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Private Equity 2025

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Japan: Trends & Developments

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JAPAN

Trends and Developments

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Investment Deal Trends

The private equity market in Japan continued to be very active in 2024. While there is no official data on the number or type of transactions conducted by private equity firms, it is reported that a historically high number of private equity deals occurred in 2024. Since around 2015, the increase in private equity deals has mainly been driven by the expanding need to find successors for small to mid-size business owners. Recently, however, private equity deals are showing more diversity, such as carve-out deals, taking-private deals, including MBOs, and secondary buyout deals. This is strong evidence that private equity firms are now recognised in the Japanese market and are expanding their role in Japan.

Notable deals from 2024 include the following:

- the acquisition of Infocom Corporation by Blackstone in November 2024 for approximately JPY244 billion (going-private);
- the acquisition of Outsourcing Inc. by Bain Capital in Aprile 2024 for approximately JPY189 billion (going-private);
- the acquisition of Japan KFC Holdings Co., Ltd. by Carlyle in July 2024 for approximately JPY114 billion (going-private);
- the acquisition of Benesse Holdings Inc. by EQT in March 2024 for approximately JPY176 billion (going-private);
- the acquisition of the automotive system business operated by Panasonic Corporation by Apollo Global Management in December 2024 (carve-out deal);
- the acquisition of the orthopaedic business operated by Olympus Corporation by Polaris Capital Group in July 20243 (carve-out deal); and
- the acquisition of Sony Payment Services Inc. by Blackstone from Sony Bank Inc. in January 2024 (carve-out deal).

It is notable that 11 carve-out deals in which private equity funds acquired certain business from Japanese companies were closed in 2024, which is at a higher level than the past years. This is being driven by the need for major Japanese companies to divest unprofitable or non-core businesses in order to concentrate on their core business. It is expected that these trends will continue in the coming years.

The secondary market and public-to-private transactions

The number of public-to-private (P2P) deals sharply increased in 2024 compared with the previous year. Around 30 P2P deals were closed in 2024, which is approximately twice the number in the year before. In recent years, activist shareholders have been active in the Japanese market, and there have been some deals in which private equity funds acquired listed companies having problems with activist shareholders as a kind of a “white knight”. Bain Capital’s acquisition of T&K Toka Co., Ltd., which faced a hostile takeover by Dalton Group, is a good example of such a deal.

The number of unsolicited offer deals (these were called hostile takeovers in the past but now are renamed as unsolicited offers, taking into account that unsolicited offers can turn into friendly deals by getting approval by the board of directors of the target in the end) has remained at a high level since 2018. In 2024, Nidec Corporation, a global motor manufacturing leader, completed the unsolicited offer for Takisawa Machine Tool Co., Ltd. (it is notable that Takisawa's board of directors supported the acquisition by Nidec in the end). We are seeing that some private equity funds are making unsolicited offers to listed companies subject to the support of their boards of directors (ie, they were making unsolicited offers at the beginning but expecting friendly deals in the end). At this moment, we are not aware of a deal where private equity funds have made an unsolicited offer to a listed company and completed the deal without obtaining support from such listed company. Hostile takeovers or unsolicited offers have been publicly acknowledged as one of the legitimate methods by which to acquire listed companies in Japan, and given this position was stated in the Guidelines for Corporate Takeovers published by the Ministry of Economic Trade and Industry on 31 August 2023 (as discussed below), the number of unsolicited offer deals could increase in 2025.

In relation to the secondary market, in which private equity firms often sell their portfolio companies to each other, it is reported that there were around 25 deals in 2024, which is approximately twice the number of secondary transactions in 2023. The number of M&A transactions being conducted by private equity firms in Japan is at an historic high, and the secondary market in Japan seems to be more active compared with past years.

Looking forward from 2024

While the economy was a bit uncertain due to the continued weak Japanese yen in 2024, M&A activities in Japan continued to be very active. This trend is expected to continue in 2025 despite the uncertainty regarding the global economy due to the confusion surrounding US tariffs.

As the market is accepting unsolicited tender offers with high premiums, small to mid-size listed companies will continue to be a target for unsolicited tender offers in 2025 and more listed companies may consider going private so that they can focus on the business.

Exit Trends

It is reported that the number of exit deals in 2024 remained at the same level as 2023, which had the highest number of exit deals in recent years. In particular, there were nine IPO exits in 2024. Given the high stock price of Japanese listed companies since 2023, it is expected that this exit trend will continue in 2025.

Amendments to TOB Rules

The amendments to the takeover bid (TOB) rules under the Financial Instruments and Exchange Act will take effect on 1 May 2026.

Under the current TOB rules, a tender offer is typically required in the following instances:

- a purchase of shares outside of any stock exchange market from more than ten sellers within a 61-day period where, as a result of such purchase, the shareholding ratio of the acquirer exceeds 5%;
- a purchase of shares outside of any stock exchange market where, as a result of such purchase, the shareholding ratio of the acquirer exceeds one-third; or
- a purchase of shares in excess of 10% of the total voting rights of the target company during a three-month period by way of purchases of shares or by way of the acquisition of newly issued shares (but only if such acquisition is in excess of 10%, which includes purchases of more than 5% of the shares made outside of the stock exchange market or through off-hour trading) where, as a result of such purchase, the shareholding ratio of the acquirer exceeds one-third (the "rapid acquisition" rule).

Following the amendments, a purchase of shares through on-market transactions will be subject to a mandatory tender offer, the above-mentioned one-third threshold will be lowered to 30%, and the "rapid acquisition" rule will be eliminated, while a series of transactions aiming to ultimately acquire more than 30% of the voting rights of the target company may be subject to the mandatory tender offer even after the elimination of the "rapid acquisition" rule.

As many private equity funds have actively acquired shares in listed target companies for the last few years, these amendments will be relevant to private equity funds for their public deals.

Hostile Takeovers and Guidelines for Corporate Takeovers

Hostile acquisitions were long considered taboo in Japan. However, the number of hostile transactions has risen since 2019, and some have concluded successfully for the acquirer.

Consistent with this trend, the Guidelines for Corporate Takeovers published by the Ministry of Economy, Trade and Industry on 31 August 2023 are playing a role in further increasing the number of hostile and unsolicited M&A transactions. The purpose of these new Guidelines is to present principles and best practices that should be used throughout the business world to develop fair rules regarding M&A transactions. The Guidelines encourage more M&A activity targeting listed companies in Japan as they require, among other things, the boards of directors of target companies to give sincere consideration to bona fide takeover offers. The Guidelines renamed such transaction from a hostile takeover to unsolicited offer to focus on the process of such transaction and to indicate a more neutral stance.

As described above, there are some cases where a private equity fund made an unsolicited acquisition offer to a target company subject to the approval of such offer from the target's board of directors. As private equity funds generally place a high value on maintaining friendly relationships with the target company, we may see this type of unsolicited offer from private equity funds in coming years.

Previously, in response to hostile acquisition bids, some target companies attempted to introduce "poison pill"-type defence measures, the validity of which was disputed before the courts. The courts tended to support the validity of such defence measures if the shareholders' meeting had approved the implementation thereof. In 2025, Makino Milling Machine Co., Ltd. introduced a poison pill against unsolicited offer by Nidec Corporation to secure more time to allow Makino to seek for a white knight. Such poison pill was approved by the Tokyo District Court. However, given that poison pills are not a perfect defence measure, the increasing number of activities by activist shareholders or unsolicited offers could potentially induce other types of acquisition investments by private equity funds, such as acquisitions as a "white knight".

Shareholder Activism

The presence of activist shareholders in Japan is growing. They are increasingly making various demands of the listed companies in which they hold shares (including dialogue with management), and often submit proposals and dramatically express opposition to company proposals at general shareholders' meetings. In particular, activist shareholders tend to target companies with a low PBR (price-to-book ratio).

In the context of M&A, there have been several recent instances where activist shareholders intervened in M&A deals for listed companies by announcing their opinion that the purchase price was too low or by buying up the target company shares themselves, resulting in the share price in the market exceeding the tender offer price and the tender offer being unsuccessful (such cases have also included MBO deals by private equity funds). Therefore, in going-private transactions by listed companies, especially in MBO transactions, it is necessary to fully consider the appropriateness of the price and the possibility of intervention by activist shareholders before proceeding with the transaction. In this regard, it should be noted that the Tokyo Stock Exchange has tightened its code of conduct applicable to MBO transactions by, among other things, requiring the target company to disclose more detailed information regarding the valuation of target shares made by the target company and its special committee.

On the other hand, activists sometimes drove M&A deals by advocating for going-private transactions or divestiture of assets or companies to enhance shareholder value.

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