



Japan's Private Equity Market: A Beacon in Asia

By Neil Synnott and Manabu Nagano

While parts of the Asia-Pacific private equity market face a subdued outlook for 2024, Japan is attracting significant investor interest following two of the biggest years in deal activity in 2021 and 2022 and [growth in private equity](#). Industry leaders and institutional investors are increasingly excited about the opportunities in the Japanese market.

In our recent conversations with our network of industry leaders, investors, and clients, we explored deeper into the drivers for the private equity market and the interest and demand from potential investors.

Making Japan a favourable investment landscape

- **Carve-out and Take-Private potential:** Recent initiatives by the Tokyo Stock Exchange (TSE) have prompted Japanese listed companies to make more efficient use of their capital or assets, generating interest in taking companies private or acquiring divisions of those publicly traded companies. This presents exciting opportunities for private equity firms to unlock value hidden within larger corporations
- **Succession planning for an aging population:** [Japan's aging population](#) is leading to a rise in business succession challenges. Many family-owned or closely held businesses lack clear succession plans, creating ripe targets for private equity firms in the small and mid-cap space. By providing capital and expertise, private equity can ensure the continued growth and prosperity of these established companies, while also contributing positively to the Japanese economy
- **Low Interest Rates and a weaker Yen:** Japan's still very low, yet no longer negative, interest rates and a weaker Yen combine to create a compelling scenario for foreign investors. Low rates, coupled with banks' willingness to finance acquisitions, mean their capital can potentially earn a much higher return through Japanese acquisitions by applying leverage, conservative or otherwise. A weaker Yen makes these acquisitions cheaper for non-Japanese investors, further enhancing the attractiveness of the Japanese market. For example the [U.S private equity](#) market is likely to keep targeting Japan as the U.S. remains more of a risky environment in comparison
- **Shifting focus from geopolitical uncertainty:** Regulatory uncertainties and geopolitical volatility in other Asia-Pacific emerging markets are causing global investors to shift their focus to Japan, which offers a more stable and predictable environment

Capitalising on demand: Strategies for success in Japan's private equity market

Historically, the private equity industry in Japan has faced hurdles to grow to the levels proportional to its economy size, but a shift is underway with a surge in investor appetite which has led to a wave of Japanese buyout funds returning to the market for fundraising.

Traditionally, lower M&A activity and a preference for family-owned or closely held businesses presented obstacles. However, this is evolving with the significant [reforms of Japanese corporate governance](#) and shareholders showing increased interest. This movement is also exemplified by the [record-breaking \\$15 billion](#) PE buyout of Toshiba.

The [surge in investor interest](#) in Japan's private equity market presents a wealth of opportunities. However, effectively capturing this value requires a strategic approach. Here are some key strategies to consider:

- **Identify niche opportunities:** While larger deals garner headlines, there's significant potential in underserved sectors. Conduct thorough research to identify niche industries poised for growth, with fragmented ownership structures or a lack of established private equity players
 - **Thematic investing:** Align your investment strategy with Japan's long-term growth trends. Sectors like robotics, automation, healthcare innovation, and environmental technologies are prime examples, benefiting from government support and demographic tailwinds
 - **Operational value creation:** Don't just focus on financial metrics. Look for companies where your expertise and experience can unlock operational improvements, such as streamlining processes, boosting efficiency, or expanding into new markets. Partnering with local management teams can be crucial for this strategy
 - **Active portfolio management:** Be an active investor, not just a passive capital provider. Work collaboratively with portfolio companies to implement your value creation plan, providing guidance and resources to drive growth. Consider secondaries or add-on acquisitions to further enhance portfolio value
- **Build relationships:** Building strong relationships with key stakeholders goes beyond investors and target companies. Foster connections with industry experts, regulators, and potential exit partners like strategic acquirers or IPO underwriters. This network can provide valuable insights and facilitate future deals
 - **Be patient and adopt a long-term focus:** The Japanese market often rewards a long-term perspective. Be prepared to hold investments for a longer horizon compared to some other markets. Building trust and navigating cultural nuances takes time, and a patient approach can lead to more successful exits
 - **Impact investing:** Consider incorporating environmental, social, and governance (ESG) factors into your investment thesis. Japan is increasingly focused on sustainability, and companies with strong ESG practices can be more attractive investments

By implementing these strategies, participants can capitalise on the current demand in Japan's private equity market and unlock the full potential of their investments. The success often hinges on understanding the unique characteristics of the Japanese market and adapting your approach accordingly.

Navigating the landscape: Considerations for new entrants

While the Japanese private equity market offers exciting opportunities, there are factors to consider, especially for first-time participants. Here's a breakdown of key areas to navigate:

Unveil the full picture: Due diligence

- Make data your friend: Go beyond traditional financial statements. Utilise industry reports, market research, and competitor analysis to paint a more complete picture, especially for smaller firms
- Remove language barriers: Invest in professional translation services and consider cultural nuances during communication. Misinterpretations can lead to missed opportunities or misunderstandings during negotiations
- Be mindful of cultural complexities: Understanding Japanese business etiquette and decision-making processes is crucial. Building relationships takes time and requires patience and respect for hierarchy. Know your audience and respect their way of doing business

Mitigate Financial Risks

- Exit strategy considerations: Japan can have a longer investment horizon compared to other markets. Carefully evaluate potential exit routes (IPO, secondary buyout and trade sale) and their timelines when structuring your investment
- Hidden liabilities: Thorough due diligence should uncover any potential environmental liabilities, legal issues, or contingent liabilities that could impact returns
- Currency fluctuations: Hedge against potential currency fluctuations, especially if you're a foreign investor in order to protect your returns from a strengthening Yen

Invest in knowledge: Training and education

- Regulatory landscape: Stay updated on the evolving regulatory environment, including recent changes to the Corporate Governance Code and potential future reforms
- Tax implications: Understand the tax implications of investing in Japanese private equity, including potential withholding taxes and capital gains taxes
- Industry expertise: Consider partnering with or hiring advisors with deep industry knowledge specific to your target sectors in Japan

Build a network:

- Nurture local relationships: Develop relationships with local investment banks, law firms, and industry associations to gain valuable insights and access potential deals
- Japanese investors: Consider co-investing with local Japanese players to leverage their local knowledge and networks

By proactively addressing these considerations, new participants can better navigate the Japanese private equity market with greater confidence and unlock its full potential.



How IQ-EQ can help

As M&A activities in general, and private equity transactions in particular, become more prevalent in shaping up Japanese industry structure, you'll need the right supporting partner to fully realise emerging opportunities and manage potential risks. We know the local market well. Operating in Japan since 2007 we have a team on the ground who have the necessary local expertise and language skills to assist in tailoring our services around your strategy and desired outcomes. Added to this we're also able to deploy, at a global scale, our dedicated private equity teams who have an unrivalled depth of knowledge and experience making IQ-EQ your perfect partner for all your business needs.

Key contacts



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Key facts and figures*

People worldwide	Worldwide location	Assets under administration	Minimum senior team experience	Funds under administration
5500⁺	25	\$750⁺ bn	20yrs	800⁺

Our locations worldwide

THE AMERICAS

Bermuda
British Virgin Islands
Cayman Island
Curaçao
USA (Austin, Bedford NH, Chicago, Dallas, Fort Worth, Houston, New York, Rapid City SD, San Francisco & West Palm Beach)

MIDDLE EAST

United Arab Emirates

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Belgium
Cyprus
France
Guernsey
Ireland
Isle of Man
Jersey
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South Africa

ASIA

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Hong Kong
India
Japan
Philippines
Singapore



*Correct as of June 2024

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