

KEYNOTE INTERVIEW

Unlocking value in
Japan's mid-market

Opportunity abounds in the small and mid-cap space, where companies are ripe for transformation initiatives, say Koji Sasaki and Toshihide Matsuda at T Capital Partners

Q How would you describe the current state of the private equity deal market in Japan? How active has it been over the last few years?

Toshihide Matsuda: The Japanese private equity market is growing all the time, and activity has increased in the last several years. Twenty years ago, large transactions were rare, but we have now reached a point where market participants understand the private equity proposition and corporate leaders view it as a viable option for their businesses.

We see a growing number of listed companies exploring take-privates and

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carve-outs and they now look at private equity as potential owners for those assets.

Koji Sasaki: There are also a lot of small and mid-market companies in Japan that have hidden value within them that is being overlooked, often because of either poor management or substandard operations. At T Capital Partners, we have been working to uncover that value in the small and mid-cap space for about 30 years,

originally as the private equity investment arm of the insurance company Tokio Marine Capital and, since 2019, under our current brand following our management buyout.

There are a range of investment opportunities in mid-market buyouts, where we focus, including corporate carve-outs and family-run business succession deals.

Q What is driving business owners to look at private equity investments over alternatives?

KS: In Japan, there are roughly four million companies, only around 4,000

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TOSHIHIDE MATSUDA

Q How are government reforms in areas like corporate governance influencing LP appetite for Japanese private equity?

KS: There is a lot of appetite among international limited partners for the Japanese market today. That is partly because the Japanese market is cheaper than other Western economies, as the Japanese yen is not so strong, but also because the market is going through structural reforms. In the past, there were a lot of hurdles that international investors faced, but now government and stock exchange reforms have created a much more transparent and open environment that is welcoming to investors.

Another result of Japan’s stock exchange governance reforms is a notable jump in take-private transactions. Market data indicates that around 50 take-private deals were announced in 2025, more than double the level seen only a few years ago. This activity has been driven in particular by pressure from the Tokyo Stock Exchange on companies trading below 1.0x price/book to articulate credible capital efficiency plans, combined with a surge in proposals from activist shareholders.

We completed our first take-private transaction last year and, given this backdrop, we expect take-privates to remain an important component of our investment pipeline going forward.

of which are listed. That means more than 99 percent of Japanese companies are private, including a huge number of family-run businesses.

Most of those family businesses were founded after World War II and are now facing succession issues as the founder owners look to transition to the next generation.

At the same time, the private equity market has matured and there are now a lot of success stories, meaning that founders no longer think of private equity investors as bad guys, but rather as potential strategic partners that they are willing to explore working with.

TM: There are also broader investment opportunities now that extend beyond succession issues, as management teams in these small and mid-cap businesses look for investment partners to support their strategic growth.

Often there are younger generations of family members involved that want to transform the business and they are increasingly financially literate. Those individuals can see the benefit of collaborating with private equity.

Q Where do you currently see the most attractive opportunities to deploy capital into new deals?

TM: Given the length of time that we have been investing in Japanese companies, we have now done deals in almost every industry sector. While we are still interested in a wide range of sectors, and we do not limit ourselves, there are certain areas that are particularly attractive. One example is business services, which is a segment where there are a lot of opportunities. Companies in that space tend not to be asset heavy and they typically deliver stable and resilient cashflows.

Manufacturing is another interesting space, as is social infrastructure in areas such as healthcare and construction, where we see an opportunity to support the development of the Japanese economy.

KS: Another big source of opportunity is large companies that are looking to refine their business strategies and sell off non-core units through auction processes. Listed companies are under pressure from activist institutional

shareholders and need to accelerate their growth, which is increasingly leading to sales of non-core assets, while government reforms to enhance corporate governance are also fuelling that trend.

A good example is Bushu Pharmaceuticals, which we carved out from Shionogi, one of Japan’s largest drug manufacturing companies, back in 2010. We established that business as an independent contract manufacturing organisation, bringing in new members of the senior management team to transform the company from the inside.

We were able to scale up sales and marketing, including a bolt-on acquisition of a manufacturing facility from Eisai, boost productivity and expand production, growing sales from ¥10 billion (\$64 million; €54 million) to ¥26 billion.

We sold the company to Baring Private Equity Asia for an enterprise value of almost ¥80 billion in 2014, making a 6x multiple and 45.6 percent IRR, which created something of a blueprint for carve-outs in the Japanese pharmaceutical industry.



Q How are private equity firms driving value creation within their portfolios?

KS: There are a lot of value creation levers that you can lean into, and those vary from deal to deal. Some of the value creation drivers that many deals have in common include the need to facilitate internal change through people. There is this hidden value in many companies, often restricted by poor management or just waiting to be unlocked, and we think identifying that hidden value and transforming it is key.

One way to address that is to look at a company's internal human resources systems in order to introduce changes and enhance motivation for critical employees. That can, in turn, help to change a company's culture and improve productivity. While we have a wide network of people, both internally and externally, that can help our companies with various aspects of value creation – whether that is growing sales, pursuing globalisation or cutting costs – we believe it's important for the value creation approach to always be human-driven, with a focus on creating change from within.

TM: Often the issue will be that a company has great people, technology and knowhow but it is not well organised and needs some form of operational change. The Japanese mid-market is also highly fragmented, with a lot of small and medium-sized companies facing intense competition and pressure to survive. Private equity investors can support consolidation efforts, helping portfolio companies with bolt-on acquisitions or strategic partnerships that can strengthen their market position.

Private equity's role is to identify a company's core strengths and then work with management to create a growth strategy. We will appraise the management team and if we find the business lacks core capabilities, we will help bring in the talent required to execute on their strategic ambitions and deliver growth.

Q What is the exit environment like for private equity assets?

TM: The exit environment is improving as the M&A market strengthens, so generally private equity sellers can find buyers, whether those are strategics or other private equity firms.

When it comes to strategics, they need to be thinking about their core businesses, so they are increasingly focused on identifying strong targets that will enhance their market position. If those targets are portfolio companies of private equity firms, they are reaching out to shareholders and trying to execute on deals.

In terms of private equity buyers, the private equity market in Japan is clearly growing. Financing is easier to access than it is in other markets, and the attractive investments available are leading more international private equity GPs to enter the market.

Some of them withdrew from Japan in the past and are now returning. They are not direct competitors to us, because we focus on mid-cap companies, but they do offer

attractive exit routes for our portfolio companies.

KS: Where those larger global firms want to invest in Japan's family-run businesses, they are looking at portfolios of firms like ours and seeing acquisition targets. While they might view the first acquisition of a mid-market family-run business as too risky for them, once a business has been in private equity ownership with a firm like T Capital for a period of time, and has been supported through the first stage of its growth and transformation, it can be a good candidate for a global private equity firm. If a company wants to expand internationally, a global private equity firm can often add more value than a Japanese one because of its footprint.

Q What is the outlook for private equity in Japan, and what do you expect the next phase of development to look like?

TM: Japan is now a supportive market for private equity firms, and the outlook is positive for further growth. Currently, private equity is involved in about 20 percent of M&A transactions in Japan, which is fairly similar to other markets in Europe and the US. Private equity firms are increasingly recognised as key, active participants in the market.

KS: If you compare the level of private equity commitments relative to GDP of major economies, Japan is still behind other countries, which suggests there is much more room for growth. We expect to see more new entrants, more global private equity firms expanding in the market, and an increasing number of mid-market transactions. It is an exciting time to be active in Japanese private equity. ■

Koji Sasaki is CEO, president and managing partner at T Capital Partners, and Toshihide Matsuda is a senior partner and head of the investment team