Japanese M&A has been predominantly an outbound story in recent years. In 2018, corporate Japan’s outbound M&A boom reached new heights, with US$174bn in deals, a staggering 119% increase from the previous year and the largest on record according to Mergermarket data. The surge in dealmaking was bolstered by Japanese Takeda Pharmaceutical’s US$78bn takeover of Ireland-based drugmaker Shire and illustrates the continued buying power of Japanese companies as they search for growth and higher returns abroad.

The overseas acquisition spree is likely to continue through 2019 as Japanese corporations look for ways to put the almost US$900bn they have in cash to work. Already Q1 2019 has seen a surplus of activity with US$22.8bn in 75 deals compared to US$12.5bn and 77 deals in Q1 2018. Also, while Japanese offshore M&A has historically focused on the US, recent trends have seen a shift toward Europe and neighbouring markets in Asia.

Outward Japanese private equity and venture capital (PE/VC) investment has likewise trended up recently. Despite a year on year decrease in value in 2018, such investments in 2019 look promising so far, and total invested capital in the first year has already surpassed the total for FY 2016.

Within Japan, while dealmaking among Japanese buyers has gone up over the past three years, inbound foreign M&A has hit a down trend after hitting a high of US$25bn in 2017. Inbound totals in 2018 were down 74% in value and 27% in volume terms.

**Year-on-year change in Japanese M&A (2018)**

<table>
<thead>
<tr>
<th>Segment</th>
<th>Deal value</th>
<th>Deal volume</th>
</tr>
</thead>
<tbody>
<tr>
<td>Outbound</td>
<td>119%</td>
<td>-8%</td>
</tr>
<tr>
<td>Inbound</td>
<td>-74%</td>
<td>-8%</td>
</tr>
<tr>
<td>Domestic</td>
<td>97%</td>
<td>0%</td>
</tr>
</tbody>
</table>
Japanese M&A: Target and bidder geographies (Q1 2019)

Japanese outbound M&A: Top target geographies (Q1 2019)

USA | Germany | Singapore
--- | --- | ---
US$7.6bn | US$6.6bn | US$1.8bn
26 deals | 10 deals | 4 deals

Japanese PE/VC investment trends

Japanese PE/VC outbound investment year-on-year comparison

2017 | 2018
--- | ---
190 investments worth | 246 investments worth
US$31.1bn | US$28.6bn

Overall Japanese offshore PE/VC investment decreased 8% in value terms and increased 29% in volume terms

Japanese inbound M&A: Top bidder geographies (Q1 2019)

South Korea | USA | China
--- | --- | ---
US$1bn | US$952m | US$42m
1 deal | 5 deals | 1 deal

Japanese PE/VC domestic+inbound investment year-on-year comparison

2017 | 2018
--- | ---
714 investments worth | 689 investments worth
US$25bn | US$4bn

Overall PE/VC investment in Japan decreased 82% in value terms and decreased 4% in volume terms
While Japanese healthcare and life sciences M&A has historically been driven by deals in the domestic market, a phase shift is happening as greater outbound dealmaking occurs. In 2018, offshore M&A into healthcare and life science surpassed domestic M&A, trending up as Japanese corporations use strategic acquisitions to buy up IP and close the gap with global competitors. The Takeda-Shire deal in 2018 highlights this as the acquisition will help the Japanese pharmaceutical giant gain scale, make cashflow improvements, and invest further in R&D.

While similar megadeals may be unlikely in the near term, M&A will continue to be a dominant theme in the industry. Already, dealmakers complete US$2.3bn in deals in the first three months of 2019 with further dealflow into key markets in North America, Europe and Asia expected through yearend.

Some Japanese healthcare companies are also considering divestitures as they opt to sell non-core assets and channel resources to core areas. This significant refocusing of the business matched with the proceeds from any sale of non-core business lines will add financial firepower for Japanese healthcare and pharmaceutical companies to pursue further cross-border deals.
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<table>
<thead>
<tr>
<th>Announced Date</th>
<th>Target Company</th>
<th>Target Dominant Sector</th>
<th>Target Dominant Country</th>
<th>Bidder Company</th>
<th>Deal Value USD(m)</th>
</tr>
</thead>
<tbody>
<tr>
<td>08/05/2018</td>
<td>Shire Plc</td>
<td>Biotechnology</td>
<td>Ireland (Republic)</td>
<td>Takeda Pharmaceutical Company Limited</td>
<td>$78,198</td>
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<td>29/11/2018</td>
<td>IHH Healthcare Berhad (16% Stake)</td>
<td>Medical</td>
<td>Malaysia</td>
<td>Mitsui &amp; Co., Ltd.</td>
<td>$2,006</td>
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<td>28/01/2019</td>
<td>Thermo Fisher Scientific Inc. (Anatomical Pathology business)</td>
<td>Medical</td>
<td>USA</td>
<td>PHC Holdings Corporation</td>
<td>$1,140</td>
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<td>29/03/2018</td>
<td>Irvine Scientific Sales Company, Inc.; IS Japan Co., Ltd.</td>
<td>Biotechnology</td>
<td>USA</td>
<td>FUJIFILM Holdings Corporation</td>
<td>$800</td>
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<tr>
<td>05/01/2018</td>
<td>Tigenix NV [96.1% Stake]</td>
<td>Biotechnology</td>
<td>Belgium</td>
<td>Takeda Pharmaceutical Company Limited</td>
<td>$573</td>
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</tbody>
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