



The New State of M&A

Japan

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Executive Summary

Spotlight on Japan

For all the advances in recent years, just how digitally mature and technologically sophisticated is the M&A, due diligence, and asset marketing process in Japan?

Moreover, what does the process look like today, and how might technology and accelerating digitization change the dealmaking process over the coming years?

These are some of the key questions we wanted to investigate and answer in this research, which involved surveying 111 Japanese M&A practitioners from corporates, private equity firms, investment banks, law and professional services firms, for their views on the subject.

The respondents, who form part of a global survey of 2,235 practitioners, not only provide insight on the current and future state of the dealmaking process, their responses also reveal some interesting regional similarities and differences in opinion.

111 Japan-based M&A practitioners surveyed

Japan at the forefront of digitization over the next five years

Most Japanese practitioners today assess that the digital maturity and technological sophistication of the M&A process at their company and industry-wide is at a medium level, and expect this to rise to a high level in five years' time.

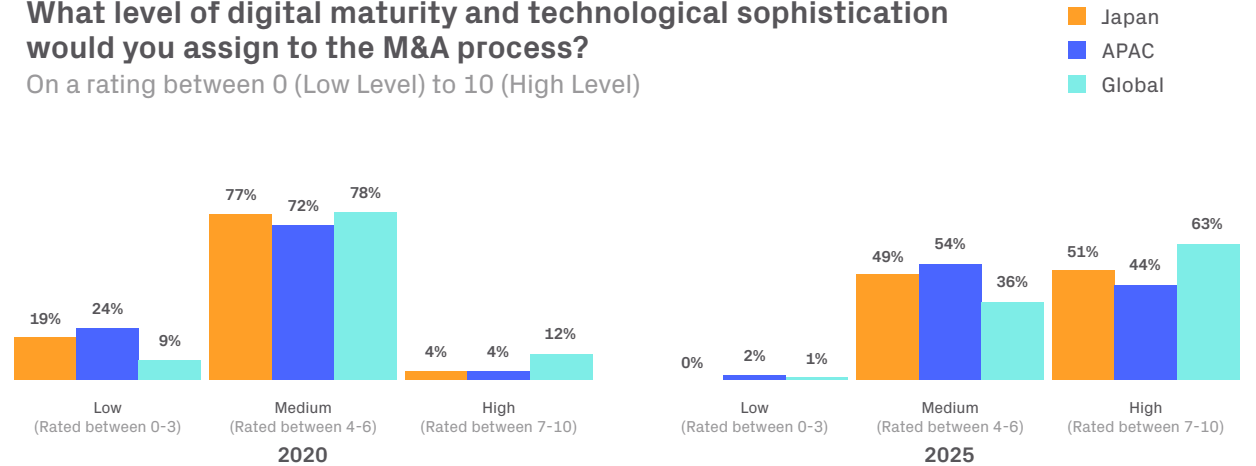
This view is shared by some of their peers across APAC, such as in China. But not everywhere in APAC. For instance, most practitioners in most other APAC countries, believe their company will maintain a medium level of maturity and sophistication come 2025.

That suggests, digitization for companies in Japan and China is expected to progress, whereas in other APAC countries it may stagnate.

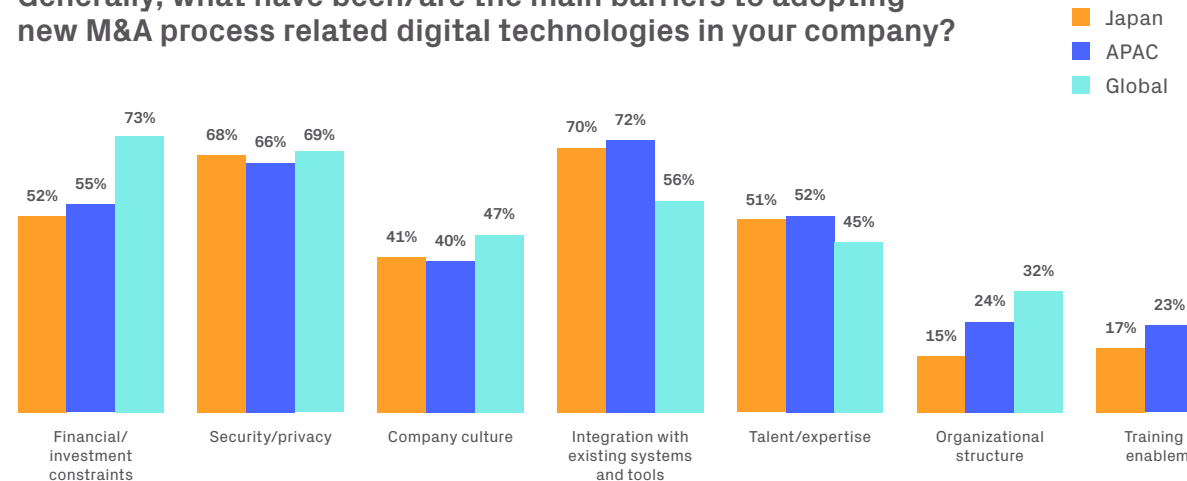
Interestingly, Japanese practitioners highlight some of the same challenges as their APAC peers in adopting M&A process-related digital technologies. These include integrating new technology with existing systems, security and privacy concerns, and financial constraints.

What level of digital maturity and technological sophistication would you assign to the M&A process?

On a rating between 0 (Low Level) to 10 (High Level)



Generally, what have been/are the main barriers to adopting new M&A process related digital technologies in your company?



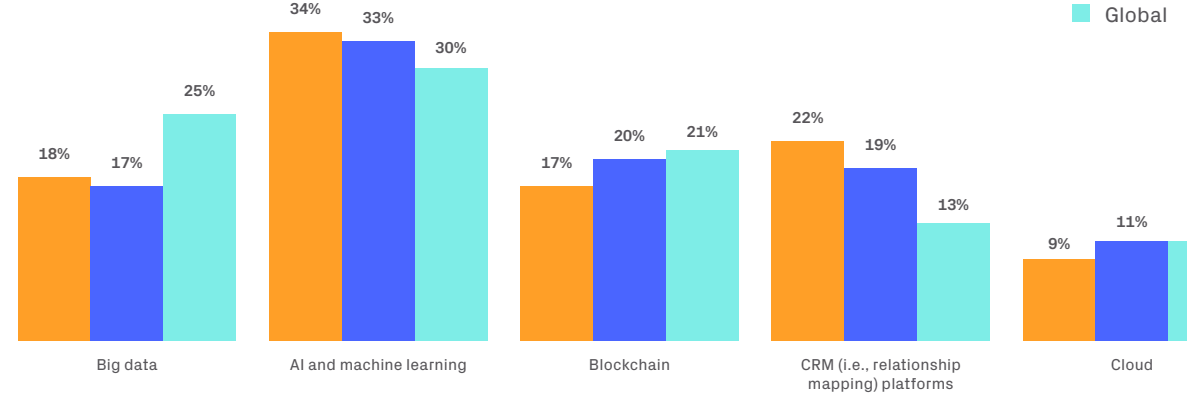
AI and ML, CRM, and big data analytics to transform M&A processes

Advances are, however, being made. And over the next five years, most Japanese practitioners believe that technologies such as AI and machine learning, CRM (customer relationship management or mapping) platforms, and big data analytics could potentially have the most transformational impact on the M&A process, and in specific areas of it.

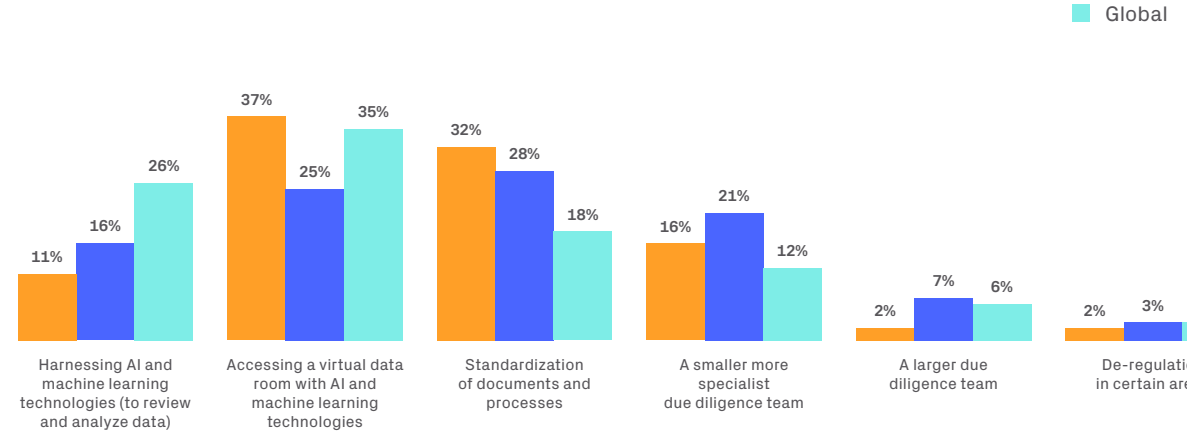
For instance, most practitioners believe deal sourcing and due diligence, the most time-consuming phase, could be enhanced most by new technologies and digitization.

Indeed, they also expect technology to enable greater analytical capability, and security, in the diligence process over the next five years. They are also placing the greatest hope in AI and machine learning technologies, especially as part of virtual data rooms, to boost the speed of due diligence further, and help improve areas such as data management and communications, analytics, and scenario analysis.

Which of the following technologies do you think will have the most transformational impact on the M&A process in the next five years?



Which of the following would help accelerate the due diligence process the most?



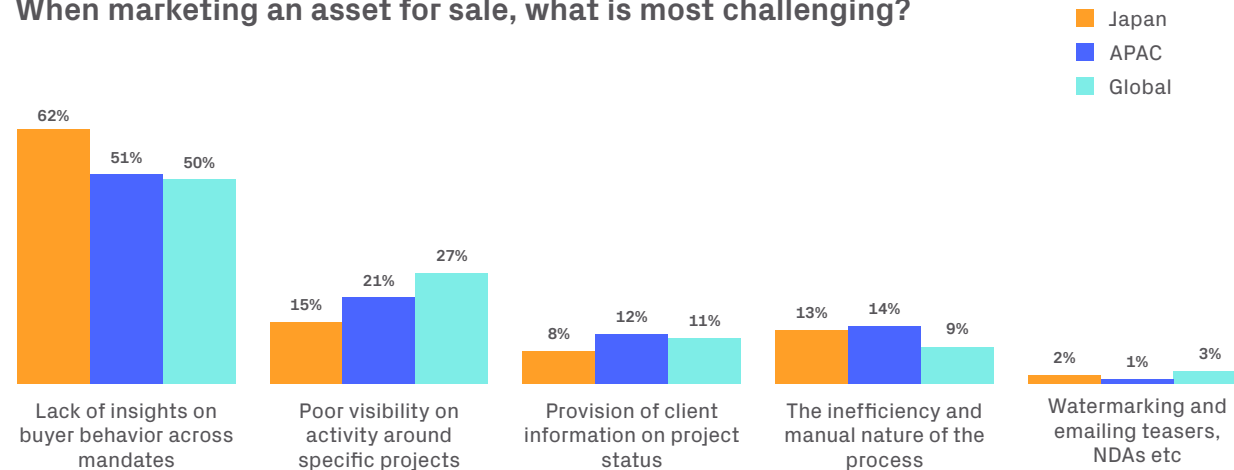
Technological benefits to and advances in other areas of M&A

What's more, these technologies have similarly beneficial uses in asset marketing and could help address some of the key challenges in this process, such as a lack of insights on buyer behavior across mandates, according to most Japanese practitioners.

Without a doubt, there have been some significant technological advances across the M&A process in recent years.

Yet, in the next five years and beyond, there is an expectation among Japanese practitioners, that both established and emerging technologies, perhaps built-in to the next generation of virtual data rooms, could transform key areas of the process. They might even transform the process entirely.

When marketing an asset for sale, what is most challenging?



2020 The Current State of M&A in Japan

Maturity and sophistication

78%

of Japanese practitioners assess a medium level of digital maturity and technological sophistication in their company's M&A process. Some 84% of practitioners assess the same level industry-wide.

Barriers to digitization

70%

of Japanese practitioners say integrating new technology with existing systems is one of the main barriers to their company adopting M&A process-related digital technologies.

Enhancing deal sourcing

36%

of Japanese practitioners believe that deal sourcing is the stage of M&A that could be enhanced most by technology and digitization.

Diligence speed

59%

of Japanese practitioners say due diligence takes on average 3-6 months to complete a successful deal.

Contract review impacts speed

27%

of Japan practitioners say document or contract review and analysis is the factor that slows the due diligence process the most.

2025 The Future State of M&A in Japan

Maturity and sophistication

51%

of Japanese practitioners assess a high level of digital maturity and technological sophistication in their company's M&A process come 2025. Some 70% practitioners assess the same level industry-wide.

Transformational tech

33%

of Japanese practitioners expect AI and machine learning technologies to have the most transformational impact on the M&A process over the next five years.

Advanced analytics

57%

of Japanese practitioners believe new technologies should enable greater analytical capability in the due diligence process over the next five years.

Diligence speed

60%

of Japanese practitioners believe due diligence on a successful deal will accelerate to 1-3 months in five years' time.

AI-enabled analysis

37%

of Japanese practitioners believe accessing a virtual data room with AI and machine learning technologies, would help accelerate due diligence the most.



Case Study

DC Advisory

Technological advancement in M&A can only advance so far

The pandemic has accelerated the digital transformation of companies across industries, most notably changing how business is conducted and information shared.

In dealmaking this has meant practitioners primarily engaging over digital platforms, as well as taking innovative approaches to progressing key parts of the M&A process.

Hiroki Ikeda, Executive Managing Director and Co-Head of Global Investment Banking at Daiwa Securities, parent company of international investment bank, DC Advisory, says there has been quite a step-change in the use of technology in the M&A process over the past year.

“The last significant tool to be introduced, which dramatically improved the M&A process, was the virtual data room,” he says. “Now, Covid has accelerated the use of technology in meetings between principals and areas such as due diligence.”

Live video conferencing is now widespread and standard practice. Yet, as well as this, Ikeda says practitioners are also pre-recording video presentations on target companies’ products and facilities, live streaming factory visits, and using drones to conduct aerial site visits.

“All of these virtual solutions mean that the M&A process can progress,” says Ikeda, adding that this has been particularly important for inbound activity, which has been impacted by Japan closing its border to international visitors.



DC Advisory is an international investment banking firm comprising 500 professionals across 21 countries, worldwide. The firm is wholly owned by Daiwa Securities Co. Ltd.



Hiroki Ikeda
Executive Managing Director
and Co-Head of
Global Investment Banking



It is hoped this will change in the coming weeks. But if not, practitioners have at least proven deals can progress virtually, which will help support the expected rise in inbound M&A activity this year.

Divestments and intra-group consolidation to rise in 2021

Indeed, in highlighting some key M&A trends to play out through 2021, Ikeda says he expects divestment activity among Japanese companies to rise significantly, drawing interest from foreign investors in Japanese companies and overseas assets owned by them.

“Corporate disposals are no longer taboo,” he says.

Other key trends should include intra-group consolidation – where the listed parent company acquires one or multiple listed subsidiaries – and an acceleration in the unwinding of cross-shareholdings held by banks and other commercial partners in some Japanese companies.

In addition, Ikeda believes that ‘unsolicited bids’ will gain further momentum this year, with potentially an increased number of such deals being successful, due to the rising acceptance among shareholders that M&A is a good option when pursuing growth and development.

AI, machine learning, and big data to streamline the M&A lifecycle

Such a shift in attitudes to M&A is important and will support deal activity this year and beyond. But what about the processes and technology used around deal activity itself – what is changing there?

“One would hope that AI and machine learning can very soon facilitate a more streamlined and efficient due diligence dialogue for Japanese companies,” says Ikeda. “This may include a solution that in some way helps prioritize questions, reduce duplication, and tracks the Q&A progress on a deal.”

This issue here is Japanese executives’ desire to obtain as much detailed deal information as they can, as early as they can, by asking a wide range of questions. Such thoroughness is to be applauded, but such an approach can also delay the due diligence process and, at times, unsettle the negotiations.

“This approach to questions, and lack of prioritization in what is being asked, can cause friction when Japan meets the west in cross-border transactions,” explains Ikeda.

Technology can rarely help solve such issues entirely. But technology should be able to help, just as it does in other areas. For instance, Ikeda says big data analytics can help provide greater visibility on potential targets, bidders, and emerging investment trends, and AI could potentially help practitioners draft and review deal documentation, similar to how it is already being used in bond documentation.

There are, however, natural limits to the application of technology in M&A, says Ikeda. Part of this is due to every M&A situation having unique characteristics. Another part is the difficulty of trying to use technology to replicate or substitute the rich nuances involved in human experience and expertise.



Case Study

Frontier Management Inc.

A booming M&A market where advanced technology is beginning to have an impact

While a recovering economy and the need for companies to reshape their operations has helped Japan lead a global revival in M&A activity, there is another fundamental reason that has and will continue to buoy dealmaking activity in the country.

Of four million corporates in Japan, a distinctly high percentage (99.7%) compared to other advanced economies are small and medium sized enterprises.

The size of Japan's SME universe, however, is not the issue. Rather, says Masahiro Matsuoka, Co-President of Frontier Management Inc., many of Japan's SMEs are struggling to find a successor to their current leadership, many of whom are close to 70 years old, the country's retirement age.

It is this situation, where a company is often sold if a successor is not found, that is creating a huge M&A opportunity among the country's SMEs. An opportunity so large, says Matsuoka, that there has been an explosion in a new breed of brokers and advisors who advise on these types of transactions.

"This has been an important reason why there has been strong M&A activity, and will continue to be," he says, adding that a corporate restructuring cycle, which could begin to accelerate in the latter part of 2021, may also create M&A opportunities in the country over the next few years.



Frontier Management Inc. is one of Japan's leading management consultants and M&A advisory firms. The firm is the exclusive member in Japan of Corporate Finance International, a global group of independent investment banks focused on middle market M&A.



Masahiro Matsuoka
Co-President



To be sure, the same is likely to happen in other economies impacted by the pandemic, creating investment opportunities globally for corporates and private equity firms.

For their part, Frontier Management Inc. will be involved in the deal flow, whether domestic, inbound, or outbound from Japan, and particularly to countries such as China and the US.

Efficient M&A slowed down by meticulous practices and lack of PE firms

Asked what differences there are between markets, Matsuoka says that although the M&A process in Japan is quite efficient, there are issues that can slow the execution of transactions, including the need for some companies to be educated on the intricacies of M&A practices and procedures.

In addition, he says that a lack of private equity firms in Japan's M&A ecosystem is also an important element impacting the speed at which deals are completed.

Indeed, relative to other advanced economies, transactions in Japan do tend to take quite a long time to complete. The due diligence phase in particular can be quite lengthy.

“On average, I'd say it can take up to three months to complete here in Japan,” says Matsuoka, adding that this is partly due to corporate leaders' intense focus on the deal's details, which can ultimately mean the due diligence process can often take between four and six months.

This being said, Matsuoka believes the speed of due diligence in Japan has quickened in recent years and will likely accelerate further in the future.

Due diligence speed to further accelerate with the help of AI

“Technology has already helped speed it up and in the next 10 years, technologies, such as AI, could transform this area,” he says. “Other areas where technology could have an impact is in competitor matching and in capturing and analyzing the minutes from meetings. Here at Frontier, we are introducing an AI program to help us record and analyze the minutes of our meetings.”

The application of AI does offer attractive benefits, but Matsuoka is pragmatic about it, too.

“AI's use and output is only as good as the information provided. If the information is inaccurate, which it can quite often be, then you will get inaccurate results.”

In other key phases of M&A, such as negotiating terms, Matsuoka does see some potential for technology to support dealmakers. But he feels human judgment will forever remain paramount. Matsuoka's peers in other countries probably feel exactly the same, too.



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Datasite

Research Methodology

Japan

The analysis in this report is based on the survey responses from 111 Japan-based M&A practitioners. These responses formed part of a larger global survey of 2,235 M&A practitioners.

By institution type, respondents were evenly split between companies and private equity firms (49%), representing acquirers; and investment banks, professional services and law firms (51%), representing M&A advisors.

By seniority, board and executive management level executives comprised 21% of respondents, with managing partner, managing director and partner level executives comprising 36%. Director, principal, associate level executives comprised 43%.

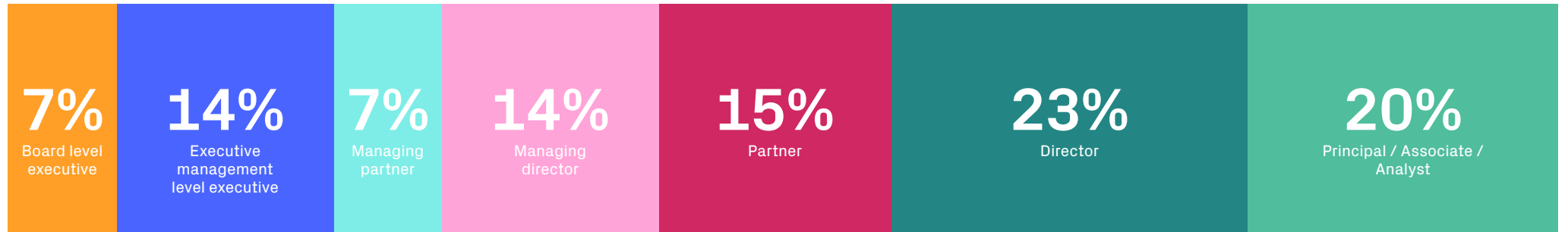
The global survey was conducted by Euromoney Thought Leadership Consulting between February and April, 2020.

Research Demographics

Japan

Percentages in the following charts are rounded to the nearest 1%.

Which of the following best describes your position?



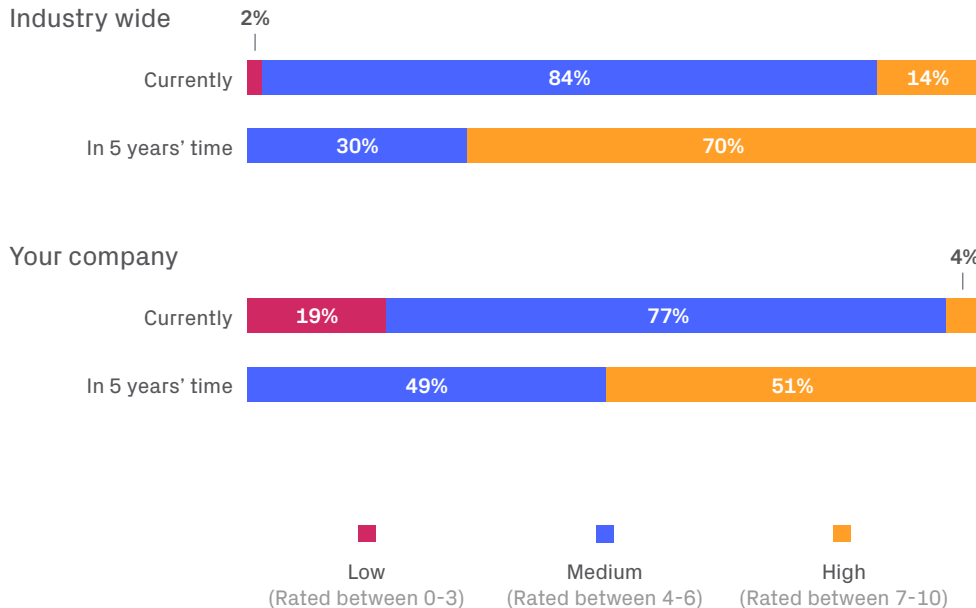
Company type



Digitization Japan

What level of digital maturity and technological sophistication would you assign to the M&A process?

On a rating between 0 (Low Level) to 10 (High Level)



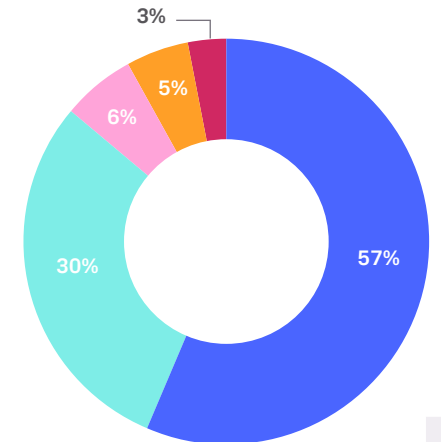
Of these key areas or stages, which could be enhanced the most by new technologies and digitization?



In the context of a M&A transaction, how do you expect technology to change the due diligence process over the next five years (to 2025)?

New technologies should...

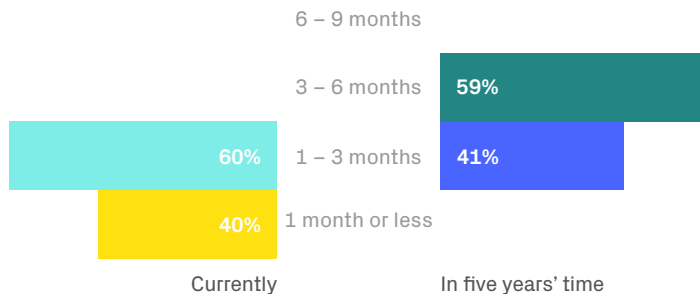
- Make it faster to close deals
- Enable greater analytical capability
- Enable greater security
- Simplify the entire process
- Reduce the total deal (resources and time) cost



Due Diligence Process

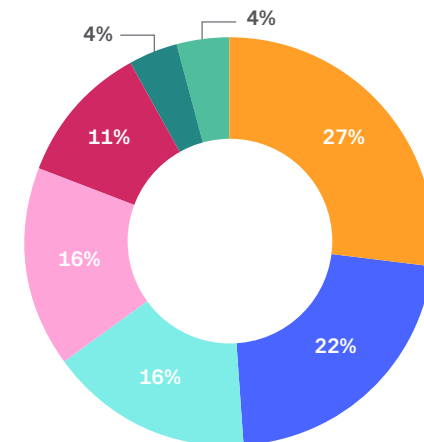
Japan

From sourcing a deal to deal completion, how much time on average does due diligence take on a single successful M&A transaction (2020 & 2025)?



Which of the following factors tends to slow the due diligence process the most?

- Document or contract review and analysis
- Poor communication between parties
- Incomplete or inaccurate deal documents and information
- Inadequate technology supporting the process
- Insufficient number of people involved
- Regulatory compliance
- Too many people involved



Which of the following do you believe technology could help improve the most?

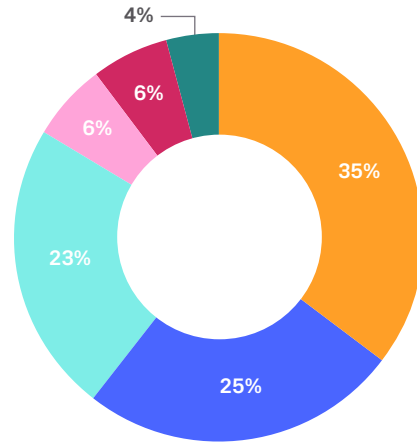


Due Diligence Concerns

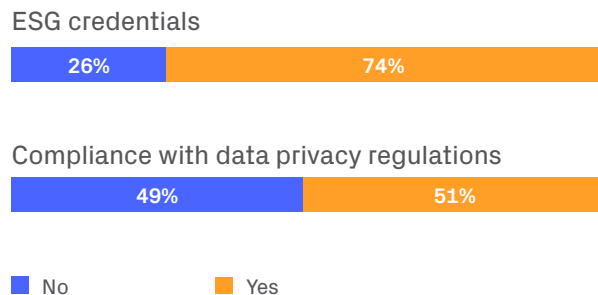
Japan

What is the most common issue uncovered in due diligence that causes the withdrawal from a deal?

- Excessive valuation
- Data or cyber security concerns
- Financial weakness or fragility
- Financial irregularities
- Regulatory non-compliance
- Leadership concerns

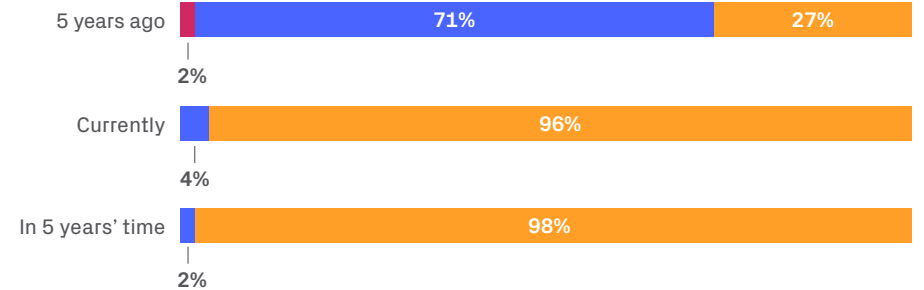


Have you worked on M&A transactions that have not progressed because of concerns about a target company's:

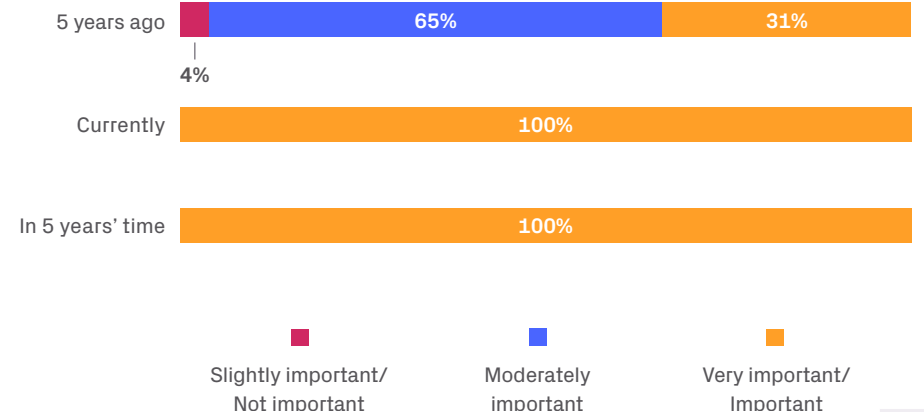


As a consideration in M&A due diligence, assess the importance of the following issues:

Environmental, social and governance (ESG)



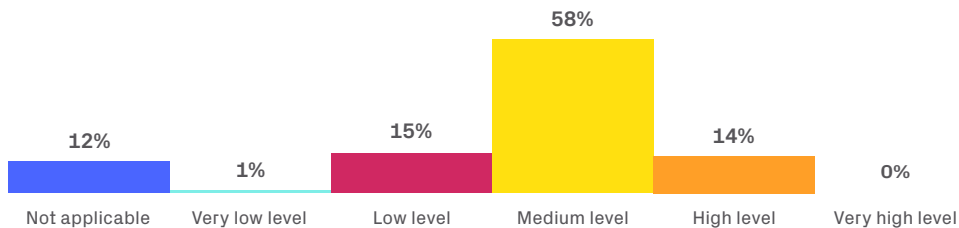
Data privacy regulation (e.g.: EU's General Data Protection Regulation)



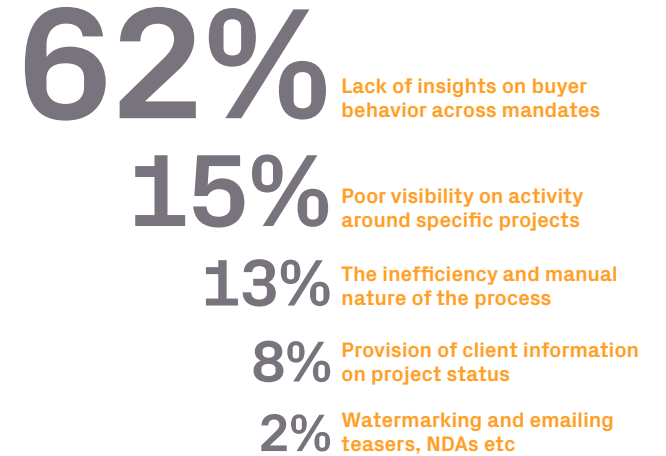
Asset Marketing and Acquisitions

Japan

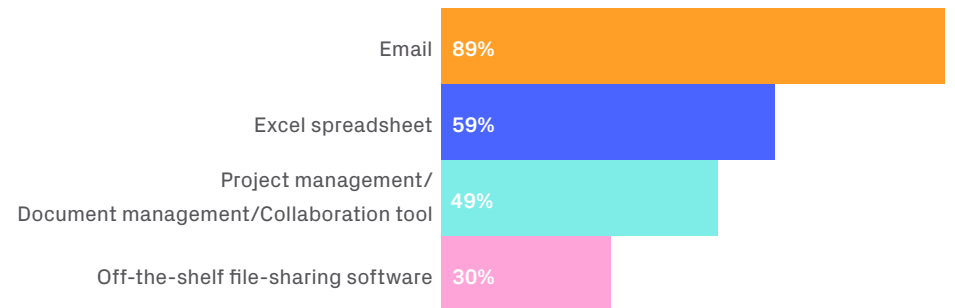
When marketing an asset for sale, how efficient and effective is your company's current process of identifying, marketing to and tracking potential buyers?



When marketing an asset for sale, what is most challenging?



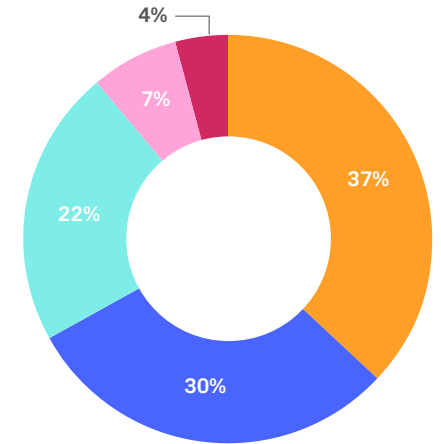
What tools do you use today to execute the workflow of the due diligence process on a potential acquisition target?



Restructuring Japan

Which type of restructuring will dominate over next 24 months?

- Bankruptcy
- Debt-financing
- Divestitures and carve-outs
- Non-performing loans (NPLs)
- Liquidation



What tools are most useful for restructuring?

Machine intelligence around categorization & indexing

70%

Ability to load large volumes of data quickly

64%

Email outreach to creditors

52%

Integrated redaction

42%

A staging data room

22%

About this report

The survey was conducted by Euromoney Thought Leadership Consulting between February and April 2020.

Thought Leadership Consulting specializes in creating original, authoritative and impactful thematic research and content for global business and finance leaders.



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