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Joseph A Smith

Schulte Roth & Zabel LLP

In-Depth: Private Equity (formerly The Private Equity Review) provides an overview of the market climate and regulatory regime for private equity transactions in key jurisdictions worldwide. With a focus on recent trends and developments, it offers practical and informed guidance from local practitioners about how to raise money and close deals.

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Norihiro Sekiguchi and **Tomohiro Murakami**
Oh-Ebashi LPC & Partners

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Introduction

Deal activity

More than 20 years have passed since the emergence of the Japanese private equity (PE) market. In recent years, we have seen many large buyout deals led by global-based sponsors. There have been three main trends in Japanese PE transactions.

The first trend is carve-out deals. The Practical Guidelines for Business Restructuring issued by the government in June 2020 strongly encourage listed companies to review their business portfolios. This is one of the factors encouraging large Japanese companies to sell their businesses. Many of the recent large-scale buyouts were carve-outs in which global-based PE funds were the buyers.

The second trend is buyouts from the founders' families, which serve as a form of business succession. Many founders of Japanese blue-chip companies are approaching retirement age and they do not always have suitable successors. Selling to PE funds lets them cash out their assets while allowing them to pass on the business to a professional management team. Business succession has become an important source of PE transactions in Japan.

The third trend is the increase in growth equity investments. Since the mid-2010s, Japanese start-ups have been inclined to raise several rounds of additional financing before going public to increase their valuations at initial public offering. Domestic PE funds and strategic buyers are leading growth equity investments.

According to RECOF Data Corporation (Recof), which is one of the most reliable statistical data sources for merger and acquisition (M&A) transactions in Japan, the number of acquisitions by PE firms involving Japanese targets from January to December 2024 was 1098, 185 of which were inbound transactions, whereas the number of management buyouts (MBOs) involving PE firms during the same period was 17.

Recof also shows that there were 141 divestitures by PE firms from January to December 2024.

Major sponsors active in Japan include global-based firms such as KKR, Bain Capital, Blackstone, Fortress Investment and Carlyle and domestic independent firms such as Japan Industrial Partners, Japan Investment Corporation, Advantage Partners, Integral, Japan Growth Investments Alliance (J-GIA), J-Star and others. There are other domestic PE firms that are affiliated with financial institutions (banks and securities firms) and trading companies.

Operation of the market

It is common for sponsors acting in Japan to enter into a management services agreement with top management prior to the closing of the acquisition, which sets forth numerical performance targets, compensation packages and other matters.

In addition to the annual base compensation and performance-based bonuses paid in cash to top management, a compensation package may be agreed that is triggered by the sponsor's exit. The typical arrangement under such compensation package is to have the target company issue stock options to top management for no consideration, which allows top management to exercise the options for shares in the target company upon the sponsor's exit, and then sell the shares for cash.

If the owner of the target company continues to manage the company after the buyout, top management is often allowed to acquire a minority stake in the target company and enter into a shareholders' agreement with the sponsor. If this is the case, upon the sponsor's exit, top management can sell their shares jointly with the sponsor for cash by exercising their tag-along right.

When a PE fund acquires all of or a controlling interest in a Japanese target company, the major exit arrangement is a trade sale. However, secondary buyouts have been increasing in recent years. There has been an increase in the number of cases whereby an additional portfolio company acquired through post-investment roll-up (in many cases, the first portfolio company in a certain industry acquires several other companies in the same industry) is sold to other PE funds. The main reason for this trend is that when PE funds attempt to exit, they generally retain financial advisers to conduct a bidding process and maximise the sale proceeds, and they often approach not only strategic buyers but also other PE funds as potential bidders.

When a PE fund conducts a bidding process, it generally shortlists potential buyers to a few companies in the first round of bidding. It then further limits the number of potential buyers to one or two companies in the second round of bidding after conducting due diligence, followed by negotiations for definitive agreements. For small and medium-scale projects, it generally takes one to two months to conduct the first round of bidding; two to three months for the second round of bidding, including the due diligence process; and several more months to reach a definitive agreement with the selected buyer. For large projects, the bidding process itself is often longer.

Year in review

Recent deal activity

Most of the recent large-scale buyout deals have been led by foreign PE sponsors. Among them, the largest deal was the acquisition of Infocom Corporation, a major electronic comic distribution site operator, led by Blackstone, which was announced in June 2024 (total purchase price of approximately ¥280 billion). The next largest buyout led by a global-based PE firm was the acquisition of T-Gaia Corporation, the largest cell phone sales agent in Japan, by Bain Capital, which was announced in September 2024 (total purchase price of approximately ¥140 billion). However, the biggest event in Japanese PE deals in 2024 was the confrontation between KKR and Bain Capital over the acquisition of Fuji Soft Incorporated, an independent software development company. In August 2024, KKR concluded a tender agreement with 3D Investment Partners, a major shareholder of Fuji Soft, and launched a tender offer for Fuji Soft stock at ¥8,800 per share (total value of approximately ¥560 billion), with Fuji Soft’s consent, in September 2024. Shortly thereafter, Bain Capital announced its intention to make a competing tender offer of ¥9,450 per share in October 2024. Although the price of Fuji Soft shares skyrocketed due to the announcement, on 5 November 2024 KKR acquired approximately 35 per cent of Fuji Soft's shares through the tender offer. KKR launched its second tender offer for Fuji Soft stock at ¥9,451 per share on 16 November 2024, while Bain Capital obtained consent from the company's founder, a shareholder of Fuji Soft, for its takeover proposal earlier that month. On 17 December 2024, Fuji Soft's board of directors voted to support KKR's tender offer and oppose Bain Capital's proposal. The next day, Bain Capital announced that it was removing the approval of the Fuji Soft board from the condition precedents for the commencement of the tender offer, stating that it would be a hostile takeover. Subsequently, KKR extended the tender offer period several times and increased the bid price to ¥9,850 per share by 4 February 2025, and then Bain announced on 17 February 2025 that it would not make a tender offer for Fuji Soft stock.

Financing

Major banks, including the three largest Japanese commercial banks, have taken a leading role in the growth of the domestic leveraged buyout (LBO) financing market. Recently, regional banks have been actively involved in these transactions. According to the results of a survey of major banks and regional banks regarding domestic LBO loans released by the Financial Services Agency of Japan (FSA) in July 2024, the LBO loan balance increased approximately 2.5 times in the four-and-a-half years preceding September 2023, reaching ¥8 trillion, with more than half of such LBO loan balance held by the three largest Japanese commercial banks. Almost 80 per cent of regional banks have arranged or participated in LBO loan transactions and around 40 per cent of regional banks were open to increasing their LBO loan balance. On the other hand, there are higher credit risks involved in LBO loans than traditional corporate loans. In the past few years, there have been a series of cases in which the large companies that PE funds invested in have become insolvent. So, it would be necessary for regional banks actively handling LBO loan transactions to accordingly keep a keen sense of financial soundness and enhance their risk management systems.

In LBO financing schemes, purchase vehicles incorporated by PE funds raise funds for acquisitions by issuing equity and through borrowings. Bonds are rarely used as acquisition financing in Japan. Lenders extend term loans for the purchase price and others; revolving loans for working capital and other types of loans, which include capex loans for target companies whose business operations require capital expenditures; and bridge loans for target companies that hold excess cash or other excess assets.

Mezzanine financing, such as subordinated loans and preferred stocks, is considered to fill the gap between the acquisition price and the sum of the sponsor's equity and senior loans. In addition, stock options may be issued as an equity kicker to mezzanine financiers. In the typical structure, the mezzanine financing is considered on the purchase vehicles' level. In some cases, further financing may be considered on the level of holding vehicles, being a parent of a purchase vehicle, for investment in the purchase vehicles.

Financers providing senior LBO loans include major banks, regional banks, insurance companies and others. Mezzanine finance is provided by mezzanine funds managed by independent firms or other asset managers, lease companies, insurance companies, banks and others. In rare cases, sellers take part in financing, which is called vendor financing. Financial institutions, which have become limited partners of sponsor PE funds, may also have a chance to participate in senior or mezzanine financing for buyout transactions led by such PE funds. The financial terms provided in typical senior LBO loan agreements are 'debt service coverage ratio', 'leverage ratio', 'pricing grid' and 'cash sweep ratio', among others. In addition, the balance sheet test and profit-and-loss account test are commonly used in domestic LBO loan transactions.

Lenders commonly require an extensive range of conditions precedent, representations and warranties, covenants and events of default. The general notion on security packages is that, in addition to the shares in the purchase vehicles held by the sponsor PE funds, all the substantial assets owned by the target companies and purchase vehicles are subject to security for the lenders, and that the target companies guarantee to the lenders the payment by the borrowers. The actual range of assets subject to security varies for each transaction. Last, although 'certain funds' clauses and clean-up periods may have been seen in senior loan agreements for buy-out transactions led by global-based PE funds, these provisions are rarely found in purely domestic LBO loan agreements.

In light of the recent growth in investors' awareness of sustainability, PE funds now tend to consider sustainable initiatives in target companies. In aiming to promote and support sustainable economic growth, Japanese banks have begun utilising sustainability-linked loans in M&A finance transactions. LBO loans incorporating sustainability elements are expected to increase in the future.

Key terms of recent control transactions

Key terms: buyouts of private companies

A stock purchase agreement (SPA) is executed for an acquisition of a privately held company. It mainly covers price adjustments, representations and warranties (in respect of the seller and the target company), conditions precedent, pre-closing covenants, post-closing covenants, indemnification and termination.

In conventional Japanese M&A practice, in respect of price adjustments, it has been common to adopt a locked-box mechanism whereby the reference date is the last day of the target company's most recent fiscal year prior to the signing. However, it has become more common recently to agree on a post-closing price adjustment based on a comparison of the balance sheet at the time of the closing with the balance sheet used as the basis for the pricing at the time of the signing.

In PE deals, it is common for the buyer to request certain finance-out clauses as closing conditions. In contrast, the seller may require the buyer to provide certain pre-closing covenants, such as the obligation to exert efforts to secure acquisition financing or to provide a copy of the commitment letter from the potential lender.

Key terms: buyouts of public companies

In buyouts of public companies, a tender offer agreement would be entered into between the tender offeror and the major shareholder or between the tender offeror and the target company.

A tender offer agreement with major shareholders generally includes the obligation to commence a tender offer and the conditions precedent for such commencement, the obligation of the major shareholder to tender its shares and not to withdraw the tender, representations and warranties, and covenants. A tender offer agreement with the target company would cover certain representations and warranties by each party, conditions to commence the tender offer and certain covenants of the target company including the obligation not to solicit or negotiate competing bids. For such obligation, fiduciary-out clauses would be provided as exceptions (e.g., if the counteroffer price exceeds the offer price of the tender offeror and other conditions are met, the target company may terminate the tender offer agreement), and break-up fees would also be occasionally provided in case the target company terminates the tender offer agreement due to the fiduciary-out.

In recent years, large buyout deals (especially those led by foreign PE funds) have been increasingly required to obtain clearances before closing under various regulations, such as merger control regulations, regulations relating to the Committee on Foreign Investment in the United States and other investment regulations in several jurisdictions. However, it may take several months to around a year to obtain such clearances after the parties have reached an agreement for the buyout and filings are made with the relevant authorities. In these cases, to protect the public shareholders of the target company, the Japanese financial authorities will request the buyer to commence the tender offer only after the clearance is expected to be obtained. To address this concern, there is the practice of making a timely disclosure where the target company 'makes a pre-announcement' that the parties have already agreed on the buyout and that the tender offer will commence once the necessary clearances are expected to be obtained and other conditions are met.

Exits

Notable PE exits in Japan in 2024 were by trade sales. It was announced in December 2024 that Fortress Investment Group LLC sold Accordia Golf, Japan's largest golf course operator, to pachinko machine manufacturer Heiwa for about ¥510 billion. It was also announced in July 2024 that J-GIA was to sell Francfranc, which operates interior goods stores, to Ain Holdings, which operates Ain's & Troupe drugstores, which are strong in the cosmetics field, for about ¥50 billion.

Legal framework

Acquisition of control and minority interests

Acquisition: buyouts of private companies

In an LBO scheme, a purchase vehicle established by a sponsor acquires all the shares of a target company after borrowing funds for the acquisition from a financial institution. In acquiring a private company, a simple SPA is concluded between the purchase vehicle and all the shareholders of the target company, and there is no need for a tender offer process under the Financial Instruments and Exchange Act (FIEA), as described below. Although the articles of incorporation of a private company usually require the approval of the company's board of directors for the transfer of the company's shares, in practice, this is rarely an obstacle to a buyout.

Acquisition: buyouts of public companies

In buyouts of public companies, namely going-private transactions, it is common to conduct a two-step acquisition. A tender offer is made during the first phase, and the back-end squeeze-out of the remaining minority shareholders follows in the second phase.

In the preceding tender offer, a purchase vehicle established by a sponsor becomes the tender offeror and discloses information in accordance with the FIEA. The main disclosure documents are the public notice of the commencement of the tender offer, and the tender offer statement filed by the tender offeror and the position statement filed by the target company. All disclosure documents will be subject to review by the Kanto Local Finance Bureau. If a tender offeror intends to acquire more than one-third (as discussed below, this threshold will be decreased to 30 per cent by the amendment to the FIEA) of the total voting rights of a listed company, it is legally required to conduct a tender offer. However, in going-private transactions, it is customary to aim for two-thirds or more of the total voting rights without setting a cap on the number of shares to be purchased in the tender offer.

When conducting a going-private transaction, it is usual to take measures to ensure the fairness of the tender offer in respect of the public shareholders of the target company and eliminate the coercive nature of the tender offer. Specifically:

1. in many cases, the tender offer statement sets out that the tender offeror intends to conduct a back-end squeeze-out at an amount equal to the tender offer price if the tender offer is completed successfully; and
2. a tender offer period of 30 business days or more is provided.

If the transaction falls under an MBO (i.e., the current management invests all or part of the funds needed to acquire the target company's shares on the assumption of a going concern), the transaction is expected to comply with the Guidelines on Fair M&A published by the government in June 2019 (the 2019 Guidelines). In most cases, if a going-private transaction constitutes an MBO, in addition to performing the arrangements for points (a) and (b), above, the target company establishes a special committee that is independent from the board of directors, in accordance with the 2019 Guidelines. The special committee is expected to examine and determine the merits of the buyout, the appropriateness of the terms of the transaction and the fairness of the procedures from the perspective of the interests of the public shareholders in the target company.

If the target company has major shareholders, a tender offer agreement is often concluded between the tender offeror and the major shareholders whereby they agree that if the tender offeror conducts a tender offer for the target company's shares under certain conditions, the major shareholders will tender their shares and will not withdraw the tender. If there are no such major shareholders, a tender offer agreement would be entered into between the tender offeror and the target company, providing conditions to commence the tender offer. According to the FSA's disclosure guidelines on tender offers (the TO Disclosure Guidelines) issued in October 2024, if a tender offer agreement is executed, the main terms and conditions of the agreement must be stated in the tender offer statement.

The back-end squeeze-out generally employs either an exercise of the squeeze-out right or a consolidation of shares. The squeeze-out right was introduced in the 2016 amendment to the Companies Act and allows an acquirer to demand that all other shareholders of the target company sell all their shares in the target company when the acquirer holds 90 per cent or more of all the voting rights in the target company. The back-end squeeze-out by consolidation of shares is a method whereby the target company conducts the consolidation of shares using an extreme consolidation ratio and the shares of the target company held by the minority shareholders other than the acquirer are reduced to fractions of less than one share, and then, in accordance with the statutory procedures under the Companies Act, with court approval, the target company sells the integer portion of the shares that is the sum of such fractions and delivers the cash-out to the minority shareholders in exchange for their equity portion.

In contrast to the consolidation of shares, the exercise of the squeeze-out right does not require a resolution at a general shareholders' meeting of the target company. It can be handled by a resolution of the board of directors and does not require a statutory cash-out procedure for fractional shares. In practice, it takes several months for a listed company to hold a general meeting of shareholders, and the statutory cash-out procedures for fractional shares require court approval. Therefore, the exercise of the squeeze-out right allows for a quicker cash-out compared with the consolidation of shares.

Prior to the 2016 amendments to the Companies Act, the consolidation of shares was not used as a cash-out scheme because it did not provide the minority shareholders with legal protections such as the dissenting shareholders' right to demand the purchase of their shares and injunctive relief. However, after the amendment, these remedies were introduced; therefore, the consolidation of shares is now widely used as a back-end squeeze-out method. The greatest advantage of the consolidation of shares over the exercise of the squeeze-out right is that it does not require the acquisition of 90 per cent or more of the total voting rights of the target company in the first-phase tender offer. The consolidation of shares requires approval through a special resolution of the target company's shareholders, but such a special resolution can be obtained once the acquirer secures two-thirds, not 90 per cent, of the total voting rights of the target company.

Considering the above, in practice, although the minimum number of shares to be purchased in the first-phase tender offer is set at two-thirds of the total voting rights of the target company, if the tender offeror succeeds in acquiring 90 per cent or more of the total voting rights, it often chooses to exercise the squeeze-out right as the scheme for the back-end squeeze-out. On the other hand, if the number of shares purchased is less than 90 per cent, the consolidation of shares is often chosen.

Acquisition: where to form a purchase vehicle

A global-based sponsor usually sets up a joint-stock company under Japanese law as a purchase vehicle. In the financing context, the purchase vehicle would be the borrower, but the most efficient means of repaying the acquisition financing loan would be for the purchase vehicle to merge directly with the target company after the two-step acquisition is completed. In addition, Japanese law does not allow a Japanese company to merge directly with a foreign company, so this may be one of the reasons for structuring a purchase vehicle as a Japanese company.

Acquisition: foreign investment filing requirements

The Foreign Exchange and Foreign Trade Act (FEFTA) requires a foreign investor carrying out a foreign direct investment (FDI) in a Japanese target company to file a prior notification if the target company and its subsidiaries conduct certain restricted businesses that may have an impact on Japan's national security. Even when a non-Japanese sponsor uses a Japanese entity as a purchase vehicle, it is highly likely that the purchase vehicle will still be classified as a foreign investor under the FEFTA. An FDI for which prior notification is filed will be examined by the Ministry of Finance and other relevant ministries during a statutory waiting period of 30 days. This period may be extended for up to five months if the FDI raises strong national security concerns, but usually this is shortened to two weeks if the authorities do not find any such concerns.

There has been a series of amendments to the FEFTA, which may have an impact on PE transactions by a non-Japanese sponsor. The May 2020 amendments classified restricted businesses into core industries and other industries (i.e., non-core industries), and a more rigorous prior screening is required to be conducted for core industries. In addition, the appointment of directors in target companies and succession to restricted businesses through reorganisations, such as by business transfers, company splits and mergers, were added to the list of FDI subject to filing requirements.

When a global-based sponsor conducts a buyout in Japan, prior notification is required if it acquires 100 per cent of the shares of the target company (whether listed or unlisted) operating in a restricted business. This was the case whether the buyout was performed before or after the amendments. However, as a result of the amendments referred to above, after acquiring the company operating in a restricted business, its parent company, which is the purchase vehicle, is itself considered to be operating in the restricted business; thus, a prior notification is required each time a foreign sponsor appoints its members as directors of the purchase vehicle. In the case of an absorption-type merger of the target company to help repay the acquisition financing, resulting in the purchase vehicle becoming the surviving company, prior notification may also be required.

Acquisition: merger control

For new acquisitions of a certain percentage of shares in a Japanese company, there are prior notification requirements based on the sales proceeds in Japan of both the acquirer and the target company. Specifically, if the total domestic sales of the acquirer and all its affiliates exceed ¥20 billion, the total domestic sales of the target company and its subsidiaries exceed ¥5 billion and the ratio of voting rights to be held by the acquirer in the target company will exceed 20 or 50 per cent as a result of the share acquisition, the acquirer (e.g., the purchase vehicle) must file a prior notification with the Fair Trade Commission. For PE sponsors, depending on the capital structure of the purchase vehicle, the sales proceeds in Japan earned by their existing portfolio companies may be included in the domestic sales of the acquirer's group. As a rule, a share acquisition cannot be closed for 30 days from the filing date of the prior notification, and this may affect the overall deal schedule.

Fiduciary duties and liabilities

Under Japanese law, it is generally understood that controlling shareholders do not bear any fiduciary duties to minority shareholders.

Under the provisions of the Companies Act, a director of a target company who is appointed by the controlling shareholders has fiduciary duties to the company itself based on their capacity as such a director. This is understood to mean that such a director should act in the best interests of all the shareholders, including the minority shareholders.

With regard to the fiduciary duties of directors of a target company in an M&A transaction:

1. the Tokyo High Court, on 17 April 2013, ruled that in the case of an MBO going through a two-step acquisition, the directors have a duty to ensure the fair transfer of corporate value; and
2. the Osaka High Court, on 29 October 2015, ruled that if an MBO going through a two-step acquisition fails, the directors have a duty to negotiate with the acquirer's side through a fair process, taking the shareholders' interests into consideration.

These precedents were somewhat ambiguous as a code of conduct for directors of a target company when they are involved in corporate acquisitions. However, the government issued the Guidelines for Corporate Takeovers in August 2023 (the 2023 Guidelines), providing a clearer code of conduct for directors of a target company. When directors of a target company receive an acquisition proposal, the 2023 Guidelines suggest that the directors should promptly submit or report the matter to the board of directors so that the board will give 'sincere consideration' to a 'bona fide offer'. In determining whether the acquisition proposal is a bona fide offer, the board will consider whether the proposal is specific, its purpose is legitimate and the proposal is feasible. When the board of directors makes a decision towards reaching an agreement on the acquisition, the board should make reasonable efforts to aim at the best available transaction terms for the shareholders. If the board still makes an exceptional decision to endorse a proposal that is considered to be enhancing corporate value but is not sufficiently priced, the board should fully explain the reasonableness of its decision.

For the process of a two-step acquisition, on 1 July 2016, the Supreme Court ruled that if the major shareholders of a target company jointly set up a tender offer and conduct a two-step takeover with squeeze-out, even in such a transaction with a structural conflict of interest, if the tender offer was made through procedures generally recognised as fair to eliminate the conflict of interest and a subsequent back-end squeeze-out was made at the same amount as the tender offer price, the price determined between the parties shall generally be respected. However, in a decision by the Tokyo District Court on 23 March 2023, the Court recognised the dissenting shareholders' request to purchase their shares at an amount larger than the tender offer price, because the squeeze-out, which was made at an amount equal to the tender offer price under the above Supreme Court decision, was not determined through fair procedures (the *Family Mart* case). Family Mart, the target company, established a special committee in accordance with the 2019 Guidelines, which examined whether the tender offer price was appropriate. The special committee had been advised by an outside valuation adviser of a certain range that would constitute an appropriate share value. However, when the acquirer offered an amount lower than the suggested range, to which Family Mart's management agreed, the special committee accepted this offer without providing any particular reason. Considering this fact, the Court concluded that the special committee could not be considered to have sufficiently fulfilled its role as a body tasked with eliminating arbitrariness in the decision-making process of the target company from an independent standpoint.

When a PE sponsor conducts a going-private transaction constituting an MBO, a target company is expected to follow the 2023 Guidelines and implement the measures recommended by the 2019 Guidelines, including establishing a special committee in the target company. However, considering the *Family Mart* case, it is not sufficient to merely establish a special committee. The special committee must fulfil its role in a truly independent manner, without pandering to the acquiring party and the target company.

Regulation

As mentioned above, in the case of acquisitions of listed companies, tender offer regulations under the FIEA must be observed. The Kanto Local Finance Bureau strictly supervises this aspect. Compliance with merger control regulations is supervised by the Fair Trade Commission, and compliance with foreign exchange regulations is supervised by the Ministry of Finance and related ministries.

Further, in August 2023, the government issued the 2023 Guidelines, which were established as more general guidelines for all transactions to acquire control of a listed company, whether friendly or hostile, and not limited to transactions with an inherent conflict of interest structure, such as MBOs. However, the new Guidelines did not change the substance of the 2019 Guidelines and, therefore, the arguments above based on the 2019 Guidelines are not affected thereby.

In addition, in May 2024, the bills of the FIEA revising tender offer regulations were passed by the Diet, and the new regulations are expected to come into effect by 2026. The major items of the amendments are as follows:

1. Lowering the one-third threshold of mandatory tender offer to 30 per cent in line with that of other major jurisdictions.
2. Mandatory application of tender offer for the acquisition of shares that exceed the threshold of 30 per cent, even in market trades, which are currently not subject to tender offer.
3. Based on items (a) and (b) above, abolishment of the restrictions on 'rapid purchase', namely the regulations that had restricted cases in which an acquirer's holding of voting rights exceeds one-third of the total voting rights through the acquisition of listed shares through a combination of transactions within and outside the market, without a tender offer process, within three months.
4. Also based on items (a) and (b) above, abolishment of the requirement that a tender offer be mandatory if, while another party is conducting a tender offer, a person who already held more than one-third of the voting rights in the company sought to purchase more than 5 per cent of such listed shares.

Furthermore, in October 2024, the FSA published the TO Disclosure Guidelines to put together the existing practice on how the Kanto Local Finance Bureau examines disclosure documents regarding tender offers and to clarify guidelines on several issues that were unclear.

Outlook and conclusions

The year 2024 is reported to have seen the largest number of M&A targeting Japanese companies ever. In recent years, carve-out demand to optimise business portfolios and business succession needs due to the inability to find suitable successors exist as structural divestiture needs among Japanese companies. The recent depreciation of the yen and low financing costs, coupled with the Japanese government's corporate governance reforms, have increased foreign investors' expectations for the Japanese M&A market. The fact that 'hostile takeovers' have gained citizenship as 'buyout offers without consent' due to the 2023 Guidelines has also further accelerated M&A in Japan. In light of the above, the opportunity and environment for large buyouts by global-based PE funds of Japanese-listed companies will continue to exist in the future.

OH-EBASHI
大江橋法律事務所

Norihiro Sekiguchi norihiro.sekiguchi@ohebashi.com
Tomohiro Murakami tomohiro.murakami@ohebashi.com

Oh-Ebashi LPC & Partners