Baker McKenzie.

Charting Growth — The New M&A Landscape in Asia Pacific

Asia Pacific Business Renewal Series

TRANSACTIONAL POWERHOUSE

Leading and closing complex deals – every day

Foreword

Strategic transactional activity is key to navigating post-pandemic challenges and future complexities.

Corporate leaders across Asia Pacific are turning to M&A as a catalyst for growth and renewal as they pursue new paths to profitability, adapt to market disruptions and reposition their companies to succeed in the marketplace.

Executives across Asia Pacific are sending clear signals that deal making will be integral to their growth strategies in 2021 — 77% of respondents expect M&A to increase — and 42% say there will a very significant uptick in corporate transactions. This is in line with sentiments from our custom research of 800 leaders in the region, showing that business leaders remain confident in the acquisition agenda as a means of strengthening the organization.

Respondents have reason to be optimistic. Asia Pacific today has many economic bright spots, and the successful handling of the pandemic in markets such as Mainland China, Australia and Vietnam, along with positive news in the US is raising confidence. Equally, low interest rates and a positive financing environment are providing access to capital for businesses to pursue deals.

However, many others point to a much deeper driver: that companies can and must use M&A to realize transformative change to remain competitive and resilient in an increasingly complex world.

These sentiments are shared across industries and geographies, with respondent commentary suggesting that major restructurings will be needed not just to hasten recovery from the COVID-19 health crisis, but to prepare for the many business challenges that existed even prior to the pandemic — and that will likely rise anew in the year ahead.

In this report, we explore trends shaping the current M&A deal environment as well as the factors and challenges that will drive the next wave of deal making in Asia Pacific. While most of this will be led by strategic acquisitions within and across industries, some distress and divestments will also play a role in the market.

As companies reassess and optimize their corporate portfolios, many are choosing to pursue growth through subtraction, but are no rush to sell. However, many companies are also selling off assets to stabilize the balance sheet and keep the organization afloat, meaning opportunities of all kinds will be on offer for savvy buyers.

Tracy Wut
Head of M&A
Hong Kong and Mainland China

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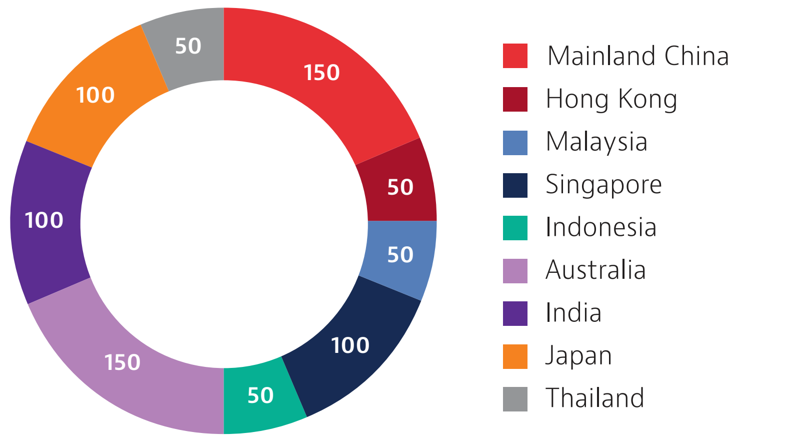
1 About the Asia Pacific Business Renewal Series

Unpacking the hypercomplex nature of business in 2021, the Asia Pacific Business Renewal Series sheds light on the momentum and mindset of business leaders and decision-makers in the region as they navigate challenges relating to four main areas of business: Supply Chains, New M&A Landscape, Digital Transformation and Sustainability.

Each report features key considerations and action points to helping businesses to understand the horizon ahead as they make strategic decisions, pursue growth and secure lasting success.

By Jurisdiction



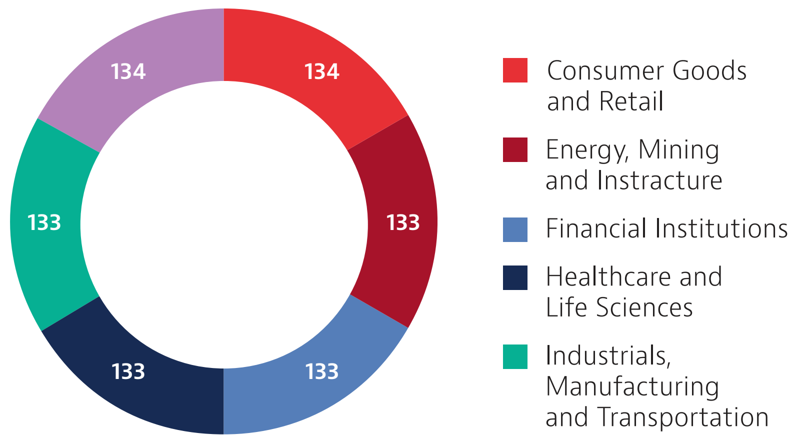
About the Research

Findings from this report and others within the series were conducted in Q1 2021 in partnership with Acuris.

800 respondents were surveyed across nine jurisdictions and six sectors, including Technology Media and Telecomms (TMT) , Healthcare and Life Sciences (HLS), Consumer Goods and Retail (CGR), Industrial, Manufacturing and Transport (IMT), Financial Institutions (FI) and Energy, Mining and Infrastructure (EMI). This Asia Pacific business and legal issues research has been run every two years since 2016 by Baker McKenzie in Asia Pacific.

Additional data referenced in this report is from Mergermarket, via Acuris.

By Sector



2 Evolving M&A Landscape in Asia Pacific

Optimistic Deal Landscape

77% of respondents believe M&A activity will increase in 2021.

62% of respondents believe distressed investment opportunities will increase in 2021.

A Robust Q1 2021

Q1 2021 saw 988 deals worth
USD 180 billion.

29% sharp uptick of in value and 5% in volume from the same period in 2020, achieving one of the strongest Q1 since 2015.

Defying the Global Trend

30% rise in year-on-year deal values across 2020, defying the global average decline of **6%.**

4% While global deal volume declined **14%**, deals in Asia Pacific decreased by a nominal 4%.

2

“Companies are constantly seeking transformational acquisitions. There is more chance of growth and development through strategic mergers and acquisitions.”

Head of Operations, Mainland Chinese tech company

2.1 Bucking the Global Trend

M&A in Asia Pacific has been defying global trends, driven by the need to acquire new technology and access new markets throughout the pandemic.

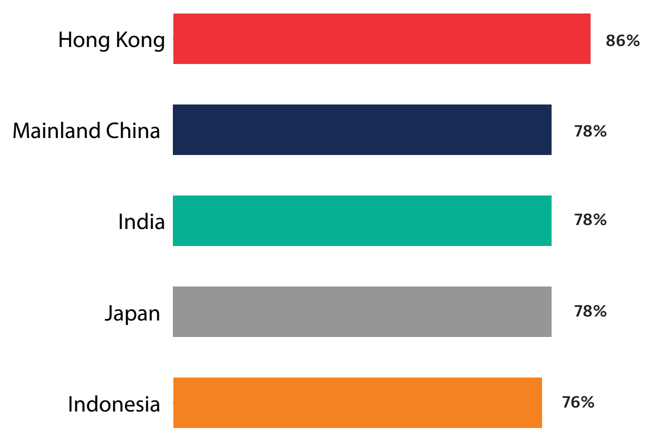
Asia Pacific deal activity in 2021 illustrates respondent optimism. A strong Q1 2021 followed robust performance that started halfway through 2020, when a rebound took shape that eventually led the year to some of the highest levels of M&A since the global financial crisis in 2008.

According to Mergermarket, a global comparison shows just how significant the recovery in Asia Pacific M&A has been: across 2020, year-on-year deal values rose 29%, defying the global average decline of 6%. Asia Pacific deal volume decreased by a nominal 4%, compared to the global decline of 14%. Rising consumer confidence has been leading these trends and the region bears a positive GDP outlook, while the prospect of mass vaccinations signals a hopeful return to normality.

The speed and effectiveness with which governments across Asia Pacific managed the effects of the pandemic has also bolstered sentiments — China, Australia and Vietnam, for example, handled the crisis swiftly, particularly in comparison to major economies in other parts of the world. These measures, alongside ongoing government financial stimulus and support, could be driving strong sentiment within these key economies regarding the outlook for M&A.

Andrew Martin, Managing Principal, Singapore, notes that “Differentiated economic recovery in the region is indicative of the varied challenges countries face in managing the pandemic. However, as a region, M&A is expected to remain robust, particularly in tech acquisitions and for financial institutions. While overall economic outlook does affect investor outlook, factors such as regulation and access to new markets (and therefore demand) will also shape the deal landscape. The power of financial investors including private equity and venture capital, infra and credit funds as well as family offices will also inform the deal climate in the region.”

TOP 5 JURISDICTIONS EXPECTING M&A ACTIVITY TO INCREASE IN 2021



% respondents
Source: Acuris

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2.2 Key Drivers of M&A

A range of considerations are driving M&A activity in the region, predicated on the need to pivot to changing demand and supply trends whilst balancing longer-term plans for business renewal and growth. These include a focus on tech, new markets and cross-border outlook, among others.

Boost Digital Capabilities

57% of respondents are looking to acquire new technology.

39% of respondents are looking to acquire intellectual property (IP).

Expansion for Stability

40% of respondents are looking to gain new market access.

38% of respondents say are looking to gain access to raw materials or natural resources.

Cost Considerations

34% of respondents are looking to reduce production and labour costs.

20% of respondents are bargain hunting due to distressed sellers.

Growth Journey

32% of respondents are looking to gain market share.

23% of respondents are looking to acquire established brands.

2

"I think it would be a big value-add for the company to acquire technology and expertise. We can then use this to transform our activities and operations."

Director of Legal, Indian bank

Eyes on Tech

More than half of respondents (57%) say acquiring new tech will be the main driver of their M&A strategies. While enhancing tech capabilities has been a top priority for business leaders in recent years, COVID-19 has enhanced the drive to digitalize products and services.

Tech and software assets with proven resilience to the pandemic will be particularly valuable as consumer behaviour and demand for digital offerings established during the pandemic lead the corporate agenda and drive digital transformations across industries. Indeed, businesses from just about every sector are making plays to acquire new tech capabilities as they race to reinvent themselves for the digital era.

Akifusa Takada, Head of Japan M&A and Partner (Baker McKenzie Gaikokuho Joint Enterprise) notes, "The pace of digital transformation has been increasing across Asia Pacific and this is reflected in the buoyant M&A landscape. Tech acquisitions and Fintech activity are driving the momentum — this could be partly due to businesses having to alter their business models to adopt to rapidly changing business environments, which demand for more innovative, connected or data-centric services and products. Additionally, given the increasing number of SPACs targeting start-ups and carve-out assets in the region, the outlook remains robust for deal making. In Japan, February 2021 saw three large tech acquisitions, doubling deal value from the previous month. With corporations and PE holding on to dry powder, there is potential for continued M&A activity particularly in the areas of tech and healthcare."

In addition, respondents also say that accessing IP (39%) and raw materials or natural resources (38%) will also be priorities. Surprisingly, and despite the wide body of business leaders who think rising levels of distress and insolvencies will be a theme of the year ahead, few respondents say that bargain hunting due to increasing sales of distressed assets will drive their M&A plans.

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“New market access increases the footprint for businesses within the region, and with it more demand to pursue future growth. There is a strong appetite for M&A in the region as companies look for transformative growth. Additionally, the robust H1 2021 outlook also frames an increasing interest from companies beyond the region for deal making in China, Japan, Southeast Asia and Oceania.”

Tracy Wut
Head of M&A
Hong Kong and Mainland China

New Markets and the Cross-border Priority

Accessing new markets (40%) also ranked highly among respondent considerations. Many business leaders recognize that to survive in the current market, organizations must expand their regional and global footprints. In line with this sentiment, the Head of Marketing at a Mainland Chinese media company says that “a global focus is being viewed as the best option for stability and consistent revenue.”

Cross-border deals continue to make up a large percentage of M&A in Asia Pacific, historically accounting for close to a third of deal volume and between 30% to 40% of deal values since 2015, according to Mergermarket. Even in 2020, despite border closures and travel restrictions, cross-border activity increased across quarters, rising from USD 38.6 billion and 309 deals in Q1 to USD 73.4 billion and 337 deals by Q4.

Seeking Strategic Growth

For some business in the region, an active M&A market presents opportunities to drive growth. Just under one-third of respondents (32%) cited that they are looking to gain market share through M&A, whilst almost one quarter (23%) stated that they are looking to acquire established brands.

As the head of finance at a Singaporean insurance company notes, M&A is “an effective means to diversify and acquire a new customer base without major internal changes”. Essentially, such strategic deals allow business to buy their way into a growth trajectory.

3 Sectoral Outlook for M&A

While most industries will pursue M&A in the year ahead, others will continue seek recovery and stability as the ongoing pandemic continues to affect the bottom line. Just as the impact of the pandemic was varied across industries, sectoral views on M&A are also differentiated as businesses adapt to new patterns of demand, supply and operations.

3.1 Thriving through Change: TMT and CGR

Tech and consumer goods companies will be most aggressive in their pursuits of acquisitions, with 96% of respondents in both camps anticipating increasing M&A (against the average of 77% for all respondents). Respondents in these sectors also see distress levels dropping over the next year.

"Tech deals will increase significantly because of the demand for new products and solutions. With merged or acquired assets, organizations will be in a better position to innovate," says the Chief Executive Officer of a Mainland Chinese tech firm. Indeed, within the ultra-competitive tech space, respondents seem to realize the need to grow through acquisition where convenient — and that M&A offers an excellent solution to drive transformative change at the organizational level.

Yet, the need for digital innovation is perhaps most crucial for the consumer sector. With the onset of the pandemic, traditional consumer businesses were forced to shutter, with many pivoting to e-commerce options to survive. This momentous shift to e-commerce, catalyzed by the pandemic, is expected to continue as pent-up consumer demand is unleashed.

The uptake of new technologies will be critical for consumer companies to not just survive but thrive going forward, and the Chief Operating Officer of an Australian retail company summarizes this issue by noting that "retail business has been impacted by the increased demand for the e-commerce sector. Unless we see some faster technology applications being adopted, there will be more insolvencies."

"The pandemic has definitely shaken up consumer behaviors, and as an immediate result, CG&R companies have entered into a digitalization race to meet the shifting consumer demands. Now, there is increasing pressure for CG&R companies to have robust digital capabilities not just with digital payment systems but also with social and mobile commerce platforms, which is expanding the share of wallet. In a competitive market, pent-up consumer demand may continue to fuel a positive deal climate particularly in the area of strategic partnerships/collaborations and tech M&A.

As CG&R companies look to pursue such deals, it will be key to focus on enhancing direct-to-consumer platforms and omnichannel purchasing experiences. Strategically, companies should also remain aware of any antitrust, data or IP protection risks that could arise from any acquisition or partnership."

Loke-Khoon Tan
Asia Pacific Head of Consumer Goods and Retail
Hong Kong

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> "ESG is becoming an increasingly important aspect of legal due diligence work as businesses are putting greater emphasis on ESG related due diligence findings and treating these issues with a more conservative attitude, requiring more legal protection and corrective actions taken. Additionally, more investments are being made into, and higher valuations are being placed on, companies with strong ESG track records. The "E" aspect of ESG is driving more and more investments into companies which develop technologies that minimize our harm to the environment such as hydrogen related technology, as well as projects that reduce our carbon footprint, such as projects for renewables."

Bee Chun Boo
Asia Pacific Chair of the Energy, Mining & Infrastructure Industry Group and Partner
Beijing

3.2 Digital Push: HLS

Respondents also think the Healthcare and Life Sciences (HLS) industry will be a hot sector for M&A in the year ahead: 91% expect an increase. More than a third (36%) also think that distress levels will decrease through 2021.

The HLS sector has become increasingly popular given the ongoing global health crisis, putting the spotlight firmly on the need for greater medical care and infrastructure. Implementation of tech solutions to improve existing health infrastructure has also become a trend and one likely to continue as current health and economic challenges due to COVID-19 will see digital health companies playing a more important role in corporate and national growth. Technology-based health services and care providers are one growth area where business leaders are setting their sights.

3.3 Pockets of Power: FI, EMI and IMT

While large numbers of FI respondents say M&A among Asia Pacific's financial institutions will increase (85%), there is a need to focus efforts on modernizing legacy digital infrastructure. This is particularly pertinent as waves of smaller, more agile Fintech and Regtech upstarts continue to create new competition. As more of the region's banks and financial institutions look to upgrade operations and reinvent themselves for the digital wave, M&A will feature prominently in strategies to bridge gaps in the digital capabilities.

While M&A may be off the table for more EMI and IMT companies, sweeping consolidations could see stronger players make acquisitions to shore up their positions and combine processes and resources to achieve growth. Economic recovery and growth across Asia Pacific and rising demand for commodities could likewise spur activity in 2021.

Certain businesses, particularly in the IMT space, could become powerhouses of innovation as sweeping ESG trends gain momentum and put new demands on manufacturers to innovate. As investors and customers put pressure on organizations to improve operations, executives and their teams may use acquisitions to add new products and technologies to their organizations to make operations cleaner and more sustainable.

4 Distressed Investments and Insolvency

Long-lasting impacts of the COVID-19 pandemic mean that the region anticipates increasing distress and insolvencies in key sectors, even as businesses look for recovery and renewal.

Distressed Investment Opportunities

62% of respondents say there will be an uptick in distressed investment opportunities in their sector.

20% say they will be a decrease in distressed investment opportunities in their sector.

Realistic Outlook

34% about a third of respondents expect to see increasing insolvencies and bankruptcy proceedings.

25% of respondents say levels will be about the same as the past year.

Uncertainty is still a Concern

43% of respondents say that ongoing economic or pandemic-related concerns will drive insolvencies in the region.

50% of respondents say that tech disruption will drive insolvencies in the region.

50% of respondents say regulatory enforcement will drive insolvencies in the region.

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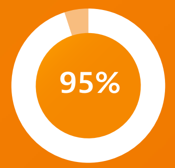
4.1 Liquidity, Tech and Regulations Emerge as Key Concerns

Within the M&A market, insolvency-driven deals in 2020 (those where a company files for bankruptcy and sells off part or all of its assets to bring in the cash necessary to appease creditors) increased 68% in value (to reach USD 28.8 billon) according to Mergermarket.

Still, close to half (42%) of respondents say insolvencies will decrease, noting that government efforts to prop up domestic economies and businesses have allowed many companies to avoid bankruptcy. However, bankruptcies of small and medium-sized enterprises are set to rise significantly in 2021 and 2022 once policy support and forbearance measures are phased out, particularly for those beleaguered companies that are unable to restructure their debt or secure financing, according to the IMF. In fact a record USD 283 billion in existing corporate debt is due to mature over 2021, placing new pressure on businesses to meet their financial obligations.

This ties in with 32% of respondents who raised concerns about concern about liquidity. "The greatest driver of insolvencies will be lack of liquidity to support new asset or technology purchases. And regulatory scrutiny and the threats associated with reputational damage are leaving companies with a negative outlook towards growth," says the Director of Strategy at a Mainland Chinese pharmaceutical company.

Sector Spotlight: Industrials, Manufacturing and Transport & Energy, Mining and Infrastructure



EMI and IMT respondents are more expectant of distressed investment opportunities in the sector, with 95% of EMI respondents and 91% of IMT respondents citing expected increase, as compared to the average (all sectors) at 62%.

Companies from these capital-intensive sectors may seek financing to rebuild and re-strategize, especially to provide added protection against significant business disruption. Expectation of distressed investment activity may also be due to circumstances such as weakened global demand, particularly in emerging markets, as well as supply chain pressures due to shortage of components.

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4.2 Tech and Regulation are the Forces at Play

Tech disruption (50%) and regulatory enforcement (50%) are cited as top drivers of insolvencies in 2021. Likewise, these two challenges also appear on the list of top challenges facing businesses in Asia Pacific.

"Some companies that are not innovative enough or are continuing with the same solutions will not be able to compete in the disruptive market environment," says the CEO of a Mainland Chinese tech company.

Equally, regulatory enforcement and to a lesser extent, increasing regulation, has created new hurdles for companies. According to the Chief Financial Officer of a Japanese pharmaceutical company, "After the increased regulations and enforcements, operations have suffered the negative consequences. Some that haven't met the expected standards will not be able to continue business at the same pace."

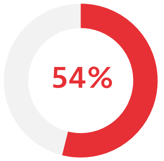
"The regulatory landscape has shifted considerably since Q2 2020. Many regulators now have an expanded set of "tools" at their disposal to hold companies accountable for non-compliance with increasingly onerous regulations, and the reach of the measures being implemented by regulators is unprecedented.

Although often substantial, fines and penalties may be small in comparison to the actual cost for a business of a regulatory breach. More serious consequences of breach include significant reputational harm, asset divestment orders and class action proceedings, all of which can quickly lead to insolvency. Understanding the applicable regulatory environment and implementing a robust compliance program is key for a business in respect of unlocking value, minimizing the impact of tech disruption and capitalising on opportunities."

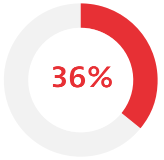
Kate Jefferson
Asia Pacific M&A Steering Committee Member and Partner
Sydney

5 Divestments as An Alternative Lever for Growth

Strategic outlook, considered approach



More than half of respondents say they are reassessing their corporate portfolios and may sell non-core and underperforming assets as they restructure the business.



However, slightly over a third of respondents say that such sales are not on the immediate agenda.

Corporations are reassessing their portfolios and divesting assets. More than half (54%) of respondents say they will be selling off assets in the next few months, however, the wide body say this will be part of a positive effort to divest non-core assets or underperforming businesses as they pivot to new markets or generally make their organizations more resilient.

The Head of Strategy at a Singaporean manufacturing company says that divesting will "provide new methods for reorganizing our business," effectively allowing the company to grow by becoming smaller, nimbler and more efficient. Likewise, the director of legal at an Indian bank outlines another motivator behind these strategies today, saying that "We are likely to make divestments because of our acquisition plans. We can free capital funds to be invested in new operations. For expanding our business globally, this would be the best choice."

Looking at recent trends from Mergermarket, corporate divestitures in Asia Pacific increased in value by 476% in 2020 from the year before to reach USD 69.7 billon — the highest on record — although the number of divestitures actually declined with only 65 deals. Sell-offs were concentrated in the energy, mining and utilities space, which accounted for 83% of deal values and 17% of volumes — and sentiment among respondents seems to suggest this trend will continue in 2021. HLS divestments were also prevalent in 2020. The sector accounted for 6% of divestments by value (the second highest), increasing from USD 782 million (across 6 deals) in 2019 to USD 4.1 billion (across 9 deals) in 2020.

6 Conclusion: Finding the Right Alignment for Success

Business leaders in Asia Pacific are citing the same essential factors that will forge success through businesses renewal and transformation. Strategic transactions, whether through consolidation, cross-industry diversification or non-core divestitures, will be focused on balancing two main aims: reducing current risks and leveraging on current strengths for the future.

These are the three key areas for charting transactional growth in the region.

M&A for Fast Growth

M&A is at the top the agenda, with acquisitions being a major focus for fast growth into key markets and new business segments.

Consolidations will see strong companies grow stronger, while other companies use M&A to venture across industries to diversify and expand. M&A can also serve as a catalyst to drive transformative change within the organization to prepare for future complexities.

Tech and Innovation for Competitiveness

Acquiring tech assets and innovative business processes is a priority to make organizations more competitive and efficient, and also a sign of adaptation to changing consumer demands.

Tech and new advances in operations and supply chains can companies pivot and position themselves as leaders in their space against a rising tide of start-ups and innovative companies across industries.

Divestments for Strategic Resource Allocation

Addition by subtraction has proven an effective strategy to enable reallocation of resources and investment into more profitable business streams to drive change at an organizational level.

With a positive climate for valuations, now may be the time to sell assets that no longer serve corporate growth goals.

While these actions can help businesses seek renewal and renewed paths to growth, the real challenge will be positioning the organization to weather the rising storm of complexities that was present even before the global health crisis took root. Building key strongholds will be key to navigating a more challenging business landscape in Asia Pacific and globally — and transactional acuity is one option at their disposal to meet these future obstacles head on.

7 Key Contacts

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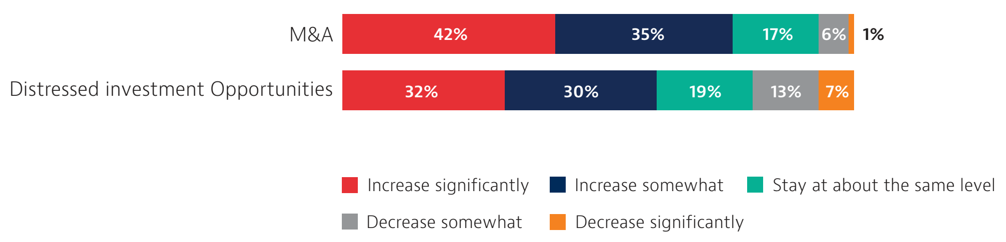
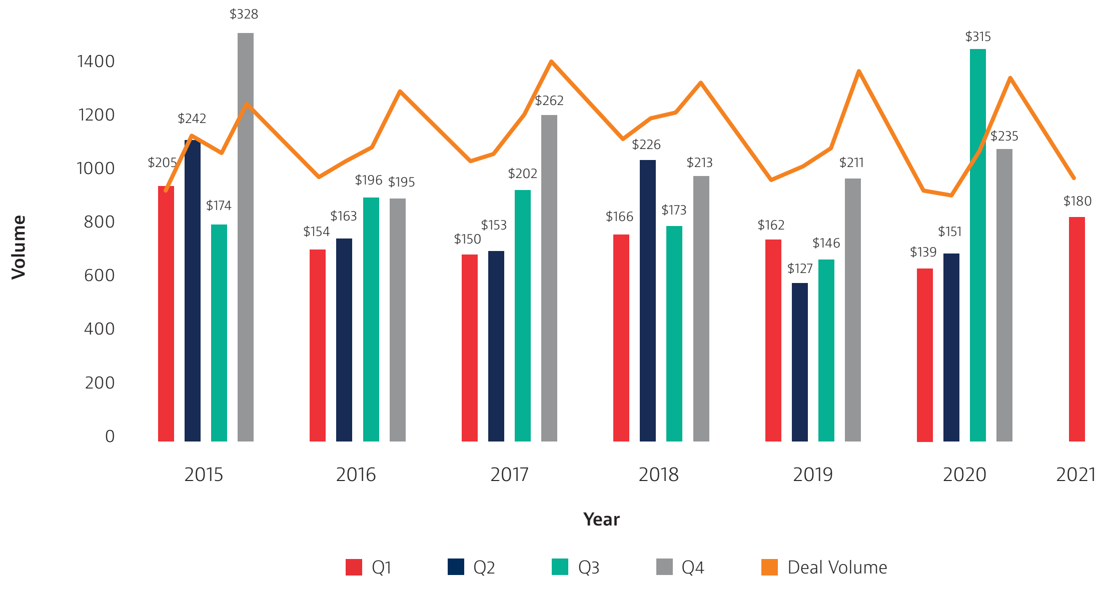
8 Appendix of Charts

FIGURE 1. EXPECTATION OF M&A AND DISTRESSED INVESTMENT OPPORTUNITIES IN ASIA PACIFIC



Source: Acuris

FIGURE 2. ASIA PACIFIC M&A (2015 TO Q1 2021)



Source: Mergermarket

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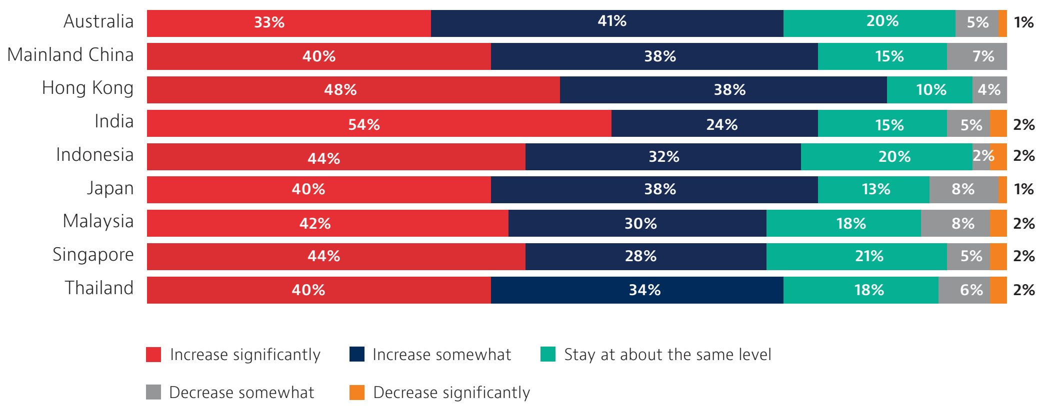
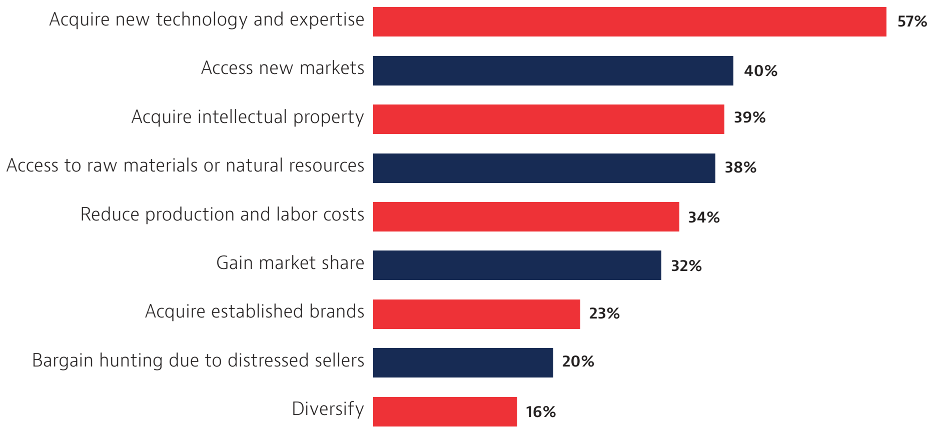
FIGURE 3. EXPECTATION OF M&A IN ASIA PACIFIC (BY JURISDICTION)



Source: Acuris

FIGURE 4. MAIN REASONS FOR CONSIDERING ACQUISITIONS OVER THE NEXT 12 MONTHS



Source: Acuris

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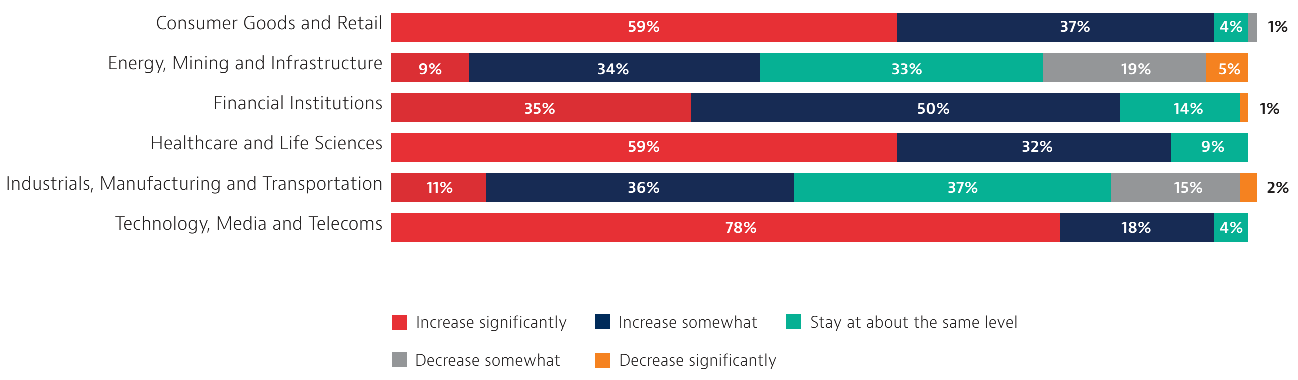
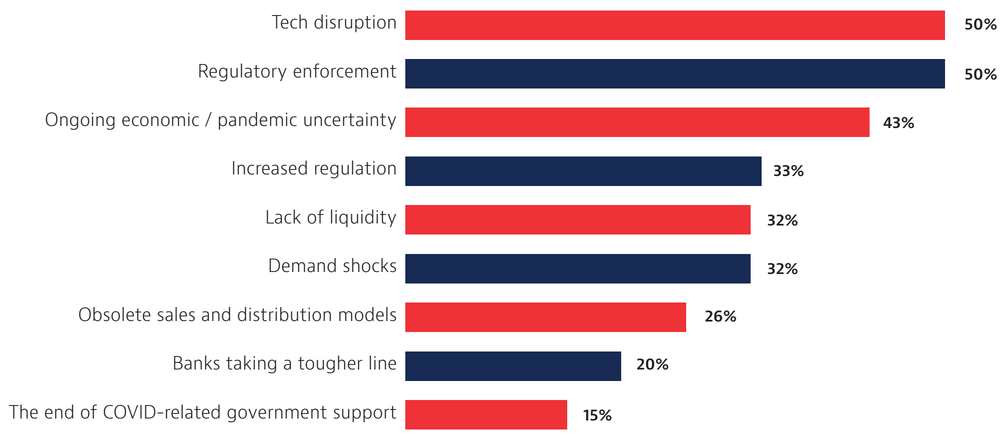
FIGURE 5. EXPECTATION OF M&A (BY SECTOR)



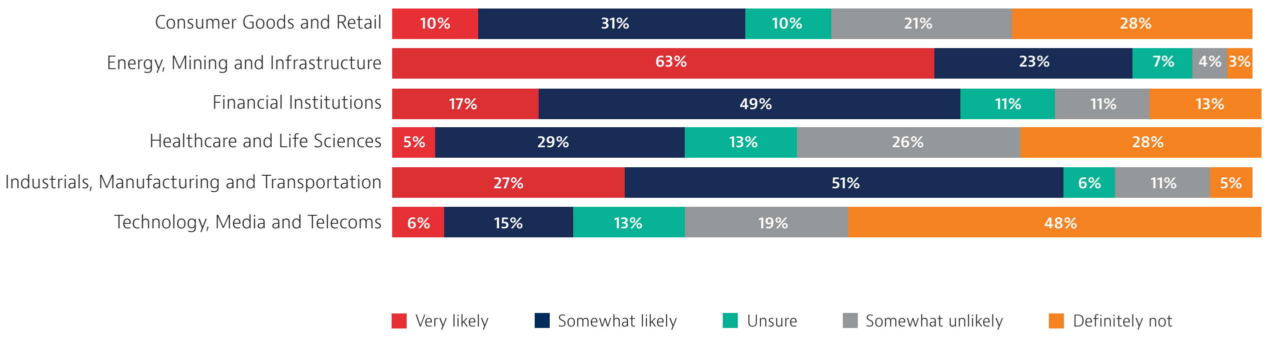
Source: Acuris

FIGURE 6. KEY DRIVERS FOR INSOLVENCIES IN YOUR SECTOR IN 2021



Source: Acuris

FIGURE 7. EXPECTATION OF DIVESTITURES IN 2021 (BY SECTOR)



Source: Acuris

Leading and closing complex deals - every day

We are a transactional powerhouse providing commercially-focused, end to end legal advice to maximize deal certainty and secure the intended value of transactions. Our 2,500 lawyers combine money market sophistication with local market excellence. We lead on major transactions with expertise spanning banking and finance, capital markets, corporate finance, restructuring, funds, M&A, private equity and projects. The combination of deep sector expertise, and our ability to work seamlessly across each of the countries where we operate, means we add unique value in shaping, negotiating and closing the deal.

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