

# PEs becoming source of choice for corporate financing

*Strong showing for mid-cap range after mega deals in 'golden era of finance'*

By Maya Ando

Japan's private equity (PE) funds are fast emerging as the favoured alternative resource for corporate financing, particularly mid-cap entities within the Japanese market. This follows times in 2005-2008 when the industry witnessed a number of mega deals in the so-called "golden era of finance".

Marked by the emergence of billion-dollar local buyout funds like Unison Capital, Advantage Partners and foreign players such as Carlyle and KKR, it became clear that some global investors had lost confidence in mega funds because they lacked a track record.

In January, there were six exits, included Valiant Partners' taxi operator Anzen for an undisclosed sum, and Hanshin Dispensing Pharmacy, for a reported ¥7 billion (US\$89.8 million). Around March, industry buzz had it that many PE funds were preparing to exit their portfolio companies and that this trend seemed set to continue given a market recovery. But the disastrous Tohoku earthquake of March 11 devastated the local economy. Now, as the year draws to a close, the market has experienced a recovery of sorts, with many investors – busy raising capital for their next fund – exiting their portfolio companies at attractive prices prompted by motivated buyers.

Megumi Kiyozuka, managing director of CLSA Capital Partners, operating under Hong Kong-based CLSA, a large independent equity brokerage and financial services group, said his firm had been fully occupied dealing with portfolio companies which had survived the crucial period following the Tohoku disaster. "Fund players are now able to make some large deals," he said, adding "we can now recapitalise portfolio companies with lenders . . . and that is very important for us."

In October, US buyout fund Bain Capital acquired 98.7% of Skylark,

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operator of a Japanese family diner chain, in a deal involving all of Skylark's issued preference shares at a cost of ¥160 billion (US\$2.05 billion). Meanwhile, Seoul buyout fund MBK Partners is chasing profit-making account software developer Yayoi alongside other buyout contenders, including Tokyo-based private equity fund Advantage Partners, Bain Capital, and Olympus Capital, in a deal worth around US\$650 million.

Bain's Skylark deal is the secondary one acquiring from Nomura Principal Finance, private equity unit of one of Japan's largest financial groups, Nomura Holdings. The acquisition stood as the second largest deal after the global financial crisis (GFC) in 2009, with leverage from lenders including: Mizuho Corporate Bank, The Bank of Tokyo Mitsubishi UFJ, Mitsubishi Morgan Stanley Securities, Nomura Capital Investment, Shinsei Bank, Bank of America, BNP Paribas, Development Bank of Japan, Sumitomo Mitsui Banking Corporation, and The Sumitomo Trust & Banking. Yayoi is also the secondary deal passing among PE.

Ayumi Sakurai, co-representative partner of mid-cap focussed Valiant Partners, said: "We think the private equity market will be increasing fund-to-fund deals (secondary investments); [we also believe] the market is increasing investment opportunities in successions and non-core assets sold by parent companies."

Recently, Advantage Partners revealed that it had paid around ¥2 billion for control of listed eyewear chain operator Meganesuper Co, Ltd. In November, Tokio Marine Capital exited its entire

equity stake in children's apparel-focussed firm, Mike Shoko Co, Ltd. The latter owns the Miki house brand, for which the fund paid about ¥4 billion to acquire a 60% stake in 2006 – this to an investment consortium of ten companies, including leading fabric firms Teijin and Kurabo.

In Japan, investment space in succession, particularly the mid-capital market, is one of the core areas mid-cap funds are eyeing. "Japanese companies, particularly mid-cap or smaller, which established after World War II, have been facing succession issues. We think that fund involved business succession will increase in the medium term," said Mr. Sakurai.

According to a Japanese organisation, the National Institute of Population and Social Security Research, the number of citizens aged 15-64 will increase to 59% of the total population of some 120 million by 2030; this means that more succession buyout chances will likely emerge.

Right now, the Japanese economy is almost stagnant due to a downsizing commercial market accelerated by a shrinking population, so that foreign investors often worry if they should significantly increase capital allocations to Japan, despite there being opportunities in the mid-market range around which funds are busy sourcing deals.

CLSA's Mr. Kiyozuka wonders how many PE funds will survive in this shrinking environment. "I guess the market may be cut by half, with fewer than 15 [surviving funds]. Investors want to know how long the current mid-market active mood will continue, with a balanced supply-and-demand of money and investment."

A Hong Kong-based fund of fund source said that foreign investors were well aware of trends in the mid-cap market, but that right now they are pre-occupied in dealing with investments in China and India. "I think they will come back if Japan's PE market eventually makes consistent deal flows," he said. ■