



Japan Buyout Market

January 2009

With the further deepening of the global recession, Japanese buyout market had a very quiet month in January. Prospective deals are seemingly postponed and only a few small transactions were reported. On the other hand, there was a major action taken by Japan's ruling party on the investment fund taxation.

Top News

A proposal to abolish foreign investors' capital gain tax was included in the 2009 annual tax reform package and the Government plans to submit a bill for current diet session. If introduced in April as scheduled, this will enable non-Japanese investors to directly invest in Japanese domestic funds without tax complications. In the past few years, the Government has been introducing tax reforms to make Japan more investor-friendly (despite its public image). This year's reform, however, is more robust than its predecessors. According to a source, foreign investors currently account for only 4% of fund investment in Japan, far below the 75% rate in the UK, the 60% in the European Union and the about 20% in the US.

Buyout Deals

Ant Corporate Advisory has announced to sponsor a take-private MBO of We've Inc. (JASDAQ 2360), a provider of animation contents and other related services, through a tender offer. The offer price represents a premium of 160% over the average closing share price during the previous three-month period. Transaction value is expected to be about JPY 300 million (USD 3.3 million).

Integral, an affiliate of M&A consultant GCA Savian, will acquire B.P.S, a mail inserter and sealing machine fabrication unit of Frontec Corporation, which filed for the Civil Rehabilitation Law last October. B.P.S holds over 50% market share in the domestic mail inserter and sealing machine sector. Transaction value is reportedly around JPY 1.5 bn (USD 16.6 million). Integral, led by ex-Unison professionals, is expected to hold final close of its inaugurate buyout fund early this year.

Japan Private Equity, a buyout unit of Japan Asia Investment Co., has sponsored an

MBO of Commons Communications, an Osaka based call center operator with special focus on department store clients. No financial terms are disclosed.

Dogan Investments, a Kyushu-based buyout fund, has announced to acquire Suncolor, a provider of printing and other related services. Dogan will purchase all the outstanding shares from the current owner in addition to new equity capital. Total transaction value is reportedly several hundred million yen.

Portfolio Company Activities

Tasaki Pearl, a portfolio company of **MBK Partners**, will shut 7 out of 8 cultured pearl production facilities. The company will shift its focus to retail business under new CEO who previously assumed similar capacity at Louis Vuitton Japan Group.

Nissen, a major mail order firm and a portfolio company of **Advantage Partners**, will form an alliance with Baidu, the Chinese internet giant with 70% search engine share. Nissen's 10,000 apparel items will be advertised and sold on the Baidu Web site. In turn, Baidu expects the partnership to help developing an effective online marketing system.

CLSA will increase a stake in its portfolio company Japan Integround HD (OSE 2nd 1416), an Osaka based construction and real estate company through a tender offer. CLSA acquired a 32% stake of the company in 2006 but will take full control and delist the company to seek for further restructuring of the operation.

Kito, a manufacturer of factory-use hoists and cranes and a portfolio company of **Carlyle**, won a major order from China Guangdong Nuclear Power Corp. This is its first order related to China's nuclear power industry. Carlyle, which invested in Kito in 2003, have been promoting the company's overseas operation especially in US and China.

Akindo Sushiro, an operator of carousel sushi restaurant chain and a portfolio company of **Unison Capital**, will start a new restaurant brand "Ginmi Sushiro". The new brand will introduce a more efficient operation system while the interior is upgraded to attract customers.

Exits

No exit reported during the month.

Financial News

The **Japanese Government** plans to deploy up to JPY 1.5 trillion (USD 16 billion) in FY 2009 to support companies in financial distress or liquidity problems. Under the plan, **the Development Bank of Japan** and other designated commercial banks will invest in non-voting preferred shares issued by financial and non-financial companies. Such investments will be made in consultation with the Government and the Government guarantees to compensate 50-80% of capital loss should that

happen. Its impact on the buyout funds activities are yet to be seen.

Goldman Sachs is reportedly mulling over taking full control of Universal Studio Japan (TSE Mothers 2142) to take private, which Goldman originally invested in 2005 to hold a 40% stake and led the company to IPO in 2007.

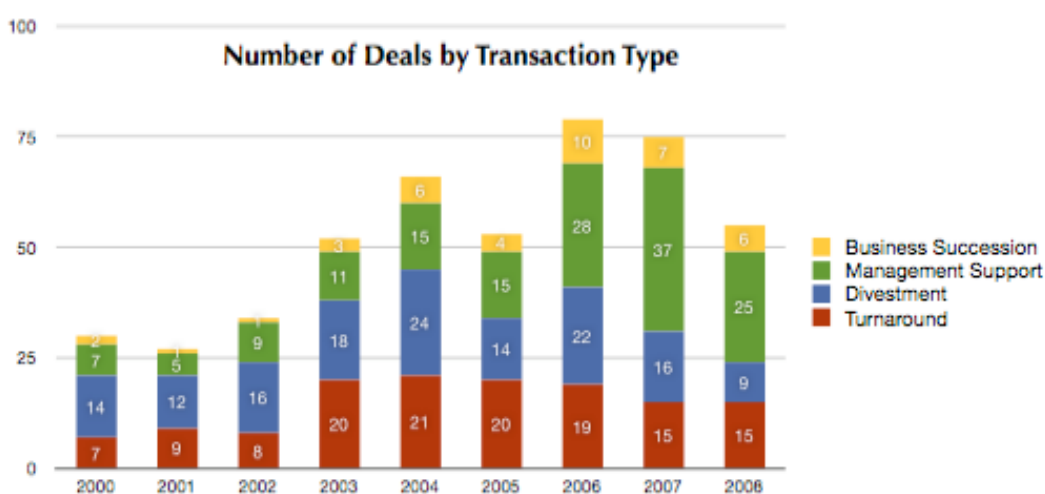
Over 200 listed companies are expected to record net losses for the year ending March 2009. It accounts for 14% of 1,569 non-financial firms listed in Japanese stock exchanges.

Japanese corporate pension funds posted average return of minus 16% for April-November period in 2008, the worst ever, according to a Japanese consultant pension consultant R&I.

Japan buyout statistics

The graph below shows the number of Japan buyout deals executed by private equity funds and principal investors.

While business successions (yellow) and management supports (green) are on a steady upward trend, divestments (blue) and turnarounds (red) were peaked out at around 2004-5 due to the improved domestic economy.



Market Indices

		Monthly change	
TOPIX	794.03	-65.21	-7.6%
Nikkei JASDAQ	1071.28	-20.82	-1.9%

This monthly letter is composed by Brightrust PE Japan Co., Ltd. Brightrust is a Tokyo-based independent investment advisory firm. (<http://brightrust.jp/>)
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