

DUFF & PHELPS

Protect, Restore and Maximize Value

Japan Transactions Insights

Summer 2020



Overview

A sharp drop in global demand and disruptions through the supply chain caused by COVID-19 has hit Japanese exports, especially in the auto industry. This led to a sharp drop in production and business activities which weakened labor demand, hurting the households' income through limiting hours to be worked. Japan's real GDP may continue to contract and between April and June 2020, it saw a decrease of 27.8%, the biggest decline in the country's history.¹

Japan was able to contain COVID-19 cases modestly in the first quarter of 2020. However, the spread of COVID-19 accelerated in the second quarter of 2020, leading a state of emergency in early April. This state of emergency was lifted in late May and businesses were able to gradually open, which prevented a surge in the unemployment rate.

In the June monetary policy meeting, Bank of Japan (“BOJ”) decided to increase the cap on a special program to support corporate financing. BOJ announced it would continue the Quantitative and Qualitative Monetary Easing with yield curve control, aiming to achieve its target of 2% inflation in a stable manner.

The first half of 2020 had 1,808 M&A transactions with a transaction value of \$27.0 billion. The number of M&A transactions was down 13.2% from the same period for the prior year.¹

In the first half of 2020, 34 companies went public, compared to the 30 IPOs in the first half of 2019, with the services industry leading with the most IPOs.¹

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¹ Company press releases, Cabinet Office of Japan, and IHS Markit Japan Economic Outlook as of June 2020

Executive Summary

COVID-19 Impact

- As of August 30, 2020, Japan had 67,663 confirmed cases of COVID-19, with 20,717 of those in Tokyo.
- Domestic travel restrictions have been lifted but Japan's borders remain closed to international tourists.
- Japan is currently refusing entry to non-Japanese people who have been to any of over 100 designated countries across the world within the past 14 days, including the U.S., Canada, Australia, New Zealand, Singapore, Malaysia, Indonesia, Thailand, Vietnam, the Philippines, South Korea, China and most European countries.
- Japan is currently suspending visa exemptions, making it necessary for all visitors to apply for a visa before traveling to Japan.

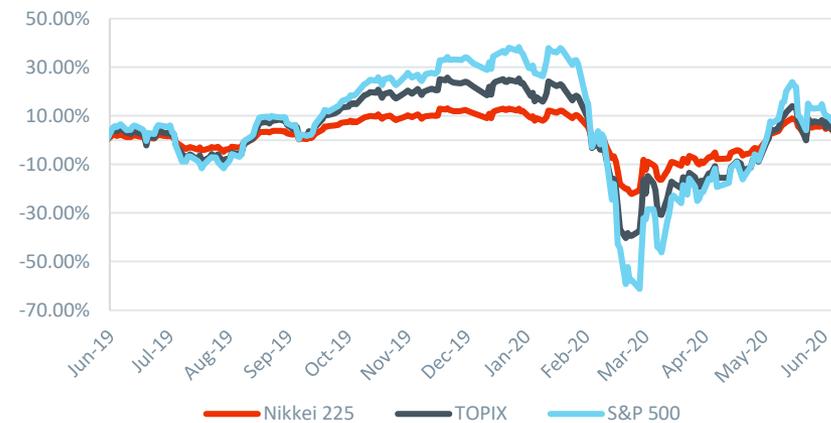
M&A Transactions

- 1,808 total transactions in the first half of 2020, down 13.2% from the prior year
- 402 transactions were cross-boarder deals, down 29.4% from the prior year
- Total deal value of approximately \$27.0 billion, down 59.0% compared to the prior year

Japan IPO Activity

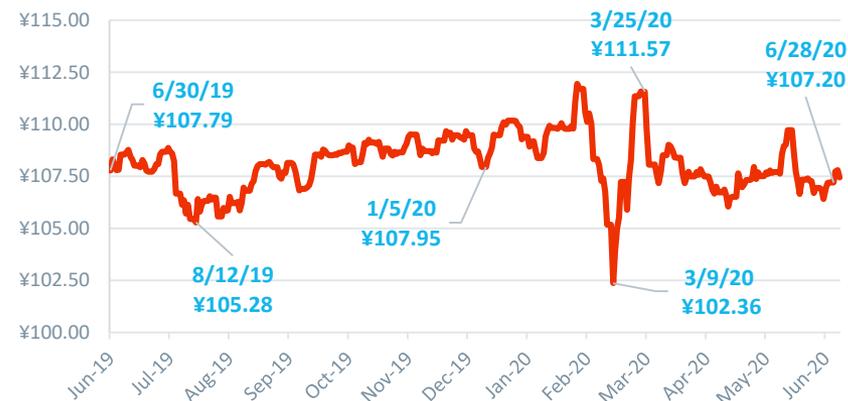
- 34 IPOs in first half of 2020
- Services industry had the highest number of IPOs, followed by the application software industry

YTD Market Index Performance



Source: S&P Global Market Intelligence.

JPY to USD Exchange Rate



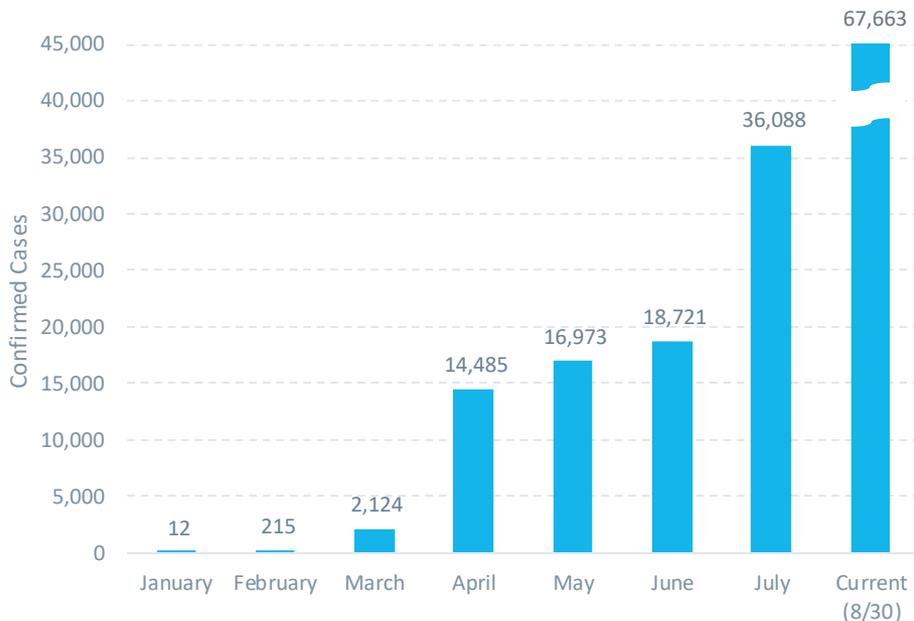
Source: S&P Global Market Intelligence.

Impact of COVID-19

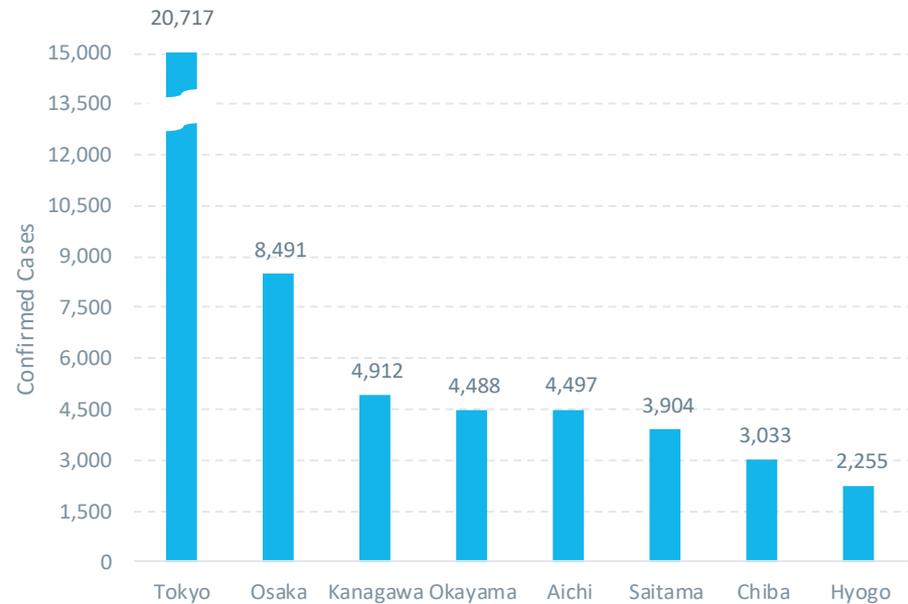
Japan has lifted its state of emergency which lasted from April 7 to May 25 by the government. The inter-prefecture travel restriction was also lifted on June 19, but people in the entire country was asked to exercise social distancing. The two prefectures with increasing COVID-19 cases, Okinawa and Aichi, declared their own prefecture states of emergency until August 29 and 24, respectively.

The CDC recently stated that COVID-19 risk in Japan is high and increased its guidance to level 3, which recommends avoiding nonessential travel to Japan. As of August 30, 2020, there were 67,663 COVID-19 cases, with the number of daily new cases increasing. August 1 saw a single-day high of 472 new infections. Authorities in Tokyo have ordered restaurants and bars that serve alcohol to stop its service at 10 p.m. to help stop the spread of COVID-19.

Confirmed Cases by Month (as of 8/30/2020)



Confirmed Cases by Prefecture (as of 8/30/2020)



Impact of COVID-19

Market impact caused by COVID-19 as of June 30, 2020, except for current share price.

	As of 6/30/2020			Change from 15 Days Ago			Change from 30 Days Ago		
	5-Year	10-Year	20-Year	5-Year	10-Year	20-Year	5-Year	10-Year	20-Year
Japanese Gov't Bond	-0.10%	0.04%	0.42%	▼ 0.09%	▲ 0.04%	▲ 0.38%	▲ 0.03%	▲ 0.03%	▲ 0.06%
Spread Over Treasury:									
A Rated Bonds	0.32%	0.36%	0.34%	▲ 0.09%	▼ 0.02%	▼ 0.35%	▼ 0.04%	▼ 0.03%	▼ 0.07%

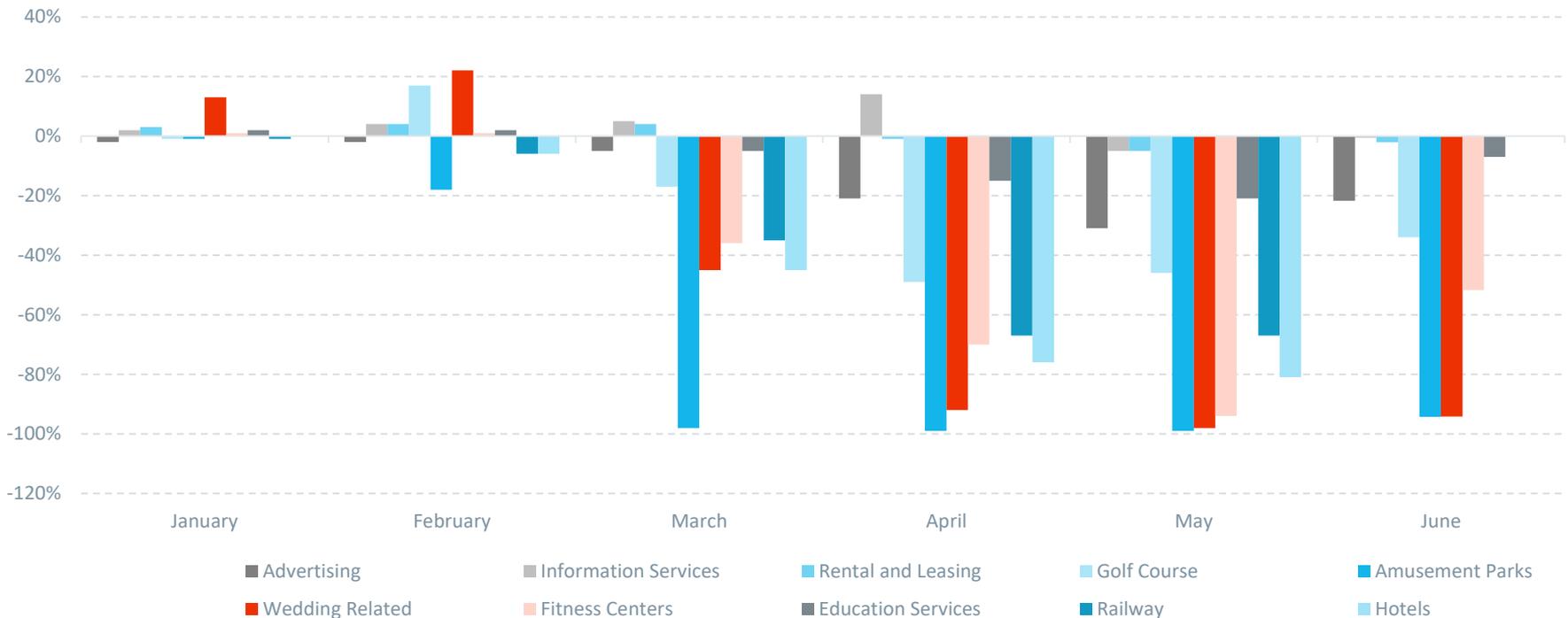
	As of	As of	Performance Through 06/30/2020				
	08/31/2020	06/30/2020	Since 3/31/2020	YTD	1 Year	3 Year	5 Year
	(Units in JPY)	(Units in JPY)					
Indices							
TOPIX INDEX	1,618.18	1,558.77	▲ 11.1%	▼ 9.4%	▲ 0.5%	▼ 3.3%	▼ 4.4%
Nikkei 225 Index	23,139.76	22,288.14	▲ 17.8%	▼ 5.8%	▲ 4.8%	▲ 11.3%	▲ 10.1%
Top 10 Companies By Market Cap. (Share Price)							
Toyota Motor Corporation	¥7,006.00	¥6,762.00	▲ 4.0%	▼ 12.3%	▲ 1.1%	▲ 14.7%	▼ 17.6%
NTT DOCOMO, INC.	¥2,959.00	¥2,882.00	▼ 14.7%	▼ 5.1%	▲ 14.7%	▲ 8.7%	▲ 23.0%
Nippon Telegraph and Telephone Corporation	¥2,411.50	¥2,515.50	▼ 2.3%	▼ 8.8%	▲ 0.3%	▼ 5.3%	▲ 13.5%
Keyence Corporation	¥43,680.00	¥45,030.00	▲ 29.3%	▲ 17.0%	▲ 36.2%	▲ 82.5%	▲ 172.7%
SoftBank Group Corp.	¥6,598.00	¥5,450.00	▲ 43.9%	▲ 14.6%	▲ 5.5%	▲ 19.8%	▲ 51.2%
Sony Corporation	¥8,309.00	¥7,384.00	▲ 15.0%	▼ 0.2%	▲ 30.7%	▲ 72.3%	▲ 113.3%
KDDI Corporation	¥3,078.00	¥3,234.00	▲ 1.4%	▼ 0.6%	▲ 17.9%	▲ 8.7%	▲ 9.5%
Chugai Pharmaceutical Co., Ltd.	¥4,721.00	¥5,765.00	▲ 38.4%	▲ 71.6%	▲ 145.7%	▲ 311.3%	▲ 309.3%
SoftBank Corp.	¥1,392.50	¥1,375.00	▲ 0.0%	▼ 5.8%	▼ 1.8%	NA	NA
Mitsubishi UFJ Financial Group, Inc.	¥442.50	¥421.60	▲ 4.6%	▼ 28.9%	▼ 17.7%	▼ 44.1%	▼ 52.1%
Currencies (1)							
British Pound (GBP / JPY)	140.49	133.48	▼ 0.4%	▼ 7.4%	▼ 2.5%	▼ 8.5%	▼ 30.6%
Euro (EUR / JPY)	125.22	121.32	▲ 2.6%	▼ 0.1%	▼ 1.1%	▼ 5.3%	▼ 10.9%
Swiss Franc (CHF / JPY)	116.49	113.83	▲ 1.9%	▲ 1.4%	▲ 3.1%	▼ 2.9%	▼ 12.8%
United States Dollar (USD / JPY)	105.27	107.80	▲ 0.2%	▼ 0.8%	▲ 0.0%	▼ 4.0%	▼ 11.9%
Canadian Dollar (CAD / JPY)	80.32	79.25	▲ 4.4%	▼ 5.3%	▼ 3.8%	▼ 8.3%	▼ 19.1%
Australian Dollar (AUD / JPY)	77.38	74.43	▲ 12.8%	▼ 2.5%	▼ 1.5%	▼ 13.7%	▼ 20.9%
New Zealand Dollar (NZD / JPY)	70.92	69.60	▲ 8.8%	▼ 4.8%	▼ 3.8%	▼ 15.4%	▼ 16.0%
Chinese Renminbi (Yuan) (CNY / JPY)	15.33	15.26	▲ 0.4%	▼ 2.3%	▼ 2.8%	▼ 7.9%	▼ 22.6%
Hong Kong Dollar (HKD / JPY)	13.58	13.91	▲ 0.2%	▼ 0.3%	▲ 0.8%	▼ 3.3%	▼ 11.8%

(1) Percentage change reflects strengthening and weakening of JPY
Note: Performance based on 6/30/2020

Impact of COVID-19

As shown on the chart below, the select service industries started the year with either a positive revenue growth or slightly negative. As the COVID-19 cases in Japan started to increase, amusement parks, hotels and railway industries were the first to see a decline in their revenue growth. By March 2020, information services, and rental and leasing (commodities) became the only two industries that produced positive revenue growth. Throughout the year, amusement parks and the wedding industry were affected the most with both industries showing a decline of 94% revenue growth in June. This was followed by fitness centers with a decline of 52% revenue growth in June.

Revenue Growth for Select Service Industries (as of 8/7/2020)

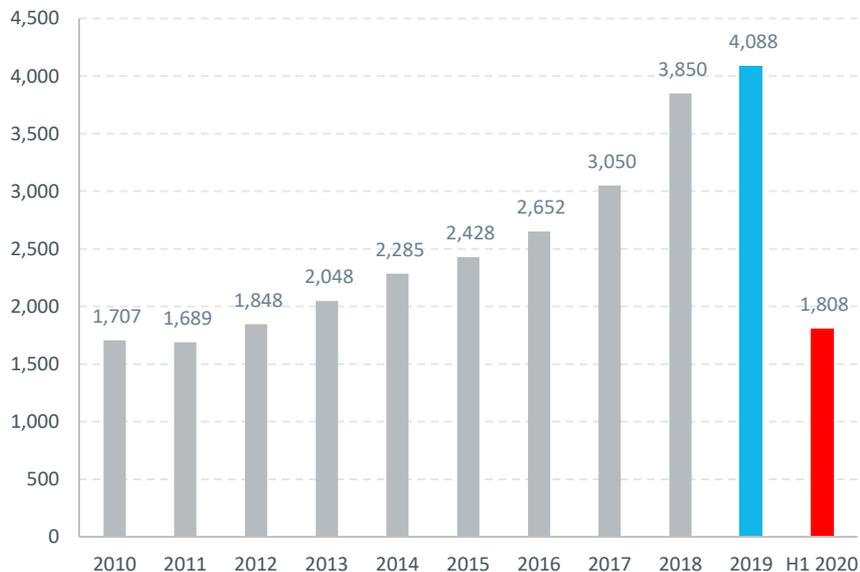


Source: Ministry of Economy, Trade and Industry
 Note: June data not available for Railway and Hotels

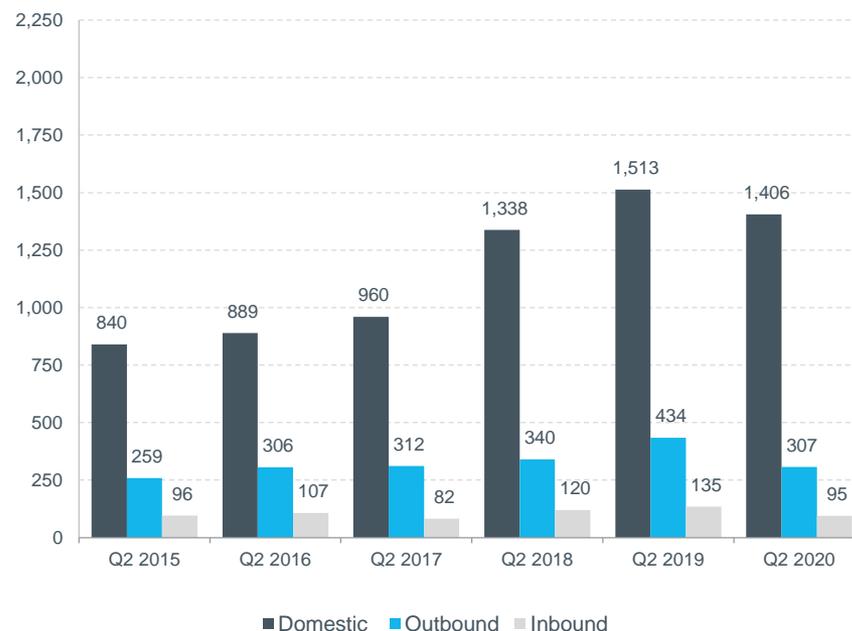
Summer 2020 M&A Transactions

There were 1,808 M&A transactions in the first half of 2020 (down 13.2% from the same period 2019), marking a first decline in the number of transaction since 2011. Domestic transaction decreased 7.1% compared to first half of 2019, with outbound and inbound transactions decreasing 29.3% and 29.6%, respectively. The M&A transaction value in the first half of 2020 totaled to approximately \$27.0 billion, down 59.0% from same period prior year. The decrease in the total transaction value was primarily due to the impact of COVID-19.

Number of Transactions – 10-Year Trend



Transaction Type



Summer 2020 M&A Transactions

COVID-19 had the biggest impact on the outbound transactions, resulting in a decline of 7.8% in Q1 2020 and a decline of 48.7% in Q2 2020, compared to the same time period of prior year. As shown in table below, the bigger deals with an acquisition of majority stake were mostly comprised of domestic transactions.

Notable M&A Transactions

Announced Date	Target Name	Incorporation	Industry Sector	Target Business Description	Acquirer Name	Enterprise Value	LTM Revenue	LTM EBITDA	EV / Revenue	EV / EBITDA
5/8/2020	Nichii Gakkan	Japan	Healthcare Services	Provides medical insurance administrative services for medical clinics in Japan and China	Bain Capital Private Equity, L.P.	\$2,769	\$188	\$188	0.58x	8.6x
2/5/2020	Sogo Medical Holdings Co., Ltd	Japan	Healthcare Services	Offers consultation services for development and operations of healthcare clinics and hospitals	Polaris Capital Group Co., Ltd	\$862	\$1,474	\$103	0.58x	8.3x
2/27/2020	Santher S/A	Brazil	Household Products	Offers various feminine and baby care products	Marubeni Corporation; Daio Paper Corporation	\$669	\$389	\$40	1.72x	16.9x
1/23/2020	Showa Aircraft Industry Co., Ltd.	Japan	Machinery and Heavy Equipment	Manufactures and sells general purpose containers, and transportation support and service vehicles	Bain Capital, L.P.	\$664	\$254	\$51	2.61x	13.0x

Notable M&A Transactions (Continued)

Announced Date	Target Name	Incorporation	Industry Sector	Target Business Description	Acquirer Name	Enterprise Value	LTM Revenue	LTM EBITDA	EV / Revenue	EV / EBITDA
3/2/2020	Alpha Theta Corporation	Japan	Consumer Electronics	Provides professional audio equipment	Noritsu Koki Co., Ltd.	\$601	\$591	NM	1.02x	NM
5/20/2020	Antalis Societe anonyme	France	Trading Companies and Distributors	Offers distribution of papers, packaging products and visual communication materials	Kokusai Pulp & Paper Co., Ltd.	\$510	\$2,328	\$42	0.22x	12.3x
3/2/2020	Tetra Therapeutics Inc.	United States	Biotechnology	Provides pharmaceutical drugs based on phosphodiesterase sub-type inhibitors for neuroscience disorders	Shionogi & Co., Ltd.	\$500	NA	NA	NA	NA
6/2/2020	UDC Finance Limited	New Zealand	Specialized Finance	Provided asset-based secured finance for the purchase of motor vehicles, aircraft and construction machinery	Shinsei Bank, Limited	\$484	\$86	NA	5.64x	NA
5/14/2020	UQ mobile Business of UQ Communications	Japan	Wireless Telecommunication Services	Provides mobile internet services in Japan	KDDI Corporation	\$331	\$699	NM	0.47x	NM
2/26/2020	PVP Biologics, Inc.	United States	Pharmaceuticals	Offers therapeutic products for celiac disease	Takeda Pharmaceutical Company Limited	\$330	NA	NA	NA	NA

Japan IPO Activity

During the first half of 2020, 34 companies held IPOs, four less companies compared to the same period prior year. In this period, 49 companies were approved to issue IPO, but due to the current environment, 15 of these companies have either canceled or extended their IPO schedule. Out of the 34 companies that issued IPO, 44% were in the services industry, followed by 21% in the application software industry.

Notable 2020 IPOs of Japanese Companies

Pricing Date	Company Name	Incorporation	Industry Sector	Business Description	Gross Proceeds (JPY¥ mn)	Indicated Price Range	Offer Price	As of 6/30/2020		
								Stock Price	Market Capitalization (JPY¥ mn)	Increase/Decrease From IPO Price
3/6/2020	Cyber Security Cloud, Inc. (TSE:4493)	Japan	System Software	Provides web security services using artificial intelligence	¥315	¥4,240-4,500	¥4,500	¥6,090	¥56,503	▲35.3%
										
1/27/2020	Curves Holdings Co., Ltd. (TSE:7085)	Japan	Leisure Facilities	Provides fitness club services to women	¥1,811	¥720-750	¥750	¥587	¥55,094	▼21.7%
										
5/21/2020	Locoguide Inc. (TSE:4497)	Japan	Interactive Media and Services	Provides flyer and shopping information services	¥4,693	¥1,600-2,000	¥2,000.00	¥5,330	¥50,031	▲166.5%
										
5/21/2020	Ficha Inc. (TSE:4052)	Japan	Application Software	Provides image recognition software for car cameras	¥302	¥470-520	¥520	¥4,195	¥22,691	▲706.7%
										

Notable 2020 IPOs of Japanese Companies

Pricing Date	Company Name	Incorporation	Industry Sector	Business Description	Gross Proceeds (JPY¥ mn)	Indicated Price Range	Offer Price	As of 6/31/2020		Increase/Decrease From IPO Price
								Stock Price	Market Capitalization (JPY¥ mn)	
2/5/2020	 Forum Engineering Inc. (TSE:7088)	Japan	Human Resources and Employment Services	Offers mechanical and electrical engineer staffing and corporate training services	¥12,632	¥1,310-1,400	¥1,310	¥838	¥22,356	▼ 36.0%
5/22/2020	 Commerce One Holdings Inc. (TSE:4496)	Japan	Application Software	Provides medical and nursing care services	¥854	¥1,400-1,600	¥1,600	¥5,580	¥20,990	▲ 248.8%
2/25/2020	 macbee planet Macbee Planet, Inc. (TSE:7095)	Japan	Advertising	Provides marketing analysis activities	¥1,836	¥1,830-1,990	¥1,830	¥5,170	¥24,080	▲ 182.5%
2/27/2020	 Koyou Rentia Co., Ltd. (JASDAQ:7081)	Japan	Diversified Support Services	Provides general furniture and equipment rental services	¥1,890	¥1,740-1,890	¥1,890	¥1,201	¥6,486	▼ 36.5%
2/12/2020	 DRAFT Inc. (TSE:5070)	Japan	Research and Consulting Services	Offers office design, layout and space planning and execution	¥1,864	¥1,520-1,580	¥1,580	¥1,190	¥5,530	▼ 24.7%
2/3/2020	 WILLTEC WILLTEC Co., Ltd. (TSE:7087)	Japan	Diversified Support Services	Provides contracted manufacturing services	¥2,146	¥1,100-1,200	¥1,200	¥843	¥5,107	▼ 29.8%

Global Fairness Opinions Practice

Ranked No. 1 for Announced U.S. and Global Fairness Opinions in 2019 and over the past five years¹

Announced U.S. Fairness Opinions Rankings

	Ranking	Number of Credited Deals
One Year: 2019	#1	44
Three Years: 2017 - 2019	#1	149
Five Years: 2015 - 2019	#1	238
Ten Years: 2010 - 2019	#1	400

Source: Thomson Reuters.

Announced Global Fairness Opinions Rankings

	Ranking	Number of Credited Deals
One Year: 2019	#1	55
Three Years: 2017 - 2019	#1	186
Five Years: 2015 - 2019	#1	325
Ten Years: 2010 - 2019	#1	519

Source: Thomson Reuters.

¹ Published in Thomson Reuters' "Full Year 2019 Mergers & Acquisitions Review."

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