



masuda funai

2021 Mergers and Acquisitions Survey Results

Prepared by Gregory M. Wright

2021 Masuda Funai M&A Survey Results

Executive Summary

Respondents are confident of economic recovery but will inbound M&A follow?

Respondents to Masuda Funai's 2021 Mergers & Acquisitions Survey are confident that the American and Japanese economies will rebound from the pandemic-induced economic shocks of 2020, but their views on the prospects for inbound M&A from Japan remain mixed.

Seventy-one percent of respondents expected that the U.S. economy would be stronger in 2021 than in 2020, while nearly as many (68%) expected Japanese economic performance to improve this year over last year. However, when asked how inbound M&A from Japan into the United States would fare in 2021, only thirty-two percent of respondents believed that it would rise, with thirty percent expecting it to hold steady and twenty-six percent expecting it to fall further in the coming year.

The major drivers for inbound investment by Japanese firms in America remain, with respondents citing economic conditions and trends in Japan and access to American consumers as the most important factors driving the practice. Japanese firms still tend to have large amounts of cash on their balance sheets and are subject to increasing pressure by shareholders and regulators to put it to use in generating greater returns. Even in a year mired with shutdowns and stay-at-home orders, Japanese companies publicly reported over US\$64.2 billion in M&A in the U.S. market.

The traditional hurdles to investment also remain, with between a quarter and a third of respondents citing economic uncertainty in the United States, valuations and a lack of internal consensus as potential obstacles to deals. Of course, the past year has brought some even greater challenges to the fore. Twenty-eight percent of respondents cited uncertainty regarding COVID-19 as a brake on deals, and a quarter of respondents reported that they consider increased scrutiny by U.S. regulators of inbound investment as a threat.

Japanese firms could choose to take a wait-and-see approach to American investment, especially if further waves of the pandemic lead to more rolling restrictions. The limitations on travel, for example, have hindered traditional meetings that are crucial for gathering diligence, developing comfort and negotiating terms. Over half of our respondents cite quality of earnings as a crucial item in diligence, and it can be difficult in the current environment to assess a target's recent financial performance.

As vaccination efforts gather pace and Americans and Japanese resume customary activities and spending patterns, it seems more likely that economic recovery will reveal pent-up demand for investment, fueled in part by cash generated by a string of divestitures by Japanese firms of non-core businesses. Nearly half of respondents expect that their companies will engage in a merger, purchase, sale or joint venture in 2021, and one-fifth of them put off such a transaction in 2020 because of the pandemic. While M&A activity may vary from one industry to another and it may be stronger later than early in the year, we are optimistic about what 2021 has in store.

The findings of our 2021 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. As you steer your company through this difficult and uncertain period, we hope that you find this tool helpful in planning your company's growth strategy.

2021 Masuda Funai M&A Survey Results

Notable findings of the Survey

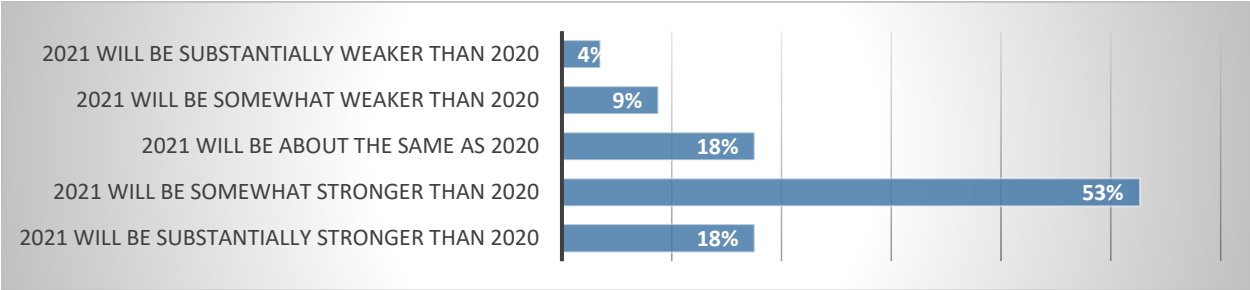
- **U.S. Economic Growth:** A strong majority of respondents (71%) expect the U.S. economy to be somewhat or substantially stronger than it was in 2020, while just under a fifth of respondents (18%) expect it to be about the same. Only 13 percent of respondents expect U.S. economic growth to be weaker than it was in 2020.
- **Japanese Economic Growth:** A large majority of respondents (68%) expect the Japanese economy to be stronger than it was in 2020, although only 9% of respondents believe that it will be substantially stronger. About one-fifth of respondents (21%) expect Japanese economic growth to be about the same as it was last year, while only 11% expect that it will be somewhat weaker. No respondents expect that Japanese economic growth will be substantially weaker.
- **M&A Activity Levels:** A substantial majority of respondents expect M&A activity levels in the United States to improve (61%). Prospects for inbound M&A activity from Japan to the United States in 2021 appear to be more mixed, with about one-third of respondents expecting modest improvement, another third expecting modest decline, and another third expecting levels to hold steady. Respondents again cited economic conditions and trends in Japan (52%) and access to U.S. consumers (58%) as major factors driving Japanese investment in the United States.
- **Political Transition:** Most respondents (53%) expect that the incoming Biden administration will have a neutral effect on the M&A market in the United States, with the remaining responses divided nearly evenly. An overwhelming majority of respondents (81%) believe that the departure of Shinzo Abe as Prime Minister of Japan and his replacement with Yoshihide Suga will have a neutral effect on Japanese investment in the United States in 2021, with about 15% believing that the transition will have a negative effect and only 4% believing that the transition will have a positive effect.
- **Obstacles to Investments:** Respondents listed economic uncertainty in the United States (31%), valuations (31%), lack of internal consensus (28%) and uncertainty regarding COVID-19 (28%) as significant obstacles to further investment by their companies or their respective Japanese parent companies in the United States. There is also rising concern about the effect of increased scrutiny of foreign acquisitions by the Committee on Foreign Investment in the United States (CFIUS); nearly a quarter of respondents identified this as an obstacle in 2021 against only 15% last year.
- **Impact of COVID-19:** About a fifth of respondents (20%) reported that their companies had delayed an acquisition or sale in 2020 because of the COVID-19 pandemic.
- **Profile of our Respondents:** Our respondents are largely employees of Japanese-owned companies in the United States or Japanese companies in Japan that invest abroad. A small portion of our respondents are service providers to the Japanese business community in the United States. Nearly two-thirds of our respondents (63%) work for a company that considers M&A as part of its growth strategy, and over half (54%) work for a company that has engaged in a merger, sale or acquisition in the United States within the last decade.
- **Third Country Investment:** Respondents listed the European Union (14%), Southeast Asia (8%) and the United Kingdom (6%) as likely third country targets for investment. Over a third of respondents (36%) indicated that their companies are considering M&A transactions in the domestic Japanese market.

2021 Masuda Funai M&A Survey Results

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.

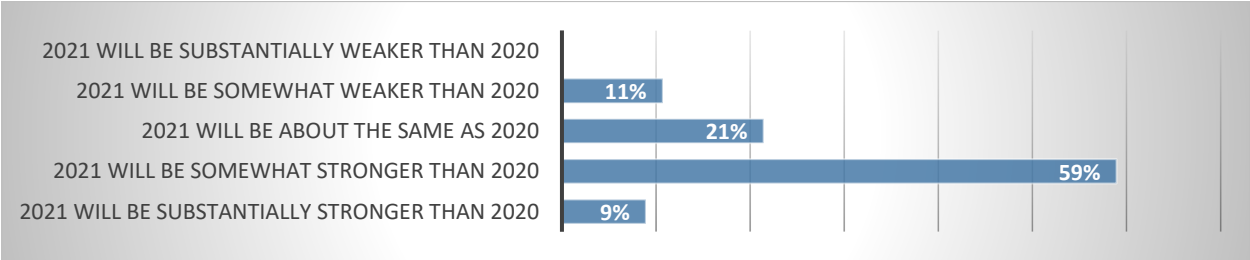
Economic Growth

Q1. How well do you expect the U.S. economy to perform in 2021 compared to how it has performed in 2020?



Respondents noted that they expected improved economic growth as a result of widespread vaccination and other developments in the fight against the COVID-19 pandemic, although it was unclear whether those improvements would develop early or late in the year. Respondents also noted that the change in administration would likely create greater stability but reviews on the likely impact of Biden administration economic policy was mixed.

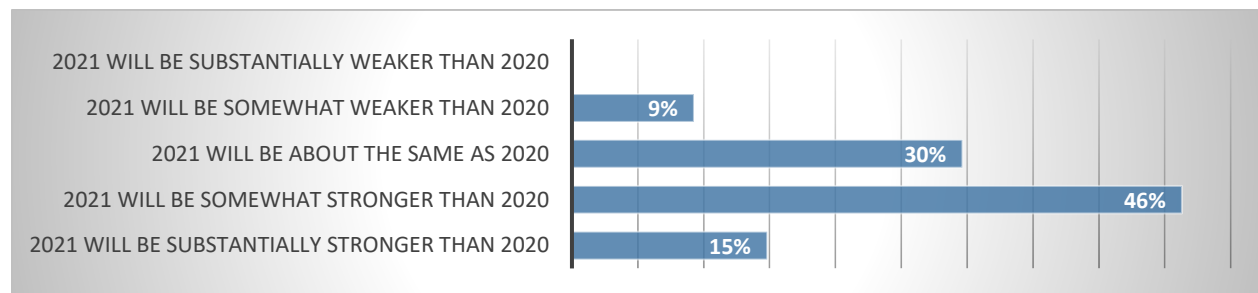
Q2. How well do you expect the Japanese economy to perform in 2021 compared to how it has performed in 2020?



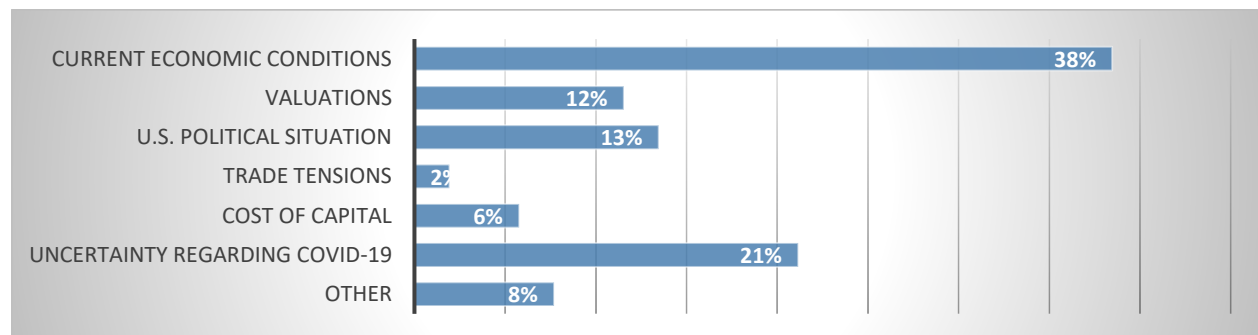
Respondents noted that Japan’s economic prospects in 2021 would be largely dependent upon political decisions (e.g., monetary policy and aid programs), the value of the yen, relations with China and South Korea and the fate of the Tokyo Olympic Games planned for the summer.

M&A Activity in the United States

Q3. How well do you expect U.S. M&A activity in 2021 will compare to U.S. M&A activity in 2020?



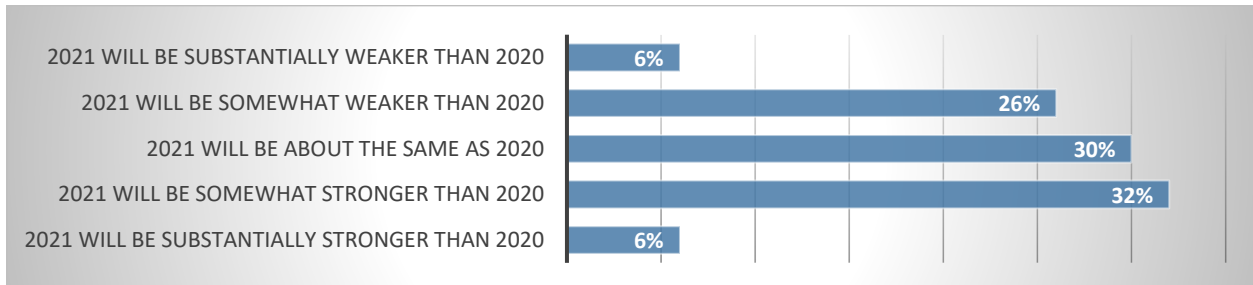
Q4. As a follow up to Q3, why do you expect that U.S. M&A activity in 2021 will be [stronger than/same as/weaker than] U.S. M&A activity in 2020? Please select the top reason.



Respondents were cautiously optimistic that M&A activity would improve over 2020 levels, but most expressed a belief that recovery will be based largely on the pace of improvement in the fight against COVID-19. Several respondents also noted that recovery (and presumably, therefore, M&A activity) would vary widely based on industry.

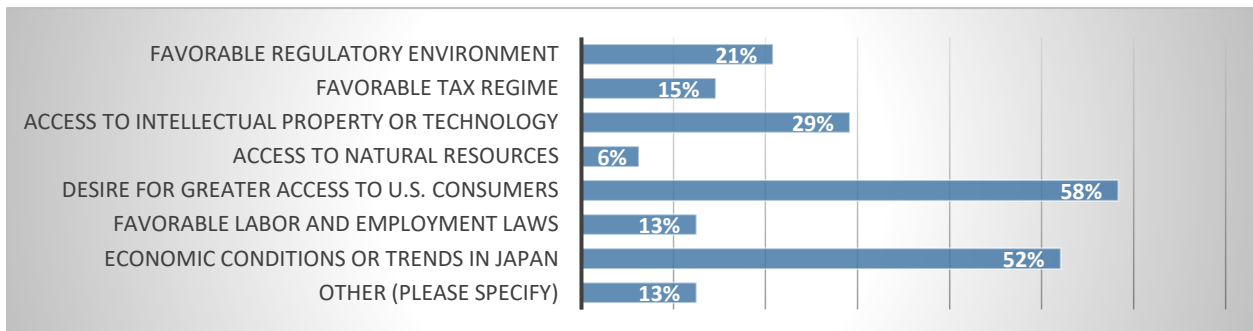
M&A Activity by Japanese companies in the United States

Q5. How do you expect Japanese M&A activity into the United States in 2021 will compare to similar activity in 2020?



One respondent noted that improved levels of inbound M&A from Japan could be expected if the yen strengthens and industrial reform continues in Japan. Another respondent noted that Japanese investment in the United States is driven by larger corporations and that rising levels of M&A would depend upon the economic fortunes and plans of large potential strategic buyers.

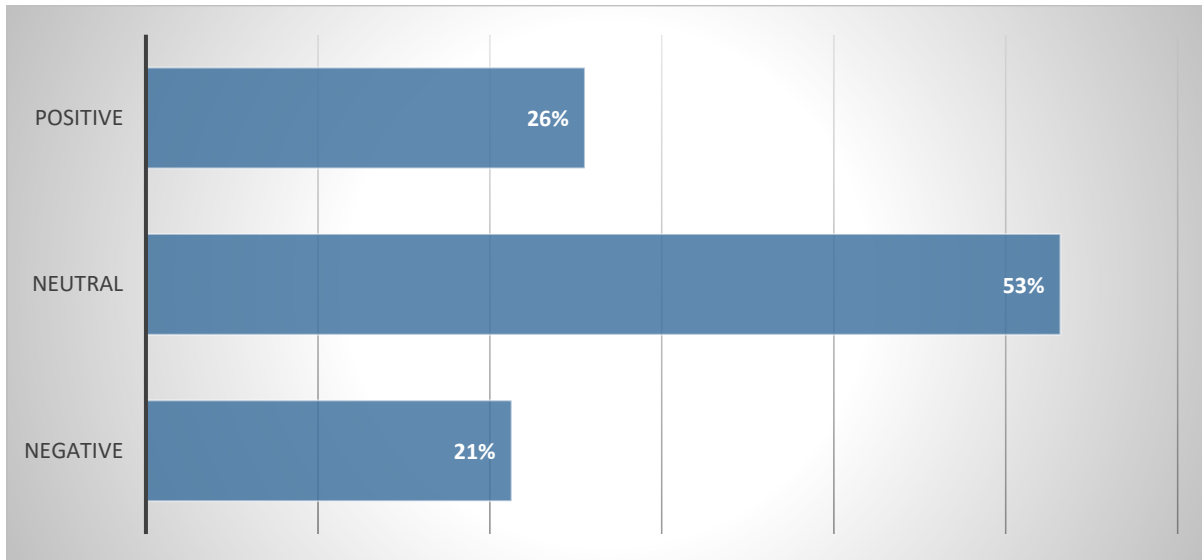
Q6. What are the most important factors driving M&A by Japanese and Japanese-owned companies in the United States? Please select up to three.



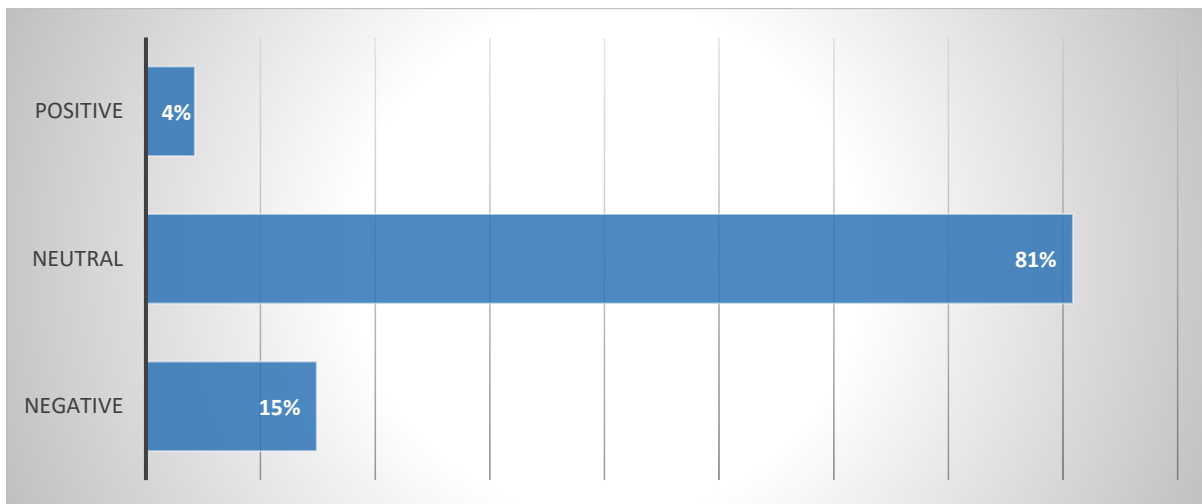
Respondents who answered "other" noted the improved value of U.S. acquisitions (due in part to the appreciation of the yen) and the flexibility of U.S. targets in adapting to market conditions as drivers of Japanese M&A activity in the United States in 2021.

Impact of Political Climate on Investment

Q7. What impact do you expect the results of the 2020 U.S. Presidential Election will have on the U.S. M&A market in 2021??

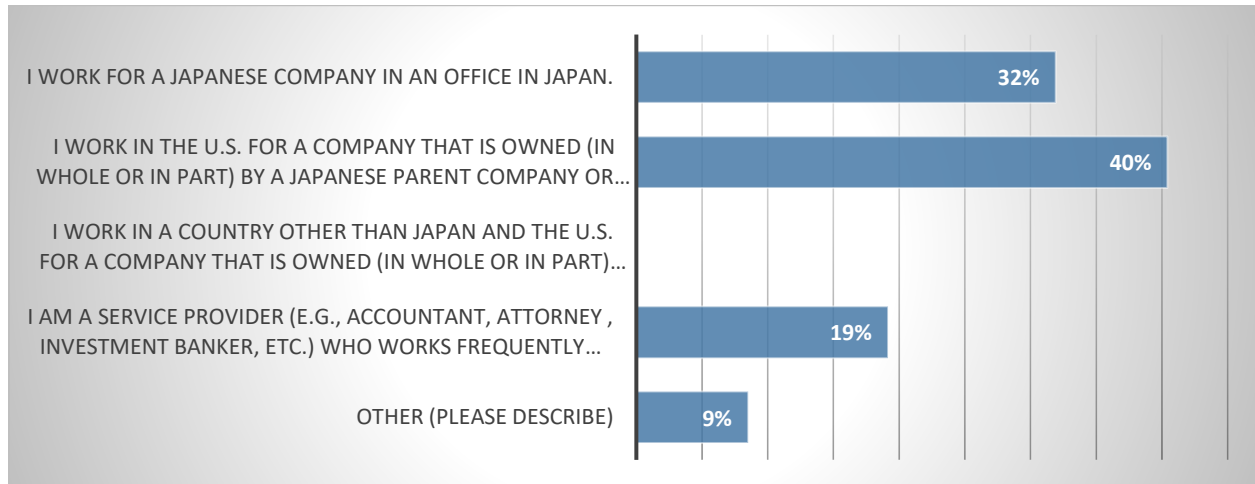


Q8. What impact do you expect that the transition from Shinzo Abe to Yoshihide Suga as Prime Minister of Japan will have on Japanese investment in the United States in 2021?

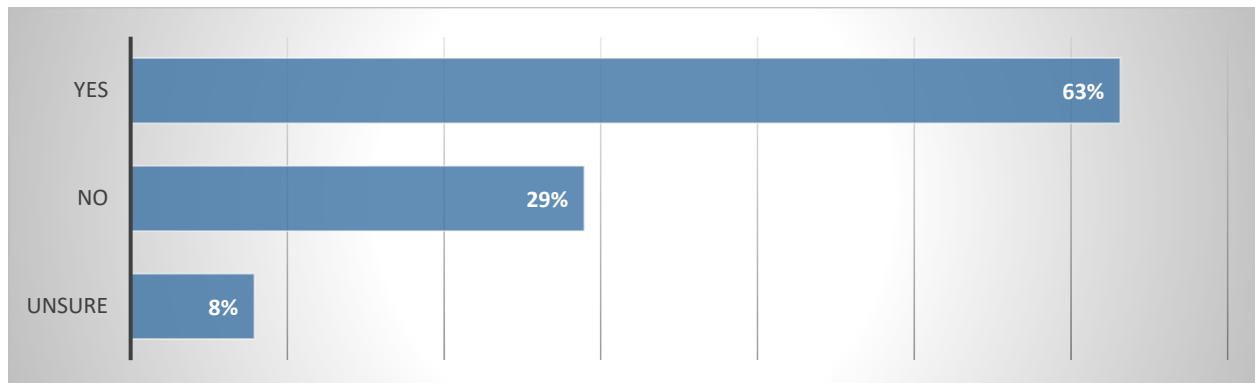


Our Respondents and their Growth Strategies

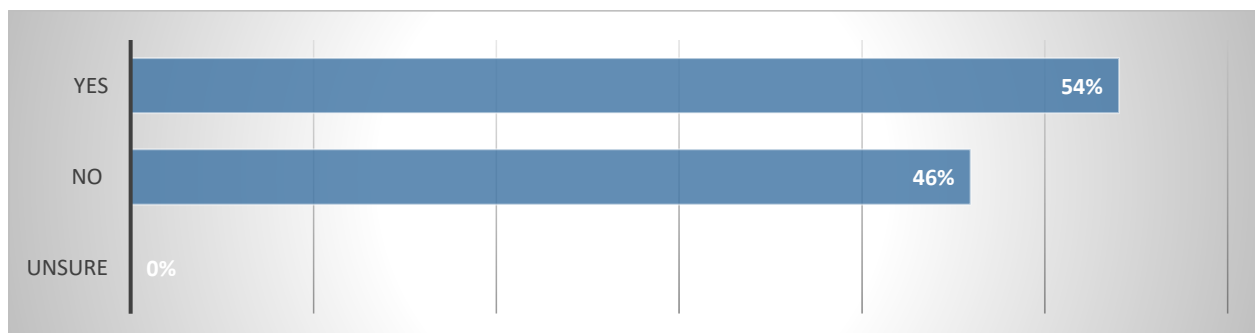
Q9. Which of the following statements best describes you and the company where you work?



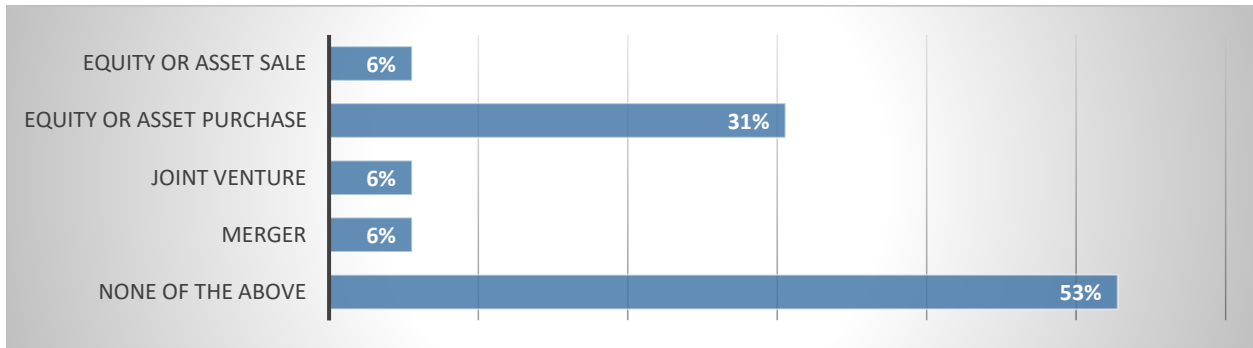
Q10. Does your company or its Japanese parent view M&A as part of its growth strategy?



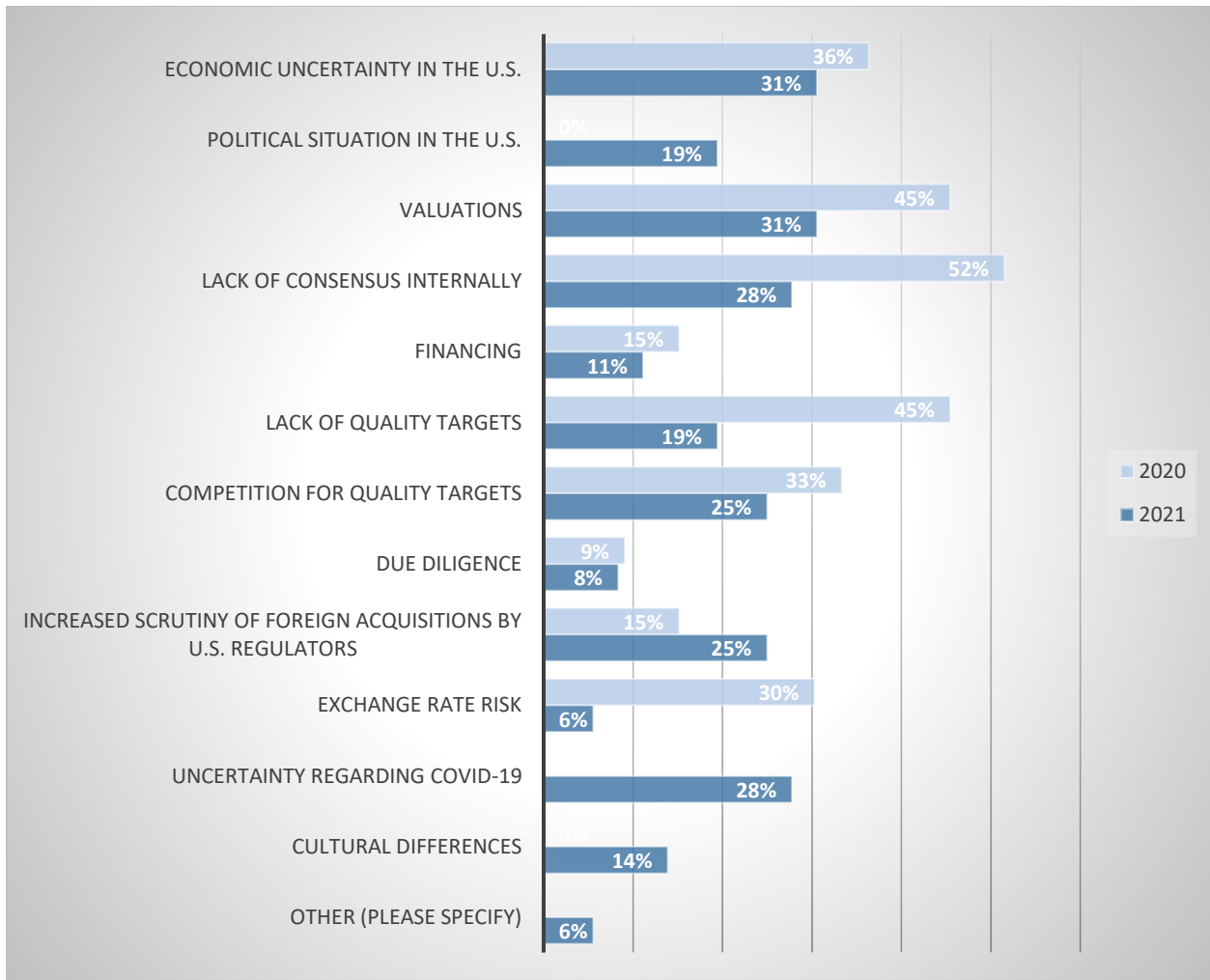
Q11. Has your company or its Japanese parent engaged in a merger, sale or acquisition in the United States within the last ten years?



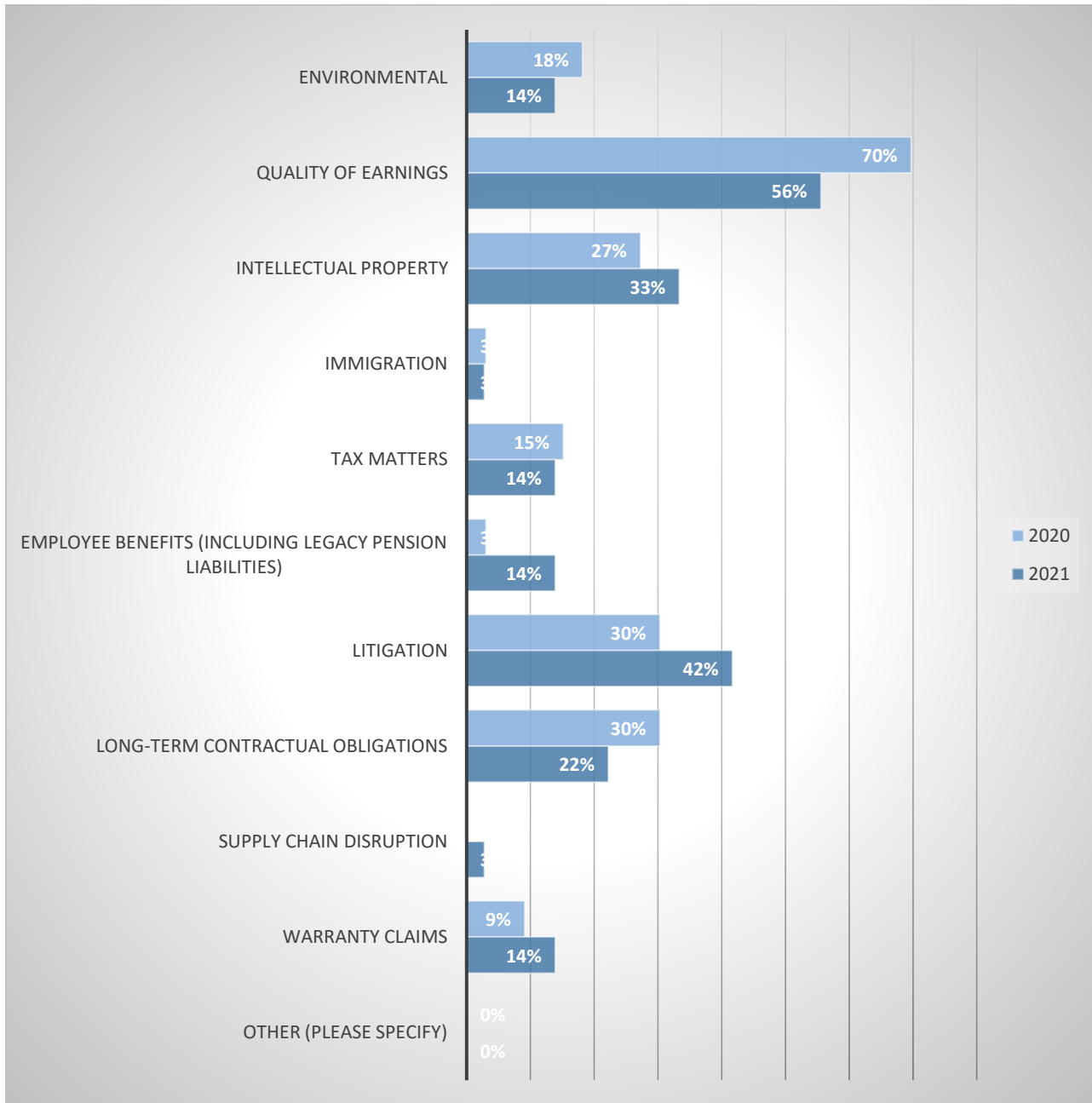
Q12. Do you believe that your company or your Japanese parent is likely to engage in any of the following transactions in 2021?



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.

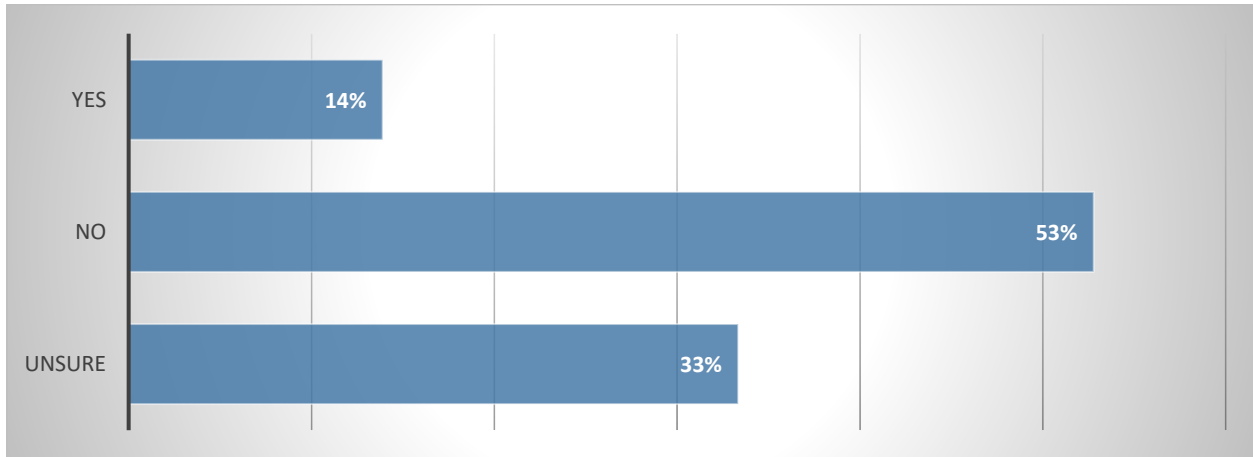


Q14. In evaluating a potential M&A transaction, what areas of legal due diligence/risk assessment are most important for your company and its Japanese parent?

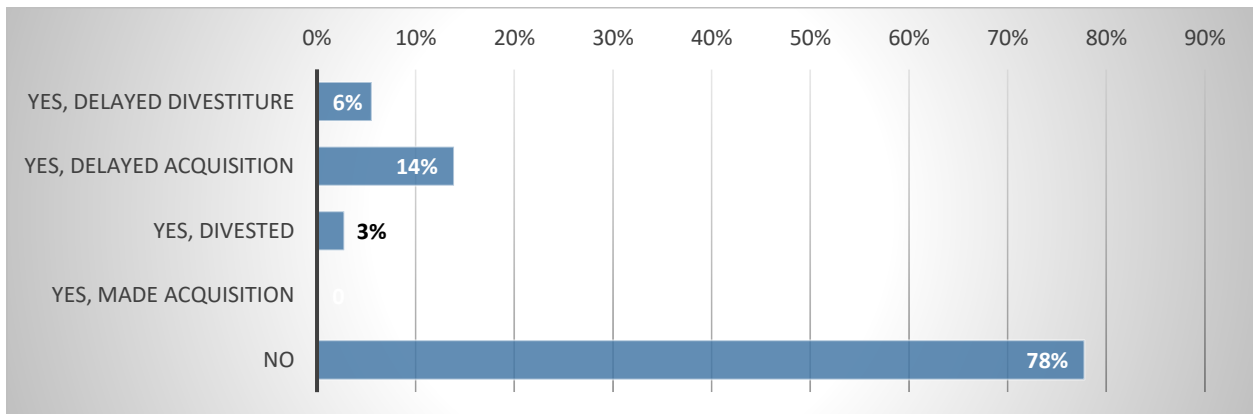


Impact of Current Events on Investment

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?

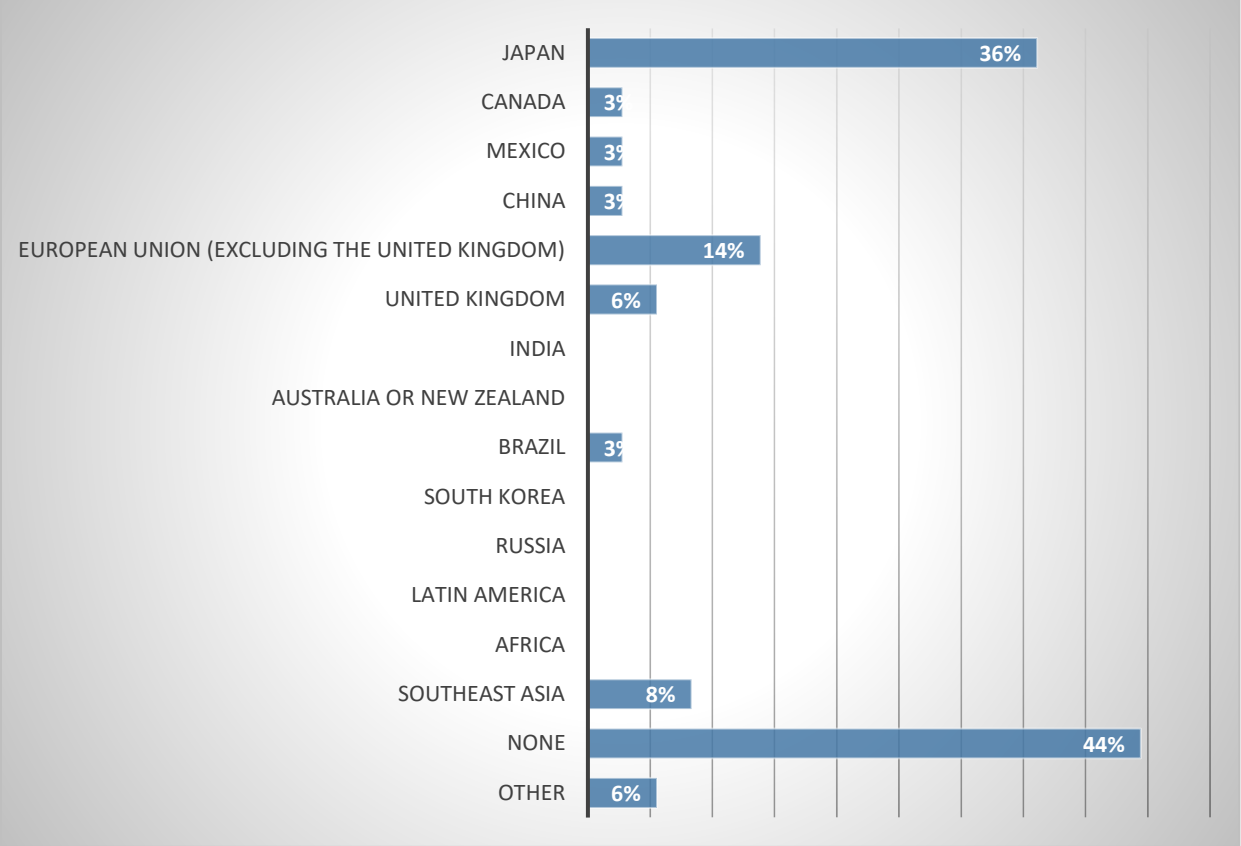


Q16. Has the COVID-19 pandemic impacted your company's deal making in 2020?



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 2021?



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.

Contact Information



Gregory M. Wright
Principal
Chicago, Illinois
gwright@masudafunai.com
312.245.7496



Thomas P. McMenemy
Senior Counsel
Chicago, Illinois
tmcmenemy@masudafunai.com
312.245.7512



Benjamin F. Gould
Principal
Chicago, Illinois
bgould@masudafunai.com
312.245.7498



Jennifer R. M. C. Watson
Principal
Chicago, Illinois
jwatson@masudafunai.com
312.245.7524



Monika R. Oyama
Principal
Chicago, Illinois
moyama@masudafunai.com
312.245.7499



Riebana Sachs
Associate
Chicago, Illinois
rsachs@masudafunai.com
312.245.7534



Jonathan S. Park
Associate
Chicago, Illinois
jpark@masudafunai.com
312.245.7445

masudafunai