Deal focus: Japan GPs see upside in specialized staffing

Justin Niessner

11 December 2020

CLSA Capital Partners' sale of Japanese staffing services player Qit tc Advantage Partners reveals enduring private equity interest in potentially shaky categories made sturdy by specialization

When CLSA Capital Partners targeted Japanese human resources services provider Qit, its LPs weren't particularly impressed. The industry's image revolved around the kind of temp staffing and daily office work that takes a big hit during macro downturns. So, the private equity firm had to explain that this was something different.

Qit, then known as Outsourcing Investments, claimed greater profits and income stability than most of its peers thanks to a focus on high-end engineering. This played well with Japan's labor shortage investment theme, gave comfort to LPs, and helped CLSA get a good valuation. The firm's Sunrise II fund, which targets companies with enterprise valuations of JPY5-15 billion ($48-144 million), took a 100% stake in 2016.

In the four years to date, revenue has roughly doubled to JPY20 billion ($192 million) and the number of permanent and part-time employees has increased from 2,500 to almost 6,000. Organic growth in light of Japan's aging issue was significant and supported by four bolt-on acquisitions, including a specialist in the maintenance and repair of semiconducto manufacturing equipment. Several non-core interests were shed, among them gaming anc mobile app development businesses.

Meanwhile, a much-needed incentive scheme was instituted for the CEOs in the company's various business units. "There are a lot of staff services companies in Japan because entry barriers are very low, and employees will often go independent, providing similar types of services," says Ryuhei Yamaguchi, a director at CLSA. "That's why, when we first invested ir Qit, we thought it was key that we never lose the management in the subsidiaries."

This legwork helped set up a full exit this week for an undisclosed sum to Advantage Partners, which has invested via its sixth buyout fund. The JPY85 billion vehicle typically writes checks in a range of $50-150 million. Advantage acquired another staffing services player, World Corporation, last year, but there are no plans to combine the assets.

Advantage will continue to bolt-on specialist staffing subsidiaries and reap the rewards of the demographics-driven backdrop in Japan. The firm expects revenue to double within it investment horizon based on organic growth alone.

"Qit's presence in niche sectors is very differentiating and creates a moat against large general staffing services competitors," says Yusuke Ichikawa, a partner at Advantage. "The company is number one in the auto mechanics staffing services niche and has a relationship with every car dealership shop in Japan. If another player doesn't have those relationships, they won't be able to enter that market."

Qit's automotive exposure has lost some of its luster during the pandemic-driven downturn, however, which suggests that future M&A could lean toward less directly consumer-facing niches.

"The impact of COVID-19 has been limited because we've shifted Qit away from industries where dispatched workers are mistreated and increased exposure to specialized engineering sectors," Yamaguchi says. "There has been some impact by COVID-19 on the auto industry, but in the semiconductor industry, repair and maintenance have to be done whether it's a recession or a boom."