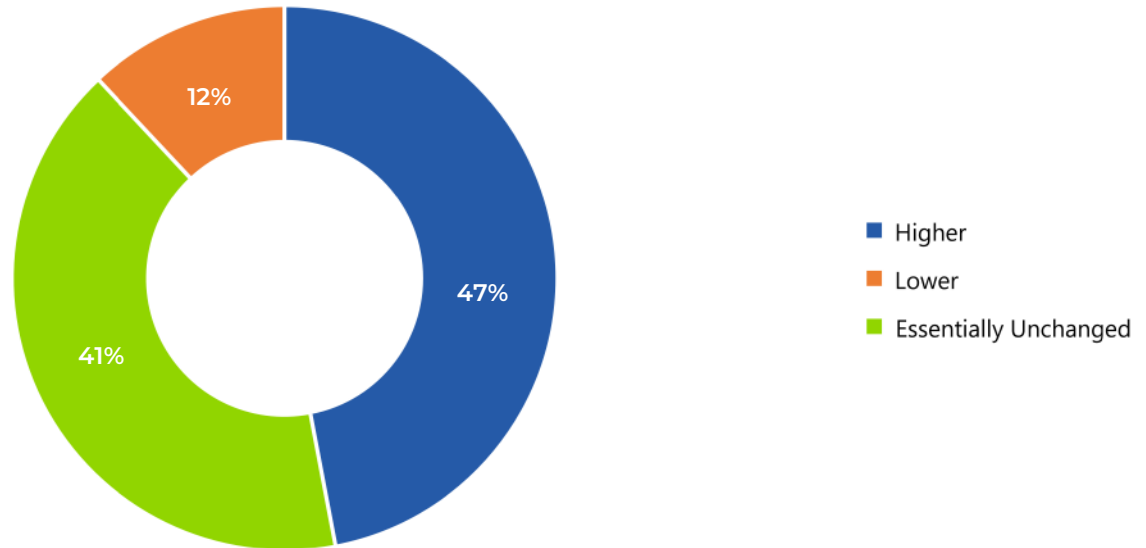
Q6. What are the most important factors driving M&A by Japanese and Japanese-owned companies in the United States? Please select up to three.



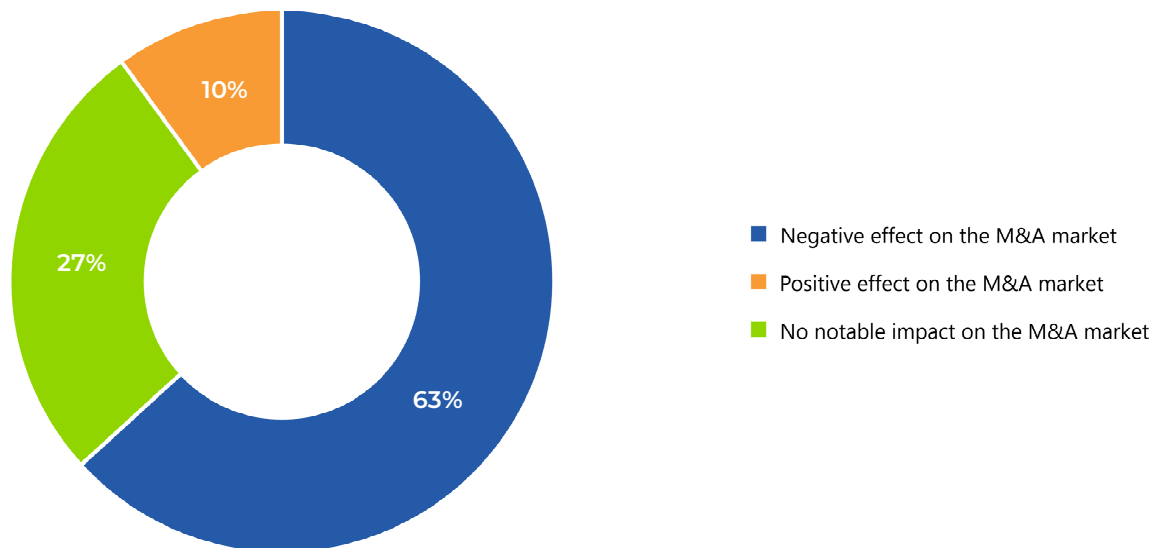
Respondents noted that strengthening business portfolios through acquisitions of established brand names and access to the largest consumption-based market economy are the main drivers of Japanese M&A activity in the United States in 2022.

IMPACT OF POLITICAL CLIMATE ON INVESTMENTS

Q7. Where do you expect capital gains rates to be one year from today?



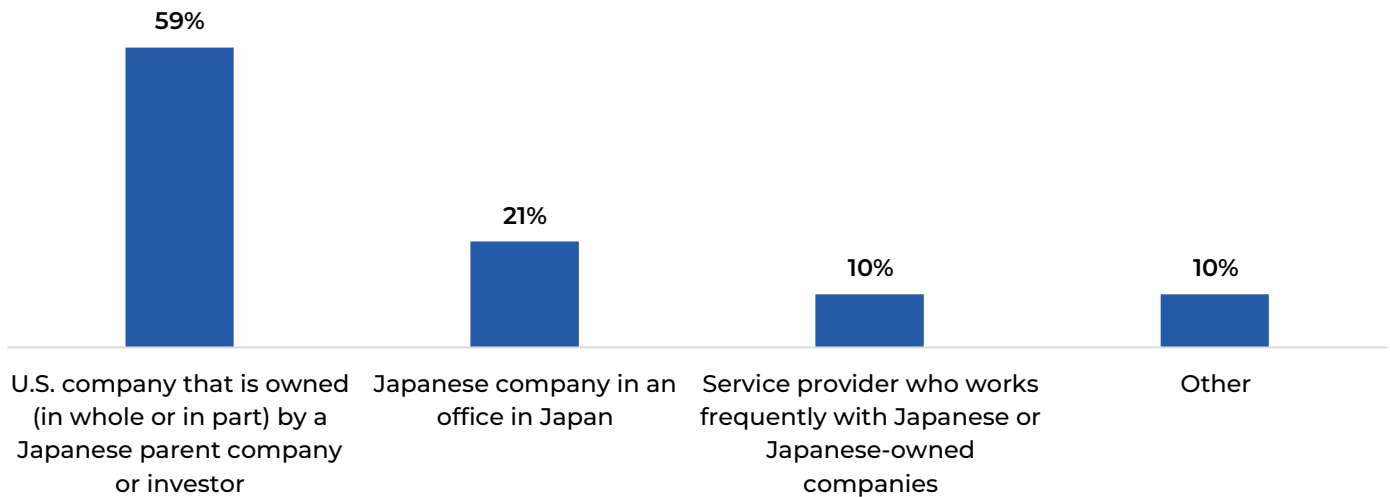
Q8. If the increases in capital gains tax rates proposed by the Biden administration become law, what will be the likely impact on the U.S. M&A market in 2022.



One respondent remarked that the effect of the political party in power on businesses and the economy will be minimal on M&A activities.

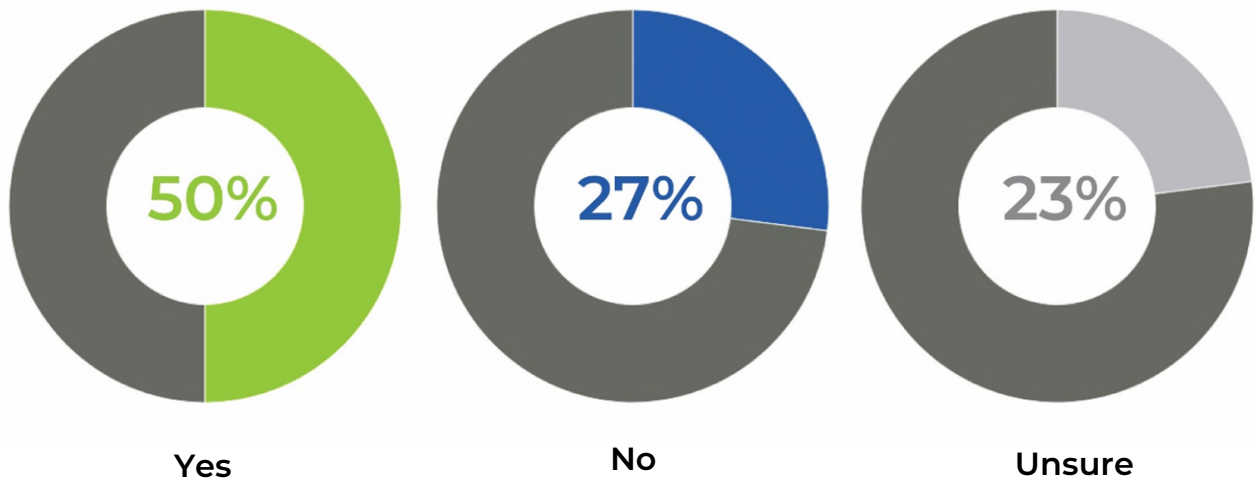
OUR RESPONDENTS AND THEIR GROWTH STRATEGIES

Q9. Which of the following statements best describes you and the company where you work?



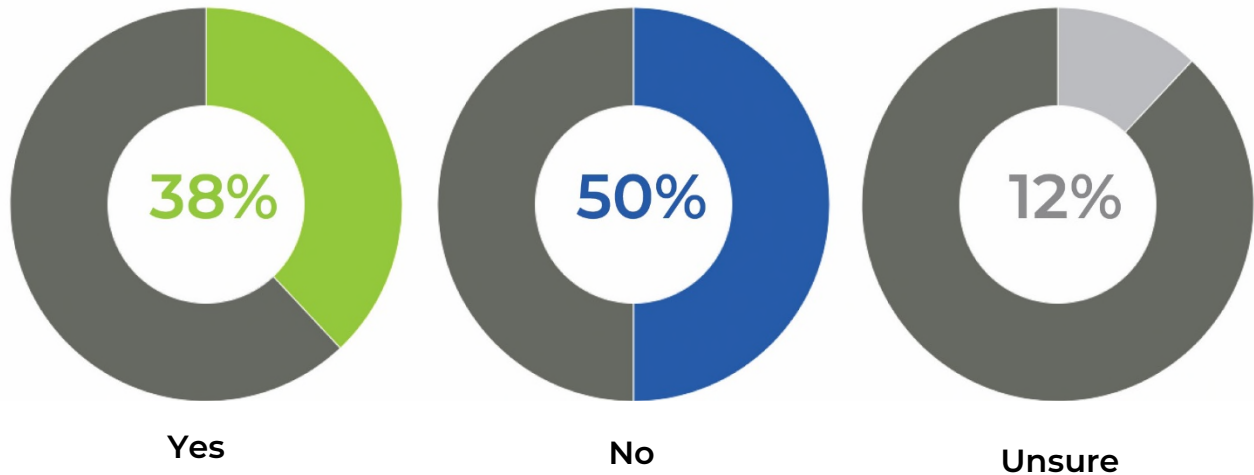
Service providers include accounting firms, law firms, investment banks, etc. Many respondents who answered “Other” described their companies as U.S. companies owned by U.S. investors only. One other respondent was an FDI consultancy for SMEs.

Q10. Does your company or its Japanese parent view M&A as part of its growth strategy

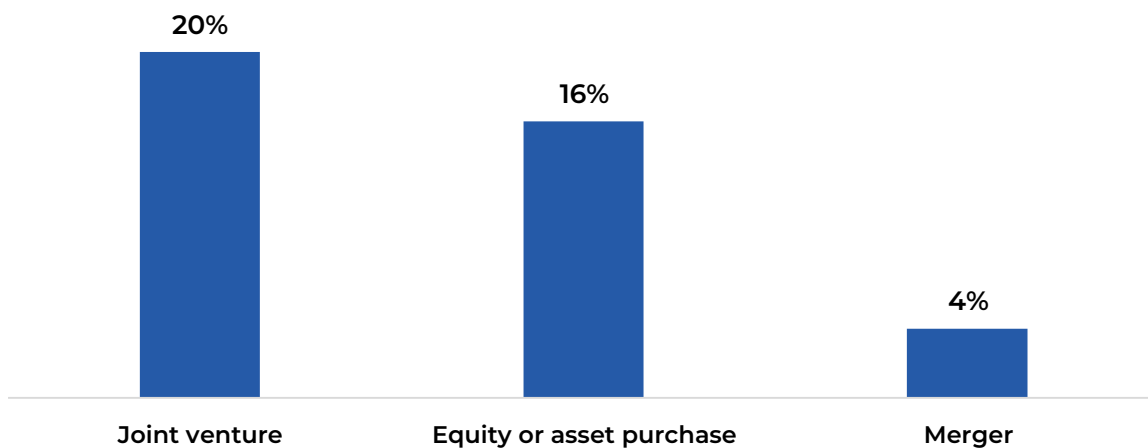


Many respondents who answered “Yes” emphasized that growth of global businesses through M&A is vital and must not stop.

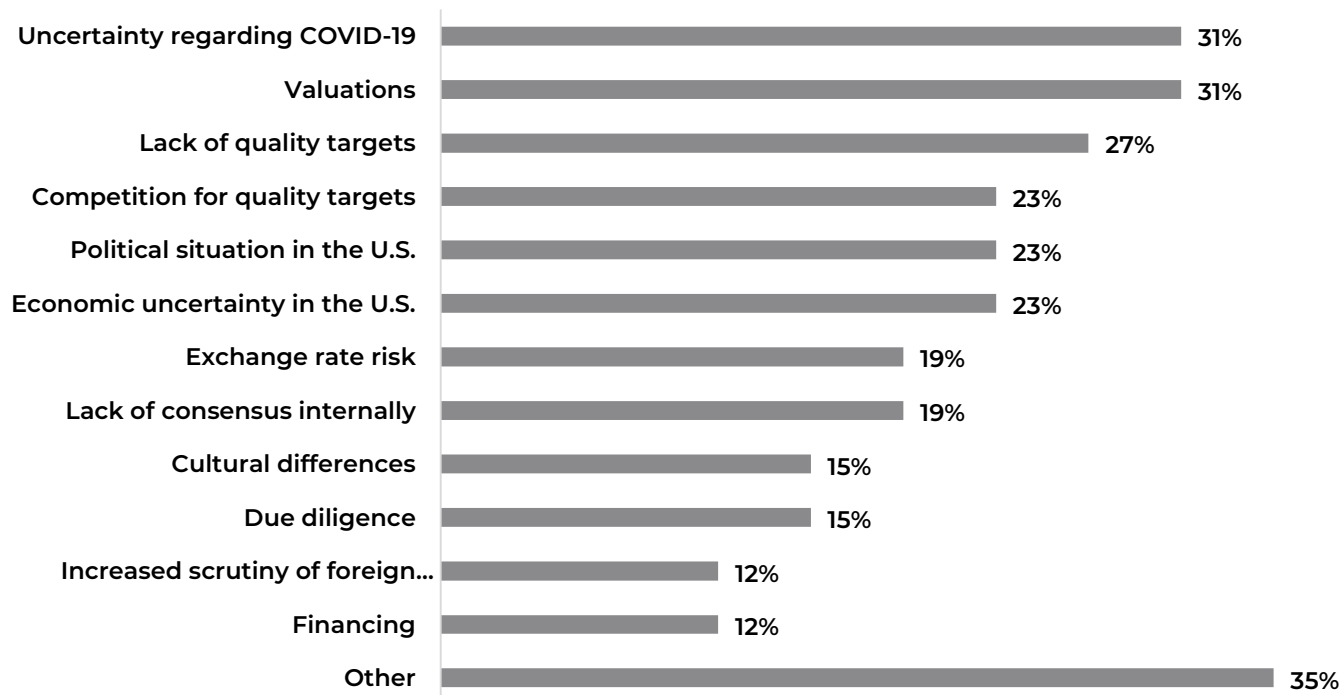
Q11. Has your company or its Japanese parent engaged in a merger, sale or acquisition in the United States within the last ten years?



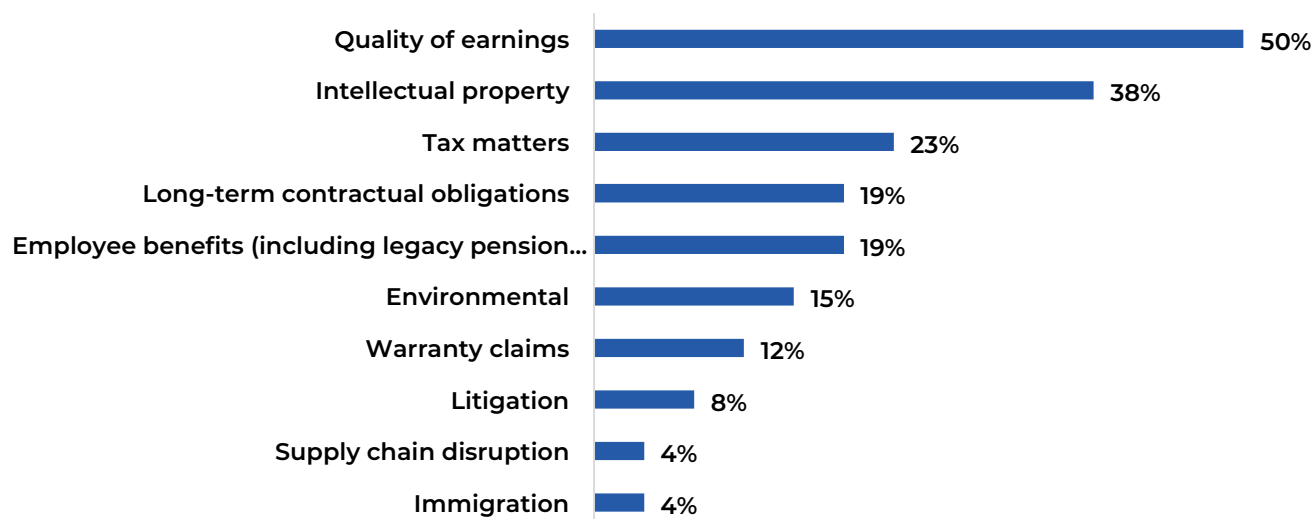
Q12. What type of transaction is your company or your Japanese parent likely to engage in 2022?



Q13. What are the greatest obstacles to further investment by your company or its Japanese parent in the United States? Please select the top three.

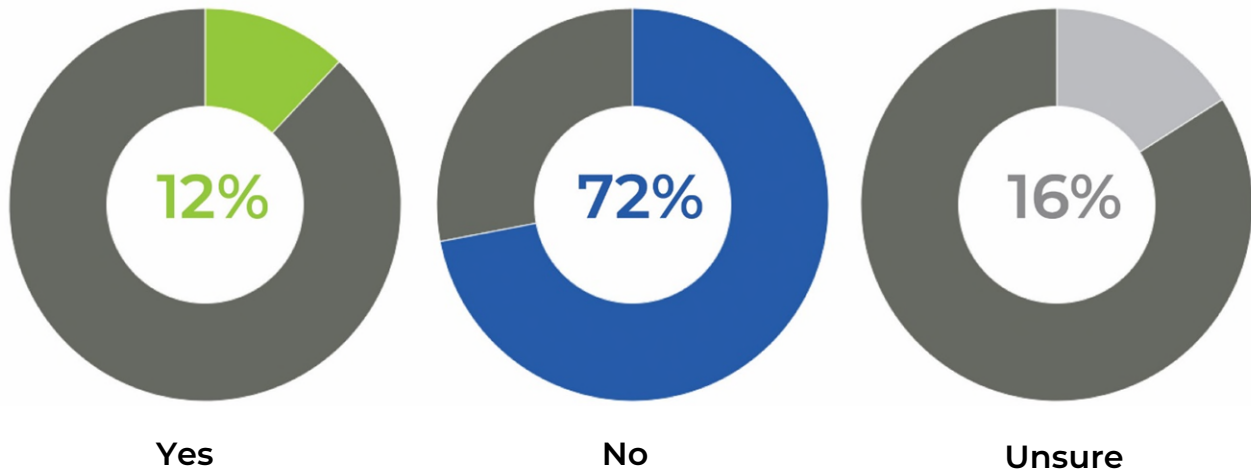


Q14. In evaluating a potential M&A transaction, what areas of legal due diligence/risk assessment are most important for your company and its Japanese parent?

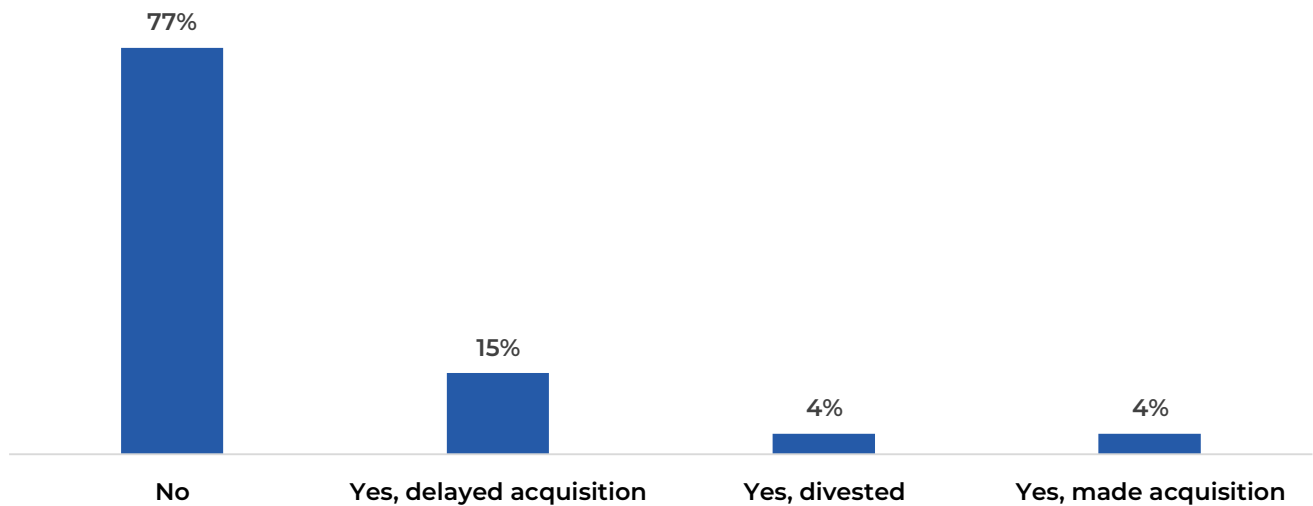


IMPACT OF CURRENT EVENTS ON INVESTMENTS

Q15. Are current geopolitical events (e.g., COVID-19 pandemic, stress on U.S.-China relationship, political uncertainty and social unrest in the U.S. and abroad, trade and tariff disputes, etc.) causing you to consider a merger or acquisition to minimize your company's exposure to supply chain disruption by vertically integrating your source(s) of supply?

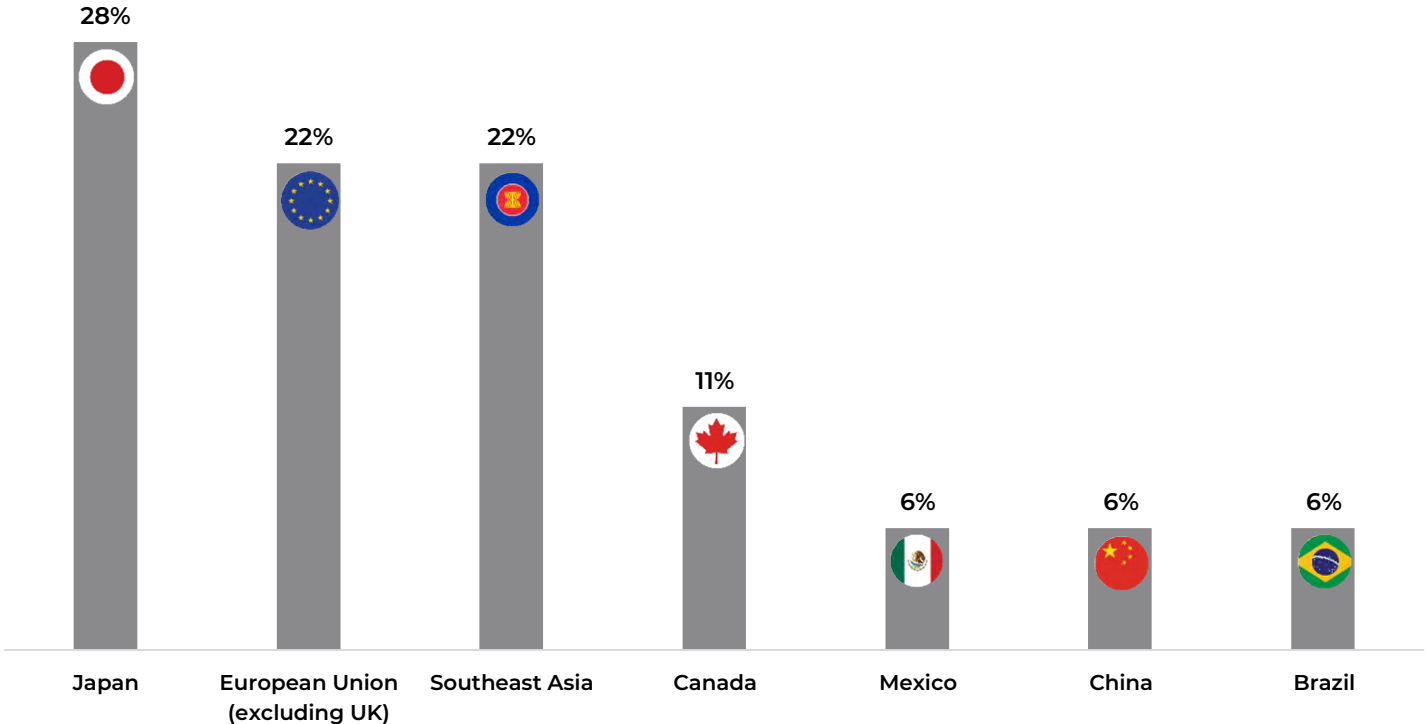


Q16. Has the COVID-19 pandemic impacted your company's deal making in 2021?



THIRD COUNTRY INVESTMENT

Q17. Other than the United States, in what region(s) are your company and its Japanese parent considering an M&A transaction in 2022?



Countries/regions with no respondents (0%) have been omitted.

About Masuda Funai's Corporate, Finance & Acquisitions Practice

Masuda Funai represents domestic and international buyers and sellers in their merger, acquisition and divestiture activities. On the sell side, our clients include domestic and foreign-owned entrepreneurial ventures, mid-sized companies and large multinational corporations. On the buy side, we advise companies of all sizes seeking to invest in or expand their position in the U.S. market. Throughout the process of merging, acquiring and selling corporate entities, we remain diligently committed to our clients and to providing strategic advice that meets their commercial objectives.

Our experience is truly broad and deep and includes buying and selling companies through stock or asset acquisitions, mergers and recapitalizations. We are also involved in divestitures resulting from industry consolidation, deregulation and evolving economic climates, as well as with the purchase and/or sale of distressed companies in and out of bankruptcy. Moreover, we advise on spin-offs including advice on such issues as prevailing tax considerations, the payment of dividends and board of directors' responsibilities.

We never lose sight of the client's specific objectives, no matter how complex the deal or how diverse or difficult the constituents involved. We are known and valued for protecting and safeguarding client interests and assets while getting the deal done. Our practice includes seasoned, savvy and multi-cultural business-minded lawyers who deliver not only an in-depth understanding of U.S. law and business, but also a proven track record of structuring, negotiating and consistently closing sophisticated transactions valued into the hundreds of millions of dollars. Our international focus also affords us decades of experience with the most difficult regulatory issues faced by clients engaged in cross-border transactions, including commercial (dual-use) and defense related export licensing, compliance and enforcement matters, U.S. trade sanctions, customs compliance and national security (e.g., Committee on Foreign Investment in the United States [CFIUS]) reviews and filings.

Our attorneys have proven time and again that they can resolve difficult challenges involving the myriad intellectual property and technology, regulatory, employment, business immigration, environmental, and real estate issues inherent with these deals. We also advise on the antitrust reporting and clearance aspects of mergers, acquisitions and divestitures, ably guiding our clients through the intricacies of complex antitrust law as it applies to our client's specific transaction.

Masuda Funai is also retained to analyze potential deals, conduct legal due diligence and other risk assessments for clients considering acquisitions or dispositions involving the U.S. market. We are particularly adept at assessing the regulatory environment affecting cross-border transactions. Our goal is to work with each client to balance uncertainty and risk by providing careful analysis, meticulous judgement and the ability to adapt to structural change and new or unique business models. We deliver solutions that keep our client's deal on track and advancing to a successful close. We know, from first-hand experience, what it takes to navigate beyond the profitability pressures our clients face by incorporating their ambitions into the prevailing economics of every transaction.

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