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Global Capital Confidence Barometer
Japan Highlight

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A note from Vincent Smith, TAS Japan Leader and Koichi Tamura, TAS Japan Markets Leader - EY Japan Transaction Advisory Services regarding the result of the 20th edition of the EY Global Capital Confidence Barometer (CCB), a biannual survey of more than 2,900 senior executives across 47 countries.

Global M&A appetite at 10-year high fueled by portfolio reshaping

Despite mounting geopolitical complexities, the appetite for global mergers and acquisitions (M&A) is at a 10-year high. Companies continue to use acquisitions to build the foundations for future growth amid rising uncertainty. Almost six in ten (59%) global companies and 53% of Japanese companies are now planning to acquire in the coming year -- up from 52%(Global), and 50% (Japan) 12 months ago. Executives also expect their peers to be active at the deal table, with 94% of respondents from Japanese companies predicting the global M&A market to improve in the next year compared with 87% in April 2018.

M&A intentions are underpinned by broader corporate confidence. In stark contrast to many economists forecasting slower growth and despite geopolitical uncertainty, global executives are more optimistic about macroeconomic prospects. The vast majority of respondents (93%) believe the global economy is improving - almost a 20 point uptick in positive outlook compared with 72% a year ago. This bullish view among executives is reflected in the optimistic assessments of their own future performance: 73% of respondents expect revenue growth of between 6% and 15% in the next year.

Smith says: "The increase in acquisition appetite is a clear indication that executives are focused on their pursuit of growth, underpinned by high expectations of their own future performance. There is uncertainty in the market, but for many - disruption is driving M&A rather than stalling it - deals are a means to reshape portfolios at an accelerated pace and futureproof businesses."

Reshaping portfolios to reinvent the future

Companies worldwide are increasingly concentrating on proactively seizing disruption's upside opportunities and managing risks, according to the latest findings. As the speed of disruption and innovation accelerate, so does the frequency of portfolio reviews. 63% of Japanese companies are reviewing their portfolios every three months. Frequent portfolio reviews allow companies to better identify areas for investments and acquisitions at speed, to recognize assets to divest and to improve capital allocation strategies.

Smith says: "Companies are proactively realigning portfolios by buying and selling to futureproof growth. In a digitally enabled hyper-speed world, innovation often means turning your biggest risk into an opportunity."

Frequent portfolio reviews drive capital recycling to invest in growth areas

29% of Japanese respondents identified an underperforming asset to divest or identified an asset at risk of disruption to divest as a result of their most recent portfolio review.

Tamura states: "We are observing significant landscape shift in how Japanese multinational corporates, including Trading House conglomerates, reshape their business portfolio. Strategic portfolio management and portfolio reshaping by the large Japanese corporates is resulting in an increase in de-conglomeratizations leading to carve outs, spin offs and public to private deals especially for publicly listed subsidiaries of large Japanese conglomerates. Global Private Equity Funds with their large scale available funding and liquidity are putting to use their available funds in such Japanese carve outs and de-conglomeratization deals. This Japanese Corporate landscape shift is creating value for stakeholders in the way not seen before."

Japan Highlight

*The result is the percentage of Japanese companies respondents which has the headquarters in Japan, and operate the businesses globally.

Macroeconomic environment and risks to growth

Despite concerns of a slowing economy as a primary threat to growth plans, companies remain optimistic about their own performance and growth potential.

93% of executives see the global economy as improving.

73% of companies expect revenue growth of 6%-15% in the next year.

33% of executives acknowledge a slowing economy as the primary risk to their business.

Portfolio reshaping and long-term value creation

Companies are building resilience into their operations and are instilling financial discipline while realigning portfolios to future-proof growth.

83% of executives say they are compelled by activist pressure to continually assess and reshape their portfolios.

63% of executives expect to review their portfolio on a quarterly basis – almost doubled from six months ago.

71% of executives are focused on reducing costs to free up investment capital.

M&A outlook and major themes

Executives are more bullish in their outlook and are building resilience into their operations, while at the same time looking for future growth and transformation through M&A.

94% of companies expect the Global M&A market to improve in the next 12 months.

53% of executives expect to actively pursue acquisitions in the next year.

70% of executives aim to enter new markets, customers and intellectual property (IP).

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