Japan Buyout Monthly

June 2012

Japanese Companies Becoming "Multi-National"

According to a survey conducted by **the Ministry of Economy, Trade and Industry** (METI) in July 2011

- Of the 4,400 Japanese companies that have received the questionnaire from METI, 4,200 have answered that the company has one or more foreign subsidiaries in which it owns more than a 10% stake. (Note : 4,400 companies were pre-screened by METI. The reporting was as of March 2011.)

- The number of foreign subsidiaries owned by the 4,200 companies is 18,600.

-The aggregate revenue of the foreign subsidiaries was JPY 183 trillion (USD 2.3 trillion) and operating income (pre-tax) was JPY 11 trillion (USD 140 billion) in 2011, while the 4,200 parents' aggregate revenue was JPY 340 trillion (USD 4.3 trillion) and operating income was JPY 14 trillion (USD 180 billion).

- Of the 4,200 parents, 2,300 received nearly JPY 3 trillion (USD 38 billion) as dividends and loyalties from their subsidiaries.

-Of the 4,200 parents, 1,500 are very small companies with less than JPY 100 million (USD 1.27 million) in capital, while 1,600 are larger corporations with more than JPY 1 billion (USD 12.7 million) in capital.

- Of the 4,200 parents, 2/3 are in the manufacturing sector, while the reminder is from a wide range of sectors, including wholesale/distribution, services, IT, transportation and resources.

What the survey result tells us is that the overseas business has become an integral part of many Japanese companies, and is not limited to larger companies. Japanese companies, regardless of their size, have become quite "multi-national", if short of global. More and more corporations are directing capital expenditure towards overseas business and many are transferring their factories to overseas.

In a sense, these companies are trying to grow at the *expense* of local economy. This is tough for domestic employment, but many of today's most successful global companies have gone through the experience. "Multi-nationalization" is underway and Japanese SMEs that most local PE funds target are no exception. Assistance in overseas business expansion is high on a portfolio company's wish list for GPs.

Some people say, "Because the Japanese economy is not growing, investing in Japanese private equity is not on my agenda." While this is very understandable, the view is probably becoming somewhat obsolete in the sense that it does not pay due attention to the ongoing decoupling between the growth of Japanese domestic economy as a whole and the growth of an increasing number of Japanese companies, which could well include companies sponsored by the Japanese PE funds.

Buyout Deals

(CORRECTION FOR MAY ISSUE)
Polaris Capital Group has agreed to acquire a 62% stake in **Voyage Group**, an operator of e-commerce navigation site, from **Cyber Agent** (TSE4751). Voyage Group reported annual sales of JPY 7.9 billion (USD 101 million) and operating profits of JPY 0.5 billion (USD 6.4 million) for the period ending September 2011.

Bain Capital has agreed to acquire a 50% stake in Japan's largest TV shopping company, **Jupiter Shop Channel**, from **Sumitomo Corporation** (TSE 8053). Sumitomo will maintain the remaining 50%. Jupiter has a 30% share in the USD 5 billion TV shopping business in Japan. According to the Nikkei, the transaction value was JPY 100 billion and Jupiter's net profit for FY 2012 and FY 2013 (est.) is around JPY 12 billion (USD 152 million), which makes the PER at 16.7.

Post Investment Activities

Akindo Sushiro, an operator of conveyor-belt sushi restaurant chains and a portfolio company of **Unison Capital**, plans to set up a joint-venture in China this summer and aims to run 200 restaurants within 8 years. The JV will be held by Sushiro (51%), a Chinese strategic partner (39%) and a Chinese investment company (10%). Sushiro launched similar operations in Korea last year. A market source believes Unison is preparing for exits for Sushiro and another portfolio company, **UCOM**.

Baroque Japan, a Japanese fashion brand company and a portfolio company of **CLSA Capital Partners**, aims to increase its stores in China from the current 16 to 30 during this year, and ultimately to 100. Baroque's FY 2013 revenue is expected to increase by 27% to JPY 70 billion (USD 900 million).

Exits

WL Ross has listed its long-time portfolio company, **Ohizumi** (TSE 6618), on the Tokyo Stock Exchange's Mothers market. Ohizumi manufactures semiconductors and temperature sensors and has a 80% share in the domestic car air conditioning parts market. In 2003 WL Ross acquired a 62% stake for JPY 3. 75 billion, which was equivalent to USD 32 million back then.Today WL Ross owns a 52% of the company, which is worth only USD 10 million at the current share price. WL Ross did not sell any of its holdings at the IPO.

J-Will Partners has sold its 100% stake in bus company Sapporo-Kanko to a turnaround fund managed by a consulting firm **Resilience** (on May 30) . J-Will originally invested in Sapporo-Kanko in 2006. This is the third (if not more) sale of bus companies by J-Will in the past 3 months.

Fund News

Innovation Network Corporation of Japan has increased its capital base by allocating shares to 8 Japanese companies - Cannon, Sony, Toyota, Marubeni, Sumitomo Mitsui Bank, Mitsubishi Chemical, Mitsusbishi Heavy Industries and Mitsubishi Corp with JPY 500 million each totaling to JPY 4 billion (USD 50 million). While this brings INCJ's private sector ownership to JPY 13 billion (USD 160 million) in 26 companies, it accounts for merely 8.3 % of its total capitalization. The Government has been continuously adding capital to INCJ and it is now reaching USD 1.8 billion. On top of that, INCJ is allowed to borrow as much as USD 22 billion with Government guarantees. With this support, INCJ has been actively investing. In the past several months, INCJ has sponsored the merger of the Sony-Hitachi-Toshiba mid-sized LCD panel business (JPY 200 billion / USD 2.5 billion), the merger of the Nissan-Hitachi Construction forklift business (JPY 30 billion / USD 380 million) and the establishment of a digital publishing JV with 11 publishers (JPY 15 billion / USD 190 million). INCJ also made several smaller investments in the area of renewable energy, life-science and "Cool Japan" contents business.

A bill to establish **a Government-sponsored PFI fund** is being discussed in the Japanese Diet. Once the bill is approved, the Government will seed the fund with JPY 5 billion (USD 60 million) and invite private companies to add up capital. The structure could be similar to INCJ. Going forward, the Government will provide loan guarantees and additional capital to enable the fund to cope with much larger financing requirements. According to media reports, the Ministry of Land, Infrastructure, Transport and Tourism plans to sell management rights of Japanese airports, such as Sendai and Kansai.

Goldman Sachs Group Inc. aims to launch a private REIT, a product recently introduced in Japan, with the initial target of JPY 30 billion (USD 380 million). J-REITs account for JPY 8.3 trillion (USD 105 billion) of Japan’s JPY 23.2 trillion (USD 295 billion) real estate investment market. Private real estate funds account for most of the remaining JPY 15 trillion (USD 190 billion).

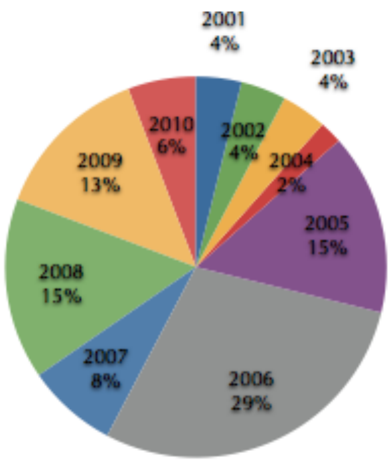
The Tokyo Metropolitan Government has appointed **Daiwa Corporate Investment** to manage Tokyo Metropolitan Government-backed VC fund. Tokyo will provide JPY 2 billion (USD 25 million) to seed the fund.

Financial News

The number of **overseas M&As by Japanese businesses** in the first 6 months of 2012 rose by 15% from H1 2011 to 262, topping the previous record of 247 in 1990. The M&A deals totaled JPY 3.49 trillion (USD 44 billion), up 9% from a year earlier. The tally is the second highest after the JPY 4.46 trillion in H1 2006, according to M&A advisory firm Recof Corp.

Japan Buyout Statistics

The below pie chart shows the breakdown of the 52 exits in the past 12 months by the year of original investments. CY 2006 accounts for 30%, followed by CY 2005 and 2008 with a 15% share.



Market Indices

		Monthly change	
TOPIX	770.49	+50.59	+7.03%
Nikkei JASDAQ	1336.07	+22.22	+1.69%

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