

KING & WOOD  
MALLESONS  
金杜律师事务所

# M & A

2024

IN  
THE  
CITY

# JAPANESE INVOLVEMENT IN LARGE M&A TRANSACTIONS:

## Will the trend continue?

---

Increased prominence of Japanese corporates in large M&A transactions has been a feature of the Australian market in recent times. Japanese participation in Australian M&A transactions is of course not new - Japan retained its position as the 4th largest foreign investor into Australia last year. However the size of cheques the Japanese are writing and the willingness to pursue buy-out style deals is ever-increasing. We saw this trend culminate in Renesas' A\$9.1 billion acquisition of KWM client Altium in early August this year. It is our bet that Japanese corporates and fund managers will have an enhanced appetite for megadeals, not just in Australia but across the region.

Renesas is no orphan amongst Japanese companies spending big on Australian M&A opportunities (think of Japan Post, Dai-ichi Life, Kirin and Mitsubishi UFJ Trust Bank to name just a few over recent years). These control deals are in addition to the many minority positions that Japanese have taken in Australian LNG and infrastructure over many years. But we now see a private capital style approach creeping into Japanese investment culture as conglomerates are de-consolidating and seeking greater sector alignment. The funds management industry in Japan is shifting in the same direction. Together with geo-economic and geo-political conditions (both in Japan and regionally), these trends are conducive to there being a greater flow of Japanese outbound investment over the medium term.

## CURRENT GEO-ECONOMIC AND GEO-POLITICAL CONDITIONS ARE RIPE TO SUPPORT FURTHER GROWTH

In October, the newly elected Prime Minister of Japan met with Prime Minister Albanese at ASEAN related summit meetings in Laos. The pair confirmed the depth and length of Australia's economic relationship with Japan, the complimentary nature of the two countries' economies and the "interoperability" between Japan and Australia in the field of security. The success of the Japan-Australia Economic Partnership Agreement and its accompanying Implementing Agreement (JAEPA) perhaps best exemplifies the strength of the relationship. (The JAEPA is one of Australia's most utilised agreements with a two-way preference utilisation above 95%.)

It is no surprise that Japan is Australia's second-largest trading partner and second-largest export destination. Japanese foreign direct investment (FDI) reached \$133.8 billion in the 2022 calendar year. Last year set a new record high of \$141.1 billion (an increase of approximately 5.5%). The acquisition of Altium is an example of one of the mega deals in Australia; in fact one of the largest software deals in the country's history. Ultimately structured as an all-cash control acquisition, the deal is strategically important for the Japanese chip-maker, securing the Australian technology capability.

Along with other deals, Japan's stake in Australian FDI is now a very solid 12%. The Australian Trade and Investment Commission (AusTrade) reported that 53 M&A transactions and 38 partnership agreements were signed in the 2023 calendar year, where one of the parties was based out of Japan. In addition, Japanese banks continue to provide considerable debt support to Australian economic and social infrastructure and renewables projects.

Current geo-economic and geo-political conditions arguably favour even more Japanese investment in Australia and the region. Recent changes in the global geopolitical environment have, if anything brought Japan and Australia closer together, particularly in their mutual pursuit of net zero energy transition by 2050. Particular trends over recent years would support this observation, in particular the growing investment by Japanese corporates in Australian (and regional) decarbonisation projects, including in renewable energy, hydrogen and ammonia, battery energy storage systems and carbon reduction technology.

## JAPANESE ASSET MANAGEMENT REFORM

Japan's funds management industry is undergoing a shift in focus from savings to wealth formation, which pushes managers to look at more alternative investment asset classes for higher returns. The allocation to offshore alternative investments has been proportionately small to date with increased allocation widely considered to be necessary to improve returns and to diversify away from yen-denominated assets.

The government has been overt in its wish for the reform of Japanese funds management to better mobilise available investment pools and increase returns for members. A key policy plank of government is to create an "asset management nation" which will require a greater focus on governance and organisational structures to support investment execution.

Japanese pension funds have seen historic inflows over the past few years. Such inflows are unlikely to continue at those levels with demographic changes and outflow commitments. They will require higher returns to maintain the capital. Japanese life insurers are also not well understood, assumed to be highly passive and preferring liquidity over returns. This is not entirely true, with investors like Dai-ichi Life taking a number of direct investments across the region on an own-account basis and allowing the subsidiaries to manage the pool fairly independently.

The question will be how these investors execute the mandate. It is most likely that they will outsource the investment capability, with Japanese money backing trusted global managers in the search for better returns. We have seen a number of examples of broad mandates being afforded to experienced managers.

We have seen marked rises in Japanese backed fund managers investing in Australian real estate, particularly in the build-to-rent sector. Australian startups and research institutions continue to be highly sought after by Japanese investors like university endowment funds looking to support regional innovation.

## JAPANESE CORPORATES HAVE THE CAPABILITY (AND THE CASH)

Beyond the fund managers, there is a generational change in Japanese corporates which is bringing cultural change in the approach to investment. In the last big outbound M&A wave after the Tohoku earthquake and tsunami, Japanese corporates scoured the globe (including in Australia and Southeast Asia) for investment opportunities particularly in the financial services, energy and consumer sectors. Some of the deals they did were successful and others less so. However, what that wave showed is that Japanese corporates were committed to investing for the long term (and in long term trends). A decade on, Japanese bidders have learnt the lessons of the past and now have more than a decade of knowledge and deal experience in Australian and regional M&A. In short, Japanese corporates have the know how to do M&A and have the ability and expertise to pursue opportunities as and when it suits them.

They also have the cash to commit to big M&A transactions. Japan's population is renowned for its historically strong preference towards saving. As a country of savers and low interest rates the Japanese economy has given Japanese companies access to cheap funding to fuel international investments. The Japanese Yen has also been relatively weak. This has contributed to global funds betting big on Japan too. The comparatively weaker Yen, coupled with some robust domestic reform improving governance within large Japanese corporates, has increased foreign confidence in the Japanese equity markets. Internationally, private funds are pumping capital into the Nikkei. An increasing number of cashed up Japanese corporates are now incentivised to use that cash on acquisitions to unlock value creation.

Current domestic trends in Japan give rise to further optimism around the future for Japanese M&A in Australia and regional. The generational change generates real opportunities in areas like technology that drives productivity (for an economy that may have access to fewer workers in the long run) and healthcare domestically. While overseas, Japanese companies will look to invest in assets such as infrastructure that deliver long-term and relatively stable returns to support pensions and income streams for Japan's population.

## KWM PODCASTS



Will Heath caught up with Nicola Charlston who recently Chaired an M&A committee meeting of the International Bar Association in Tokyo - hear what she had to say about Japanese M&A insights and trends - Download the podcast here.

Download the podcast here



---

## JAPAN REMAINS A POPULAR SOURCE OF INVESTMENT FOR AUSTRALIA AND SOUTHEAST ASIAN NATIONS

Japan is already looking to outsource labour intensive industries and manufacturing to ‘friendly’ countries in Southeast Asia, as it has done for example with Thailand and Vietnam in recent times. Japan has a long history of investing in Southeast Asian businesses, putting people into the relevant country to build relationships and be a ‘culture-carrier’ for the parent. It largely has a good reputation as a long-term investor with successful outcomes across the region.

Australia will be well served to seek counsel from Japan as Australia seeks to increase investment into the region. It is a natural partnership in pursuit of the Australian government’s policy ‘Invested: Australia’s Southeast Asia Economic Strategy to 2040’ authored by Nicholas Moore last year. Australian businesses seeking growth into the region will see value from Japanese co-investments and are likely to benefit from government-to-government support for those efforts.

In addition, we would expect the current geo-economic and geo-political conditions that are favourable to Japanese investment in Australia and the region to continue for some time yet. Foreign investment, antitrust and other regulators generally see Japanese investors as “friendly” and reliable and, as a result, they are willing to sanction Japanese investment in, and ownership of, certain critical assets which may not otherwise be permitted to fall into the hands of other foreign owners. There are limits to this, as we are seeing in the US for example with Nippon Steel – but, as a general proposition, Japanese bidders are seen as some of the safest in the world and we would expect this view to continue into the future.

### THE POWER OF JAPAN INC SHOULD NOT BE UNDERESTIMATED!

Last but not least, it would be wrong to underestimate the very influential and effective work that Japanese government policy and ‘Japan Inc’ can do in driving whole-of-economy initiatives in Japan. An example of Japan Inc in operation is the shift to hydrogen. The shift to hydrogen and the hydrogen supply chain will offer long term opportunities for parties in Australia and regionally.

As we look to the future, it is clear that Japanese investors will continue to play a significant role in shaping both Australia’s and the broader region’s economic landscape and we would definitely anticipate that this ‘shaping’ could very well be undertaken through increased Japanese corporate participation in big ticket M&A transactions.





# ABOUT KING & WOOD MALLESONS

A firm born in Asia, underpinned by world class capability. With over 3000 lawyers in 29 global locations, we draw from our Western and Eastern perspectives to deliver incisive counsel.

We help our clients manage their risk and enable their growth. Our full-service offering combines un-matched top tier local capability complemented with an international platform. We work with our clients to cut through the cultural, regulatory and technical barriers and get deals done in new markets.

#### Disclaimer

This publication provides information on and material containing matters of interest produced by King & Wood Mallesons. The material in this publication is provided only for your information and does not constitute legal or other advice on any specific matter. Readers should seek specific legal advice from KWM legal professionals before acting on the information contained in this publication.

#### Asia Pacific | North America

King & Wood Mallesons refers to the network of firms which are members of the King & Wood Mallesons network. See [kwm.com](http://kwm.com) for more information.

[www.kwm.com](http://www.kwm.com)

© 2024 King & Wood Mallesons

#### JOIN THE CONVERSATION



SUBSCRIBE TO OUR WECHAT COMMUNITY.  
SEARCH: KWM\_CHINA