KPMG

Newsletter Vol.7
Trends in ASEAN M&A

July 2022 to December 2022 edition

Deal Advisory

In 2H2022, global central banks, from the Federal Reserve Board (FRB) to those of emerging economies, struggled to keep inflation in check which continued from 1H2022. Despite the slowdown in the pace interest rate hikes imposed by central banks, inflation levels remained high. Rising living costs and mortgage interest rates had a major impact on people's lives on a global scale. Unlike other countries, however, the Bank of Japan maintained monetary easing to support the economy. As a result, the yen depreciated to 151.94 yen to the US dollar in October, passing the 150 yen mark for the first time in 32 years. The high volatility in interest rates and foreign exchange rates reflects the growing economic uncertainty.

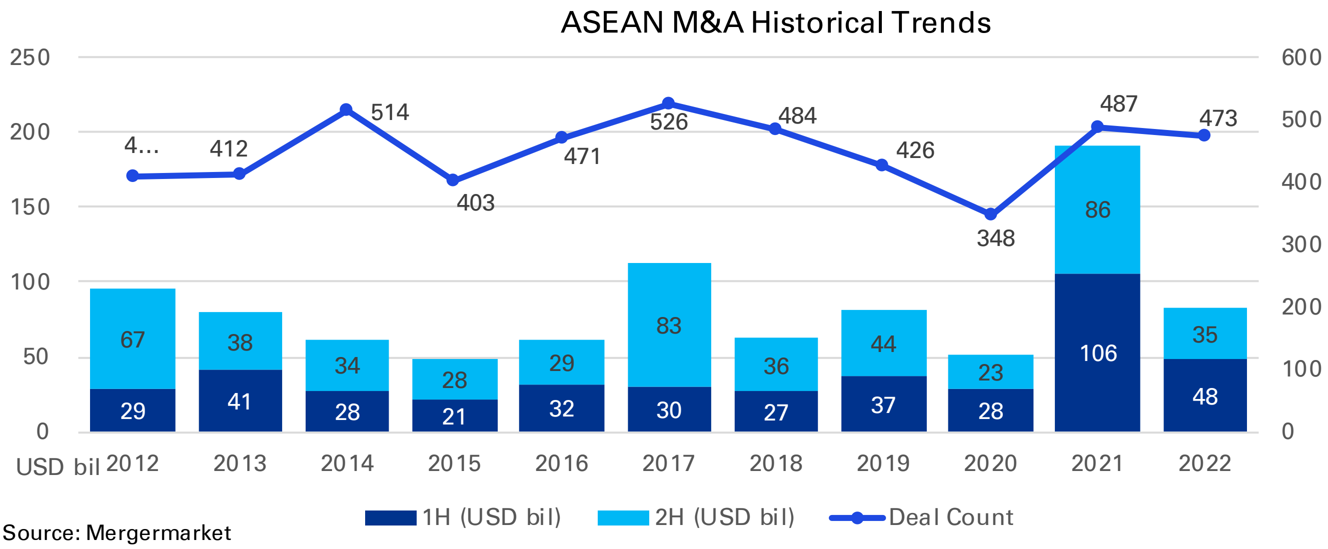
On January 30, 2023, the IMF raised its 2023 growth forecast to 2.9% by 0.2 percentage points from the previous quarter, while the majority of experts continue to warn about the possibility of a looming recession in the same year. Although the U.S. employment data as of February 3 showed strong job growth that significantly exceeded market expectations, Amazon and Google announced layoffs of 18,000 and 12,000 people, respectively. What kind of M&A activities have been taking place in ASEAN in 2H2022 under the cloud of economic uncertainty? As in previous issues, local country leaders from KPMG Deal Advisory are providing updates on current developments in the ASEAN M&A market, trends in different industries, and key deal terms in each country.

1. Overview of the ASEAN M&A Market

Despite the increased economic uncertainty throughout 2022 mentioned above, the number of M&A deals in ASEAN increased by 13 from 230 in 1H2022 to 243 in 2H2022. The results in volume for the whole year of 2022 were comparable to 2021, which saw solid volume and value of M&A deals due to the so-called "Covid Bubble". We can say that the deal volume, which in itself indicates the level of activity of M&A transactions, has rebounded to pre-Covid levels.

Looking at the deal value, however, the amount for 2H2022 decreased to USD 35.2 billion, down 38% year on year, and down 27% on the quarter-on-quarter basis. The results imply that businesses are shying away from making large-scale investments under growing uncertainty. The solid volume and shrinking value of M&A activities seem to be a common trend in all sectors.

In the following pages, we will more closely look at M&A trends in ASEAN, highlighting the countries and sectors in which M&A activities thrived.



Source: Mergermarket

M&A Trends by Country and Sector in ASEAN

The M&A volume in 2H2022 by country suggests that Singapore continues to drive the M&A landscape in ASEAN as it did in 1H, accounting for 88 out of 243 deals, or 36% of the total. Indonesia was second with 46 transactions (19%), followed by Malaysia with 34 (14%). In value terms, Singapore topped the list with USD 11.1 billion, followed by Indonesia with USD 7.3 billion and Malaysia with USD 5.5 billion. Comparable to Malaysia was the Philippines with USD 5.3 billion, indicating that large deals have taken place, which will be discussed in detail on the next page.

By sector, the Telecom Media Technology (TMT) sector, which has been a driver behind recent M&A activity, continued to lead the market. While 63 deals totaling the value of USD 7.1 billion were executed, the value per deal has shrunk. One reason for the contraction is that high demand for major reorganization observed in the telecom industry from 2021 to 1H2022 has come to an end. Another reason is acquisitions and IPOs of startups have slowed down somewhat due to the uncertain market environment.

The number of M&A deals in the Real Estate, Infrastructure & Construction (REIC) sector was 42, continuing the strong trend from 1H. The TMT and REIC sectors alone accounted for 43% of the total volume. In value terms, the Mining sector as well as the Industrials & Manufacturing sector saw large projects totaling USD 9.5 billion.

Below, let's look at the details of these large deals and their drivers.

2H2022 M&A Transaction Volume by Country and Sector

	Singapore	Thailand	Indonesia	Malaysia	Vietnam	Philippines	Myanmar	Cambodia	Total (Volume in 1H)
Real Estate, Infra & Construction	8	4	10	11	6	3	0	0	42 (43)
Telco, Media and Technology	30	6	13	5	2	6	1	0	63 (76)
Energy & Natural Resources	3	2	2	2	5	2	0	0	16 (13)
Consumer Markets	3	2	5	4	3	1	0	0	18 (23)
Industrials & Manufacturing	14	0	7	5	1	2	0	0	29 (27)
Financial Services	5	6	3	1	3	4	0	0	22 (22)
Others	25	7	6	6	7	2	0	0	53 (26)
Total (Volume in 1H)	88 (96)	27 (26)	46 (41)	34 (31)	27 (22)	20 (13)	1 (1)	0 (0)	243 (230)

Source: Mergermarket

2H2022 M&A Transaction Value by Country and Sector (USD mil)									
	Singapore	Thailand	Indonesia	Malaysia	Vietnam	Philippines	Myanmar	Cambodia	Total (Volume in 1H)
Real Estate, Infra & Construction	2,040	492	1,355	809	52	2,108	0	0	6,856 (7,777)
Telco, Media and Technology	1,300	1,529	705	1,178	14	1,842	576	0	7,144 (17,171)
Energy & Natural Resources	1,434	60	499	546	392	5	0	0	2,936 (1,312)
Consumer Markets	99	130	419	338	1,270	39	0	0	2,295 (1,496)
Industrials & Manufacturing	4,129	0	3,545	1,649	111	90	0	0	9,524 (10,337)
Financial Services	426	216	496	6	454	888	0	0	2,486 (6,168)
Others	1,636	147	279	939	568	358	0	0	3,927 (3,717)
Total (Volume in 1H)	11,064 (17,052)	2,574 (1,915)	7,298 (19,395)	5,465 (4,865)	2,861 (1,763)	5,330 (2,935)	576 (53)	0 (0)	35,168 (47,978)

Source: Mergermarket

Major ASEAN M&A Deals

The largest deal in 2H2022 was the acquisition of Indonesian miner Bumi Resources, one of the largest mining companies in the country, facing a serious concern on its excessive loan. As a solution to the problem, it issued 200 billion shares subscribed by MACH Energy (MACH) and Treasury Global Investments (TGIL), which made the MACH its single largest shareholder. As both MACH and TGIL are controlled by the Salim Group, this deal has contributed to strengthening the Group's resource and energy-related business portfolio. It should be noted that this deal is actually an acquisition of an Indonesian company by a giant conglomerate of the same country, although the table below indicates the country of the acquirer being Hong Kong (China).

The second largest deal in 2H was the acquisition of Eagle Cement by San Miguel Corporation (SMC). San Miguel is renowned as one of the leading beer manufacturers of Asia, and it is a known fact that San Miguel Brewery Inc. receives investment from Kirin Holdings Co., Ltd. Headed by CEO Ramon Ang, SMC owns a wide range of businesses in its group, including oil refining, power generation, real estate development, and infrastructure development, despite its strong image as a beverage company. In the recent acquisition, Ramon Ang had SMC under his management acquire the target company Eagle Cement, which is owned by the CEO’s family. The deal enabled SMC to produce cement within the group, an essential production material for SMC's real estate development and infrastructure businesses. SMC is essentially a corporate group operating within Ayala Group, its largest shareholder. The top two deals in 2H both involved large conglomerates.

In Malaysia, the largest two transactions were made by US-based special purpose acquisition companies (SPACs). Although the activity of SPACs was less visible than in 2021, these deals suggest that that the acquisition method aiming to be listed on the U.S. market is beginning to take root in ASEAN companies, especially in the technology field. The movement of gigantic financial conglomerates and the use of SPACs continue to merit attention even in the post-Covid era.

10 Largest M&A Deals in 2H2022

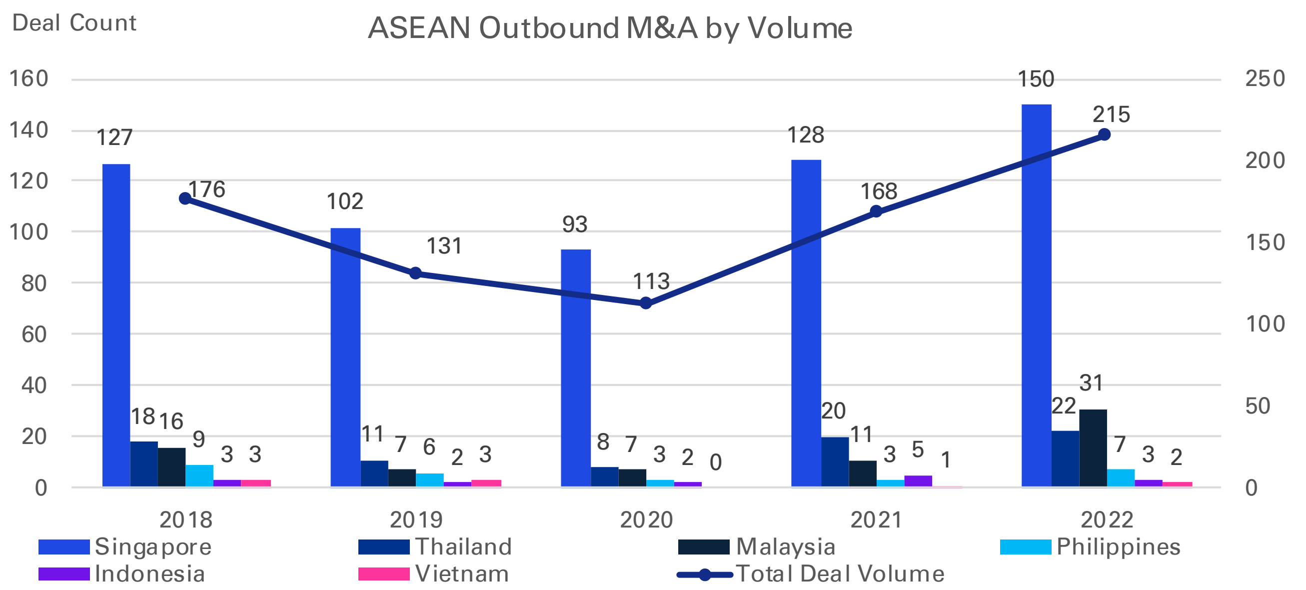
No.	Announced Date	Target	Target Sector	Target Dominant Country	Acquirer	Acquirer Country	Deal Value (USD mil)
1	Oct-22	Bumi Resources Tbk, PT (58.17% Stake)	Mining	Indonesia	Treasure Global Investments Ltd; Mach Energy Hongkong Ltd	Hong Kong (China)	2,646
2	Oct-22	Eagle Cement Corporation (100% Stake)	Construction	Philippines	San Miguel Corporation	Philippines	1,874
3	Aug-22	Graphjet Technology Sdn Bhd (100% Stake)	Industrial: Electronics	Malaysia	Energem Corp	Malaysia	1,497
4	Nov-22	Halcyon Agri Corporation Limited (70.8% Stake)	Industrial products and services	Singapore	China Hainan Rubber Industry Group Co., Ltd.	China	1,446
5	Dec-22	noco-noco Pte Ltd (100% Stake)	Industrial: Electronics	Singapore	Prime Number Acquisition I Corp	USA	1,350
6	Oct-22	Super Apps Holdings Sdn Bhd (100% Stake)	Computer software	Malaysia	Technology & Telecommunication Acquisition Corp	Malaysia	1,100
7	Jul-22	Coca-Cola Indochina Pte Ltd (100% Stake); CC Cambodia Holdings Pte Ltd (100% Stake)	Consumer: Other	Vietnam	John Swire & Sons Ltd; Swire Pacific Limited	United Kingdom	1,015
8	Aug-22	Nexif Energy Management Pte. Ltd. (100% Stake)	Energy	Singapore	Ratch Group Public Co Ltd	Thailand	1,000
9	Jul-22	Fullerton Health Corporation Limited (100% Stake)	Medical	Singapore	RRJ Capital	Hong Kong (China)	1,000
10	Nov-22	Chip Eng Seng Corporation Ltd. (63.11% Stake)	Real Estate	Singapore	Tang Dynasty Treasure Pte Ltd	Singapore	833

Source: Mergermarket

ASEAN Outbound M&A

As shown in the graph and table below, Singapore has been overwhelming in terms of ASEAN outbound M&A in both volume and value. The Government of Singapore Investment Corporation (GIC) is involved in three of the top 10 deals in the table and has a strong presence as a dealmaker of large transactions. Despite the general trend of shrinking value per deal, GIC invested a considerable amount of USD 13.8 billion in its acquisition of U.S. STORE Capital. What catches the eye when visiting the GIC website is the phrase "We are driven by a common purpose – securing Singapore's financial future." Based on its mission statement of enriching the future of the country and its people, GIC has constantly been seeking investment opportunities. Amid rising interest rates and a looming recession where the value of target companies declines and funding needs become prominent, the next few years may be a "golden time" for the sovereign fund to build up its investment portfolio.

Ranked top 10, the Thai RATCH Group acquired NEXIF's portfolio of Asian power plants for USD 605 million. As the group aims to expand its renewable energy business, the deal is a major step toward achieving its goal of generating 10 gigawatts by 2025. The trend of turning to M&A to fulfill ESG and net zero ambitions is expected to continue to climb going forward.



Top 10 ASEAN Outbound M&A of 2H2022

No.	Target: Company Name	Target: Dominant Sector	Target: Dominant Country	Acquirer (ASEAN): Company Name	Acquirer (ASEAN): Dominant Country	Deal Value (USD mil)
1	STORE Capital Corporation (100% Stake)	Real Estate	USA	GIC Private Limited; Oak Street Real Estate Capital	Singapore	13,802
2	WFS Global Holding SAS (100% Stake)	Transportation	France	SATS Ltd.; SATS International SAS	Singapore	2,165
3	International Transportation, Inc. (100% Stake)	Transportation	USA	Ocean Network Express Pte. Ltd.	Singapore	1,163
4	Max Healthcare Institute Limited (26.83% Stake)	Medical	India	BNP Paribas SA; GIC Private Limited; Capital Group; Monetary Authority of Singapore; WF Asian Reconnaissance Fund; WF Asian Smaller Companies Fund LTD; Smaller Cap World Fund Inc	Singapore	1,157
5	Sani/Ikos Group SCA	Leisure	Luxembourg	GIC Private Limited	Singapore	1,154
6	Nexif Energy Management Pte. Ltd. (100% Stake)	Energy	Singapore	Ratch Group Public Co Ltd	Thailand	1,000
7	Globe Telecom Inc (3,529 towers) (100% Stake)	Telecommunications: Carriers	Philippines	Frontier Tower Associates Philippines; Pinnacle Towers Pte Ltd	Singapore	812
8	Modulex Modular Buildings plc (100% Stake)	Construction	United Kingdom	PHP Ventures Acquisition Corp	Malaysia	600
9	Northland Power Inc (Hai Long offshore wind project) (29.4% Stake)	Energy	Taiwan (China)	Gentari Sdn Bhd	Malaysia	590
10	Ooredoo Myanmar (100% Stake); Ooredoo Myanmar Fintech Limited (100% Stake)	Telecommunications: Carriers	Myanmar	Nine Communications Pte Ltd	Singapore	576

2. Insights from the Leaders of KPMG Deal Advisory in the ASEAN Countries

Singapore

Stephan Bates

In 2H2022 the Singaporean economy continued to recover from the pandemic, however; the global economy faced new headwinds around rising interest rates and inflation that tempered the volume and value of deals across most sectors.

Dealmakers, especially those invested in emerging platforms and technology businesses faced rising operating costs alongside continued financial support required for growth, meant that valuations were depressed, and accordingly continuation funding became more the norm. Other sectors also faced wage inflation and this higher cost of doing business resulted in lower reported profit margins which depressed valuations.

Although deals slowed down in major markets across the region, 2H2022 activity was largely in-line with pre-pandemic levels, with a heavy focus on SWFs such as GIC deploying USD 13,802 million in the FS, and USD 1,154 million within the leisure industries respectively.

The strongest performing sectors within Singapore for 2H2022 continued to be TMT, Infrastructure, and FS. This activity was driven largely by B2B demand for data, as well as SaaS.

Organisations within Singapore have continued to seek more digitalised and efficient solutions to better utilise data assets and infrastructure. Driving this activity was the need to refocus on existing businesses, acquisitions to expand into attractive and emerging markets, and the need to adapt to the changing business environment in Singapore and across the region.

Indonesia

David East

In 3Q2022 Indonesia recorded 5.7% GDP growth compared to the same period last year. Indonesian M&A activity decreased in 2H2022 in terms of deal value yet increased in terms of deal volume compared to 1H2022 with 2H2022 running at USD 7.78 billion total deal value from 48 deals. The M&A landscape was dominated by Telecommunications, Media & Technology (TMT) and Industrial & Manufacturing (IM) sectors with ~USD 705 million total deal value from 13 deals and ~USD 4,016 million total deal value from 8 deals, respectively.

Below are the major M&A deals in respective sectors in 2H2022:

- 58% stake acquisition of PT Bumi Resources Tbk, (Indonesia based coal mining company) by Mach Energy (Hongkong) Limited (MEL) and Treasure Global Investments Limited (TGIL) (USD 2,646 million)
- 100% stake acquisition of PTT Mining Ltd (Hong Kong based coal mining company and subsidiary of PTT pcl, Thailand based petroleum wholesaler and refinery company) by PT Astrindo Nusantara Infrastruktur Tbk (USD 471 million)
- 30% stake acquisition of PT Golden Energy Mines Tbk (Indonesian based coal mining company and subsidiary of GMR Coal Resources Pte Ltd, Singapore based thermal coal mining company) by PT ABM Investama Tbk (USD 420 million)
- Acquisition of PT Akulaku Silvrr Indonesia (Indonesian based integrated Financial Services company providing) by Mitsubishi UFJ Financial Group Inc (USD 200 million)
- Acquisition of PT Traveloka Indonesia, (Indonesian based e-Commerce company providing online hotel booking services) by PTT Oil & Retail Business pcl's subsidiary PTTOR International Holdings (Singapore) Pte Ltd (USD 200 million)

Although IMF has softened global GDP projections by 110bps to 2.7% in 2022 due to global uncertainties, IMF expects the Indonesian economy to remain more resilient with 5% GDP growth in 2023, or just 30bps lower from initial projections. M&A activity in Indonesia are expected to remain robust supported by improvements in ease of doing business and relaxation of FDI restrictions under the new OMNIBUS Law and sustained interest from foreign investors across a broad range of sectors in this "hot" emerging market with its huge population of c.274 million and growing middle class with increasing levels of disposable income. The investment outlook continues to remain strong and should be relatively insulated from other economic headwinds

Malaysia

Elaine Cheah

M&A activities within Malaysia rebounded marginally in 2H2022 to 34 deals valued at USD 5.5 billion, from 29 deals valued at USD 4.6 billion in 1H2022. Year as a whole, M&A activities were down from 82 deals valued at over USD 12.3 billion in 2021, amid high-interest rate environment, economic uncertainties, and cautionary approach to general election (concluded in late November).

2H2022 was led by the proposed acquisition of Graphjet Technology Sdn Bhd, a manufacturer of graphite products, by the US SPAC Energem Corp, valued at USD 1.5 billion. This was followed by another US SPAC - Technology & Telecommunication Acquisition Corp's buyout of Super Apps Holdings Sdn Bhd for USD 1.1 billion, a local fintech company. Another highlight deal was Petroleum Sarawak Bhd's acquisition of Baram Delta EOR Production Sharing Contract and SK 307 Production Sharing Contract, for USD 0.5 billion from Shell PLC.

The leading outbound deal in 2H2022 was spearheaded by PHP Ventures Acquisition Corp, also a US SPAC based in Malaysia, which is in the midst of completing the acquisition of Modulex Modular Buildings PLC, a construction company in UK, for USD 0.6 billion.

There were also notable outbound deals, namely Gentari Sdn Bhd and Petroliam Nasional Berhad ("PETRONAS")'s acquisitions into Northland Power Inc in Taiwan (USD 0.6 billion) and Wirsol Energy Pty Ltd (USD 0.5 billion) in Australia respectively, both in the renewable energy segment.

Going into 2023, investors are likely to remain cautious with looming global recession, and Malaysia is expected to track global trends. In spite of this, attractive valuations and industry consolidation are expected to drive M&A in Malaysia. Activities are likely to happen in financial services, technology and manufacturing sectors.

Viet Nam

Dinh The Anh

2H2022 has seen dealmakers inclining to spend more cautiously in the light of worldwide geopolitical concerns and potential inflation influencing cross-border deals. Vietnam's M&A market value logged in USD 2.9 billion in 2H2022, and USD 4.5 billion in full year, representing an annual growth of 10% yoy. Consumer Discretionary, Industrials, Real Estate, and Energy - Utilities are the largest FDI recipients in 2022 while Energy & Utilities sector continued to be an M&A hotspot. Energy & Utilities transactions has doubled and the aggregate transaction value has increased fivefold compared to 2021, surpassing even the pre-pandemic level. The key drivers of this surge are Government initiatives focused on sustainability. Promulgation of a tariff framework for transitional projects and finalization of PDP-8 shall provide the necessary impetus for further investments in this sector

A number of notable deals in the period:

- EDP Renovaveis, S.A.(EDPR) - a renowned provider of renewable energy with headquarter located in Madrid, Spain came to terms with Xuan Thien Group to purchase two solar power projects in Ninh Thuan with total capacity of 200MW for USD284 million.
- The Sherpa Co. Ltd., a division of Masan Group, acquired 65% of Phuc Long F&B chain for USD261 million; CVC Asia Pacific Ltd has acquired 60% of Phuong Chau, the local operator of a chain of private hospitals for USD116 million.

With uncertain outlook for the global economy, domestically anti-corruption crackdowns, interest rate hike and corporate bond market distress will put Vietnam into further challenges in 1H2023. Such conditions have caused investors to be more cautious whenever considering an M&A transaction. However, from PE perspective, it would be a favorable environment to pick the right winners in targeted sectors at a more compelling valuation. We expect to see M&A activities in Vietnam recover starting from 2H2023 on the back that inflation and interest rate will eventually come down and investor confidence will be restored. Shifts toward clean energy, huge consumer market and rising ESG awareness continue to be key themes for M&A in Vietnam.

Philippines

Michael Guarin

Majority of the M&A transactions in the Philippines were between local companies. The Infrastructure, Government, and Healthcare sector had the highest cumulative transaction value amounting to USD 2.108 billion. The total transaction value was driven by the listing of Eagle Cement Corporation. For this transaction, San Miguel Corporation acquired the shares of Ramon Ang, John Paul Ang, Monica Ang, and Far East Holdings Inc. This is an indication of San Miguel's bullish outlook on the infrastructure sector of the Philippines.

Another value driver of the domestic M&A scene is the series of disposals made by Globe Telecommunications Inc. of its telecommunications towers. Globe sold its cellular tower assets to MIESCOR Infrastructure Development Corp. for USD 0.473 billion and it sold 1,350 telecommunications towers to PhilTower Consortium Inc for USD 0.341 billion. This is part of the general trend by Phililppine telecommunications companies of overhauling their cost structure and to focus on value-added and core services.

The Philippine Financial Services sector continues to be active with four (4) transactions being announced in this period for a total value of USD 0.880 billion. This is conservative given that the values for half of these 4 were not generally known. The level of activity in the sector is a result of the expected growth of financial services players resulting from the achievement of a higher penetration rate of the population due to the improved use of financial technology platforms.

Thailand

Ian Thornhill

M&A activity in the second half of 2022 grew at a relatively stable level compared to previous six months. Thailand's economic growth was primarily driven by a jump in tourism, rising consumer confidence and stronger private consumption.

The largest deal in 2H 2022 was RATCH Group's shares sale agreement signing for USD 605 million of NEXIF's Asian power plant portfolio to expand its renewables business and accelerate progress towards its goal of a 10-gigawatt portfolio by 2025, a transaction on which KPMG provided financial and tax due diligence, and tax structuring advice. The next largest deal was Advanced Info Service Plc's (AIS), Thailand's biggest mobile phone operator, planned USD 546 million buyout of Triple T Broadband Pcl to expand customer reach and improve broadband inclusion in an increasingly competitive telecommunications industry. Observers believe that AIS is looking to grow its broadband business as its rivals, True Corporation (True) and Total Access Communication (Dtac), merge which could make them the largest mobile operator in the country. Other notable transactions were JWD InfoLogistics' and SCG Logistics Management's planned merger to become an integrated logistics and supply chain solutions provider in ASEAN and Line Man Wongnai's USD 256 million Series B fund raising, which saw Thailand's latest Unicorn valued at USD 1 billion.

Looking ahead, a potentially low-growth environment globally in 2023 may boost the Thai M&A landscape as firms are expected to seek inorganic growth through acquisitions. Ongoing supply chain relocation into Southeast Asia also presents an opportunity for the economy. Amidst global macroeconomic uncertainties, Thai businesses are expected to seek capital whether from equity, debt or refinancing during 2023, as covid-related government and banking support comes to an end. This potential pressure on business owners may lead to a narrowing in the 'valuation gap' which investors have cited as an obstacle to deal-making during 2021 to 2022. In addition, the divestment of non-core assets to streamline portfolios as well as consolidation within industry segments to strengthen market positions are expected to be M&A themes in Thailand going forward.

3. Risk Intelligence Management Urgently Needed

As mentioned at the beginning of this newsletter, the uncertainty of the global economy is continuing to get worse, with inflation remaining at its highest levels and recession becoming concerning. Geopolitical risks are also increasingly significant: when no end to the Ukraine war in sight, it was revealed that a top U.S. Air Force official sent an internal memo ordering his subordinates to accelerate preparations for an emergency in Taiwan in 2025. Against this backdrop, some Japanese companies are reducing their operations in China or moving to ASEAN countries. As seen in this "China Plus One" strategy, businesses are strengthening the tendency toward risk aversion in response to the current dramatic changes in the risk environment. This may be a sign that information gathering and scenario analysis functions are being enhanced within companies.

Now, there is an increasing focus on third-party risk in line with the ongoing growth in ESG awareness. The rise of third-party risk management is based on the idea that global companies should be held accountable for the conduct of their own, direct customers, and third parties including suppliers, contract manufacturers, logistics companies, distributors, and other supply chain partners, along with subcontractors of IT vendors and other experts that undertake the administrative functions.

As COVID-19 developed into a pandemic, the frequent production stoppage at affected suppliers, contract manufacturers and subcontractors were serious problems, in addition to affected logistics firms that led to supply disruptions. The table below shows various issues resulting from the manifestation of third-party risks, including cyber security risks and human rights risks. According to a survey conducted by KPMG International in 2022, 73% of the respondents to the survey suffered financial and reputation loss related to third-party risks within the past three years. This means that it is no longer enough to only ensure our own compliance in the current ESG landscape.

Sector/Timing		Incidence
1	Apparel December 2022	Two Japanese department stores have stopped dealing with clothing outsourced to a domestic garment firm in response to an issue over its unpaid wages to 11 Vietnamese technical intern trainees. The department stores stated that they were not going to handle products manufactured in a way that differs from what their customers expect, based on their guidelines on respect for human rights against handling merchandise involving forced labor and unjust low-wage labor.
2	Beverage September 2022	In the wake of the coup by Myanmar's armed forces, a leading beverage company operating a local beverage company as a joint venture with a local military-owned company, had to consider various options for early dissolution of the JV and withdrawal from its Myanmar business. The matter was not settled until the JV had completed its share repurchase transaction. As a result of this withdrawal, the beverage giant posted an impairment loss of more than 45 billion yen in their Myanmar business in the fiscal year ended December 31, 2021.
3	Consumer goods (chemicals) August 2022	In the United States, a group of former migrant workers at a Malaysian rubber glove manufacturer sued a major U.S. consumer staples company and an Australian personal protective gear manufacturer, claiming that they were coerced into paying high fees to third-party recruiters and were forced to work long hours. The 13 former employees are pursuing compensation from the two companies for knowingly profiting from forced labor at the supplier.
4	Automobile March 2022	A company supplying plastic parts for car interiors to a major automobile manufacturer was hit by a cyberattack. The attack disrupted the car maker's production control system as it was connected to the supplier. As the car manufacturer does not stockpile components based on its production strategy, it thus suspended operations at its plants for two days due to potential parts supply disruptions. Alongside the major automaker, its group companies manufacturing trucks and compact cars were affected by the incident.
5	Apparel 2020 - 2021	A U.S. think tank reported state-sponsored forced labor related to cotton harvesting in the Xinjiang Uygur Autonomous Region, drawing consumer criticism of apparel companies that used Xinjiang cotton in their supply chains. Some apparel companies took stands against the use of Xinjiang cotton, but they faced difficulties in the Chinese market such as boycotts.

Furthermore, third-party risks have become diverse to the extent that they cannot be managed by conventional preventive risk management techniques, which are intended for a narrow scope of targets. A company will not be able to survive through the VUCA era if it avoids a business due to a risk using a passive decision-making style. It has become an urgent need to reform our risk management system to actively seek information on related risks. Regular features in spy films, MI6 and CIA conduct various espionage activities relating to national security. In addition to the information collected through espionage activities, the English word "intelligence" also has the meaning of "the ability to learn, understand, and make judgments or have opinions that are based on reason" according to a dictionary.* An intelligence management model involves understanding what is happening and making decisions based on it, basic abilities expected from management and risk-related departments in order to minimize third-party risks.

*Cambridge Dictionary

Japan has been said to be lagging behind in the introduction of intelligence functions compared to Europe and the United States. This also applies to corporate activities; not many businesses are known for a management style that focuses on intelligence. Asian and ASEAN countries are the most important domain for Japanese companies in terms of global management, but there is also a concentration of various risks, including third-party risks in the area. Japanese businesses, however, have not always addressed these risks by leveraging intelligence.

The following table shows the desired functions for different security activities in the context of technology-driven risk management. With KPMG providing increasing volume of advisory services related to intelligence, we can see that the mindset of management

01	02	03	04	05	06
Data ETL for structured data	**System integration**	**Risk database**	**Risk information management tools**	**Process automation for end-to-end monitoring**	**Visualization and reporting**
- Extraction of data from multiple sources and data structuring - Automated extraction and loading of structured data - Data manipulation/cleansing/loading	- Integration with commonly used ERP and other operational systems such as SAP and Oracle - Integration with third-party database or software by use of API	- Integration with commonly used ERP and other operational systems such as SAP and Oracle - Integration with third-party database or software by use of API	- Creation of cases or incidents for all detected scenarios - Alert notifications for data monitoring via email	- Execution of end-to-end workflows from data extraction to root-cause mapping, case management to reporting - Ability to set up, monitor, and automate a customized set of tasks	- Integration with reporting/visualization tools - Custom reports supporting a variety of formats including PDF, Excel, and CSV to provide actionable information - Dynamic, interactive dashboard with the drill-down capability for custom information

In the age of VUCA, a company carrying out risk management in a pre-formatted manual is more likely to impair stability of the business, falling behind advanced companies that leverage technology- and AI-based intelligence. Given the various risks of Asian and ASEAN countries in particular, transforming the management style to incorporate technology and AI is a prerequisite for successful business in the region.

Contacts regarding this newsletter:

Hikaru Okada

Representative Partner

hikaru.okada@jp.kpmg.com

Hiroyuki Nishijima

Partner

hiroyuki.nishijima@jp.kpmg.com

Shogo Kimura

Director

Shogo.s.kimura@jp.kpmg.com

Naoko Inoue

Senior Associate

naoko.inoue@jp.kpmg.com

KPMG FAS Co., Ltd.

T: 03-3548-5770

E: fasmktg@jp.kpmg.com

home.kpmg/jp/fas