



Japan Buyout Monthly

July/August 2011

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Nearly 100 institutional investors including 50 Japanese corporate pensions attended the Japan Alternative Investment Forum held on September 6th in Tokyo. The discussion agenda covered private equity, hedge funds, emerging market and real asset investments. This was arguably the first all-alternative investment event organized by independent local conference organizers. As the conference was by invitation-only, most attendants were investors, LP advisors and FOFs.

Several pension fund managers were keen to listen to the stories of investment managers directly. As most Japanese corporate pensions are scarcely staffed, they typically do not have resources to proactively reach out to managers. As a result, the investment opportunities they see are sometimes limited to those that are pre-screened and recommended by their fiduciary advisors. There is a strong desire to become more self-reliant. I am pondering ways that we might be able to assist them in the process - such as inviting them to our manager meetings as observers.

Buyout Deals

(Up to August

31st)

Hony Capital, the Chinese investment fund under Legend Holdings, has invested a total of JPY 6.8 billion (USD 18.4 million) to acquire a 20% stake in property company **Tokai Kanko** (TSE9704) and a 80% stake in a newly established **hotel asset investment vehicle**. The hotels in the vehicle will be managed by Tokai Kanko's hotel operation subsidiary. Tokai Kanko is majority owned by Far East Global Asia Limited.

Phoenix Capital has agreed to sponsor a restructuring of Aomori-based department store operator **Nakasan**. Nakasan filed for bankruptcy protection this March.

CITIC Capital will increase its stake in **Higashiyama Film** (JASDAQ 4244) through a tender offer to take the company private. The tender offer price is JPY 970, a 33.8% premium over the last 6-month average trading price. The tender offer value is JPY 1.335 billion (USD 17.6 million). The company forecasts annual sales of JPY 7.08 billion (USD 93 million) and operating profits of JPY 473 million (USD 6.2 million) for

the period ending December 2011. CITIC acquired a 63.12% stake in the company in June last year.

DRC Capital has launched a tender offer to acquire more than 50% of the outstanding shares in one of its portfolio companies **Kojitsu** (JASDAQ 9905). The tender offer price is JPY 130, a 17% premium over the July 21st closing price. DRC already holds a 17.42% stake through a private placement of new shares last year and through additional purchases. The management board of Kojitsu announced that it rejected the offer as DRC's offer undervalued the company.

Post Investment Activities

Tomy (TSE 7867), a toy company and a portfolio company of **Marunouchi Capital** and **TPG**, will acquire two Arizona-based baby product companies **Boon** and **Keen Distribution**. Tomy will invest JPY 1.6 billion (USD 21 million) to hold 80% stakes in both companies.

Covalent Materials, a portfolio company of **Carlyle** and **Unison Capital**, will sell its semiconductor wafer business to Taiwanese company **Sino-American Silicon Products**. Covalent will aim to focus on the ceramics business for industrial machinery.

Exits

Polaris Capital has agreed to sell its entire 92.6% stake in **Smile**, a wholesaler of food and packaging materials, to logistics provider **Senko** (TSE 9069) for JPY 5 billion (USD 66 million). Polaris originally invested in Smile in 2005.

CAS Capital has agreed to sell its entire 57.3% stake in **Kazokutei** (JASDAQ 9931), an operator of Japanese noodle restaurant chains, to **H2O Retailing** (TSE 8242) through a tender offer. The tender offer price is JPY 750 per share, a 42% premium over the last 3-month average trading price. Cas originally invested in Kazokutei in 2007.

Nomura Principal Finance has sold its entire 53% stake in **Eastern**, a maker of semiconductor packaging substrates, back to the company. Nomura originally invested in Eastern in 2006.

Daiwa PI Partners will reduce its stake in **Sumitomo Mitsui Construction** from 54.1% to 27% through market sales. Daiwa originally invested in the company in 2005.

Unified Partners, an investment and financing subsidiary of **Nomura Holdings**, has agreed to sell its entire 40% stake in homebuilder **SxL** (TSE 1919) to consumer electronics discounter **Yamada Denki** (TSE 9831) at JPY 62 per share through a tender offer. Unified Partners originally invested in SxL in 2005.

Daiwa Corporate Investment has agreed to sell its entire 60.3% stake in language school operator **GABA** (TSE Mothers 2133) to **Nichii Gakkan** (TSE 9792) through a tender offer. The tender offer price is JPY 200,000 per share, a 53% premium over the latest closing price. Daiwa originally invested in GABA in 2004 and hosted an IPO in 2006 but has held the majority stake to date.

Phoenix Capital has agreed to sell a 100% stake in geotechnical consultant **Kiso-Jiban Consultants** to general construction consultant **Chodai**. Phoenix originally invested in Kiso-Jiban in 2006.

ACA has sold its holding stake in **We've**, a provider of animation and other contents, to its management and employees through MEBO. ACA originally invested in We've in 2009 through a take private MBO.

J-Will Partners has sold a 100% stake in **Hokkaido Kitami Bus** to the company's management. J-Will originally invested in the bus company in 2009.

Fund News

Tokio Marine Capital has held a first close for its fourth buyout fund with initial capital commitments of around JPY 10 billion (USD 131 million). The fund is targeting total commitments of over JPY 30 billion (USD 393 million).

Mitsubishi Corporation will establish a JPY 10 billion (USD 131 million) fund jointly with Chinese investment firm **Creat Group** to invest in Japanese small to mid cap companies seeking to expand their business in China.

Financial News

60% of corporate pension funds reduced their unfunded pension plan obligations last fiscal year while the Nikkei Stock Average slid more than 10% according to the Nikkei. The data covered the corporate pensions of 1400 publicly traded firms. The survey results show that pension funds have become less susceptible to domestic stock prices by increasing allocations to bonds and emerging market stocks.

Asian PE Headlines

KKR to invest in Chinese water treatment firm United Envirotech.

Carlyle to buy HK\$ 1.07 Bil convertible bonds and warrants in Haier Electronics.

Morgan Stanley invests USD100 Mil in China XD Plastics.

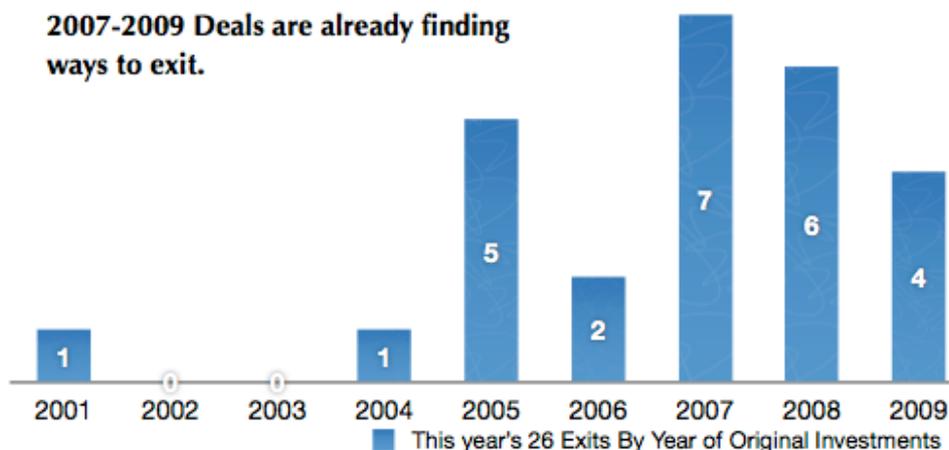
Fortune VC invests RMB70 Mil in Hunan Qindao Culture Entertainment.

LVMH's L Capital Asia invests in Genesis Luxury Fashion in India.

Japan Buyout Statistics

The graph below shows this year's 26 exits by original investment year. Out of 26, 22 are trade sales, 2 are sales to other funds, and 2 are IPOs.

2007-2009 Deals are already finding ways to exit.



Market Indices

		Monthly change	
TOPIX	770.60	-70.77	-8.4%
Nikkei JASDAQ	1218.87	-48.63	-3.8%

This monthly letter is composed by Brightrust PE Japan Co., Ltd. Brightrust is a Tokyo-based independent investment advisory firm. (<http://brightrust.jp/>) If you have further inquiries regarding the contents of the monthly letter or Japanese buyout market in general, please contact us at mail@brightrust.jp

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