

JAPANESE FUNDERS READY TO SPRING AT RECOVERY

Despite the COVID-19 crisis, Japanese investors still manage to look for mergers and acquisitions opportunities in Vietnam. **Masataka Sam Yoshida**, global head of the Cross-border Division of RECOF Corporation and CEO of Vietnam RECOF Corporation, discussed the latest trends among Japanese investors in Vietnam.



How would you evaluate Japanese cross-border mergers and acquisitions (M&A) deals in the 2019-2020 period?

Based on the M&A statistics compiled by RECOF Data Corporation, Japanese outbound M&A transactions in 2019 set yet another record with 826 transactions, 6.3 per cent higher than in the previous year, while the number of domestic transactions was also at the highest ever at 3,000, up 6.6 per cent.

The M&A market was taken by surprise by COVID-19 in 2020 but our monthly analysis showed that domestic transactions have bottomed out at around April and May 2020, and the 2,377 transactions reached by the end of October signifies a decline of only 4.3 per cent on-year. Outbound transactions numbered 466, a decline of 32.8 per cent.

As a destination of M&A investments from Japan, Vietnam ranked fifth (only after the United States, the United Kingdom, Germany, and Singapore) between January and October, while it was seventh in the year 2019 (when Vietnam was after India and China). It is clear that Vietnam remains one of the most important countries during the course of the global pandemic.

The COVID-19 pandemic has disrupted M&A activities globally. How would you evaluate Japanese investment in Vietnam during 2019-2020? Which sectors attracted the most Japanese investors in Vietnam in the period?

Since the beginning of the year, 21 transactions were announced until October, compared to the 28 in the same period last year, with the deal value of \$282 million [\$312 million last year].

These transactions found a variety of sectors but were mainly concentrated on consumer-related and services sectors such as finance (bank, insurance, and leasing), construction, pharmaceuticals, human resources services, food distribution, and liquid petroleum gas distribution.

We understand that most of the transactions completed so far in 2020 have been negotiated by the parties to a certain degree before the pandemic outbreak earlier this year. We have to see how fast the number of new transactions will recover in the coming months, which will be largely affected by the pandemic situation and the quarantine policies of the two countries.

What is the outlook for Japanese M&A investment in Vietnam? Which sectors draw the greatest interest and which deals are in the cross-hairs of Japanese investors post-COVID-19 pandemic?

We predict that Japanese investors' interest in Vietnam will remain strong, with multiple deals in the coming years. There are multiple reasons for this. First, Vietnam is

already a hotspot for Japanese manufacturers and the shift from China to Vietnam will likely accelerate in the future due to the trade war with the US, as well as the EU-Vietnam Free Trade Agreement and other trade agreements.

Furthermore, Vietnam is now considered one of the most successful countries in mitigating and minimising the damage from COVID-19, and its GDP is expected to maintain positive growth even this year while other ASEAN countries expect negative growth.

Consequently, the growing Vietnamese market will attract Japanese investors in a broad range of sectors including not only consumer-related and service sectors, but also manufacturing which are required to maintain the global supply chain.

During the COVID-19 pandemic, many M&A deals have been put on hold, renegotiated, or cancelled. As an M&A adviser, how do you help companies get to grips with the tough time and successfully ink deals with Vietnamese partners?

While the news have been heavy with negotiating partners standing up from the table, many transactions have been discussed and negotiated even under these circumstances. This means Japanese investors have kept their robust appetite for the Vietnamese market.

At the same time, it is true that many transactions are still on hold due to restrictions of entry for foreigners. Our suggestion is that parties should hold online discussions and start the provision of information using virtual data rooms. It is hard for Japanese investors without any local branches or subsidiaries to physically meet Vietnamese companies, thus they should carry out as many M&A steps as they can in advance so as to minimise delays in the closing of transactions.

What will your strategy centre on in 2020-2021?

As mentioned earlier, Japanese investors are showing avid interest in Vietnam, while many transactions are still on hold. Accordingly, our strategies will focus on quickly and effectively getting back on track these suspended negotiations and, as soon as the borders reopen, make new matchings for investors and target companies.

We were busier than expected in these past nine months, despite the fact that neither us nor our Japanese clients could travel between the two countries because Japanese investors have remained “warm” and Vietnamese companies have also kept coming to us to contact new investors. Therefore, we have many potential transactions in our pipeline, though many of the negotiations are in the early stage. One thing we have to be aware though is that competition is lining up at the starting line and the race promises to be intensive both for investors and companies seeking capital. Country-wise, Japanese travellers will be one of the earlier ones to be allowed entry to Vietnam with fewer quarantine requirements (thanks to the efforts of the two countries’ governments and related personnel) but there is still a possibility of the pandemic situation taking a downturn in Japan.

How do you think M&A practices will change after the pandemic?

As in other parts of our life, we have become rapidly accustomed to web meetings, working away from the office, and communicating and sharing information online while keeping a safe distance from each other.

While it is also true that meeting face-to-face, seeing with your own eyes, and “shaking hands” are still crucial in decision-making, the way M&A transactions are promoted has definitely changed in just six months. The changes have significant impact on cross-border transactions and we should be prepared to catch up with the technological innovations in the “new normal”, and make the best use of the benefits to promote transactions efficiently.

What are your recommendations to accelerate the recovery of M&A activities in Vietnam after the crisis?

First of all, on the country level, the procedures required for international travel post-pandemic, especially short-term business travel, should be as simple as possible and need to be able to accommodate the flexibility and quickness necessary for scheduling meetings because most business meetings are urgent and fixed on a short notice. There has been clear progress in recent months, but we found the required procedures for short-term business travels are overwhelmingly complicated and time-consuming.

Buyers and sellers need to make themselves more competitive for the new season of M&A after re-opening (hopefully at the soonest) by bolstering their financial strength, achieving high growth, as well as getting accustomed to technology innovations. In particular, for Vietnamese companies seeking capital from foreign investors, the challenge will be to distinguish themselves from their peers who are also in need of capital to grow or survive. One of the solutions would be to have better internal management control and business planning capabilities, which could sway foreign investors in their favour.

