

# 2021 M&A PREDICTIONS HOLD UP IN FIRST QUARTER, BUT CHALLENGES REMAIN

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Predictions for an active year for Asia Pacific M&A in a new report from global law firm Herbert Smith Freehills are holding up in the first quarter, although challenges remain for dealmakers.

The firm's eighth annual Asia Pacific M&A Review found cause to be optimistic about M&A prospects in the region in 2021, including the massive levels of dry powder in the region's private equity funds and the emergence of global and regional special purpose acquisition companies (SPACs) that are actively seeking market and pre-IPO targets.

Herbert Smith Freehills partner [Jason Sung](#) said, "The region's private equity and venture capital dry powder reached a record level of more than US\$476 billion as of November 2020, representing 25% of the global total, and new capital is already being raised in the region this year. This represents strong anticipated pent up demand, which we expect will drive deal activity in 2021.

"We also expect Asia Pacific exits to increase significantly in 2021, with investors seeking to monetise their investments through multiple channels. A key theme that we see emerging is an increasing number of private equity secondaries. This is a relatively new trend in Southeast Asia, but has been prevalent in North Asia and Australia for some time.

"A proliferation of US-based SPACs entered the region in the first months of 2021, including some focused specifically on Southeast Asia. With more and more Asian countries accepting these structures, SPACs are set to become a notable feature of the M&A landscape in Asia Pacific."

The report found that confidence in boardrooms around the region has also been buoyed by the healthy level of activity witnessed in the second half of 2020 and the promising start to 2021.

Herbert Smith Freehills partner [Tony Damian](#) said, “Dealmaking across Asia Pacific took a ‘wait-and-see’ approach early in 2020, but rebounded in the second half as buyers, sellers, financiers and regulators grew comfortable with the new pandemic normal.

“The acceptance of virtual due diligence and remote transactions saw existing deals restart and complete, and new deals to begin despite hastily-enhanced FDI oversight and restrictions.

“The strength of Asian companies and funds’ cash balances allowed them to move more nimbly and to weather the pandemic storm. Companies and fund investors alike took advantage of lower valuations during the second half of the year, with cheaper terms tempting public deals, share buybacks and privatisations.”

“That deal momentum has carried over into 2021 and there remains a deep pipeline of M&A opportunities across of the region.”

The report highlights that 2020’s hot sectors will remain in the spotlight this year, with technology in all forms remaining at the forefront of deal activity.

[Mr Damian](#) said, “In 2020, digitalisation, e-operations and new tech plays in every sector benefitted as lockdown and quarantine accelerated e-restructuring. In the consumer sector, the focus swung to e-commerce and e-logistics; in healthcare to meditech and e-medicine; and in financial services to fintech, e-payments and e-banking.

“As we move through 2021, businesses with technology, e-commerce and logistics opportunities, as well as pharmaceuticals, biotech and e-health, will be prized targets for acquisition, investment, sector consolidation or public listings.

“I also believe that we’ll see the digital platforms and technologies that have emerged strongly from the pandemic undertake even more M&A activity to achieve new economies of scale and to target new markets.

“Conversely, I expect to see restructuring increasing in those sectors affected most by the pandemic, including anything touched by travel, tourism, commercial and retail real estate, and more traditional bricks-and-mortar consumer businesses.”

Despite expectations of a prosperous year ahead, the report details that there are still challenges for the region.

“The pandemic was not the only headwind guiding deals in 2020, as geopolitics, climate change strategies and regulatory and legislative shifts affected sectoral and country deal profiles, which are expected to continue in 2021,” said [Mr Sung](#).

“While there are opportunities to be had, the complex multitrack deal environment will persist across the region as 2021 progresses. Pandemic and vaccination progress will vary recovery across borders, while each country’s individual economic and legislative response to the pandemic will dictate activity and opportunities. The geopolitical uncertainties also remain, with the potential to affect trade and investment without warning.

“In addition, the lessons of the pandemic along with global shifts in pricing, environmental, social and governance risk will impact due diligence and deal timetables, with buyers looking more closely at the ESG credentials and operational resilience of targets.”

For more information or a copy of the report, please visit:

<https://www.herbertsmithfreehills.com/latest-thinking/asia-pacific-ma-review-2021>

## KEY CONTACTS

If you have any questions, or would like to know how this might affect your business, phone, or email these key contacts.



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