



Delivering Deals in Disruption

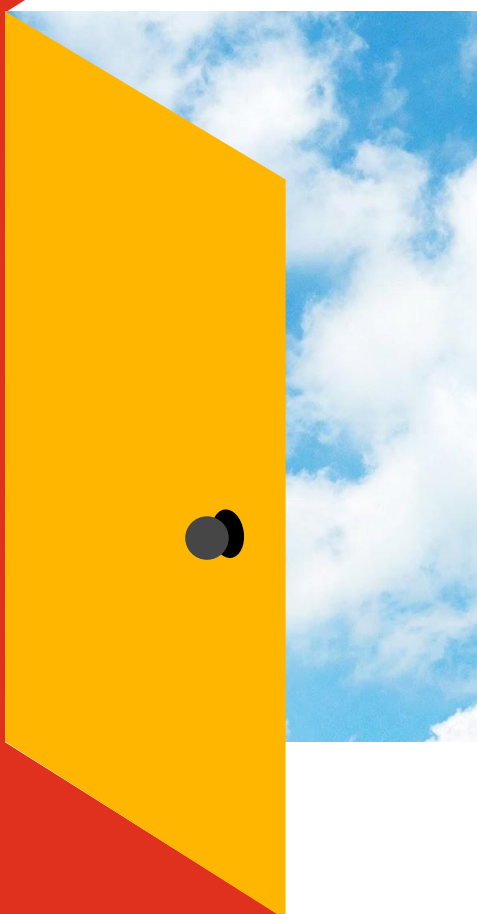
Value Creation in
Asia Pacific

February 2023



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Executive summary

The case for *Value Creation* as the priority

- Close to half the deals analysed in Asia Pacific have destroyed value and/or underperformed their industry peers. Our research shows 41% of buyers and 63% of divestors underperformed their peers
- Deal volumes in Asia Pacific are growing in significance, with the region's share of global Mergers and Acquisitions (M&A) continuing to increase over time, buoyed by sizable Private Equity (PE) dry-powder of ~USD\$600+ billion
- However, the region is not without its market challenges: high inflation, elongated impacts of the pandemic, unique territory nuances, and increased regulatory scrutiny are driving highly variable returns
- Also, executing deals in Asia Pacific is becoming more complex - they are often cross-region, with fragmented data quality, differing stakeholder needs, and variable sector maturities

“Asia Pacific is a fast growing region where markets have seen less consolidation and companies are typically less mature - there are disproportionately more ways to bring a *Value Creation* lens because of the degrees of transition and transformation happening across the region.

David Brown
Asia Pacific Deals Leader
PwC Hong Kong

Value Creation in Asia Pacific: an evolution

- It is clear a new approach is needed - (re)enter *Value Creation*. Put simply we define *Value Creation* as:
 - Taking a **strategic approach** to deal logic, as opposed to tactical, opportunistic, or risk-focused
 - Being **comprehensive and disciplined** through the corporate lifecycle, well before and after the deal
 - Grounded in **underlying drivers of value through a capability lens**
- We know success today depends on structure, discipline and comprehensiveness - and consideration of the full suite of value drivers, not simply traditional elements of financial engineering and tactical synergies focused on cash flow. The better approach considers strategy, operations, tax and stakeholder alignment which together drive premiums and manage risks along the 'Value Bridge'
- Our research suggests taking a capabilities-driven lens to acquisitions, outperforms deals that are made for other reasons by ~14% in total annual shareholder returns (TSR)
- Buyers' remorse is clear: only 29% of acquirers in Asia Pacific say *Value Creation* was a priority on Day One (deal closing), and 66% believe it should have been a priority in hindsight
- When *Value Creation* is closely linked to strategy, it yields positive outcomes: 80% of buyers surveyed (whose latest acquisition created significant value) say it was part of a broader portfolio strategy, rather than opportunistic

What's next for dealmakers in Asia Pacific?

- **Asia Pacific remains the 'sweet spot'** for global growth due to a range of factors - including burgeoning intergenerational wealth transfers, accelerated sector modernisations, growing intra-Asian trade flows and a nascent focus on Environment, Social and Governance (ESG) - which together present compelling *Value Creation* opportunities
- We are seeing **many deal thematics emerge recently** including 'roll-ups' in fragmented markets to build scale, carve-outs for large family businesses relevant to wealth transfer events, transacting as a catalyst to transform and innovate, and partial trade-sales and stakes to fund strategic expansions - particularly within Southeast Asia (SEA) to manage regional political and supply chain tensions
- To activate these, we suggest **six pragmatic responses** for dealmakers to successfully drive *Value Creation* catering to Asia Pacific's nuances:

1

Prioritise *Value Creation*, link it to strategy and embed a disciplined blueprint that promotes actionable planning. The benefits are clear: 94% of Asia Pacific deals that did not leverage a formalised *Value Creation* methodology and/or blueprint through acquisitions lost significant value relative to the purchase price, versus 100% of deals that leveraged such a methodology created significant value

2

Play to strengths and focus on differentiating capabilities. Doing so can focus deal hypotheses, accelerate and protect growth plays, attract capital and enhance efficiency in deploying it to the most value-adding initiatives

3

Commit time and effort to understand different cultures, business and market practices to shape people strategy. Hire the right leaders to execute the deal and lead *Value Creation* initiatives post-deal. Our research shows that in deals where the acquirer lost more than 10% of key employees following the transaction, significant value was destroyed

4

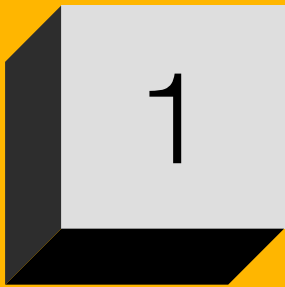
Continually uncover value from data and do so early. Make use of internal and third party data to gain business insights, help focus investment and effort, and align your data strategy with enterprise strategy going forward

5

Use ESG to elevate premiums. In a competitive market for capital and an insatiable desire for returns, this can be a differentiator. Companies demonstrating ESG capability have a lower cost of capital and a better chance of being prioritised by investors (including PE), often earning the right to price at a premium

6

Invest appropriately in integration to de-risk execution. In Asia Pacific, spending ~6% or more of deal value on integration is optimal to generate significant value. Ensure you have a comprehensive integration plan - including technology, synergies and people - with sufficient investment to cater for risks and potential accelerants



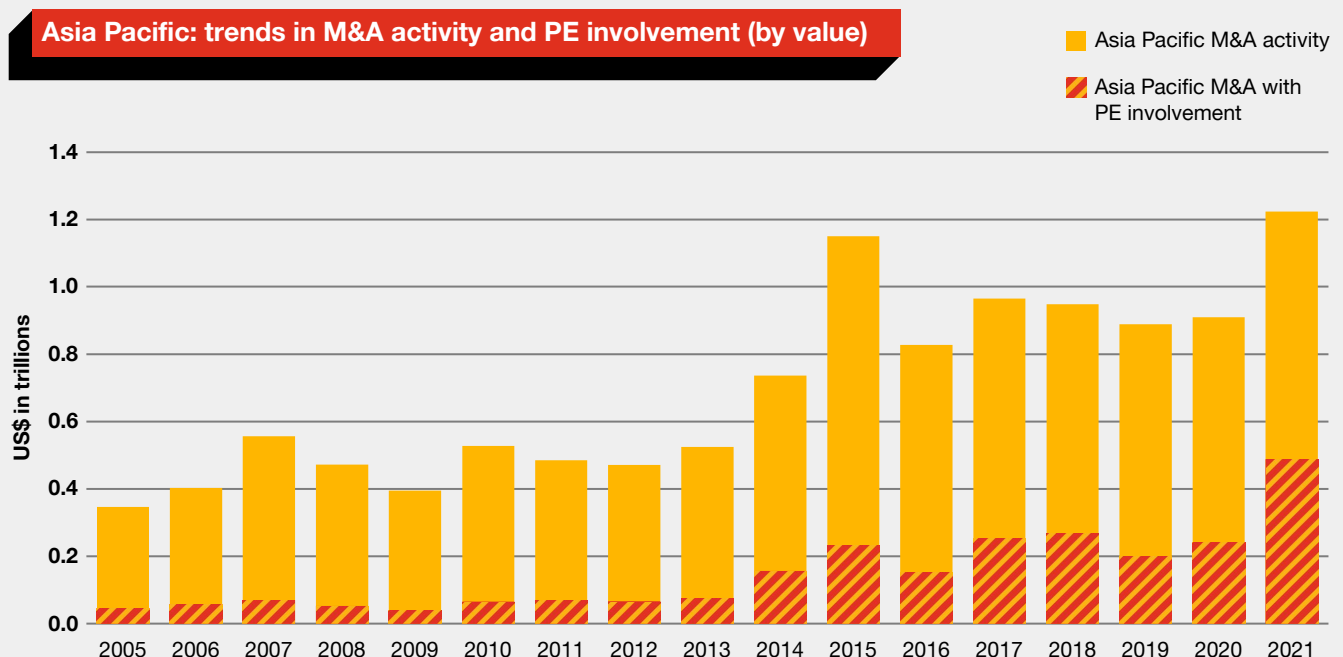
The case for Value Creation as the priority

Double-edged sword for M&A conditions

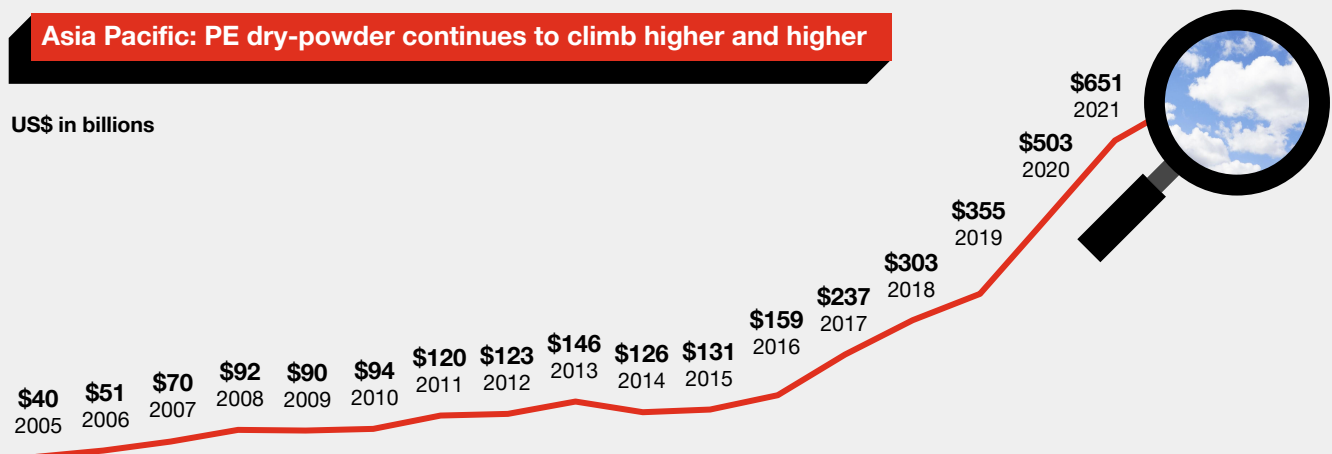
Whilst deal values and volumes are inevitably cyclical with periods of economic boom and bust, M&A activity overall in Asia Pacific has trended upwards, increasing more than three-and-a-half times in the past 16 years.

Also, PE's growing influence in driving M&A in Asia Pacific is reflected by PE involvement more than tripling to almost 40% of all deals. Plus, dry-powder has more than doubled in the past three years, conservatively estimated at well over USD\$600 billion in the region.

This backdrop creates a compelling case as **PwC's Global Deals Leader, Malcolm Lloyd** notes that "steadily increasing investor interest in the region forebodes even greater M&A activity in the years to come, paving the way for substantial opportunities for Value Creation."



Source: Refinitiv and PwC analysis



Source: Preqin and PwC analysis

Most deals destroy value

Inherent challenges in Asia Pacific increase risk around the execution of deals, and the ability to deliver strong growth post-deal.

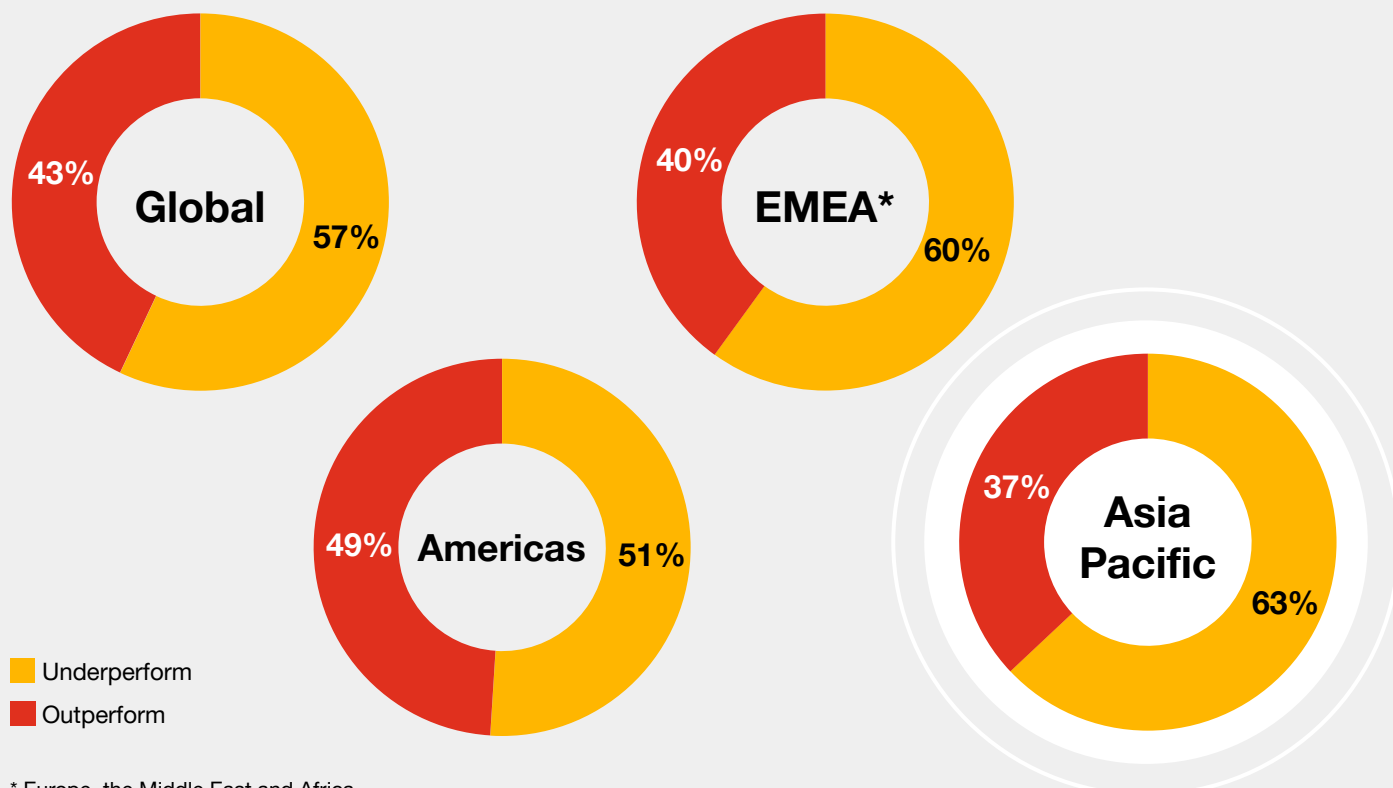
Dealmakers in Asia Pacific are facing the perfect storm: rising inflation, inconsistent growth, geopolitical conflict disrupting supply chains (including parallel aims of government and business to reshore/offshore), talent shortages, and increasing stakeholder demands on the quality and timing of returns. With growing pressure to generate value in an increasingly complex environment, businesses can no longer rely on market and organic levers to drive growth.

It is clear, however, that not all deals are created equal. On average, 53% of buyers and 57% of divestors globally underperformed their industry peers over the 24 months following completion of their last deal, based on TSR. In Asia Pacific, these figures were 41% and 63% respectively. From a seller's perspective, Asia Pacific fared the worst compared to global peers.

“Dealmakers are finding it increasingly challenging to successfully execute deals in the current economic landscape. Pressure to grow, generate short-term cash flows, maximise returns and de-risk integrations or divestments means **Value Creation** has never been more important.

Hein Marais
Global Value Creation Leader, PwC

Performance of divestors relative to industry benchmark 24 months after completion



* Europe, the Middle East and Africa

Source: Creating value beyond the deal report, Cass Business School

Asia Pacific research findings are from our Creating Value Beyond the Deal report, published in 2019. Analysis presented is from a large-scale global study on the performance of companies following acquisitions and divestments, conducted by Cass Business School on behalf of PwC, as well as a survey of 600 corporate senior-level executives from a range of industries and geographies.

Asia Pacific: the ‘sweet spot’ for value

The fundamentals in Asia Pacific continue to create opportunity for *Value Creation*-focused deals and dealmakers:

- **Sector-specific trends** continue to accelerate, in some part due to the pandemic. For example, we are seeing **large-scale digitisation in financial services** with an increasing shift away from cash and a gradual growth in mainstream use cases for digital currencies and e-wallets. This also coincides with a step change in supply chain agility and e-commerce, particularly in the retail and consumer sector where omni-channel is fast becoming the norm. For the industrial sector, smart supply chains have also supported an accelerated transition to Industry 4.0. Together, these bolster the potential for acquisition premiums, and with the right transformation, can underwrite earnings in the long term.
- In the last few years many nations have taken steps to effectively manage the potential of a **US-China trade decoupling scenario**. While we are seeing some activity indicating a more collaborative, flexible approach, the largest economies continue to ‘reshore’ technology and capabilities. We are also seeing the rise of SEA as an emerging base to amplify ‘in-Asia-for-Asia’ trade in goods and services. This signals an opportunity for strategic investors and businesses to capture early growth and market positioning in buoyant sectors – such as fintech and technology, consumer, healthcare and high-value/non-commoditised manufacturing.
- 85% of Asia’s billionaires are still the founders of their family businesses, signalling a significant **wave of generational wealth transfers** over coming years². Additionally, according to Knight Frank³, wealth continues to ‘shift east’ as the number of new billionaires in Asia Pacific is forecast to increase more quickly than the global average during the next half a decade. By 2026, we are due to see more than a third of the world’s billionaires residing in the region. This represents a **strong catalyst for reorganisation - and modernisation - of family businesses, operations and structures**. Such wealth transfer events create substantial amounts of both capital and assets available for M&A.
- Despite still being nascent, there is a **renewed focus on ESG** for established businesses in more mature markets. Though regulatory mandates may not yet be as developed as in western markets, changing consumer - and more broadly societal - expectations in the region could provide an opportunity for future-ready businesses to **justify premiums for their products and services that are ESG ‘friendly’**. Also, Asia Pacific businesses and governments seeking inbound investment will likely need to demonstrate threshold commitments and outcomes to build trust with outside investors.

“ We’ve seen an increase in global and regional businesses looking to rehome manufacturing capabilities in Southeast Asia in recent years, enticed by opportunities to streamline operations and costs, and to take advantage of attractive investment incentives in the region.

Chantanuch Chotikapanich, Deals Leader, PwC Thailand

In addition to these fundamentals and thematics, to find the 'sweet spot for value' dealmakers will also need to consider the intricacies of the region, and be aware of potential challenges and risks.

Territory-specific characteristics make executing deals in Asia Pacific particularly challenging. A range of factors drives this, including trade/market protectionism within individual territories, variable quality and transparency of financial data, non-compliant business practices, differences in territory and sector maturities, diverse populations, reorganisation of family businesses with generational succession plans, and more interventionist governments and regulations. This expanding and complicated universe of risks demands a wholesale reset of M&A strategy to understand how to successfully deliver value, and not just identify it.

Inflation across the region has compounding challenges - potentially dampening underlying customer demand due to high prices and increasing financing costs, making transactions more expensive to complete, and pressuring high-return expectations. Whether this is a long-term structural change or a short-term demand/supply shock remains to be seen. Either way, a more integrated approach to creating value - considering impact on capital structure, pricing, and resilience to multiple inflationary scenarios - is critical.

Increased **regulatory scrutiny** globally has seen regulators clamping down on opportunistic deals, to protect market integrity and competition. Larger markets such as India, Australia, Japan, and China are enhancing the strength and sophistication of their regulatory frameworks, with a number of emerging markets increasing appetite for competition enforcement⁴. Businesses with a disciplined *Value Creation* plan can factor in how to identify and structure deals based on specific capabilities and assets - as opposed to entire businesses. This could manage regulatory risk in Asia Pacific and in turn simplify execution and integration.

Asia Pacific is home to around 60% of the world's population, has more than 2,000 languages and dialects, and a unique combination of rapidly growing workforces moving at different paces. As such, **diversity and inclusion**⁵ is being brought to the fore as corporate leaders, governments, and dealmakers rightfully turn the focus towards people and culture to manage risk and differentiate.

“ Turbulent market conditions - despite their challenges - can be a great catalyst for deals. We know that deals executed during downturns typically yield a 5-10% premium over those executed in more stable conditions. Instituting *Value Creation* enables businesses to deliver this premium by rethinking their corporate strategy, deal approach, and value drivers as they consider their next transaction.

Neil Sutton, Asia Pacific Corporate Finance Leader, PwC Hong Kong

A shift in attitude and (re)defined approach is needed

As a result of these market forces, we are seeing unique [Asia Pacific dealmaker attitudes](#) emerge. While most deals across Asia Pacific were considered based on an overall portfolio review, the region saw more 'opportunistic' deals take place as a proportion of total compared to global peers.

80% of buyers surveyed who say their latest acquisition created significant value also say it was **part of a broader portfolio strategy rather than opportunistic.**

That was also true of deal drivers, which were primarily concerned with protecting, maintaining, or growing market share as opposed to maximising value from acquiring capabilities or assets. In Asia Pacific, the strategic drivers of deals were primarily to gain market share and expansion (35%) or to address disruption within an industry (25%).

Against this backdrop, it is clear a revised approach to *Value Creation* - one that is tightly linked to strategy well before Day One - is needed.

Also crucial will be being comprehensive enough through pre-, during- and post-deal phases to stabilise, reposition, transform and grow a business, as well as being nuanced enough to focus on differentiating capabilities in the longer-term, and not just on defending the existing market position of a business.

Dealmakers we surveyed clearly support this view. During deal execution we noted:

29% of acquirers in Asia Pacific surveyed say **Value Creation was a priority on Day One** in their latest deal.

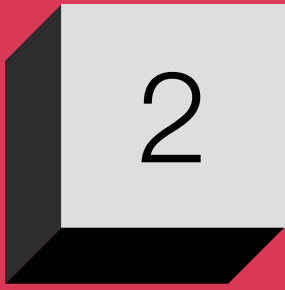
66% say it should have been **priority in hindsight.**

The outcomes are even clearer: 94% of Asia Pacific deals that did not leverage a formalised Value Creation methodology and/or blueprint through acquisitions lost significant value relative to the purchase price, versus 100% of deals that leveraged such a methodology created significant value.

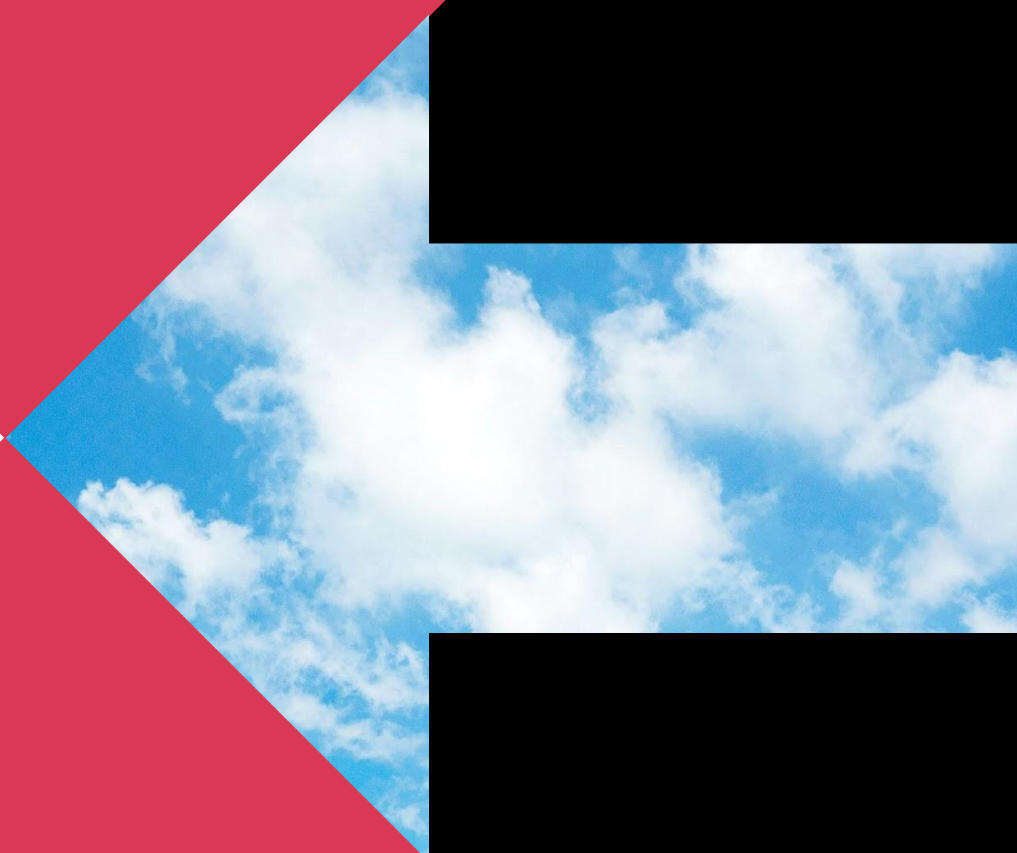
Do you have a formalised methodology and/or blueprint for creating value through acquisitions that applies across deals?



Source: Creating value beyond the deal report



Value Creation in Asia Pacific: an evolution



Value brought to life through capabilities

Value Creation can be readily defined by three broad themes:

1 Taking a strategic approach to deal logic as opposed to tactical, opportunistic or risk-focused

Many deals have a component of managing risks to preserve value. Too often this becomes the enduring focus as underlying market and transactional complexities emerge. *Value Creation* shifts this focus towards the core market, operating model, customer, and product/service drivers required to deliver sustained financial growth. Major risks are considered as part of critical enablers to creating value - people, culture, technology and the overall integration.

The concept of 'value' is also evolving. Regulators, customers, and investors continue to place increasing focus on ESG. Whilst there is material variability in government policies, and public and investor pressure on businesses to be 'ESG compliant', it is increasingly becoming a deal factor that can no longer be ignored. In fact, in our [2021 survey of PE funds in Japan](#), *Value Creation* was the most emphasised factor driving responsible investing and ESG. It is incumbent on dealmakers to understand how sustainable levers of value translate to higher valuations, and ultimately increase the resiliency of business during downturns and on exit.

2 Being comprehensive and disciplined through the corporate lifecycle - well before and after the deal

Ideally *Value Creation* needs to be embedded within strategy development, well before any M&A is considered, and across the corporate lifecycle (see figure below). To do true justice to its term, it should be an integral part of post-deal transformation and business improvement initiatives which actually create value.

A disciplined and structured approach is needed to identify value drivers which leverage the suite of strategic, operational and structural mechanisms available to extract value and integrate with broader stakeholder impacts. Leaving the bulk of this to 'business as usual' capabilities and planning is high risk, and in our experience contributes heavily to value destruction irrespective of transaction type.

58% of buyers in Asia Pacific believe their last acquisition created some value.

41% of buyers underperformed their industry peers over 24 months post-deal close, based on TSR.

63% of divestors underperformed their industry peers over 24 months post-deal close, based on TSR.



Grounded in **underlying drivers of value through a capability lens**

Our research suggests there is little correlation between deal performance and stated strategic intent - but strong correlation with capabilities fit. We define capabilities as the specific combination of processes, tools, technologies, skills and behaviours that allows companies to deliver unique value to their customers.

Capabilities-driven acquisitions outperform those made for other reasons such as economies of scale, lucrative assets, protecting the existing market position or diversification by 14% in annual TSR.

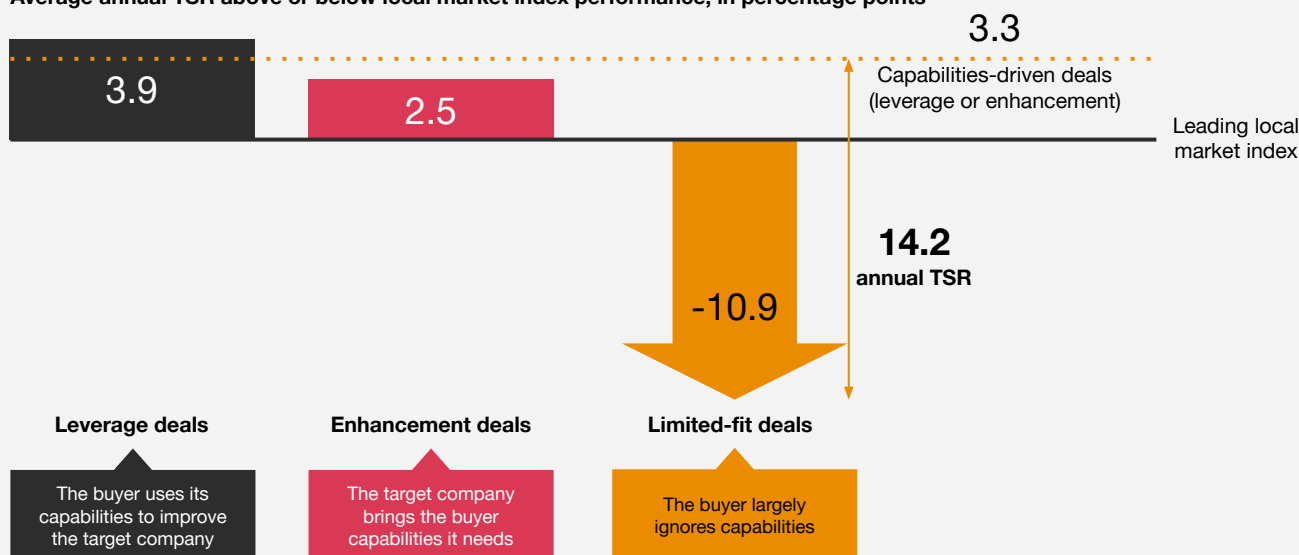
This is no accident. We are seeing that deals are becoming more complex in an increasingly challenging environment. A capabilities-driven approach helps dealmakers to focus valuable management time and investment on the most differentiating elements of the deal.

Being clear on where gaps lie and which capabilities to leverage will be critical to success. Considering these capabilities holistically, by ensuring the right perspectives are included along the journey, will be key.

This approach is equally applicable in the public sphere. Governments in the region have incurred significant debt⁶ through managing the pandemic with a further need to fund critical infrastructure projects. This provides the potential for large-scale capital recycling projects that bring assets to market. Public and private transaction participants would benefit greatly from a *Value Creation* approach. Buyers can have structure and clarity on how to generate long-term returns from public assets with a commercial lens, whilst governments can have confidence in the delivery of critical products and services in evaluating partners and price.

Capabilities-driven deals significantly outperform limited-fit deals in TSR

Average annual TSR above or below local market index performance, in percentage points



For the purposes of capabilities-driven M&A, we place deals into three categories:

- **‘Leverage deals’**: buyer acquires a business or asset that it knows or believes will be a good fit, and will leverage its own capabilities to improve the target
- **‘Enhancement deals’**: buyer acquires adjacent capabilities which it doesn’t currently have, allowing it to reinforce and/or complement its own capabilities to thrive in a new environment
- **‘Limited fit deals’**: minimal impact for the buyer to leverage its existing capabilities or acquire enhancing ones

Creating a compelling *Value Creation* story

Value Creation needs to occur through the entire corporate lifecycle, from strategy formation to business transformation. Considering it ‘tactically’ (i.e. as and when seemingly required), limits the ability to fully consider where synergies and risks might interplay, how to manage them early, what expertise might be needed down the line, and where M&A can truly maximise potential value. Being ‘late’ in this case is value destructive.

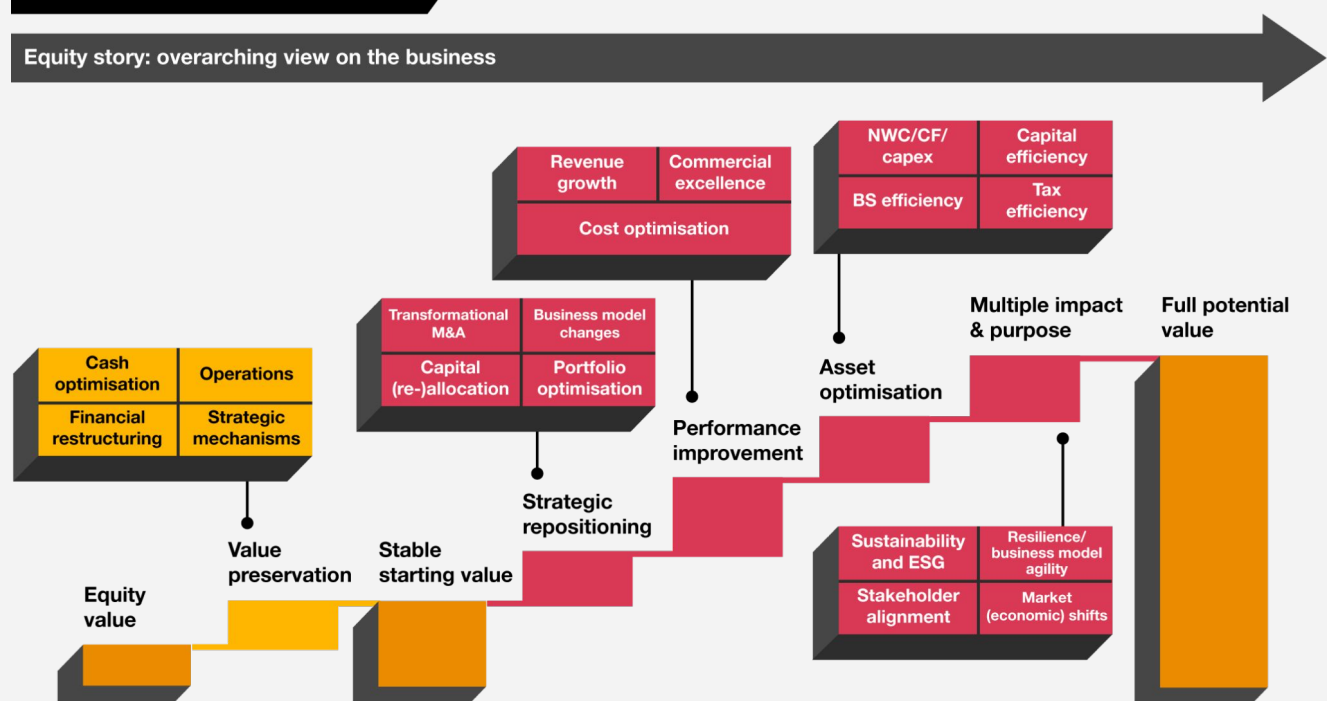
Irrespective of business priorities, a compelling strategic narrative for a business requires a disciplined plan - that bridges strategy, transaction and ensuing transformation - to deliver value. Planning must focus around a prioritised set of levers unique to the deal.

A ‘**Value Bridge**’ is a blueprint for this. However, like all plans, it needs to be tailored to the specific priorities of a business, the intricacies of its operations, and the particulars of its market positioning, products and services.

“ The environment in Asia has completely changed from that of a few years ago. As an investor, you can no longer only rely on financial engineering; in fact, in times of uncertainty, **Value Creation** through managing operational and other levers will be particularly essential.

Tze Wee Wee
Deals Strategy & Operations Partner,
PwC Singapore

PwC's illustrative Value Bridge



Well before the deal we focus on **value preservation** - tactical and operational mechanisms around cash flow and restructuring, which ready the business for strategic *Value Creation* at a 'stable starting value'.

This phase of the Value Bridge applies equally to businesses in financial distress (thereby focus is on 'recovering' value), or those who may be performing well but are facing strong competitive threats in a boom market (where focus is on 'preserving' value).

Peter Greaves, Asia Pacific Restructuring & Insolvency Leader, highlights that "the first step in recovering value is invariably to take a firm grip on the liquidity position by rapidly forming a realistic view of the short and medium term cash flow requirements of the business. This is imperative to inform the decisive and proactive interventions needed to stabilise a business when there is an actual or imminent cash crunch. By-passing this baseline discipline by leaping directly to strategic transformation can be short-sighted, leading to sub-optimal decision making and substantial execution risk in attempting to land recovery, preservation and growth initiatives in parallel".

Case study

Value preservation

A large Tier 1 automotive supplier in Japan was significantly hampered by the perfect storm: COVID-19 lockdowns, Russia/Ukraine conflict, supply chain shortages for critical components, inflation and a highly leveraged capital structure draining operating cash flows. A focused value recovery and preservation effort was needed - immediately. This resulted in a large-scale headcount reduction, planned rationalisation of sites, and then - with a stabilised value - optimisation of the capital structure. A significant injection of cash was also used for mission-critical investments in technology and markets which supported the future turnaround of the business.



From there, we focus on **four dynamic levers**:

A

Strategic repositioning (market, business model changes, and portfolio optimisation)

Once capabilities and a 'way to play' are understood in the context of *Value Creation*, businesses may need to re-orient themselves to connect those capabilities together in the market. They may need to enter or exit markets via M&A, shift their business model to better leverage what they are best at, and adjust their product/service portfolio accordingly. Deals can be a significant catalyst for this lever, accelerating the path to new markets, customers, products/services, technologies, and Intellectual Property (IP).

“With a new owner, a new management team, and new shareholders, you can use this point in time as a way to reset your strategy going forward. To reset the business model, you need to adapt and then communicate to the executive management team, middle management and front-line employees precisely what needs to be different.”

Waldemar Jap
China Consumer Markets Deals Leader
PwC Hong Kong

Case study

Strategic repositioning

A large international buyer was interested in a consumer health business known for its strong brand position and highly unique product suite, with a footprint in only two territories. The target had already identified a strategy to 'test' selling its products in other markets. However, a disciplined approach was needed to understand how to leverage the buyer's established international footprint and network, without disrupting the target's core differentiators of its product and brand. During a series of discussions and negotiations, a compelling *Value Creation* plan was developed through the diligence process, closely integrating and reflecting the target's proven strategy, but scaled and re-positioned with the buyer as a key driver of value.



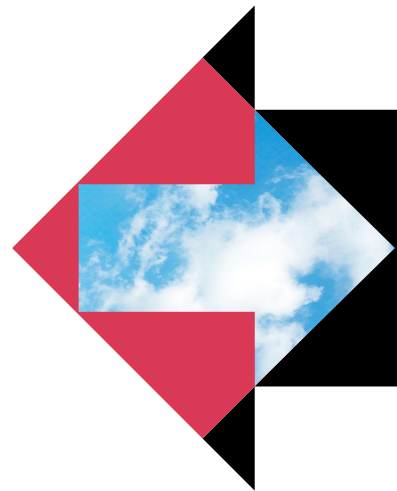
B

Performance improvement (revenue and cost optimisation including commercial excellence)

Value Creation is also pivotal to more traditional transformation and performance improvement initiatives. For example, when focusing on cost optimisation and commercial excellence levers, discipline ensures the people, technology, activity, and investment - that are essential to creating value - are not coincidentally limited as part of a broad cost-cutting program with a hard dollar mandate.

This was particularly important during COVID-19 as businesses were often faced with a trade-off between cash preservation and growth, where choosing to layoff staff or halt technology investments had the potential to severely limit the ability to compete in the longer-term.

Adopting a *Value Creation* lens *before* and *through* performance improvement can protect against this, and focus re-investment into differentiating capabilities.



Case study

Performance improvement

A business to consumer fresh meat distributor based in SEA, which supplies over 100 outlets, wanted to optimise their operations ahead of seeking external investment. We proved our *Value Creation* thesis to management by combining a traditional performance improvement approach of 'how can we be more efficient in the deployment of resources' with the smart use of data analytics, using their proprietary data. We looked at the business holistically from procurement and inventory to logistics and distribution along with the seasonality of purchaser behaviour. The client was able to minimise stockouts, lower their stock holding period, and release significant working capital back. Together, we created value that led to a higher valuation of the business.



C

Asset optimisation (capital/balance sheet efficiency and tax/entity structuring)

Amplifying *Value Creation* could be achieved by asset optimisation and structuring decisions. Understanding which markets to be in, what products/services and distribution channels are required, as well as how much investment and cash is needed, is crucial to determine how an entity and its capital should be structured. Also, having a blueprint for acquisitions can inform capital and tax structuring initiatives to make it easier and more seamless to acquire, divest, and integrate businesses, further de-risking earnings.

Nick Atkinson, Asia Pacific Debt & Capital Advisory Leader, suggests that “in the dynamic and diverse region that is Asia Pacific, the capital challenges facing corporates, sponsors, sovereigns and pension funds are many and each is significant. Ensuring that you identify, source and implement the optimal financing solution for your business needs will give you the best chance to deliver on your strategic objectives and create lasting value for stakeholders”.

Case study

Asset optimisation

A listed SEA telecommunications operator utilised a debt refinancing transaction as an opportunity to not only restructure existing debt with significant interest cost savings, but also to fund a strategic acquisition which nearly doubled its number of telecom assets. This cemented its top position in its home market, gave access to a new anchor customer, and afforded it financial flexibility for future *Value Creation* deal opportunities.

“The diversity and complexity of tax regimes in Asia Pacific - and for that matter the globe - provide a backdrop for a focused approach to M&A tax strategy and structuring to create value for our clients. Financing vehicles and legal entity structures, transfer pricing, policy incentives, and revenue authority focus (including ESG and 'Pillar Two') all represent burgeoning tax risks that need to be analysed with a commercial overlay to determine the most optimal deal structures and portfolio/asset owning jurisdictions thereby empowering *Value Creation* initiatives.

Mark O'Reilly
Asia Pacific M&A Tax Leader, PwC Australia

China

D

Multiple impact & purpose (ESG, business model resilience and stakeholder alignment)

As noted earlier, the concept of ‘value’ is evolving in line with the maturity of stakeholder capitalism. Regulators, investors, and customers are increasingly placing pressure on businesses to show demonstrable impacts towards, for example, climate and biodiversity. Businesses which can do so are increasingly attracting premiums, and investors are accumulating capital to support them.

56% of PE partners surveyed in our recent [Responsible Investment survey](#) refused to enter general partner agreements or turned down investments based on ESG grounds.

On the contrary, corporate value can also be eroded if ESG is overlooked after deal completion. ESG measures have the potential to increase exit multiples for PE investors. According to a major ESG ratings agency⁷, companies with high ESG ratings typically have a lower cost of capital than those with low ratings.

Even in the height of COVID-19, ESG Funds-Under-Management (FUM) in Asia Pacific continued to grow. Globally, ESG assets are estimated to account for a third of total FUM in the market by 2025, representing USD\$53 trillion⁸. The more *Value Creation* is connected to a broader stakeholder definition of ‘value’, the more likely commercially viable sources of investment may become available.

This is not a concept unique to large corporations and government. PwC’s [Family Business survey](#) highlights this as currently being even more critical than succession: 38% of family offices surveyed have a sustainability plan in place, versus 24% who have a robust, documented and communicated succession plan.

Case study

Stakeholder impact

Strategic consolidation within the circular economy is another way we’ve seen companies maximise value in the fullest sense from their acquisitions. In one instance, Korean environmental services provider SK Ecoplant Co., Ltd (SKEP) was looking to expand its footprint in the waste management sector. With consideration of traditional deal factors such as synergistic cost savings and economies of scale, SKEP chose to acquire a Singaporean-based e-waste treatment company TES-Envirocorp Pte. Ltd., (TES) majority owned by a Malaysian-based SEA PE firm, Navis. With TES’ facilities in over 20 countries, this brought to SKEP outsized growth from the acceleration of their entry into a highly regulated electric waste recycling and repurposing market which spans IT devices to Electric Vehicle batteries.



ESG, for the longest time, has been a tick-the-box exercise used by funds and businesses to meet a requirement from either a funder, shareholder, or limited partner. It has now moved from the periphery of a business’ strategic objective into the centre. ESG is at a point where it is woven into all aspects of business and naturally when that starts to happen, there is a shift in mindset from protecting against risks towards *Value Creation*.

Kushal Chadha
ESG in Deals Leader, PwC Australia

A spotlight on Private Equity

PE investors have typically provided commercial inspiration for corporates and governments on how to transact and transform the operations of a business to drive value. However, PE yields, even pre-pandemic, were skewing towards lower-end returns, suggesting executing and delivering value across ticket size, sector, buyer, and environment is becoming increasingly difficult. Our recent research indicates the traditional PE approach could benefit from a series of *Value Creation* modulations in Asia Pacific:

- Exit planning appears to be relatively deprioritised in Asia Pacific PEs. Over half (52%) of respondents agree that in future divestments they would start planning earlier, and more (61%) say they would take steps to better communicate with stakeholders. Moreover, PEs in Asia Pacific are a little over half as likely to conduct vendor due diligence (40%) - a key driver of value creating divestments - compared to their global counterparts (over 70% rest of world)
- Maximising revenue growth is just as important. PE investors have largely focused on driving cost-cutting benefits, but this is no longer sufficient to catalyse returns. Corporate buyers are slightly more focused on revenue generation as a lever for *Value Creation* (49%), compared to PEs (45%). Whilst these may be more challenging for financial investors to achieve, driving returns differently will be important in an increasingly competitive environment
- 85% of PE participants in Asia Pacific say culture issues hampered *Value Creation*. This is significantly higher than their global counterparts (40-55% rest of world), indicating the inherent challenges across the region in identifying and retaining the right leadership talent to lead the deal and fully understand the impact of culture on its success

“ PE funds are increasingly targeting Japan for fund-raising and investment. This is a spark for the reform of Japanese companies and to increase corporate value, especially in carve-outs and business succession. With the PE market accounting for an estimated 0.2% of Japan's GDP compared with 3.2% and 2.4% in the US and Europe respectively, there is considerable room for growth.

Akane Yoshida
Deals Leader, PwC Japan



3

What's next for dealmakers in Asia Pacific?



Emerging Asia Pacific deal themes

As already highlighted, Asia Pacific remains the ‘sweet spot’ for global growth: burgeoning intergenerational wealth transfers, accelerated sector modernisations, growing intra-Asian trade flows, and a nascent focus on ESG present compelling opportunities.

We have observed some emerging ‘ways to play’ in deals across the spectrum of buyers, sellers, and situations:

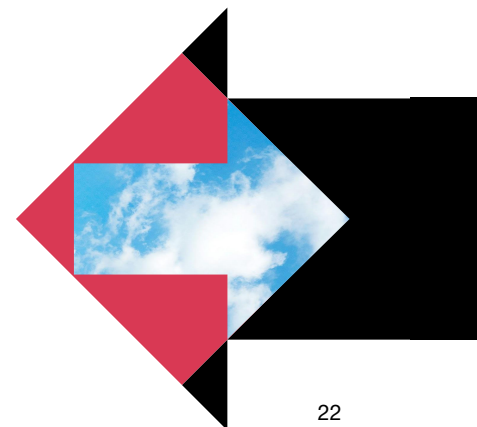
- **‘Roll-ups’ of smaller players** to build scale, accelerate access to growing markets, and leverage differentiating capabilities. This is particularly prevalent in fragmented markets where high inflation and intense competition have promoted scale as a saviour and source of differentiation (e.g. in e-commerce)
- **Carve-outs for large family businesses** as part of - or foreshadowing - an intergenerational wealth transfer. The significant rise of private wealth in the region, and associated growth in family offices, has prompted novel exit options including Special Purpose Acquisition Companies (SPACs) and de-SPACs, as well as PE co-investment where remaining private is preferable (e.g. the privatisation of Hong Kong retailer I.T Ltd by a CVC-led investor group)
- Undertaking a deal to drive innovation, deploy IP, and act as a **catalyst for transformation**. We are seeing this particularly in the retail, consumer and technology space. For example, Indonesian rideshare giant Gojek and e-commerce player Tokopedia merged to foster technology innovation, consolidate market access, and leverage a substantial combined product/service suite to be a pan-Asian competitor to Amazon
- Raising capital to fund expansions and transformations through **minority ownership or partial trade sales** - retaining institutional knowledge, brand, and talent to focus on the right capabilities. For example, a major European consumer goods group sold one of its Asian businesses and its associated manufacturing footprint to a regional PE player, retaining the brands, and reinvesting proceeds into higher growth markets
- Benefiting from the ongoing global geopolitical tensions and disruptive supply chains, capital and dealmaker focus continues to shift towards **‘intra-Asian’ deals** specifically in SEA as businesses look to build more resilient, local supply chains to serve local markets

“Asia presents the most exciting market for *Value Creation* globally but the practice of solely relying on underlying market growth, financial manipulation and opportunistic deals is over. Sellers need to better lay out the opportunity, and buyers need to have a more creative and holistic strategy to both win and deliver successful deals.

Richard Skinner
Asia Pacific Deals Strategy & Operations
Leader, PwC Singapore

However, what is clear is that to leverage these plays (and others), **there is no ‘one size fits all’** approach for Asia Pacific.

Our research identifies specific capabilities enabling these plays which deserve attention, and a set of pragmatic actions dealmakers can take to successfully institutionalise *Value Creation* in Asia Pacific.



Actions required to win

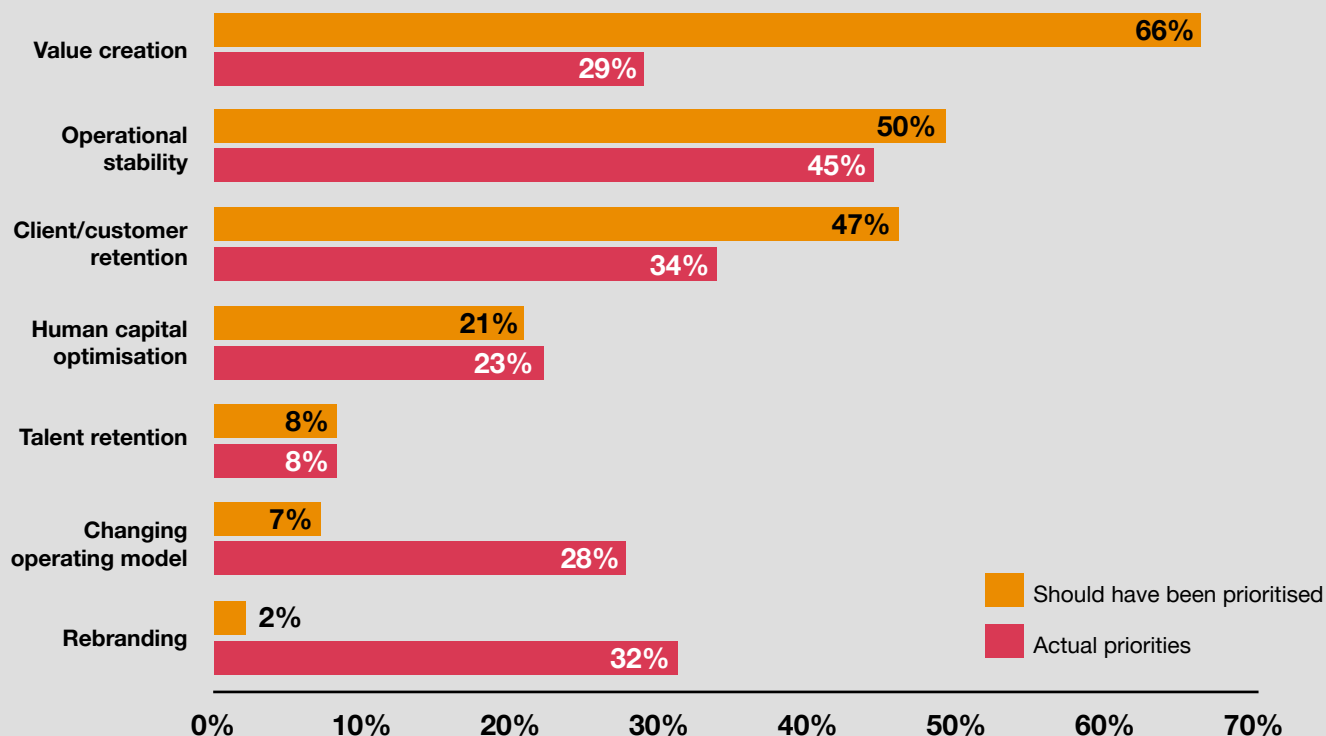
1

Embed *Value Creation* early and do so holistically

Of all our surveyed respondents, 47% of buyers saw a significant improvement opportunity for the development of an actionable *Value Creation* blueprint - this is higher than the need for significant improvement in choosing a target that meets a strategic need (29%) or completing pre-deal assessment upside and synergies (33%). It is clear that Asia Pacific dealmakers need a different approach from the past - one with extensive pre-deal and post-deal planning, with proactive *Value Creation* at the core. Dealmakers clearly support this view - only 29% prioritised *Value Creation* on Day One, yet 66% believe it should have been a priority in hindsight. 94% of Asia Pacific deals that did not leverage a formalised *Value Creation* methodology and/or blueprint through acquisitions lost significant value relative to the purchase price, versus 100% of deals that leveraged such a methodology created significant value.

The response: Invest time, effort and knowledge to build a *Value Creation* blueprint for deals in your organisation. Ensure this covers the entire Value Bridge including clear articulation of principles, processes, and enabling mechanisms with a capabilities lens. This should be a diverse and inclusive process as it extends through the deal lifecycle and therefore beyond typical and immediate dealmakers - include SMEs (internal and external), senior leaders, and functional representatives who are connected to the drivers of value.

What were your priorities on Day One and what should they have been?



Source: Creating value beyond the deal report

2

Focus on capabilities that drive long-term, sustainable premiums

As noted earlier, alignment to strategy is critical - but doing the 'right' capabilities-driven deal can be a game changer when tuned to the right market trends:

- Countries, populations, segments, and sectors have highly fragmented and diversified levels of digital literacy evolving at different paces. Innovation and digital/data/analytics platforms need to be capable of delivering dynamic and highly personalised products and services meeting specific needs as they evolve
- Private and intergenerational wealth expanded significantly before and during the pandemic, with substantial capital being repositioned away from Hong Kong SAR/China into SEA^{9 10 11}. Understanding what capabilities are needed to maximise opportunity from intergenerational wealth transfers (including people, product/service, manufacturing, supply chain, and distribution channels) can help facilitate deal negotiations and demonstrate strategic fit for both business and owner going forward
- Highly variable COVID-19 impacts in individual countries clearly demand a flexible business (i.e. supply chain, products/services) and operating model (i.e. talent, innovation, organisational structure, technology) that can manage rapidly shifting pandemic scenarios

The response: Analyse the business' current suite of capabilities required to operate and compete in the market. Prioritise the three to five which are truly differentiating and can reinforce each other to drive value. Then, through the Value Bridge, focus on those priorities in two ways: leverage (bolt-on to expand access and scope) or enhance (bolt-on to create new, adjacent capabilities) during the corporate lifecycle.

Case study

Differentiating capabilities for increased value

A local pet food business in New Zealand was gaining interest from multiple investors in the market. Recognising the potential in the industry, the business was keen to ensure the value was fully maximised through the competitive bidding process. To do so, a comprehensive and disciplined approach – underpinned by deep sector expertise – was applied. A key differentiator identified was the business' ability to manufacture and sell its own-label premium products, managing a very pertinent supply chain risk, and successfully building a brand with strong customer engagement. Considering this in the context of *Value Creation* enabled a bid that was structured around a deep understanding of the business' capabilities, addressing any pre-sale concerns, and demonstrating the future potential of the business incorporating both quantitative and qualitative elements. Whilst there were numerous interested parties, one investor deeply recognised the value and potential of the business, justifying a premium that ultimately saw it sold for significantly above shareholder and market expectations.


Prioritise people and culture

Dealmakers surveyed who were involved on loss-making deals, unanimously noted that not retaining the right people significantly hampered the realisation of value.

The 'Great Resignation' backdrop, high inflation, war for talent, differing management styles, and generational gaps add risk to creating value. 100% of companies who say significant value was destroyed in their latest acquisition, lost more than 10% of key employees following the transaction – which is a problem when some deals are 'asset light' or made up of intangibles. 60% of buyers feel they should have paid more attention to talent retention in order to deliver moderate to significant value. 81% of executives say they wish they had a better understanding of culture earlier in the deal process.

Employees in some countries and sectors view their employers as a trusted provider of [their care and wellbeing](#) - focusing on this can be a pivotal component of the attraction and retention equation. 79% of Asia Pacific dealmakers highlight culture as a major issue hampering the realisation of value, 14% more than global peers. In Australia, for example, we are seeing regulators requiring boards to exercise activities around culture.

The response: Invest time to understand the culture and behaviours required to differentiate for your people, then proactively prepare for key person risk by locking in critical leaders with a clear mandate to drive the right culture and retain equally critical talent. Translating this with discipline and connecting it as a clear driver of *Value Creation* empowered by the right culture will likely be a game changer.



“ One of the biggest impediments to realising the *Value Creation* objectives of a deal, is the retention of staff. Particularly in capability-driven transactions, value is significantly eroded when the people you've acquired depart. It's imperative for dealmakers to understand who the key talent is beyond those in business critical roles, to ensure that value is preserved and further unlocked.

Sasha Lawrence
People in Deals Partner, PwC Australia

Explore the ‘universe’ of available internal and third party data

The rapid development of data and analytics in the diligence process is clear. AI and Machine Learning data and insight engines can support not only transactional aspects (e.g. accretions, risk identifications, forecasts, trends) but also aid understanding of future market scenarios (e.g. impacts of redundancies, a more granular view of synergies and non-standard KPIs). All data sets are not created equal - the most relevant data needs to be high quality, reliable, reconcilable to financial statements, and complete. This is particularly challenging in Asia Pacific where data quality and availability are highly variable across and within countries, particularly for privately held businesses.

The response: Focus on the analyses that support the strategic narrative and specific value drivers of the deal. **Steve Sloman, Asia Pacific Data Analytics in Value Creation Partner** highlights that *“customer and transaction-level data, which are often underutilised assets of a business, can provide significant insight into key profit drivers, and can be used to inform strategies and decisions that will drive Value Creation”*. Prioritising this analysis early in the corporate lifecycle can help target diligence efforts. Doing so later can help optimise repositioning, transformation, and structuring activity. As drivers of value emerge, ensure the right data is connected with the most appropriate SMEs through the deal lifecycle - the intersection of human and digital (not either independently) is critical. Equally important, data can also enable reporting which during a deal, transformation, and ongoing governance is a critical enabler of transparency and therefore trust.

Case study

Uncovering value from data, early

A PE fund was considering the acquisition of a retail store network in Japan. As part of the due diligence, store level data (both financial and operating) for hundreds of sites was analysed and combined with external data on competitor locations and demographics. This enabled the store network to be segmented into performance tiers and the characteristics of high and low performing stores to be better understood. As a result, the PE fund was able to develop a value creation plan underpinned by revenue growth from opening new stores and margin improvement from closing or repositioning underperforming stores.

Identify where and how ESG can be a source of 'premium'

ESG is fast becoming not just a priority - but a differentiator - as regulatory impositions emerge, primarily on emissions. In asset intensive sectors like infrastructure, resources, and construction, a *Value Creation* approach could focus capital expenditure early on towards electrification and net-zero initiatives. This may appear costly in the short-term, but could yield significant cash flow benefits in future carbon tax reductions. Other industries are likely to follow in the near-term tangibly.

The response: Sources of ESG value should be identified and embedded into the *Value Creation* plan. Understand the strategic trade-offs (e.g. portfolio impact from emissions targets, diversity and inclusion, and social impacts on procurement) and use these to guide the level and timeliness of investment (e.g. in Net Zero, sustainable supply chains, diversity and inclusion policies, and community relations). Integrate this into the broader *Value Creation* and transformation roadmaps to enhance positioning with customers and build sustainable drivers of growth into the future.

Case study

Accessing value through ESG

The ESG factor opened the door for funding conversations: a Japanese electric furnace powered steel manufacturer had been struggling to engage with financial investors to fund capacity expansion. A Net Zero roadmap was integrated into their Value Creation plan, which included calculation of CO2 emissions and targets with measures to reduce CO2 levels, and top line development forecasts by promotion of carbon neutral steel. This subsequently attracted the interest of financiers and the business is now seeking to utilise 'transition finance' to fund their strategic and feasible projects which help to reduce CO2 emissions.



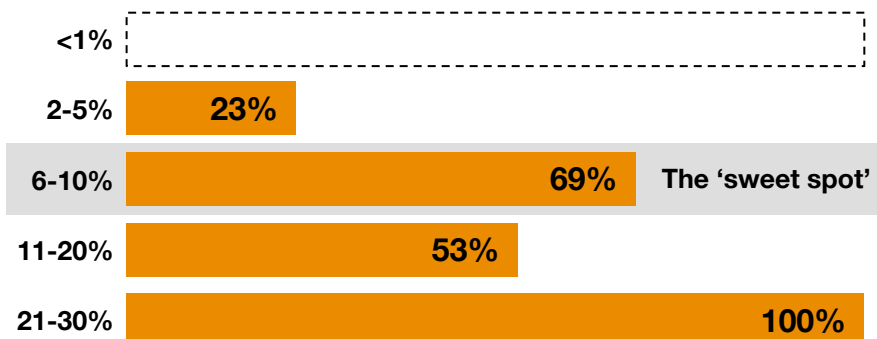


6

Invest in integration

Shortcuts on integration simply do not work, and managing the complexities noted earlier in this report requires investment. More than half of deals which invested ~11-20% of deal value on integration, generated significant value relative to purchase price. Whereas 93% of deals which **destroyed value spent 5% or less**. In terms of delivering value, the statement 'failing to prepare is preparing to fail' is poignant - spending around **6-10% appears optimal**.

Deal integration spend (% of deal value) vs % 'moderate to significant value' generated

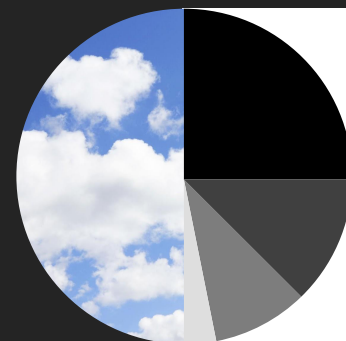


Source: Creating value beyond the deal report data

The response: Ensure you have a comprehensive integration plan - including topics of technology, synergies, and people - with sufficient investment to cater for risks and potential accelerants. All of these (and others as relevant to specific businesses, markets, and conditions) should ideally be institutionalised as part of a *Value Creation* blueprint and methodology that is scalable to apply to scenarios even outside of the deal process (e.g. transformation and product/service portfolio adjustments).

In summary, dealmakers who leverage Value Creation effectively can do so flexibly to cater for conditions and levers of the day - data, people, ESG, and enhanced integration. Today, it is the key to unlocking transformative opportunities in [Asia Pacific's Time](#). That time is now.

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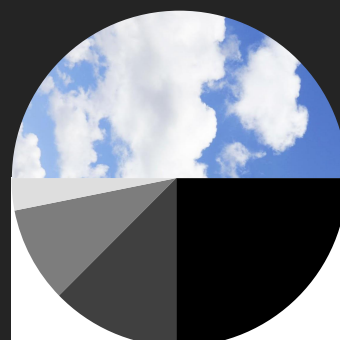
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More information on the methodology and statistics for the graphs and figures used in this report can be found in the following PwC reports:

- [Creating value beyond the deal](#)
- [Doing the right deals](#)





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