

EVALUERVE



M&A in APAC – Q1 2023

Corporate and Investment Banking Practice

April 2023

Current headwinds and strained supply chains have weighed on the global economic recovery

M&A activity in APAC markets was marred by global headwinds

- Deal values in APAC⁽¹⁾ markets declined and aggregated US\$180bn in Q1 2023 (down 14% Y-o-Y), marking the slowest first quarter for deal-making since 2020
- The value of global deal-making activities decreased to US\$580bn in Q1 2023 (down 44% Y-o-Y), the largest Y-o-Y decline since 2001
 - The number of deals declined by 17% Y-o-Y (to ~12,700) in Q1 2023, the lowest in last three years
- Growth in deal values in Australia (up 116% Y-o-Y) and Japan (up 78% Y-o-Y) emerged as the silver lining, in the middle of a bearish market sentiment
 - The material and technology sectors were the leading contributors to deal activity in APAC, accounting for ~46% of the total deals
 - Deal values in India aggregated US\$8bn (down 70% Y-o-Y) and Southeast Asia aggregated US\$9bn (down 70% Y-o-Y), which significantly weighed on the overall growth
- In Q1 2023, ~12,700 deals were announced globally. Out of these, the EMEA and the Americas accounted for 35% each, while APAC⁽¹⁾ accounted for 30% of the deals

Risks to economic outlook are heavily skewed to downside, amid sporadic resurgence of pandemic and a tough financial environment

- The IMF recently revised APAC's annual growth outlook and expects GDP growth to slow down in 2023 amid growing uncertainty in the financial markets
 - Stress in financial sector could amplify this year, weakening the real economy through a sharp deterioration in financing conditions
- China and Japan witnessed a resurgence in COVID-19 infection rates earlier this year, but have now lifted all restrictions and look forward to a turnaround in economic recovery
- India is currently facing a constant spike in daily cases and the government has advised caution to everyone. The daily positivity rate was 5.5% as on April 20, 2023
- Based on IMF's latest forecast, APAC's GDP is expected to grow by 2.8% in 2023, led by India (5.9%). However, APAC's growth is expected to increase to 3.0% in 2023 (down from 3.2% earlier in January)

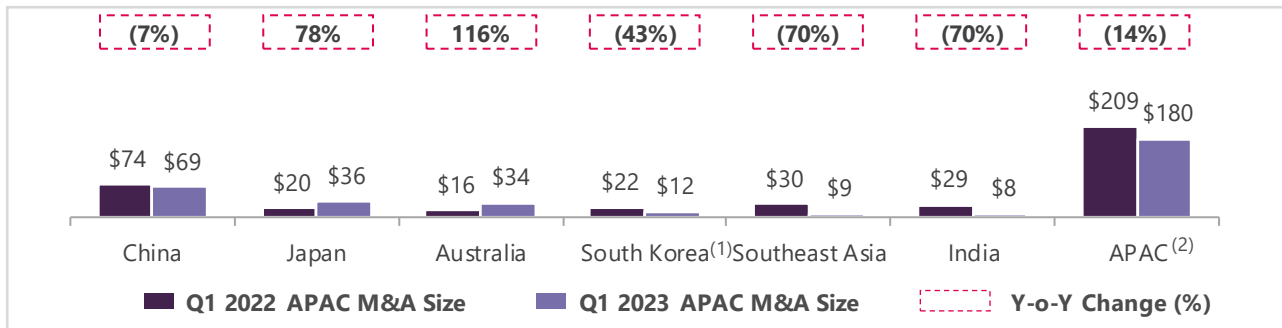
Source: Refinitiv; Data as on March 31, 2023; Figures in USDbn, World Bank and IMF

(1) Includes Japan

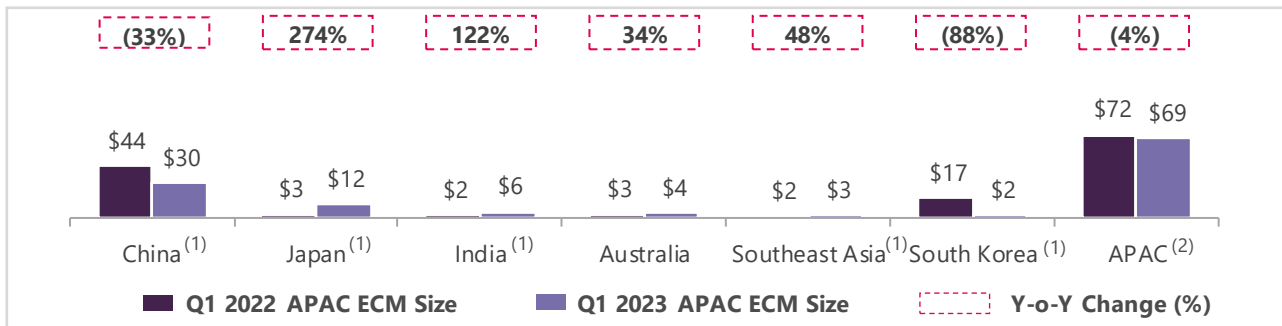


APAC markets mirrored the global trend, continued to slip

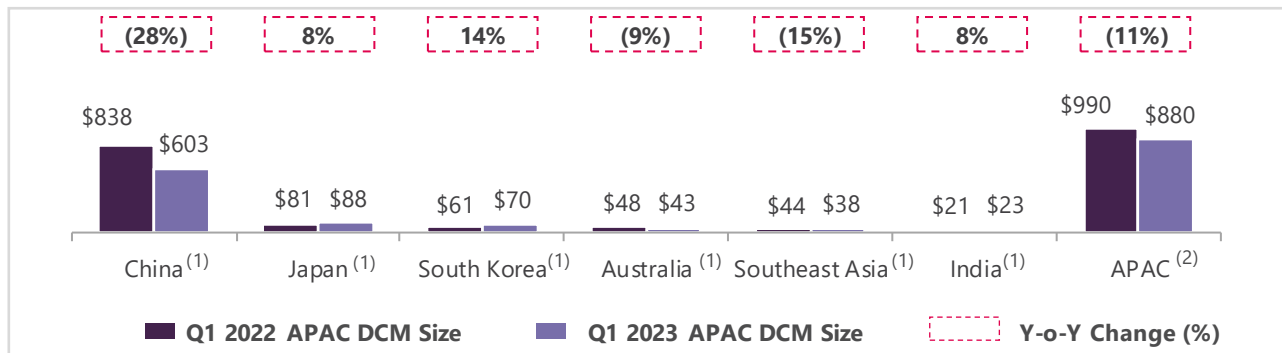
- Deal activity in M&A markets remained sluggish in Q1 2023, as total deal value declined by 14% Y-o-Y and the number of deals declined by 11% Y-o-Y
 - M&A deal value in Australia and Japan increased by 116% and 78%, respectively



- Deal value in the equity capital markets (ECM) in APAC⁽¹⁾ declined by 4% in Q1 2023



- Deal value in the debt capital markets (DCM) in APAC⁽¹⁾ declined by 11% in Q1 2023. Asian local currency bond offerings aggregated US\$749bn (down 13% Y-o-Y) in the same time period



Source: Refinitiv; Data as on March 31, 2023; Figures in USDbn

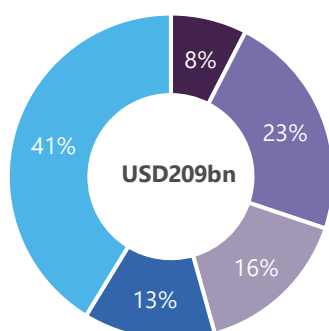
1) Extrapolated figures using data as on March 16, 2023

2) Includes Japan

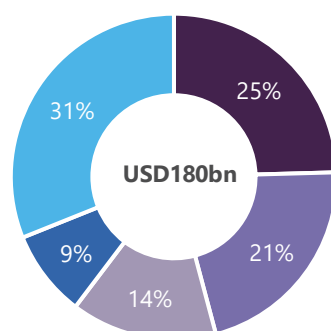
Material sector witnessed the highest Y-o-Y growth in M&A deal making in Q1 2023

- The material sector emerged as the biggest contributor to M&A deal making in the APAC markets, accounting for 25% of total deals⁽¹⁾ in Q1 2023
 - The technology sector was the second largest contributor to APAC M&A market and accounted for 21% of the total deals⁽¹⁾
 - Deal activity in APAC M&A markets declined in Q1 2023 following the global markets, with APAC M&A markets marking the slowest first quarter since 2020

Q1 2022 APAC⁽²⁾ M&A Size



Q1 2023 APAC⁽²⁾ M&A Size



- Materials
- High Technology
- Industrials
- Real Estate
- Others

Top Announced M&A (By Transaction Value): Q1 2023

Date of Announcement	Target	Target's Advisor	Txn. Value (USDbn)	Acquirer	Acquirer's Advisor
06-Feb-23	Newcrest Mining	JPMorgan Chase / Gresham Partners	\$18.5	Newmont Corp	Lazard / BofA Securities
23-Mar-23	Toshiba	Nomura / UBS	\$16.1	Japan Industrial Partners	Crosspoint Advisors
12-Jan-23	Total Access Communication	Ernst & Young LLP	\$5.6	True Corp	Citigroup / JPMorgan Chase
31-Jan-23	Lotus Tech	Deutsche Bank	\$5.4	L Catterton Asia Acquisition	-
28-Mar-23	Liontown Resources	Greenhill	\$3.6	Albemarle	JPMorgan Chase

Source: Company Press Releases and Refinitiv; Data as on March 31, 2023, Figures in USDbn

1) In terms of deal value

(2) Includes Japan

Once again, downside risks dominate and the fog around the world economic outlook has thickened

- While dealmakers are facing a challenging market environment, M&A professionals must come up with much more innovative transaction structures to bridge the valuation gap between buy-side and sell-side and mitigate risks, either via earn out, minority deal with path to control, or contingent components

— Miranda Zhao, Natixis Corporate & Investment Banking (*Head of M&A, Asia Pacific*)

- M&A dealmakers in the region's banking sector may stay vigilant in 2023 due to a difficult financing environment and uncertainties over interest rates... With China beginning its recovery from the pandemic in the early part of 2023, India may be able to attract foreign investors who previously would have chosen China instead

— Stephen Chan, Dechert LLP (*Partner, Hong Kong*)

- China's economy is on track to recover this year. For other economies this will dampen but not offset the hit of slower growth in the U.S. and Europe, the fading impact of domestic re-opening post the pandemic, and higher interest rates

— Louis Kuijs, S&P (*Chief Economist, Asia Pacific*)

- Companies are eager to explore deals both in China and abroad... Inbound investment in China will likely remain stable as it has been the case for the past decade, as global companies are extremely keen to invest in China

— Bagrin Angelov, CICC (*Head of cross-border M&A, China*)

Source: Press search



Outlook for 2023

What the world economies can look forward to?

Many economies are likely to experience slower growth in incomes in 2023, on back of stringent financial conditions and rising finance costs. At the same time, the growth prospects for emerging and developing economies fare better than advanced economies. The global economic growth is expected to bottom out at 2.8% in 2023, before rising modestly to 3.0% in 2024. Mirroring a similar trend, economic growth in the APAC is also expected to slow down and grow by 2.8% in 2023 and then rise to 3.0% in 2024

A long fight with Inflation

Tentative signs in early 2023 that the world economy could achieve a soft recovery - with inflation coming down and growth remaining steady, have receded amid stubbornly high inflation. Although inflation has come down, however it has not yet decisively turned the corner. Global inflation is expected to decrease (although more slowly than initially anticipated) from 7.0% in 2023 to 4.9% in 2024

China to hold the key for overall economic recovery

As COVID-19 waves subsided in January of this year, mobility normalized, and high-frequency economic indicators such as retail sales and travel bookings started picking up. With China absorbing about a quarter of exports from Asia and between 5-10% from other geographic regions, the reopening and growth of its economy will likely generate positive spillovers

A caution served by banking sector

The recent bout of banking instability reminded us that turbulence is building and the situation is quite fragile. However, the collapse of a few regional banks illustrate that significant vulnerabilities exist both among banking and non-banking financial institutions. A silver lining is that the banking turmoil will help slow down the aggregate activity as banks curtail lending in the face of rising funding costs and would need to act more prudently

Indian markets to lead the way for global growth

Despite a significant drop in India's growth rate projections by the IMF from 6.8% in 2022 to 5.9% in 2023 (driven by slowness of domestic consumption and data revision), India will continue to be one of the fastest growing economy in the world in 2023. The overall outlook for Asia Pacific remains positive as resilient growth in India along with recovery in China markets, is expected to contribute significantly towards global growth

Source: Press search, World Bank and IMF



About the Author




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- Rajat has over 13 years of experience in managing investment banking research teams.

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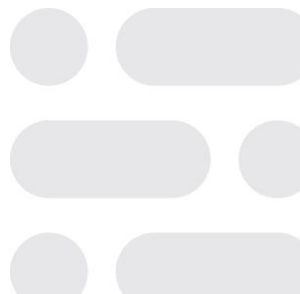
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