



Japan Buyout Monthly

April 2012

Investment Holding Period and Demography of Un-Exited Deals

We have conducted a quick analysis of the existed deals in the past 13 years using our database. **One clear trend is the lengthening of the deal holding period.**

- 1999-2006: 132 exits with an average holding period 2.6 years
- 2007-2008: 94 exits with an average holding period of 3.2 years
- 2009: 33 exits with an average holding period of 3.3 years
- 2010: 36 exits with an average holding period of 4.8 years
- 2011: 58 exits with an average holding period of 4.6 years
- 2012(Jan-Apr): 20 exits with an average holding period of 5.6 years

In the early 2000s, there were quite a few transactions that were held less than 2 years, which contributed to the short duration. Back then, it may be said that there was less emphasis on operational improvement.

The global financial crisis substantially reduced the exit numbers in 2009 and 2010, which brought about an increased holding period for the exits after 2010, which is not unique to Japan buyouts.

Despite the Tohoku earthquake, we saw active exits in 2011 due to backlogs. We would have seen more if there had not been the disasters in Tohoku and in Thailand, which severely affected Japanese manufactures.

The pressure for exits has continued in 2012. Several exits with a holding period of over 7 years pushed the average to 5.6 years. We are likely to see more of these cases due to several funds near maturity and other idiosyncratic circumstances of funds.

With regard to un-exited deals, as of today:

- There are about 75 deals that are older than 5.0 years.
- There are about 85 deals that are between 3.0 and 5.0 years old.

- There are about 90 deals that are younger than 3.0 years.

The above tells us that nearly 1/3 of un-exited deals in Japan buyouts are fully ripened to exit and another 1/3 could also be ready to be divested. Due to slow investments in the past few years, younger deals account for only 1/3.

This un-exited deal demography is potentially concerning. We expect the trend of fast paced exits to continue. However, due to difficulties in fund raising and a decreased number of GPs that have sufficient dry powder, we also expect the pace of new investments to remain slow. The combined effect will be a rapid shrinking of GP's AUM. Therefore, successful fund raising is even more critical. **The current environment is likely to further cripple the demand - supply balance in the buyout market and will favor funds that have sufficient money to grab opportunities.**

Buyout Deals

30th)

(Up to April

iSigma Capital, a buyout arm of Marubeni Corporation, has acquired coin parking operator **Shinsouki** from US small cap fund **Riverside Company**.

ACA has acquired a 25.35% stake in mobile solution provider **Techfirm** (JASDAQ 3625) for JPY 0.6 billion (USD 7.5 million) through a private placement of new shares. Techfirm reported annual sales of JPY 2.7 billion (USD 33.8 million) and operating profits of JPY 0.28 billion (USD 3.5 million) for the period ending July 2011.

Lone Star has acquired a 100% stake in **Chuo-Mitsui Finance Service**, a business loan provider, from Chuo Mitsui Trust and Banking. Lone Star plans to rename the company CK Finance.

Post Investment Activities

N. I. C. Corporation, an operator of medical billing and nursing care business and a portfolio company of **Carlyle**, will open 5 care houses. The company's care business centers around at-home care and it aims to expand its facility care services by introducing a no upfront fee structure.

Exits

Cas Capital and Osaka Gas (TSE 9532) have sold their 100% stake in **Kinrei**, a maker of frozen noodles and an operator of restaurant chains, to **Orix Corporation** (TSE 8591). Cas originally invested in Kinrei in 2005.

Riverside Company has sold its 100% stake in coin parking operator **Shinsouki** to **iSigma Capital**. Riverside originally invested in the company in 2008.

J-Will Partners has sold its 100% stake in bus company **Teisan-Kanko** to the company's management. J-Will originally invested in Teisan in 2004.

J-Will Partners has agreed to sell its 100% stake in bus company **Kantou Jidousya** to Michinori HD. J-Will originally invested in Kantou Jidousya in 2006.

Fund News

SMBC Venture Capital and NEC Capital Solutions will jointly set up a tech-focused venture capital fund.

Financial News

The Government Pension Investment Fund will draw down JPY 8.8 Trillion (USD 110 Billion) in 2012 to meet payout obligations. It is the fourth straight year to draw down and the amount is up 37% from previous year.

Asian PE Headlines

KKR invests USD 65M in China Cord Blood Corporation.

Intel Capital invests in Beijing ZZNode Technology.

Qiming Ventures injected USD15M in online language school TutorGroup.

Japan Buyout Statistics

The Deals executed by 2006 were largely exited and now 2007-2009 deals are actively finding ways to exit.

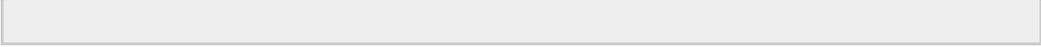


Market Indices

		Monthly change	
TOPIX	804.27	-50.08	-5.9%
Nikkei JASDAQ	1390.36	+19.70	+1.4%

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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