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09/02/2011 **Japan MBO trend driven by low valuations and re-emerging leverage industry sources**
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Story

Sluggish stock prices, a revival of leverage and the cost of maintaining a listing are among the factors driving a recent spate of management buyouts (MBOs) and take-privates by mid-sized companies in Japan, industry sources said.

In the six weeks since the start of 2011, at least six companies in Japan have announced MBO-led delistings with more set to follow, according to the sources. This compared with 13 going-private MBOs for the whole of 2010 and 15 for 2009.

Take-privates this year include **Image Holdings**, a mail-order cosmetics and apparel retailer; **Works Applications**, an enterprise software company; **Enoteca**, a wine retailer; **Culture Convenience Club (CCC)**, a DVD and CD rental company; **Art Corporation**, a moving company; and **Tanaka Galvanizing**, a metal processing company.

One source said he believed the recent MBO of CCC was an example of a deal that would trigger further delistings in its sector. He said three factors were the driving force behind such deals: the increasing cost of regulation for listed companies; low stock prices, especially on small cap exchanges such as Mothers and Jasdaq; and an increase in the availability of leveraged finance in Japan.

"Many companies in the retail sector are majority-owned by individuals," he said. "Now's the time for a lot of owner/founders to start thinking of succession."

Listed retail companies with more than a 30% stake held by a founder or members of the founding family include apparel retailer **Haruyama Trading**, shoe retailer **ABC Mart**, and drugstore operator **Create SD Holdings**, according to publicly available information.

The source's comments were echoed by other bankers and private equity players.

One Japan-based financial advisor pointed out that a high dependency on the domestic market and low share prices compared to company performance are common factors among businesses that opt for an MBO. "Because of current low valuations and the low cost of debt, now is a good time for listed SMEs in sluggish growth sectors such as food to go private," he said.

According to Joji Takeuchi, CEO of **Brightrust PE Japan**, the take-private trend will continue since this type of deal offers the best value for prospective buyers. As an example, he pointed to last year's JPY 6bn take-private of **Marktec**, a maker of non-destructive testing (NDT) products. Here, according to Takeuchi, despite having no debt, JPY 3bn cash plus "a good amount of net receivables," the company was left trading on the Tokyo Stock Exchange at 3x EBITDA, before **CAS Capital** agreed to sponsor the MBO.

Another example of this type of high-value MBO was Carlyle's November 2009, JPY 20bn acquisition of restaurants group **Chimney**, Takeuchi said. At JPY 5bn EBITDA, the deal came in at a 4X EBITDA multiple, which represents good value when compared to some of the larger, more high profile deals to have hit the headlines in the Japan market, he noted.

Other	Cas Capital Inc
Other	MarkTec Corporation
Other	The Carlyle Group, LLC
Other	Chimney Co Ltd
Other	Image Holdings Co Ltd
Other	Works Applications Co., Ltd.
Other	Unison Capital, Inc.
Financial advisor	Sangyo Sosei Advisory Inc
Other	Enoteca Co., Ltd.
Other	Culture Convenience Club Co Ltd
Other	Art Corporation
Other	Tanaka Galvanizing Co Ltd
Target	Haruyama Trading Co., Ltd.
Target	ABC-Mart Inc
Target	Create SD Holdings Co Ltd
Sectors	Computer software Consumer: Foods Consumer: Other Consumer: Retail Financial Services Industrial products and services Leisure
SubSectors	Restaurants/Pubs Other retailing of consumer products and services Software development Venture Capital/Private Equity Wine/spirits
Intel Type	Cross Border Strategic management changes Private equity related Takeover situations
Countries	Japan
Intel. Grade	Rumoured
Intelligence ID	1113621

In the meantime, as MBOs become more common among Japanese companies, executives are now becoming more open to the idea of doing them, according to Jun Fujii, director at **Try Hard Investments**, a Japanese private equity firm.

This trend could be valuable since an MBO can be one way of addressing issues related to business succession, said Fujii. "Most importantly, a manager who is also a large shareholder of a company can avoid a potential succession race by transferring ownership to their selected successor through an MBO," he explained. "Another benefit is that the successor does not have to pay inheritance tax in such cases."

by Tesun Oh, Geoff Spiteri and Nozomi Toyama

Source	mergermarket
Value	
Stake Value	N/A