

The logo for Masuda Funai, featuring the company name in a blue, lowercase, sans-serif font. The text is contained within a white rectangular box with a thin black border, which is set against a dark blue background.

masuda funai

# 2020 Mergers & Acquisitions Survey Results

A photograph of a man from behind, wearing a light blue long-sleeved shirt and dark trousers. He is standing in a dark blue, textured environment, possibly a hallway or a room. A bright, vertical light source is positioned directly in front of him, creating a strong silhouette and illuminating the scene. His arms are raised, and he appears to be reaching towards the light source.

Prepared by Gregory M. Wright and Thomas P. McMEnamin

## Executive Summary of 2020 Masuda Funai M&A Survey Results

### *Japanese Investment in the United States is Expected to Grow in 2020 in Spite of Economic, Trade and Political Uncertainty*

Respondents to Masuda Funai's 2020 Mergers & Acquisitions Survey expect inbound investment from Japan to increase in the coming year, notwithstanding concerns over the strength of the broader U.S. economy, political uncertainty during a U.S. election year, and increased scrutiny of foreign investment into the United States.

The consensus among respondents was that U.S. and Japanese economic growth in 2020 is likely to be stagnant or weaker than in 2019, but that M&A activity levels in the United States should remain stable and inbound M&A activity from Japan to the United States will likely rise.

Economic developments and demographic trends appear to be driving outbound investment from Japan, which sits as the third largest supplier of foreign direct investment into the United States. Asked to identify the three most important factors driving M&A in the United States by Japanese and Japanese-owned companies, nearly three-fifths of our survey respondents cited economic conditions and trends in Japan.

At the beginning of 2019, Japanese companies collectively held more than US\$890 billion in cash on their balance sheets. Recent changes to Japan's corporate governance code, which were introduced as part of Prime Minister Shinzo Abe's "Abenomics" program, have focused on promoting capital efficiency and returns on equitable investments. As a result of these reforms, shareholders can now encourage Japanese companies with stockpiled cash to engage in share buybacks or strategic investment.

Japan's population is aging and its birth rate is declining, trends that lead to a reduction in 2018 of 430,000 in the number of native Japanese. Faced with this natural limitation on the pace of future domestic economic growth, Japanese firms are increasingly looking overseas for investment opportunities. Despite the presence of some economic and political uncertainty, the United States maintains its position as a premier destination for Japanese investment. Respondents noted a desire for greater access to American consumers and access to intellectual property and technology as leading reasons for investment in the United States. The position of the United States as a mature economic market also likely plays a role. Our respondents identified the U.S., Japan and the European Union as the most likely outlets for further investment, showing only limited interest in emerging markets.

Asked to identify prominent obstacles to further investment, respondents emphasized a lack of internal consensus and high valuations, while concerns about economic uncertainty and more U.S. federal scrutiny of inbound investment rated lower. Respondents had mixed reactions to recent developments in U.S. trade policy, with many acknowledging tariffs as a damper on investment but substantial minorities stating that trade policy would likely have no effect or a positive effect on their investment plans.

The notable findings of our 2020 survey of Japanese executives, professionals, service providers and thought leaders are set forth below, together with a more detailed description of results. We hope that you find these survey results helpful in planning your company's growth strategy for the year ahead.

## Notable Findings of the 2020 Masuda Funai M&A Survey

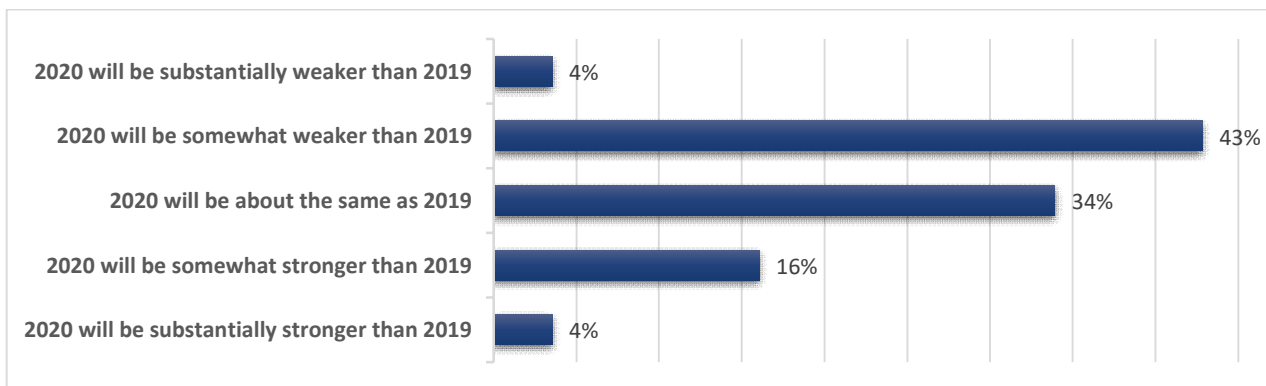
- **U.S. Economic Growth:** Nearly half of respondents (46%) expect the U.S. economy to be somewhat or substantially weaker compared to how it performed in 2019, and another third of respondents (34%) expect it to be about the same. Only one in five respondents (20%) expects U.S. economic growth to pick up pace this year.
- **Japanese Economic Growth:** Over half of respondents (54%) expect the Japanese economy to be somewhat or substantially weaker compared to how it performed in 2019, with nearly another third (32%) expecting it to be about the same. No respondents expect a substantial improvement.
- **Overall M&A Activity in the United States and Inbound Activity from Japan:** Despite expectations of sluggish economic performance on both sides of the Pacific Ocean, a substantial plurality of respondents expect M&A activity levels in the United States to remain stable (44%) and inbound M&A activity from Japan to the United States to rise (42%). Respondents listed economic conditions and trends in Japan (57%), access to U.S. consumers (48%), and access to intellectual property and technology (43%) as the primary factors driving Japanese investment in the United States.
- **Obstacles to Investments:** Respondents listed lack of internal consensus (cited on 52% of responses), valuations (45%) and lack of quality targets (45%) as the leading obstacles to further investment by their companies in the United States.
- **Key Diligence Issues:** Asked to identify their most pressing areas of legal due diligence and risk assessment, (70%) of respondents chose quality of earnings, (30%) identified litigation and (30%) mentioned long-term contractual obligations. Traditional areas of concern for Japanese investors such as tax matters (15%) and environmental matters (18%) came further down the list.
- **Trump Administration Policies:** A substantial plurality of respondents noted that their companies would be less likely to invest in the United States (37%) as a result of recent changes to U.S. trade policy; however, a substantial minority (27%) claimed that they were more likely to invest. Interestingly, a third of respondents stated that trade policy changes would have no effect on their investment plans. Over 90% of respondents noted that the 2017 Tax Cuts and Jobs Act have had no effect on their actual investment or investment plans in the United States.
- **Profile of our Respondents:** Most of our respondents either work for a Japanese-owned company in the United States or for a Japanese company in Japan that invests in the United States. A small portion of our respondents are service providers to the Japanese business community in the United States. Of those employed by a Japanese or Japanese-owned company, a majority (60%) work for a company that considers M&A as part of its growth strategy, and over a third (35%) work for a company that has engaged in a merger, sale or acquisition within the last ten years. About half of the respondents (46%) expect their companies to engage in an M&A transaction or joint venture in 2020, with most expecting an equity or asset purchase rather than a divestiture. Respondents listed the European Union (now excluding the United Kingdom), the domestic Japanese market, Mexico, China and India as attractive third country targets for investment.

## 2020 Masuda Funai M&A Survey Results / Data

Masuda Funai asked executives and professionals in Japanese-owned companies, as well as 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.

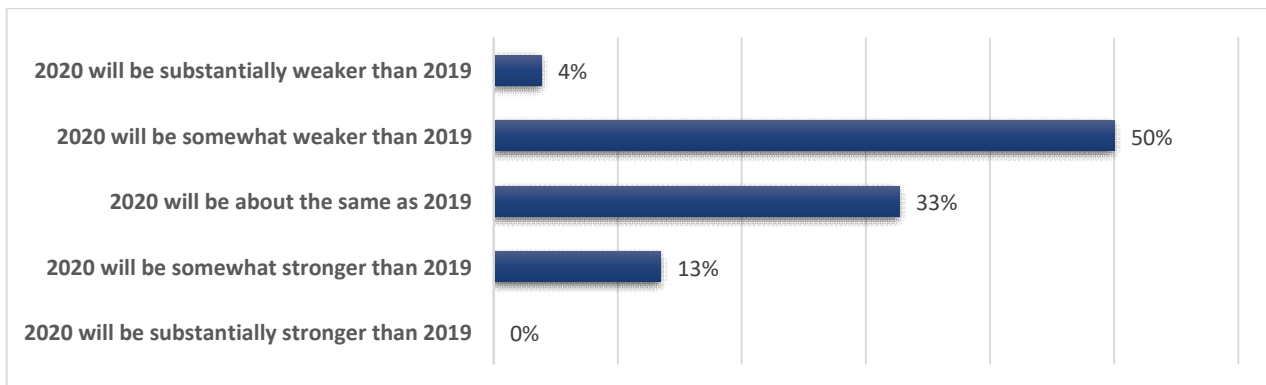
### Economic Growth

**Q1. How well do you expect the U.S. economy to perform in 2020 compared to how it has performed in 2019?**



*A number of respondents specifically noted that they expected trade friction between the U.S. and China, as well as political fallout during the 2020 election cycle, to have an impact on the U.S. economy.*

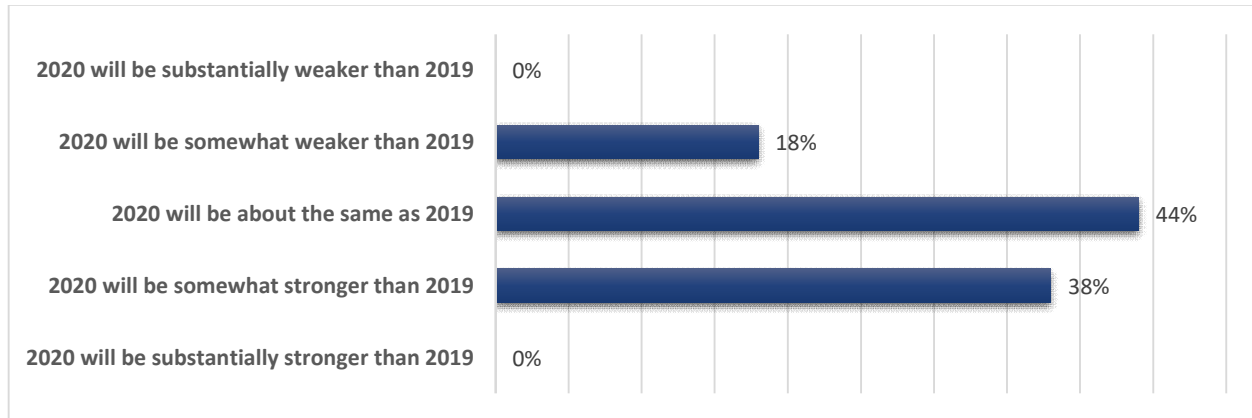
**Q2. How well do you expect the Japanese economy to perform in 2020 compared to how it has performed in 2019?**



*Some respondents noted that an increase in the Japanese consumption tax, the conclusion of expenditures on large projects such as the Tokyo Olympic Games, and sluggish growth at a global level could take a toll on the domestic economy in Japan during 2020.*

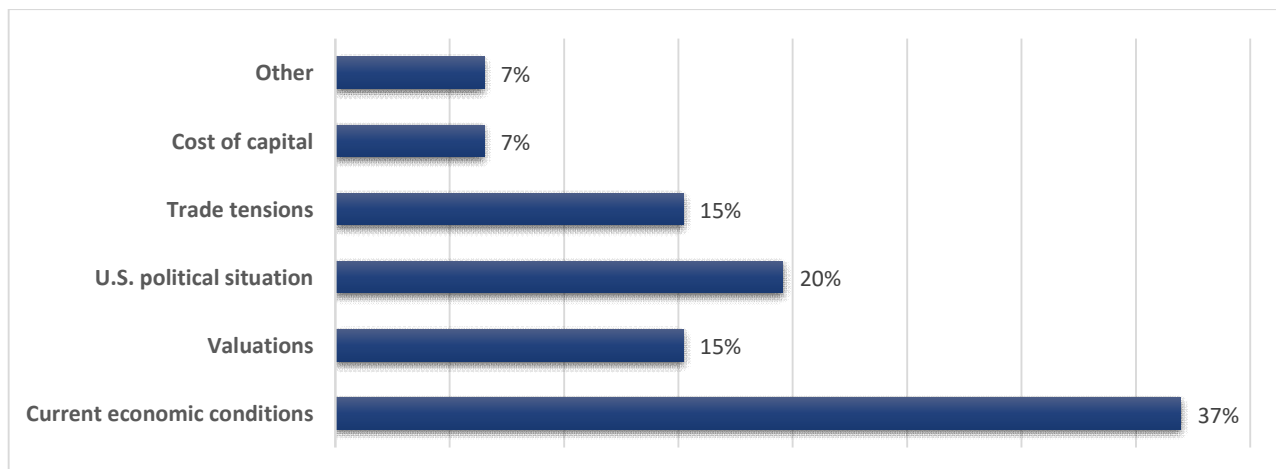
## M&A Activity in the United States

**Q3. How well do you expect U.S. M&A activity in 2020 will compare to U.S. M&A activity in 2019?**



*Respondents who were bullish on U.S. M&A in the upcoming year cited the continued availability of capital and the desire by companies to close acquisitions to maintain their competitive position. Those less confident in growth cited a more active review by U.S. authorities of foreign investments as causes for skepticism about M&A activity levels for the upcoming year.*

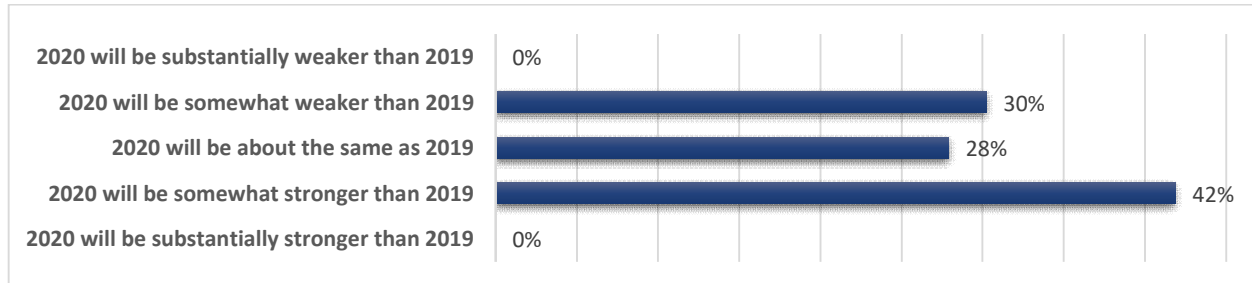
**Q4. As a follow up to Q3, why do you expect that U.S. M&A activity in 2020 will be [stronger than/same as/weaker than] U.S. M&A activity in 2019? Please select the top reason.**



*Respondents who answered "other" noted industry fragmentation and disruption in the automotive industry as drivers of M&A in the United States in 2020.*

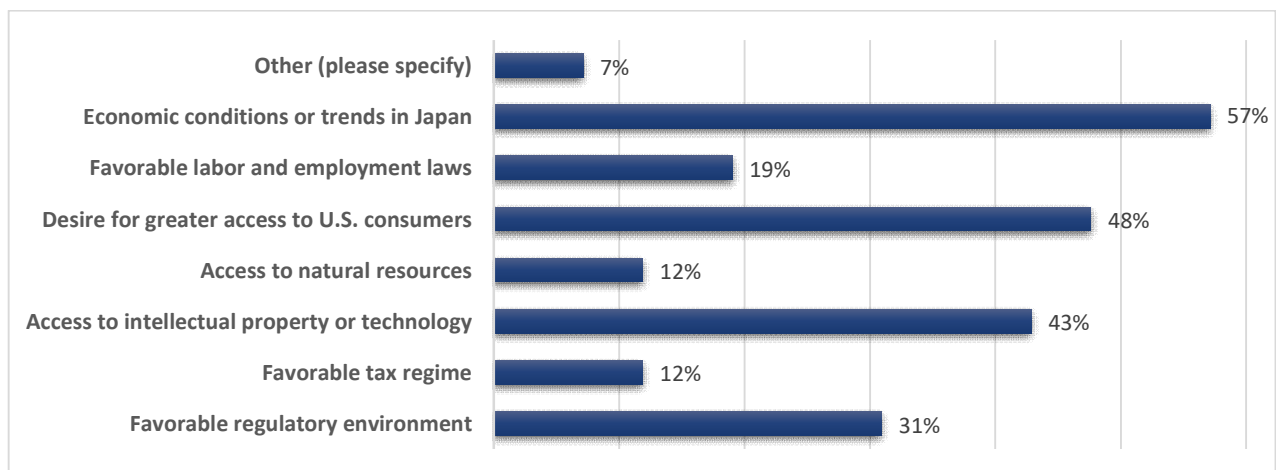
## M&A Activity by Japanese Companies in the United States

**Q5. How do you expect Japanese M&A activity into the United States in 2020 will compare to similar activity in 2019?**



*Those respondents who provided specific feedback noted that Japanese investment in the United States will be affected by (i) the strong relationship between Japan and the United States, (ii) changes in pricing driven by exchange rate dynamics and (iii) a need for investment to meet development challenges in the automotive industry.*

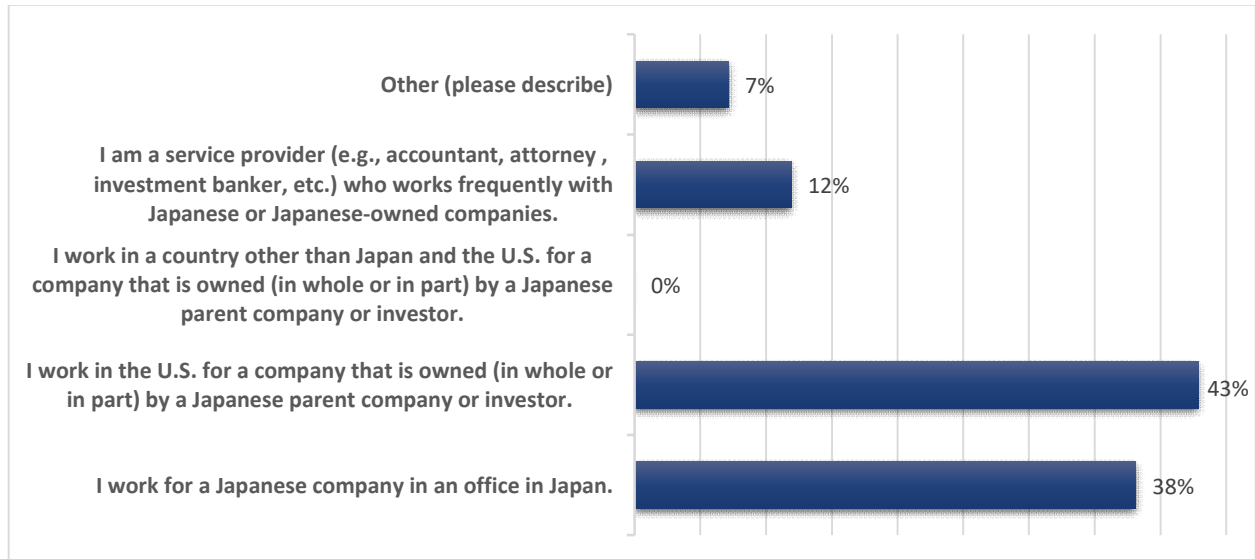
**Q6. What are the most important factors driving M&A by Japanese and Japanese-owned companies in the United States? Please select up to three.**



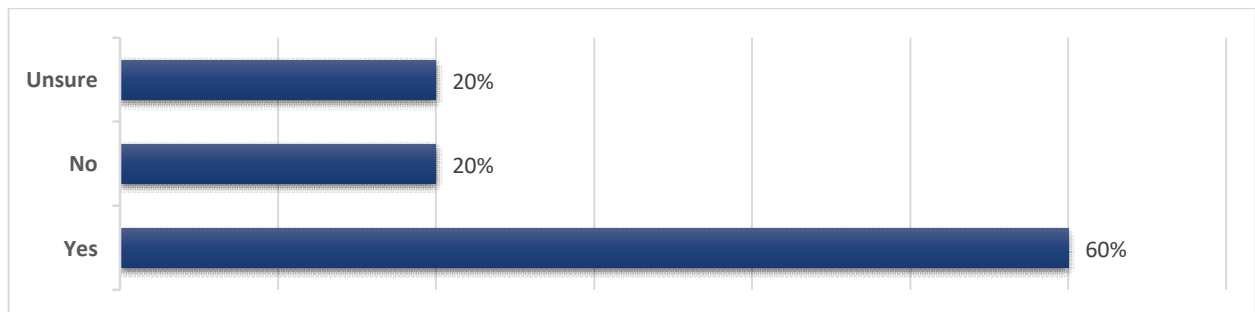
*Respondents who answered “other” mentioned a search for competitive synergies and pressures on the Japanese automotive industry as drivers of Japanese M&A activity in the United States in 2020.*

## Our Respondents and Their Growth Strategies

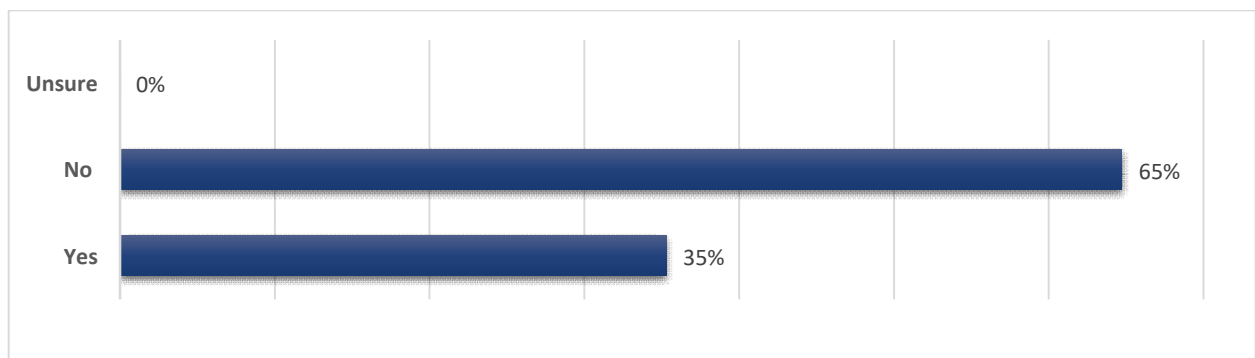
**Q7. Which of the following statements best describes you and the company where you work?**



**Q8. Does your company or its Japanese parent view M&A as part of its growth strategy?**

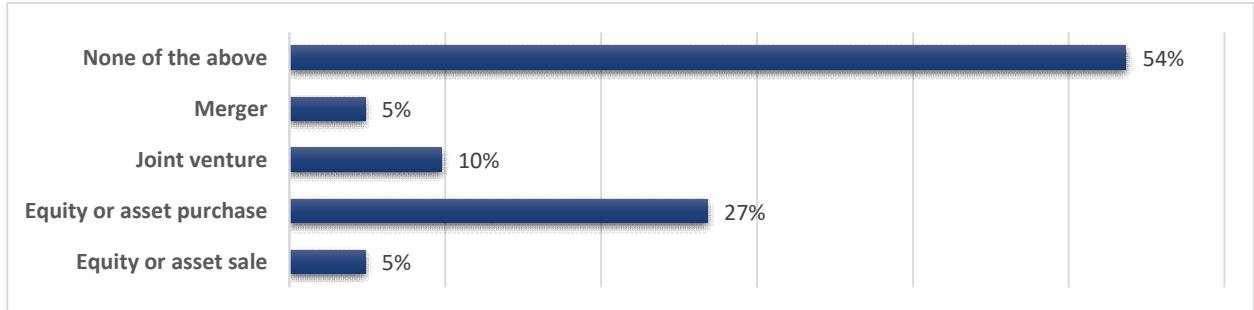


**Q9. Has your company or its Japanese parent engaged in a merger, sale or acquisition in the United States within the last ten years?**

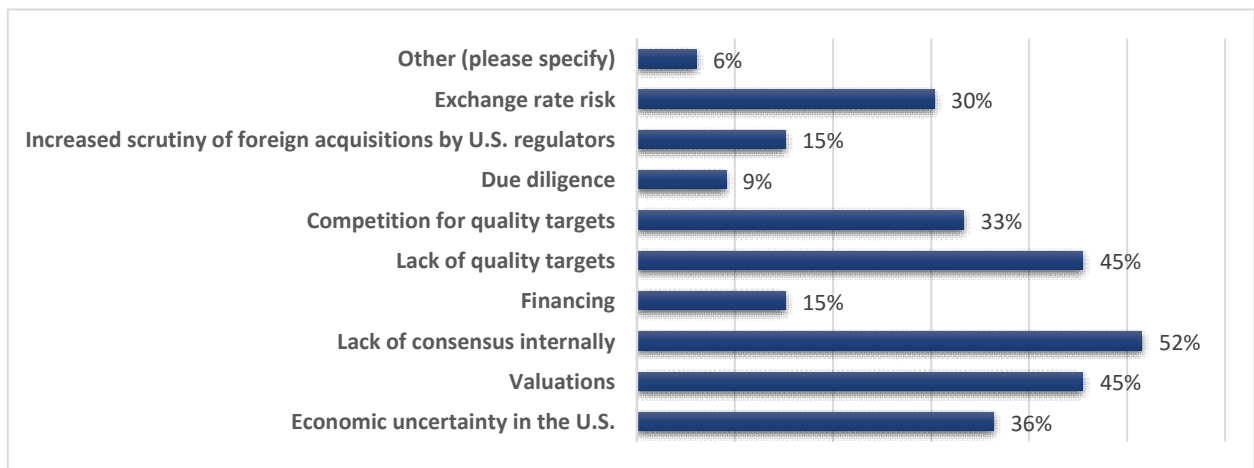


## Our Respondents and Their Growth Strategies (continued)

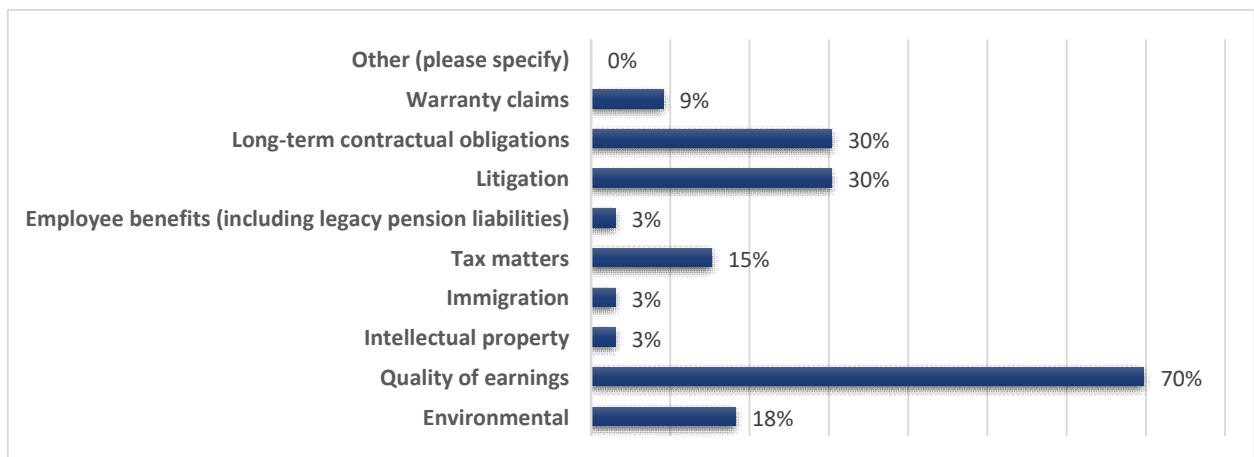
**Q10. Do you believe that your company or your Japanese parent is likely to engage in any of the following transactions in 2020?**



**Q11. What are the greatest obstacles to further investment by your company or its Japanese parent in the United States? Please select the top three.**



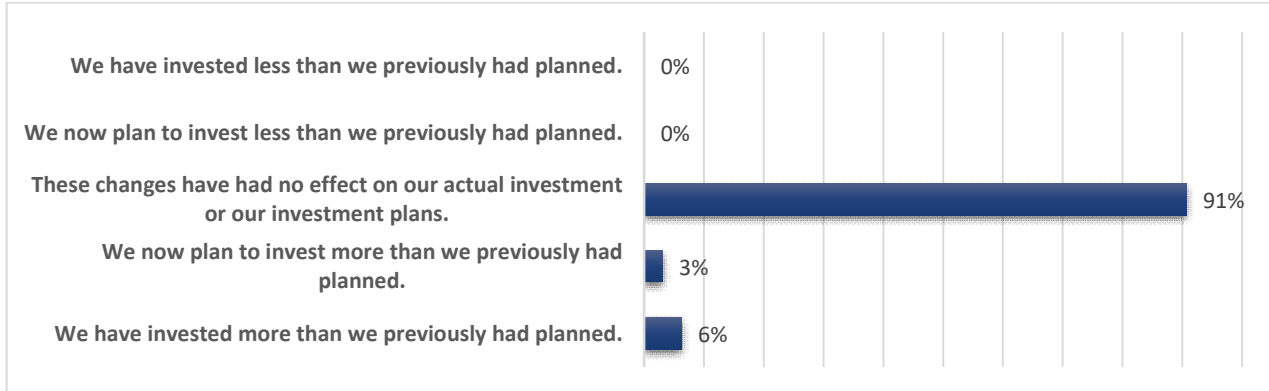
**Q12. In evaluating a potential M&A transaction, what areas of legal due diligence/risk assessment are most important for your company and its Japanese parent?**



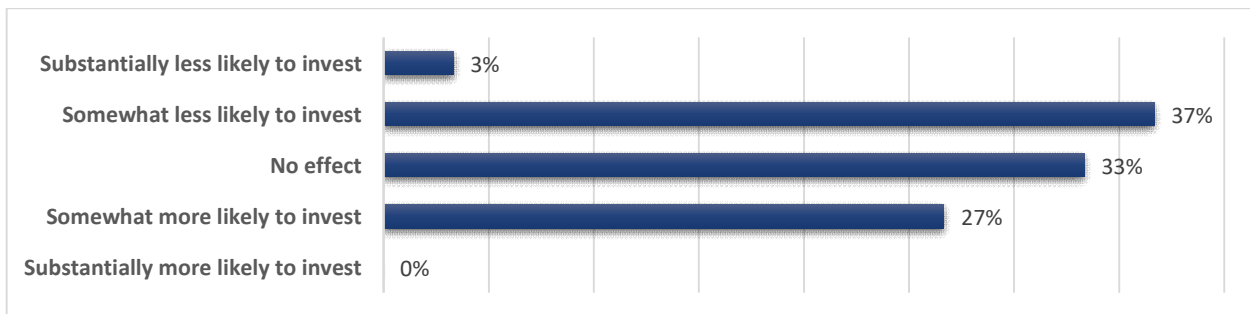


## Impact of U.S. Tax and Trade Policies

**Q13. Have the 2017 changes to U.S. federal tax law impacted investment or planned investment in the United States by your company or its Japanese parent?**

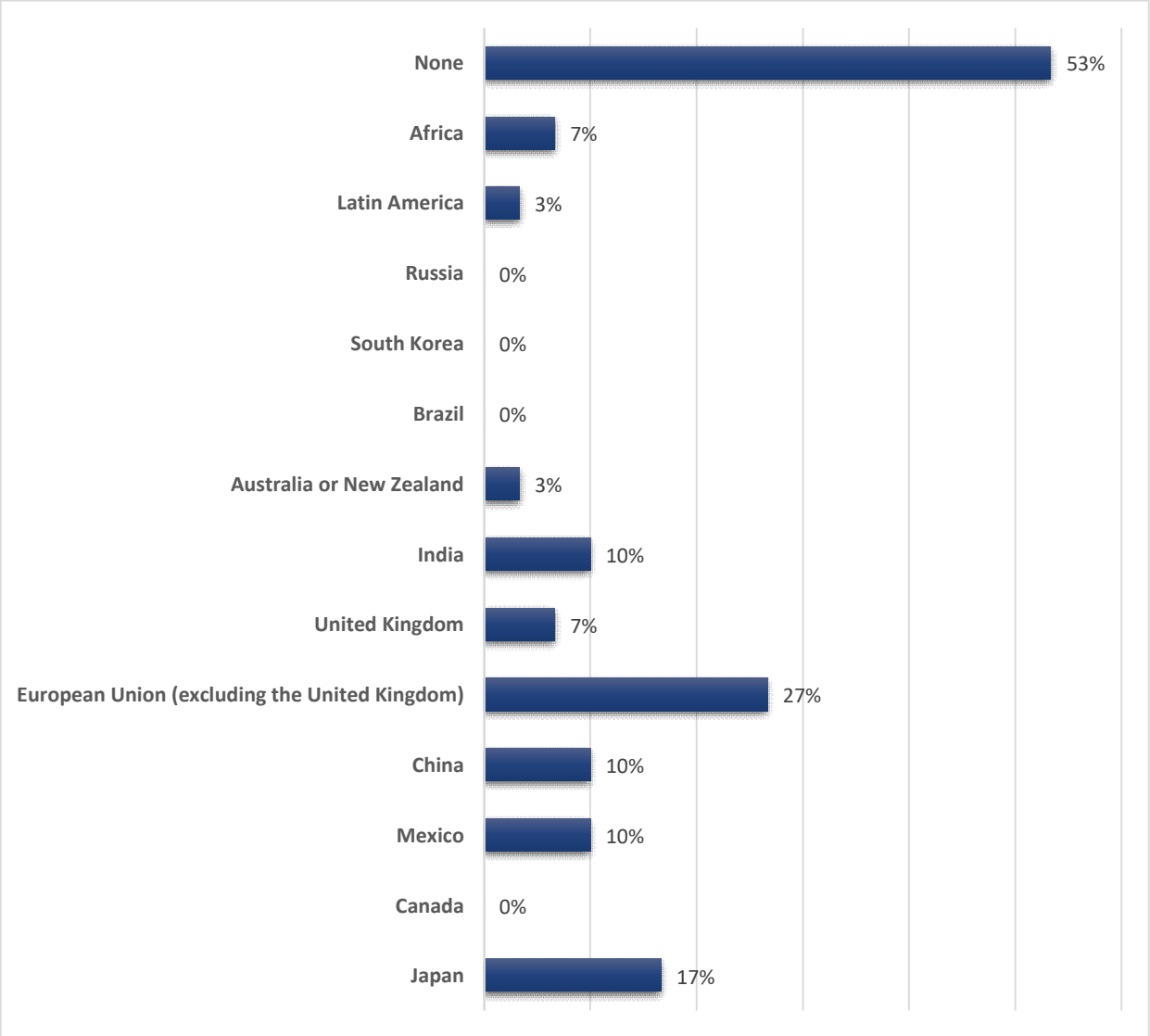


**Q14. Do you expect that recent changes in U.S. trade policy (including the imposition of tariffs on certain foreign goods) will have an effect on future investment in the United States by your company or its Japanese parent?**



## Third Country Investment

**Q15. Other than the United States, in what region(s) are your company and its Japanese parent considering an M&A transaction in 2020?**



## About Masuda Funai's Corporate, Finance & Acquisitions Practice

**Masuda Funai represents more Japanese business operations in the United States than any other American law firm.**

We assist these companies in their merger, acquisition and divestiture activities. Throughout each transaction on which we provide support, we remain diligently committed to our clients and to providing strategic advice that meets their commercial objectives.

Our experience is 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, and 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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