

Startup M&A Guidance

- Toward Growth and Development of the Startup Ecosystem and the Creation of New Industries -

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May 2026

Ministry of Economy, Trade and Industry

Introduction

Background for Preparing This Guidance

Startups are drawing attention as drivers of innovation and as agents that address social challenges. In November 2022, the Government compiled the "Five-Year Plan for Fostering Startups" (hereinafter, the "Five-Year Plan"), and to ensure its steady implementation, has been advancing institutional development that is essential to the cultivation of the startup ecosystem.

For the further development of the startup ecosystem, it is important that each startup appropriately select its next means of growth, such as IPO or M&A, in light of its business phase and characteristics. From the perspective of investors and strategic acquirers as well, an active environment for exit opportunities, such as IPOs and M&A, is likely to support the continuation of robust investment activity.

To date, IPO has been the principal growth option chosen and pursued by startups in their capital strategy, and there remains substantial room for M&A to be more actively utilized as a means of growth going forward. In addition, the Tokyo Stock Exchange, Inc. is undertaking initiatives to improve the Growth Market, including a review of the criteria for maintaining listing. Against this backdrop, the importance of M&A for startups is now rising significantly.

In addition, more vigorous use of M&A by startups as a means of growth is expected to contribute not only to the development of the startup ecosystem but also to the promotion of open innovation between large corporations and startups, supporting business scale-up on both sides and fostering the creation of new industries.

Against this background, this Guidance systematically organizes the matters that should desirably be considered, on the basis of interviews with experts across industries, by both the selling side (startups, in particular their executives) and the buying side (including large corporations), in order to further accelerate and energize M&A as a means of growth for startups.

It is our sincere hope that this Guidance will be of some use in helping both startups and buyers (such as large corporations) understand the importance of M&A as an effective means of growth for startups, as well as the considerations required to utilize M&A effectively and in a timely manner, and that, as a result, M&A activity will be further invigorated, contributing to the development of the startup ecosystem and the creation of new industries.

Innovation and Environment Policy Bureau, METI
Innovation Promotion Division for New
Business Creation

Executive Summary



Landscape and Challenges Surrounding Startup M&A

Chapter 1

- In Japan, IPO is recognized as the principal means of growth in capital strategy, and compared with other countries, the use of M&A as a growth option has not progressed sufficiently.
- Greater use of M&A is expected not only to facilitate the business growth of startups but also to enable large corporations to absorb the "zero-to-one" achievements that startups excel at, contributing to large corporations' own business growth, the creation of new industries, and broader strengthening and development of the startup ecosystem.



Guidance for "Sellers"

Chapters 2 and 3

- In executing M&A, interests among multiple stakeholders such as executives and investors are prone to conflict, and when such coordination stalls, timely execution of M&A becomes difficult.
- Accordingly, "dual-track management," which contemplates both IPO and M&A from the early stages of management, helps the company execute the best means of growth at the optimal timing.
- In dual-track management, it is useful to consider capital strategy, governance, business strategy, and talent in an integrated manner.
 - Capital Strategy
 - Make fundraising and investor selection decisions with a medium- to long-term perspective
 - Governance
 - Pay attention to matters subject to shareholder decision-making (such as veto rights) and the operation of the board
 - Business Strategy
 - It is useful to be conscious of basic financial indicators such as revenue and profit from the early stages of management
 - Talent
 - Establish a system for collaborating with external experts, and share the policy on M&A and related matters with the CFO and others



Guidance for "Buyers"

Chapters 4 and 5

- It is important to identify new domains that are strategically important to the company and to position startup acquisitions within corporate strategy as a means of achieving inorganic growth.
- It is useful to understand the distinctive nature of startup M&A and to build frameworks different from those for existing businesses with respect to decision-making, budget planning, and incentive design.
- In acquisition practice, it is useful to first define strategic value, and then to proceed with sourcing, pricing, and post-acquisition integration.
 - Decision-Making Process
 - Establishing a dedicated process that enables timely decisions by a team including top management is effective
 - Budget Planning
 - Consider securing budget for investment in new strategic domains over multiple fiscal years
 - Incentive Design
 - An institutional design that allows the organization to absorb risks associated with executing M&A is important
 - Establishment of a Corporate Development Function
 - Established as a function that consolidates the intents of business units, management, and the board, and oversees execution



Key Considerations When Executing M&A

Chapter 6

- Explains practical considerations from the perspectives of smooth M&A execution and post-M&A business growth.
 - M&A process flow, structure considerations (immediate vs. staged acquisition), and treatment of stock acquisition rights, etc.
 - Post-acquisition incentive design and advance coordination for PMI
 - Approach to Communicating with Startup Employees
 - Key considerations at contracting (squeeze-out, representations and warranties)

Intended Primary Readers of This Guidance

To Startup Executives



- Summarizes the importance of managing a startup with M&A in mind, the related considerations, and practical points when executing M&A. It also reviews actual M&A cases.
- We hope you will refer to this Guidance as a handbook when managing your own company.

Primarily relevant chapters: Chapters 1-3, Chapter 6, Chapter 7

To Investors in Startups

(VCs, CVCs, etc.)



- Please refer to this Guidance when discussing M&A and other capital-strategy-based growth options with portfolio startups, and as a reference for managerial support of startups.
- The content is intended to be useful and informative for portfolio companies across a broad range of stages.

Primarily relevant chapters: Chapters 2, 3, and 6

To Those Interested in Acquiring Startups (strategic acquirers, mega-ventures, etc.)



- Summarizes the background for considering startup M&A and the considerations for leveraging startup M&A to drive business growth.
- Explains the challenges faced when executing startup M&A, and organizes the considerations and possible responses based on those challenges. The content can also be used as needed by those with prior experience acquiring startups.

Primarily relevant chapters: Chapters 1, 4, and 5

To Others Interested in Startup M&A



- Provides an overview of the startup ecosystem and the importance of M&A.
- We hope that all those engaged in the startup ecosystem - including personnel in local governments involved in startup policy and university officials supporting startups - will read this Guidance as needed.

Primarily relevant chapter: Chapter 1

What M&A (Group Integration) Means for Entrepreneurs / Startup Executives

Positioning of M&A for Entrepreneurs / Startup Executives



M&A is often referred to as a type of "exit," but this generally means an exit for investors (a means of converting their investment into cash).

For startup executives, however, joining a buyer's group can lead to business expansion and growth, or to a new career engaging in management at the buyer's company. M&A can therefore be an effective means of growth for both the

Main Types of Significance of M&A for Entrepreneurs / Startup Executives



Acceleration of Business Growth



By leveraging the assets of buyers (large corporations or mega-ventures), such as customer bases, sales channels, and brands, the company can pursue faster and larger business growth than it could alone. In some cases, future listing also becomes possible.

Becoming a Member of the Buyer's Management Team



By taking active roles in the buyer's management and acquiring skills for managing a larger-scale enterprise, executives can diversify their own career paths and increase their social impact.

Pursuing New Challenges



Equity and other relatively illiquid assets can be converted into cash. After the M&A, at a certain point, the executive may step away from business management and pursue new challenges such as becoming a serial entrepreneur or launching a new VC.

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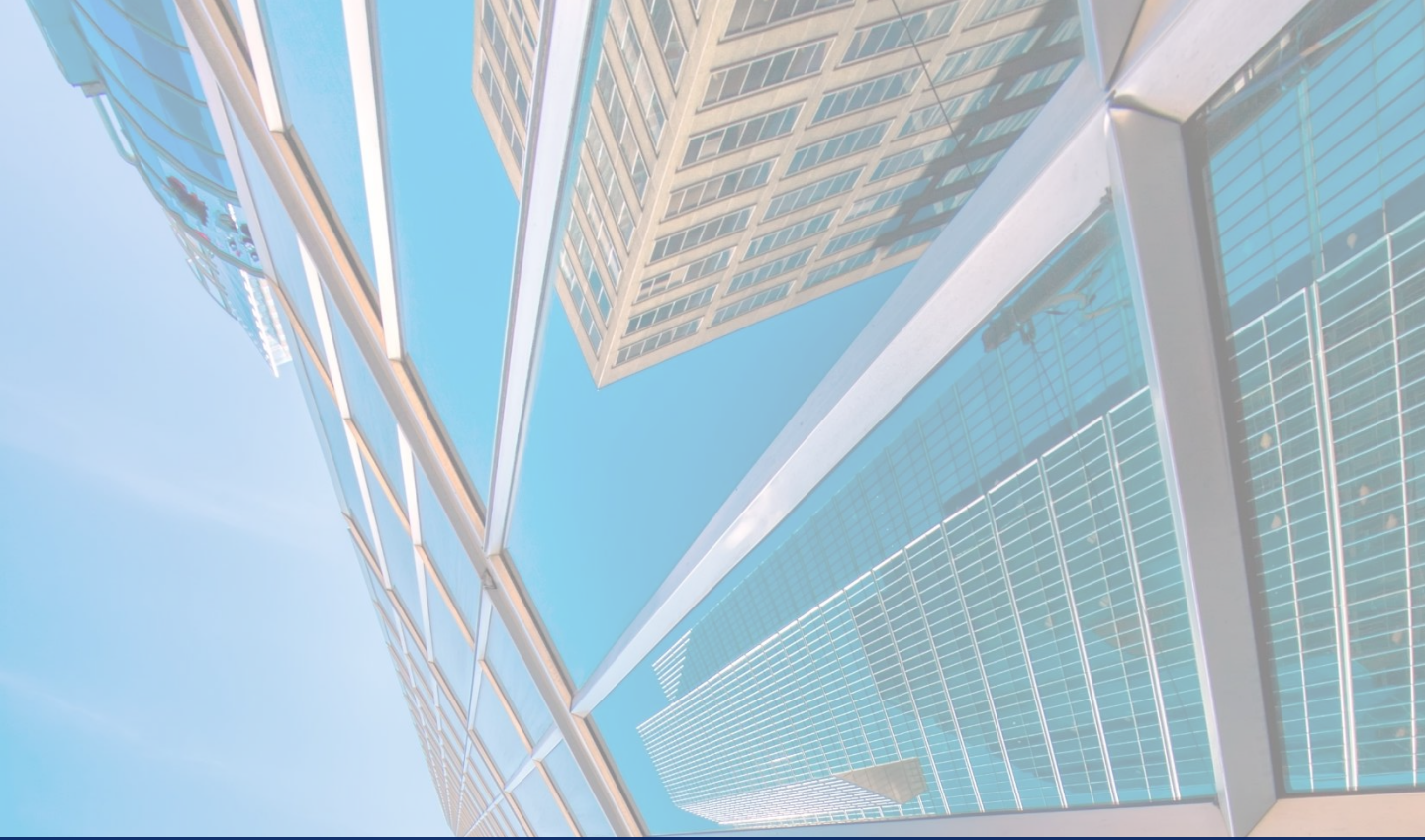
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CHAPTER 1

Landscape and Challenges Surrounding Startup M&A

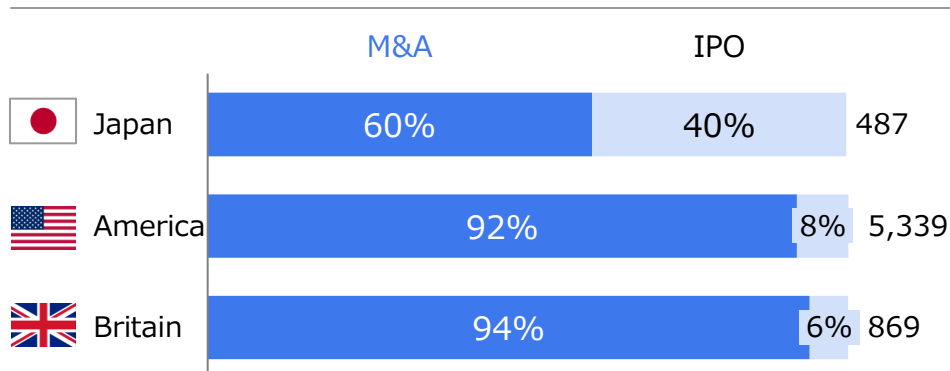


In Japan, IPO tends to be recognized as the principal means of growth in capital strategy, and compared with other countries, there is substantial room for greater use of M&A as a means of growth.

The State of M&A / IPO in Japan

Compared with the U.S. and the U.K., the share of M&A among means of growth is low in Japan.

Ratio of IPO to M&A (2020-2024, deal count basis)

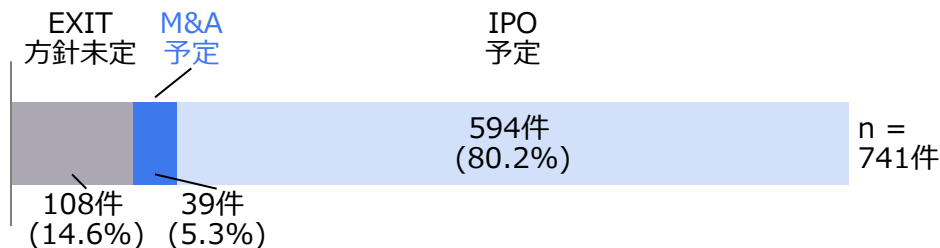


(Source) Prepared by Boston Consulting Group based on the content and information of "Survey on the Ratio of IPO to M&A" in JETRO, "Comparative Study Report on the Startup Ecosystem of Japan and Southeast Asia and Other Countries" (June 2025)

* Data acquired as of March 2025. The startups covered in this analysis are companies that conducted IPO or M&A transactions between 2010 and 2024 and had received VC investment prior to the transaction.
 * M&A here covers only PitchBook's "Merger/Acquisition" category, excluding "Buyout/LBO," "Management Buyout of Investors," "Merger of Equals," and "Reverse Merger"
 *Source: PitchBook, a Morningstar company
 *The cited data has not been reviewed by PitchBook analysts and may be inconsistent with PitchBook methodology.

In a survey of startup executives, 80% of executives envisioned IPO as their growth option, while only 5.3% envisioned M&A.

Survey on Intended Future Means of Growth



Source: Prepared by Boston Consulting Group based on the content and information of "Composition by Year of Planned IPO" in Sumitomo Mitsui Trust Bank, Startup Survey 2025

Main Hypotheses Considered as Background for Limited Use of M&A (details on the next page)

- Listing Criteria Relatively Low Compared to Other Countries
- IPO and M&A Are Not Being Considered and Compared on a Level Footing
- Management Strategy with M&A in Mind from the Early Stages Is Insufficient
- Buyer-Side M&A Experience and Organizational Readiness Are Limited



Main Hypotheses Considered as Background for Limited Use of M&A

Market Structure



Listing Criteria Relatively Low Compared to Other Countries

Hurdles for IPO are relatively low, and the market structure may make it easy for startups to list at an early stage.

Japan has lower listing hurdles than the U.S., and small-scale IPOs are feasible, which makes IPO exits more likely to be chosen. On the other hand, the trend may change with the reform of the TSE Growth Market.



Startup Executive

Startup



IPO and M&A Are Not Being Considered and Compared on a Level Footing

Due to social perceptions such as "listing = entrepreneurial success" and executives' psychological barriers (M&A is often felt to be a "transfer" or "ending"), there may be relatively few cases in which IPO and M&A are considered and compared on a level footing.

While IPO and M&A should originally be compared and considered on a level footing, a substantial number of executives structure their capital strategy on the premise of IPO and do not consider M&A.



VC



Management Strategy with M&A in Mind from the Early Stages Is Insufficient

In the M&A decision-making process, interests among multiple stakeholders such as executives, investors, and buyers tend to conflict. It has been pointed out that when such coordination stalls and decisions are delayed, the probability of M&A success decreases.

Understanding that conflicts of interest among stakeholders will occur, and building capital strategy and governance to mitigate such risks as much as possible, is important for executing M&A in a timely manner.



VC

Buyer (Strategic Acquirer)



Buyer-Side M&A Experience and Organizational Readiness Are Limited

In some cases, buyer-side decision-making processes and incentive design required for startup M&A are not yet well-developed, and there is insufficient knowledge of startup-specific matters (such as governance and capital strategy), making deal formation difficult.

On the buyer side, the mechanisms to successfully execute startup M&A are insufficient. Few strategic acquirers have established methods to accurately evaluate startup value and to properly design subsequent budget allocation.



Strategic Acquirer (Buyer)



Background to the Active Use of M&A in the U.S.

It has been pointed out that in the U.S., the hurdles to achieving an IPO are in practice quite high, and as a result M&A is chosen as a realistic option.



Key Factors for Achieving an IPO in the U.S. (Prepared from Expert Interviews)



Underwriting by a Major Investment Bank as Lead Underwriter

- The lead underwriter oversees the entire transaction and is responsible for pricing, allocation to investors, and post-listing market formation
- The identity of the lead underwriter can significantly affect the credibility of the IPO



Institutional Investor Support for IPO Stock

- In the U.S., IPOs often involve raising substantial growth capital
- Without significant participation in IPO financing by institutional investors such as pension funds and asset managers, IPOs are difficult to complete

In the U.S., not only must financial criteria be met, but who the lead underwriter is and the presence of institutional investors also matter. IPOs are thus strict in both form and substance. As a result, many startups consider M&A as a realistic exit from an early stage.



Startup Executive (With Experience of a Sale in the U.S.)



Reference: U.S. IPO Listing Criteria

Nasdaq Capital Market Financial Criteria

Item	Criteria Content
1 Equity Standard 	<ul style="list-style-type: none"> • Shareholders' Equity of \$5 million (approx. JPY 750 million) or more • Public Equity Market Value of \$15 million (approx. JPY 2.25 billion) or more • Operating History of 2 years or more
2 Market Value Standard 	<ul style="list-style-type: none"> • Market Value of Listed Securities of \$50 million (approx. JPY 7.5 billion) or more • Public Equity Market Value of \$15 million (approx. JPY 2.25 billion) or more
3 Net Income Standard 	<ul style="list-style-type: none"> • Net Income from Continuing Operations of \$750,000 (approx. JPY 110 million) or more (in the most recent year, or in 2 of the past 3 years) • Shareholders' Equity of \$4 million (approx. JPY 600 million) or more • Public Equity Market Value of \$15 million (approx. JPY 2.25 billion) or more
Common (across all criteria) 	<ul style="list-style-type: none"> • Publicly Held Shares 1 million shares or more • Round-Lot Shareholders 300 or more • Market Makers 3 or more • Share Price \$4 (approx. JPY 600) or more (closing price of \$2-3 acceptable under certain criteria)

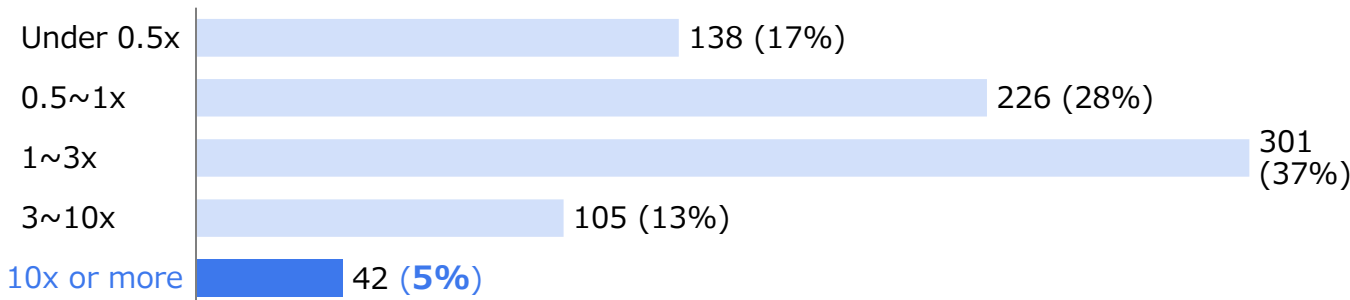
Note: Calculated at 1 USD = 150 JPY; need to satisfy any one of criteria (1), (2), or (3). In addition to financial criteria, liquidity and governance requirements also apply. Source: Prepared by Boston Consulting Group based on the content and information regarding "Nasdaq Capital Market" in Initial Listing Guide, Nasdaq (2025)

Many startups do not necessarily achieve growth after IPO, and an IPO-only capital strategy may narrow growth opportunities.

Only a small number of companies achieve high growth after listing on the Growth Market

Only 5% of companies have grown 10x or more since their initial listing on the Growth Market

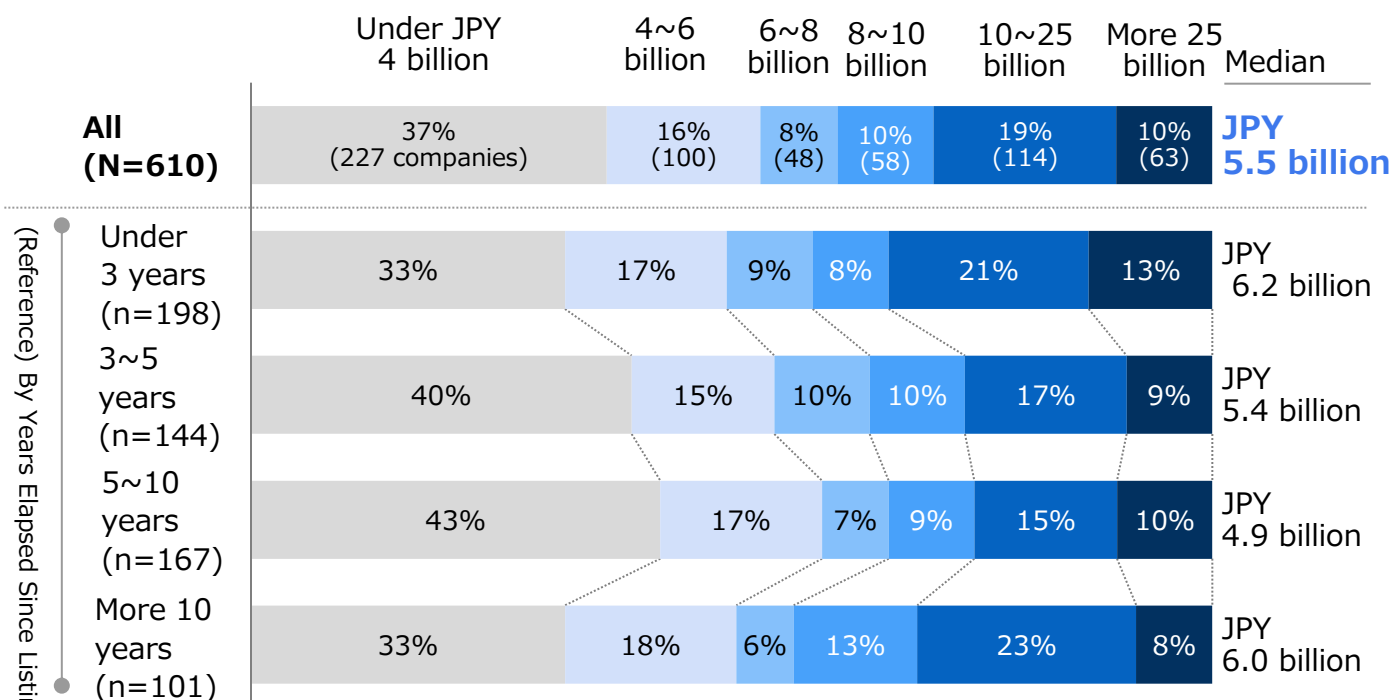
Market Cap Growth Rate of Companies Listed on the Growth Market



Note: Targets are companies listed on the Mothers / Growth Market from July 2004 through the end of 2024 (excluding delisted companies).
 Note: Market cap growth rate is calculated by dividing the current market capitalization (based on the average closing price from October to December 2024) by the market capitalization at the time of initial listing (based on the offering price; if no offering price is available, the closing price at the end of the listing month is used).
 Source: Prepared by Boston Consulting Group based on the content and information of "Current Status (Growth Rate of Market Capitalization)" in "Future Actions for the Growth Market" (TSE Listing Department materials)

As of the end of 2024, the median market capitalization of Growth Market listed companies was JPY 5.5 billion

Distribution of Market Capitalization of Growth Market Listed Companies

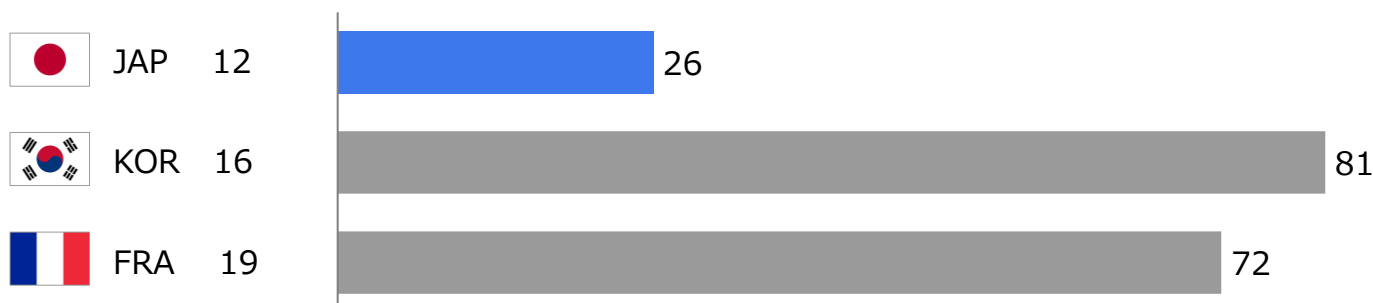


Note: Targets are companies listed on the Growth Market as of the end of 2024. Market cap is based on the average closing price from October to December 2024.
 Source: Prepared by Boston Consulting Group based on the content and information of "Current Status (Distribution of Market Capitalization)" in "Future Actions for the Growth Market" (TSE Listing Department materials)

The average M&A deal size is small compared with other countries. The background is said to be a tendency for there to be fewer M&A deals during the business growth phase.



Average Acquisition Amount of Startup M&A in FY2023 (US\$M)



Note: Counts and average amounts are limited to deals with disclosed amounts. The figures cover deals in FY2023 in which the exiting party had received VC investment. "Acquisition" refers to transactions acquiring 51% or more of management control; PE buyouts are included in "Buyout/LBO" and are excluded.

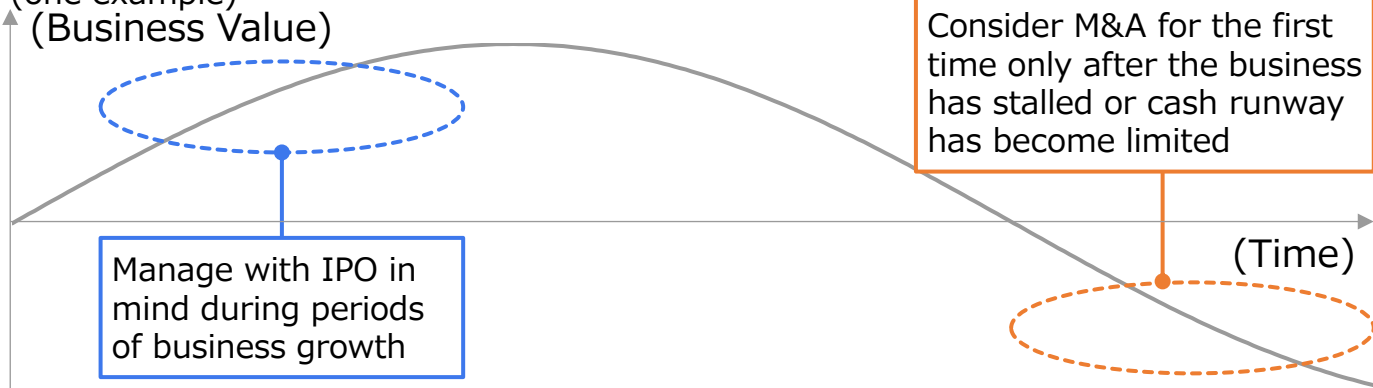
Source: Prepared by Boston Consulting Group based on content and information from PitchBook, a Morningstar company

Note: This data may be inconsistent with PitchBook methodology, and the following must be added to the citation: The cited data has not been reviewed by PitchBook analysts and may be inconsistent with PitchBook methodology



Relatively few startups explore M&A during their business growth phase; many begin considering M&A only after management has reached an impasse, which may prevent the company's intrinsic business value from being fully reflected in the acquisition price.

Typical Patterns of Startup M&A in Which Business Value Is Not Adequately Reflected (one example)



Even if M&A is considered after growth has slowed, it tends to be difficult to obtain a strong valuation. Companies with revenue of JPY 200-400 million that have stopped growing are difficult for both buyers and investors to handle.



Even when buyers are sought urgently just before running out of cash, in many cases either no buyer is found or no meaningful valuation can be obtained.



Through energized startup M&A, large corporations can absorb the "zero-to-one" achievements that startups excel at, leading to innovation.

Characteristics of Large Corporations and Startups in

Large Corporation



- Growing by capturing external demand through overseas exports, etc.
- Able to secure scalability through overseas sales channels, manufacturing management, etc.
- Due to factors such as the "innovator's dilemma," the creation of new businesses can be difficult

Startup

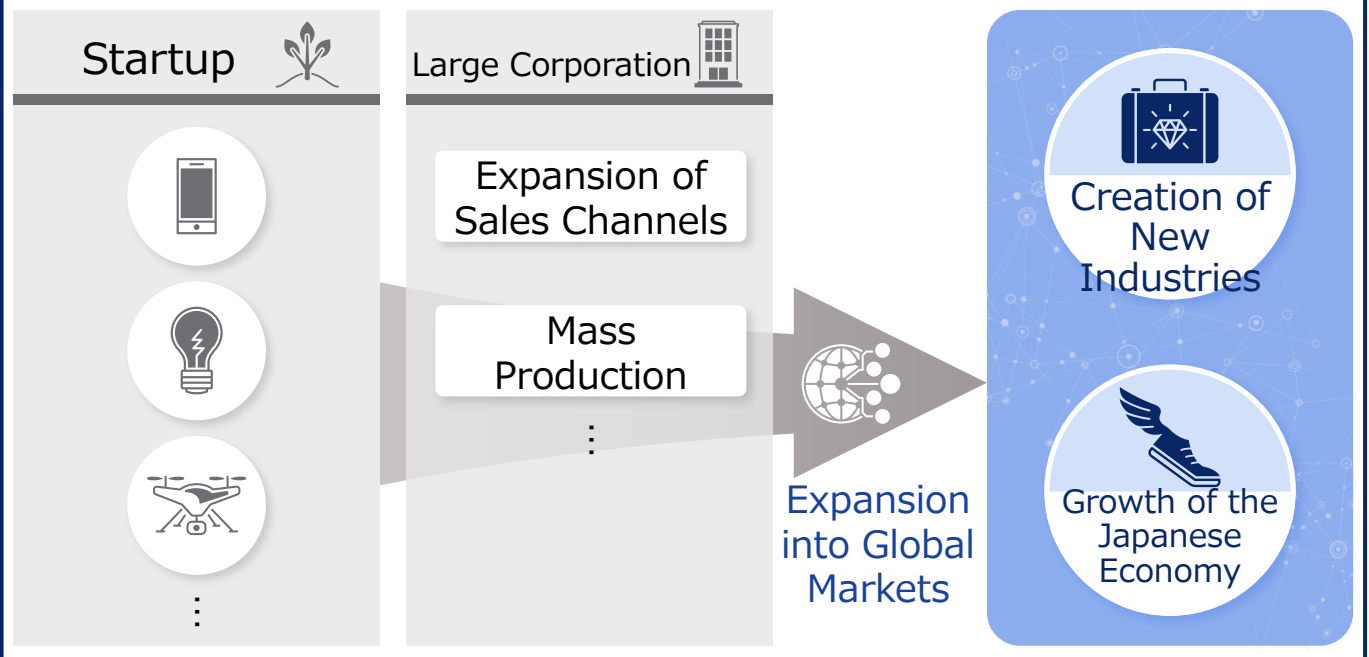


- Tend to operate primarily in the domestic market (domestic demand)
- Able to quickly build products that match market needs
- Face challenges in capturing external demand and in scaling up the business



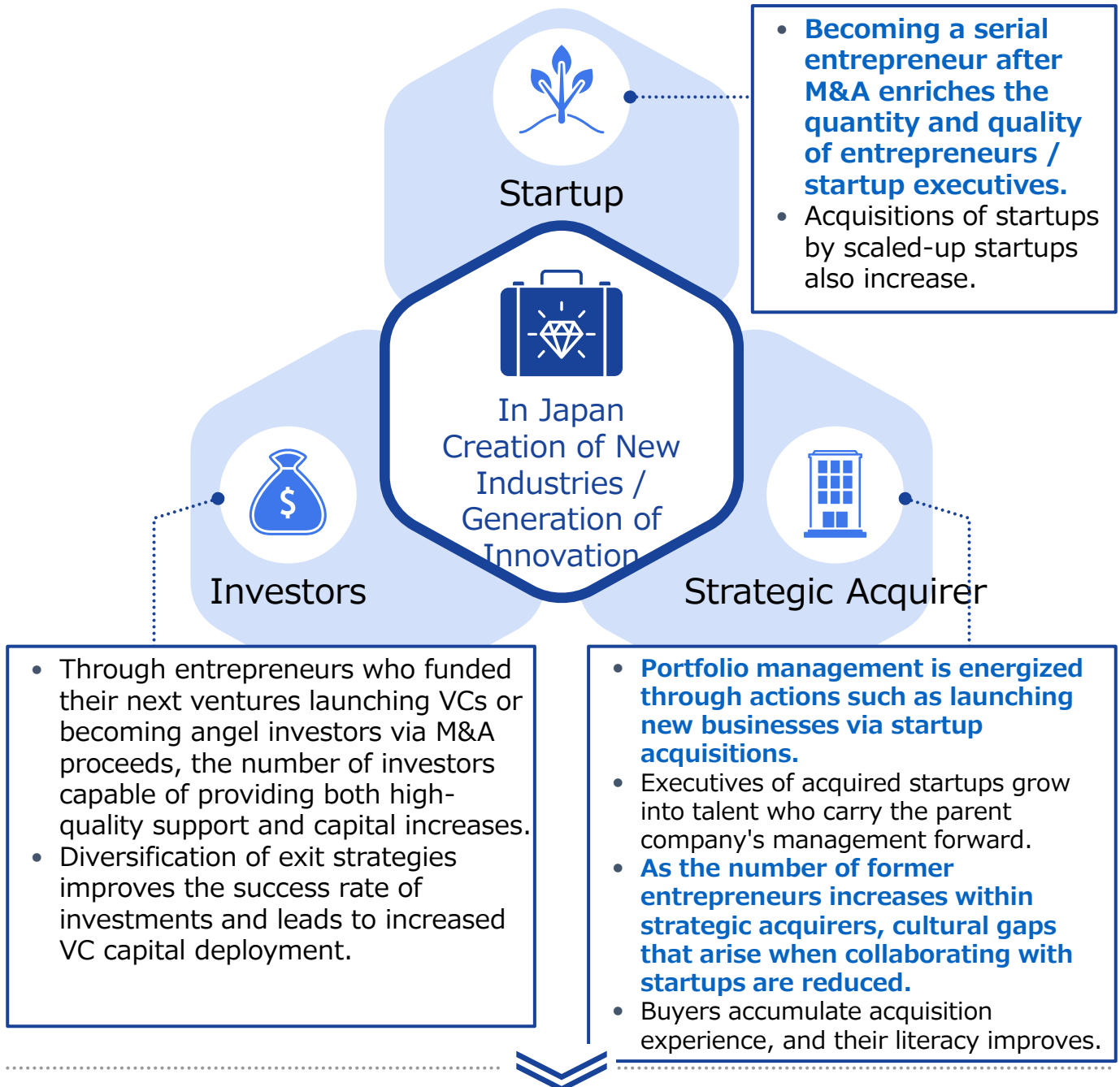
How Large Corporations and Startups Should Complement Each Other

Deliver products developed by startups to the global market by leveraging the production capacity and sales channels of strategic acquirers



Greater use of M&A benefits not only startups but also investors and strategic acquirers, and can lead to the development of the ecosystem as a whole.

Evolution of the Startup Ecosystem Brought About by Energized M&A



To evolve the ecosystem through energized M&A, it is also important that investors and buyer companies (strategic acquirers, mega-ventures, etc.) work together.





Entrepreneurs' Next Challenges Following Startup M&A

Startup executives can shift their careers by using the experience, capital, and networks gained through M&A as a starting point - for example, by taking on new challenges.

Typical Examples of Next Challenges

Serial Entrepreneur



- With capital obtained at exit, entrepreneurs can more easily fund their next venture themselves, reducing constraints in fundraising and the risk of dilution
- Operational know-how and networks gained from the first company can be leveraged in the second

“Because I had capital from the M&A, on the second venture I was able to fund the company myself rather than relying on VC under strict terms.

After once integrating into a group, I founded a second company. I have been able to leverage the relationship with the acquirer and the industry network.



Startup Executive (with Sale Experience)

Investors (VC / Angel)



- Capital gains from M&A can be used to provide funding and know-how to subsequent startups
- In addition, in other countries, the transition from entrepreneur to investor is established as a common career path

“In the U.S., the transition from entrepreneur to investor is also a common path. When successful founders take on the role of investor and manage "other people's money," they often demonstrate high capability accompanied by a sense of responsibility.



Startup Executive (with Sale Experience)

⋮ (In addition, a wide variety of career paths are possible)

“Almost all entrepreneurs are rookies. Skill in managing a startup grows through experiencing failures.

Because cash is received quickly through M&A, entrepreneurs can move on to their next challenge promptly. M&A is thus a means of diversifying entrepreneurs' career paths and is a key driver of the ecosystem.

Startup Executive (with Sale Experience)



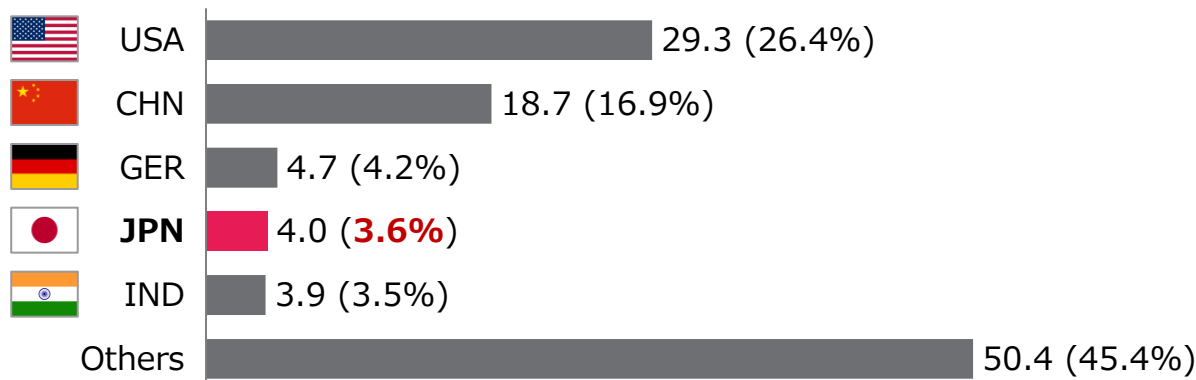


Japanese Startups and the "Domestic Demand Wall"

When a Japan-based startup aims for larger-scale business deployment and scaling, it is considered important to pursue a strategy of capturing external demand rather than domestic demand from an early stage.

Japan's GDP is about 3-4% of global GDP, and there are likely limits to the scale and growth potential achievable through domestic-only business.

Nominal GDP in 2024 (USD trillion)

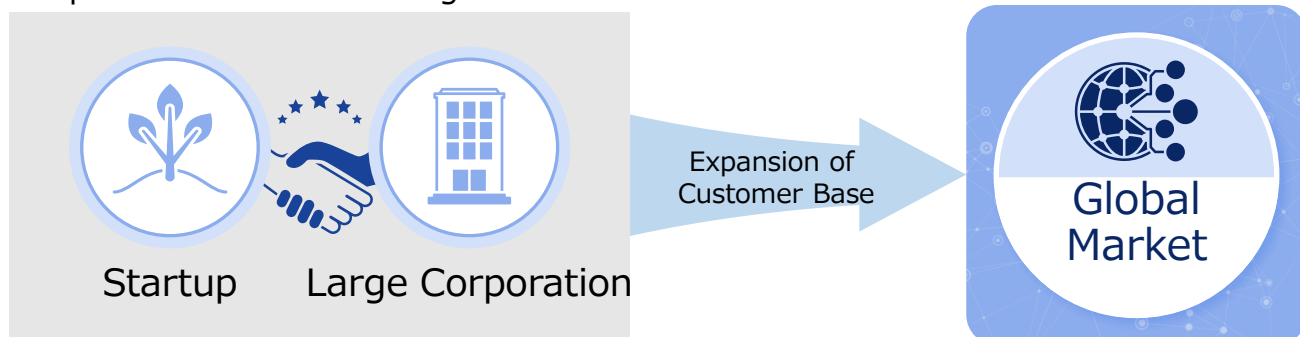



Source: IMF (International Monetary Fund), "World Economic Outlook"
Prepared by Boston Consulting Group based on the content and information of



This "domestic demand wall" elevates the importance of collaboration with large corporations and M&A

- By complementing the global-scale channels and customer bases that startups tend to lack on their own through the platforms of large corporations, there is potential to break through the domestic demand wall.



“
 With domestic demand alone covering only 3-4% of the world, there are limits to scale.
 For example, once you make your presence felt in the U.S. market, inquiries come in from all over the world. That is precisely why a strategy of scaling up by leveraging the channels of large corporations is important.
 Startup Executive (Sold in the U.S.) 



Examples of Successful Startup M&A in the U.S.

In the U.S., there are cases where companies that were relatively small at the time of acquisition grew substantially by being integrated into the channels and platforms of the acquiring company.



Startup Executive
(Sold in the U.S.)

Just as YouTube as a "product" was plugged into Google as an "outlet," startups can grow rapidly by integrating their business into the channels and platforms of large corporations. This is the essence of M&A.

Representative Examples of Startup M&A

Case (1) PowerPoint (Acquired by Microsoft)

- Acquisition target: Forethought Inc. (founded 1983)
- Acquisition price (1987): approx. USD 14 million (approx. JPY 2.1 billion)
- Scale at acquisition: small private company
- Integration point: Bundled with Office (Word, Excel) and expanded into the global standard package
- Result: Six years after acquisition, annual revenue exceeded USD 100 million; thereafter installed on more than 1 billion PCs worldwide -> **Grew into a core product of Microsoft**



Case (2): YouTube (Acquired by Google)

- Acquisition target: YouTube, Inc. (founded 2005)
- Acquisition price (2006): USD 1.65 billion (approx. JPY 247.5 billion)
- Scale at acquisition: 68 employees, revenue of approx. JPY 1.8 billion (about 1/140 of the acquisition price)
- Integration point: Integrated with Google's advertising platform (AdSense / AdWords) and search technology
- Result: Users grew rapidly, becoming the world's largest video platform -> **Introduction of the ad model accelerated revenue and became a pillar of Google's revenue**



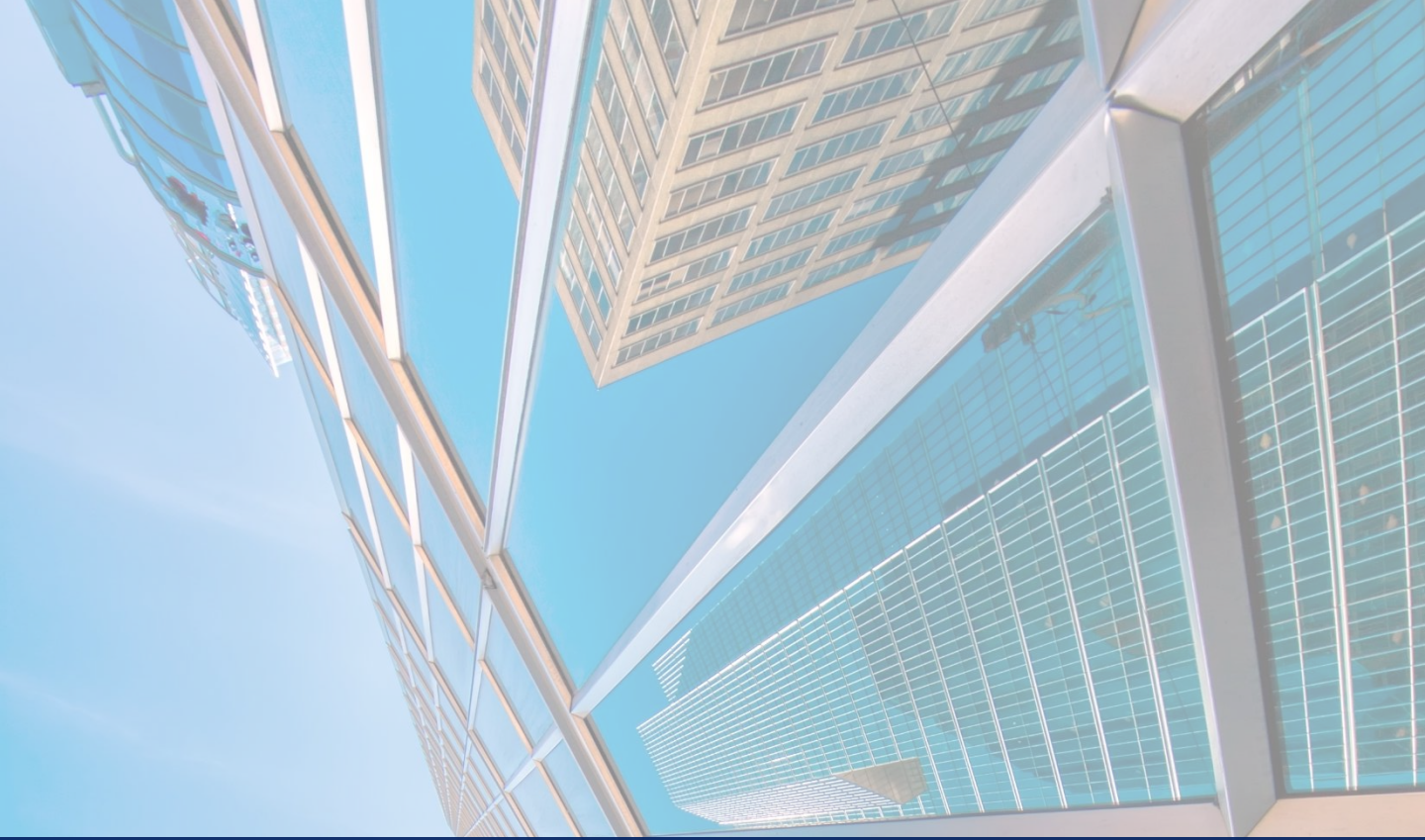
Case (3) Instagram (Acquired by Facebook)

- Acquisition target: Instagram, Inc. (founded 2010)
- Acquisition price (2012): USD 1 billion (approx. JPY 150 billion)
- Scale at acquisition: 13 employees, approx. 30-40 million users **Revenue zero (advertising not yet implemented)**
- Integration point: Integrated with Facebook's ad-targeting platform to accelerate product improvements
- Result: Monthly users expanded rapidly from 30 million to 300 million in about two years -> **After ad implementation, it grew to be a main contributor to Facebook's revenue**



Source: Microsoft acquisition of Forethought (1987), Britannica; Google acquisition of YouTube (2006), SEC Press Release; Facebook acquisition of Instagram (2012), Meta Newsroom

Note: Exchange rate is 1 USD = 150 JPY



CHAPTER 2

Guidance for "Sellers" (1) - Engaging with M&A from the Early Stages of Management -



Perceptions and images of IPO and M&A may differ between Japan and the U.S. It is important to consider and compare them on a level footing as one of the means contributing to business growth.

 Japan

- Japanese startups tend to design their business and capital strategies with an "IPO-focused" orientation.
- As a result, there are also cases in which the available choices are narrowed and opportunities are lost, even in situations where M&A would have been more rational.

In Japan, the view of "IPO = success" and "M&A = giving up" is fairly prevalent, and executives tend to aim for IPO first.



VC Investor

 United States

- **M&A itself is recognized as an effective option for advancing the business to the next stage and is a generally accepted choice.**

In the U.S., startup M&A is not seen as giving up; rather, it is celebrated as a success. By using M&A to shift the business phase, companies achieve both the next stage of growth and capital return.



Startup Executive
(Sold in the U.S.)



Underlying Concept to Have in Mind



- **View IPO and M&A as means to achieve sustainable business growth and to provide returns to investors.**
- On that basis, it is important to understand the characteristics of M&A and to be able to select the best means for the business and the company in a timely manner from among multiple options.

IPO

M&A

(Reference) Secondary



Comparison and

“Consider on a level footing whether the market segment or business model is one in which the company can continue to grow alone through IPO. If leveraging the assets of a large corporation is necessary, M&A should also be considered. (Board member of a strategic acquirer)

“When comparing growth options on a level footing, the "probability of success" and the "time horizon" should also be considered. For example, even if IPO is possible, it may make sense to strategically choose M&A when the probability is low or realization will take time. (VC)

“In some cases of small-scale IPO, the resources needed for post-listing growth may not be sufficiently secured. M&A, which can leverage the resources of a large corporation, should also be considered on a level footing as a means of growth. (Startup Executive)

“First consider how to grow the business, and then think about how to finance it. This order must not be reversed. (VC)

“Due to changes in the market environment, entrepreneurs' "IPO-only" mindset is weakening, and the foundation is being established for M&A to be accepted as a realistic option. There is a sense that small to early-stage M&A is already starting to increase. (VC)

It is desirable to understand the characteristics of each method - including IPO, M&A, and, in some cases, secondary - and to choose the means that suits the company's phase, orientation, and business characteristics.

Principles of Consideration

- It is essential to first consider what the necessary and effective means for achieving business growth are.
- In doing so, it is important to understand the characteristics of multiple options, including not only IPO but also M&A and secondary, and to choose the most suitable option after comparing them in light of the company's strategy and business environment.

Comparison Table



IPO

As a listed company, fundraising from the market becomes possible



M&A

Leveraging the Parent Company's Capital, People, and Business Foundation



(Reference) Secondary

Adjustment of Capital / Shareholder Composition

Securing Means of Growth

- | | | |
|---|---|---|
| <ul style="list-style-type: none"> • Fundraising from the market, such as through public offerings, becomes possible • Depending on liquidity conditions, execution may also be difficult | <ul style="list-style-type: none"> • The parent company's capital, people, and business foundation can be leveraged. It can also help build credibility. | <ul style="list-style-type: none"> • Under the new shareholder, the company can grow and explore opportunities such as IPO and M&A |
|---|---|---|

Conversion of Shareholders' Holdings into Cash

- | | | |
|---|--|--|
| <ul style="list-style-type: none"> • Existing shareholders' timing of sale may be constrained, e.g., by voluntary lock-up* (*Voluntary lock-up: a voluntary sale restriction agreed by shareholders based on a contract with the lead underwriter) | <ul style="list-style-type: none"> • Existing shareholders may be able to convert their holdings into cash in a timely and earlier manner compared with IPO | <ul style="list-style-type: none"> • Existing shareholders may be able to convert their holdings into cash in a timely and earlier manner compared with IPO |
|---|--|--|

Key Considerations

- | | | |
|---|--|--|
| <ul style="list-style-type: none"> • Subject to expectations and pressure from many shareholders regarding performance and shareholder returns • Requires separate handling such as timely disclosure | <ul style="list-style-type: none"> • Business operations and decision-making must be conducted in light of the relationship with the parent company • Compatibility with the buyer and PMI / organizational integration determine success or failure | <ul style="list-style-type: none"> • It may be difficult to find an acquirer, or the search may take a certain amount of time |
|---|--|--|



Data on the TSE Growth Market

There are also risks specific to IPO. Rather than thinking "choose M&A or secondary when IPO is difficult," it is important to continually consider, in light of those risks, what the most appropriate means of fundraising for the company's business growth is.

Listing is not a rosy world; it is important to recognize that it carries specific risks

Growth Investor



Stock prices on the market as a whole have been on a downtrend

TSE Growth Market 250 Index (excluding dividends)



Source: Prepared by Boston Consulting Group based on the content and information of the "TSE Growth Market 250 Index" in JPX Research materials

- On the TSE Growth Market, participation by institutional investors is relatively limited from the perspective of share price trends and liquidity.
- On the other hand, their presence is important from the standpoint of stable shareholders and long-term capital. Efforts are increasingly required by individual companies to properly communicate their investment attractiveness and encourage institutional investor entry.

From a long-term investment perspective, it is important whether stock prices are rising or are expected to rise. The practical sense is that it is difficult to commit to investment in a downtrend phase.

Institutional Investors



Liquidity of the Growth Market

Approx. JPY 32.461 trillion

From January 4 to December 30, 2024
Total Sell-Side Volume on TSE Growth Market



Approx. JPY 129.8 billion

Average per business day
Total Sell-Side Volume on TSE Growth Market



Approx. JPY 210 million

Average sell-side total per company among 610 Growth Market companies

Source: Prepared by Boston Consulting Group based on the content and information of the JPY amount data for 2024 in "Trading by Type of Investor" (Tokyo Stock Exchange public data)

* Calculated assuming approximately 250 business days per year. The 610 Growth Market companies refers to the number as of year-end 2024.

- Without a certain level of liquidity, it takes institutional investors significant time to build positions in a stock for their portfolios.
- As a result, stocks with low liquidity tend to be excluded from institutional investors' investment universe.
- Consequently, after listing, the company may not be able to raise the necessary amount of capital in a timely manner.

When liquidity is low, the stock is less actively traded in the market, and other capital strategies that use shares as collateral also become difficult to execute

Growth Investor



By leveraging the sales channels and sales networks of the buyer company, the company can aim to achieve new customer acquisition and sales expansion in a short period of time.

By leveraging the buyer's capital, sales channels, and people, and by integrating capabilities that would be difficult to secure if the startup continued to operate alone, the company can accelerate its growth.

Business Benefits Obtained Through M&A with a Strategic Acquirer (Typical Examples)

Business Acceleration through Brand Power and Credibility



With the brand power of a large corporation, trust from customers and partners is built more quickly, the success rate of new customer development and partnerships improves, and hiring power is also strengthened

Becoming part of a major group significantly improved hiring power thanks to the brand. People from major manufacturers joined the company, and the level of technology development greatly improved.

Startup Executive



Increased credibility may also enlarge borrowing capacity and reduce financing costs (leading to substantive stabilization of the funding base)

Securing working capital had been an eternal challenge, but joining a large corporation's group improved our credibility and led to substantive stabilization of the funding base.

Startup Executive (with Sale Experience)



Acquisition of Sales Foundations and Customer Channels



The buyer's sales network and customer base can be leveraged directly to achieve new customer acquisition and channel expansion

Customers we could not reach on our own became reachable by riding on the buyer's sales network, and the growth curve changed.

Startup Executive



Originally, M&A is a means of partnering with counterparts that have capabilities a company cannot supply on its own, in order to accelerate growth. There is no need to assemble every function for the business in-house; obtaining missing capabilities externally and combining them is a rational option for accelerating business growth.

VC



While some startups aim for IPO, many do not necessarily fit that mold. If the goal becomes to inflate valuation in the short term, capital strategy can fall apart and, conversely, narrow future options for obtaining capital needed for business growth. When the focus is on business growth, M&A can be the optimal choice in some cases.

VC



Placing both IPO and M&A on the table of options from the early stages of management leads to the timely selection of the best means of growth for the company.

Reasons Why It Is Desirable, in Principle, to Anticipate Both IPO and M&A



To Smoothly Execute M&A

- Executing an M&A requires the agreement of many stakeholders, including the executive team and investors.
- It is often the case that "irreversible" elements such as capital strategy and governance cause a "deadlock."
- By placing M&A on the table of options from the early stages of management, management can be conducted with capital strategy, governance, business strategy, and talent in mind.

When anticipating both IPO and M&A, leaning too heavily on an IPO-premised capital strategy and governance creates irreversibility, and it can become too late to respond after receiving an M&A offer.



To Execute M&A in a Timely and Appropriate Manner

- The possibility of M&A exists in all phases, from seed to later. Accordingly, the company must continually assess whether M&A could be a rational option for itself.
- Because M&A is often determined by "encounters," the ability to decide at the optimal "timing" is essential.

I have proposed M&A to more than several dozen companies, but in most cases the reaction is "is that even an option?" Essentially, by placing the possibility of M&A on the table from the early stages, it becomes important not to miss the optimal timing.



To Lead to the Company's Intrinsic Growth

- Important indicators for both M&A and IPO are similar (revenue growth rate, profitability, future business growth potential, governance, etc.)
- The management systems and disclosure capabilities developed in preparation for IPO can lead to improved valuation in M&A and stronger negotiating power on price.
- Therefore, anticipating both strengthens negotiating power.

Maintaining a "state in which IPO is also viable" can be a source of negotiating power in M&A as well.



Dual-Track Management

Considering the possibility of M&A as a growth strategy option from the relatively early stages of management

- As a result, it is fine to "hold M&A as a mere option." What matters is that taking the possibility into account leads to appropriate investor selection, fundraising sizing, and business strategy



Timing of M&A for U.S. Startups

In the U.S., many of the startups acquired through M&A are acquired before Series B, and there is a certain volume of pre-seed and seed-stage M&A. This also suggests the importance of being mindful of M&A from the "early stages" of management.

However, since the meaning of each stage differs between the U.S. and Japan (e.g., the size of capital raised), care is needed in applying these directly to Japan.



In the U.S., where IPO is reserved for only a limited number of companies, founders and early-stage VCs design growth strategies with M&A factored in as a realistic exit from an early stage. A culture is also entrenched in which management is gradually passed on to a strategic acquirer or PE fund, which forms the backdrop for active early-stage M&A.

Startup Executive
(Sold in the U.S.)

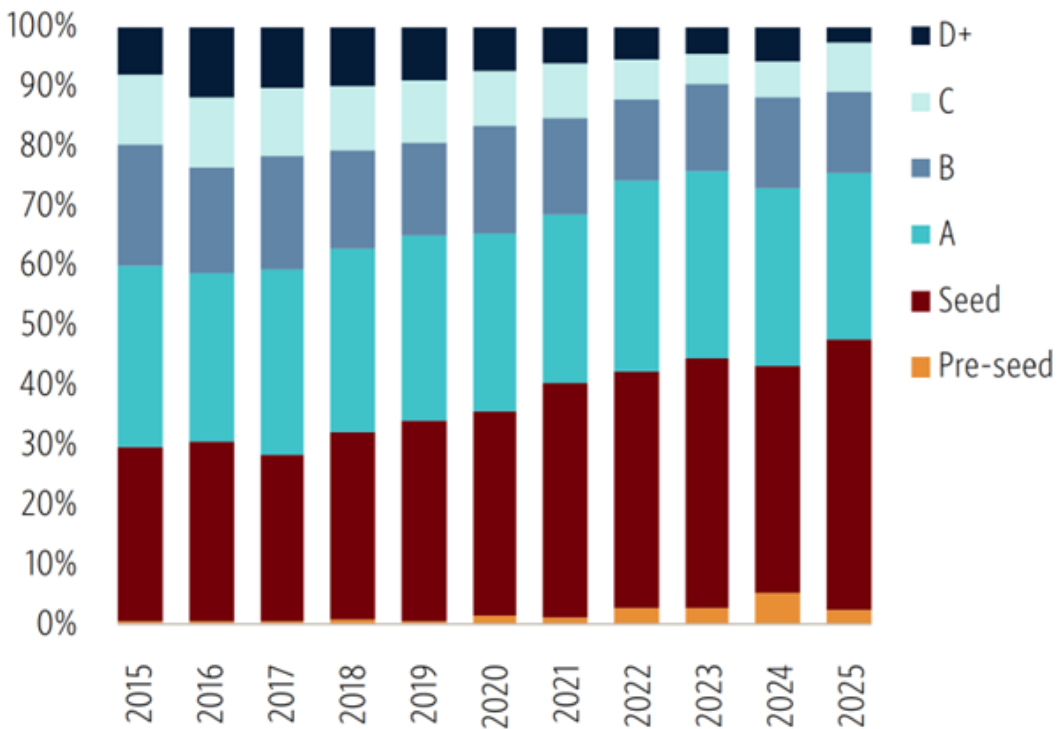


In the U.S., there is a tendency to pursue M&A even before growth prospects are fully determined. In the face of intense growth competition, it is often rational to realize business value early. On the other hand, when growth potential remains, founders are reluctant to sell, and the consent of executive shareholders can be difficult to obtain.

VC



Funding Stages Immediately Preceding M&A in the U.S.



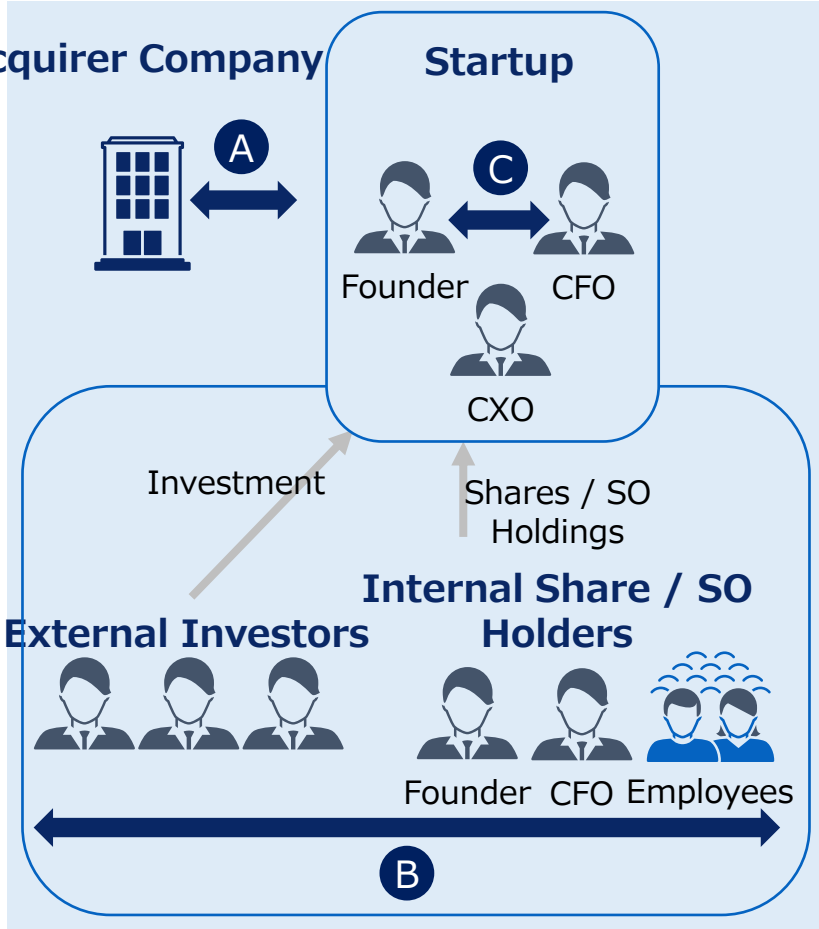
PitchBook-NVCA Venture Monitor • As of June 30, 2025

•Source: Cited from "Share of VC round count by series where next round is an exit via acquisition" in PitchBook, NVCA "Venture Monitor Q2 2025"

In executing M&A, interests among multiple stakeholders such as executives and investors are prone to conflict, and when such coordination stalls, timely execution of M&A becomes difficult.

Cases Where Conflicts of Interest Arise

Interests Among Stakeholders



Underlying Structural Factors (Examples)

Distribution Structure



Through the design of preferred shares, etc., returns by stakeholder differ

Misalignment of Time Horizons



Due to fund redemption deadlines, etc., entities seeking short-term recovery and those emphasizing long-term business growth coexist

View on Ownership and Management Concept



The premise of founders, who view "the company = themselves," differs from that of shareholders, who hold that "ownership and management should be separated"

Examples of Conflicts of Interest Among Stakeholders

A Buyer and Seller Valuation Mismatch

Sellers anticipating future growth and buyers emphasizing current performance tend to have divergent views on enterprise value

B Economic Incentive Mismatch

Returns differ significantly depending on class shares (preferred shares), the structure of VC funds (investment timing, fund maturity), and the distribution structure of SOs

C Management's Personal Mismatch Due to Roles and Career Orientation

Because, for example, a listing track record may help advance a CFO's next career, individual career orientations differ, and opinions on capital strategy and growth strategy can diverge

When managing a company with M&A as one option from the early stages, it is effective to be mindful of capital strategy, governance, business strategy, and talent.

Examples of Conflicts of Interest Among Stakeholders (Reprint)



Matters Startups Should Be Mindful of from the Early Stages of Management with a View to M&A



To avoid cases or situations in which M&A becomes harder to select in the future, it is particularly useful to view capital strategy and governance as an integrated whole and to pay attention to them from the early stages of management.



Capital Strategy

In considering distribution of assets and valuation, it is important to set sustainable business growth as the objective and to maintain a medium- to long-term, multi-faceted perspective

Preferred Shares / Common Shares

Participating / Non-Participating

Stock Options (SO)

Valuation / Equity Capital Raised

⋮



Governance

It is useful to pay attention to the operation of the board and to veto rights so that the company can make timely and appropriate decisions

Board Composition

Veto Rights (Prior Approval Items)

Duties as a Director

⋮

Examples in Which M&A Becomes Harder to Select Due to Capital Strategy and Governance

Unable to Decide at Appropriate Speed

- Because a single shareholder holds a veto over M&A, Opposition from some shareholders Causes the deal to reach a stalemate
- Veto rights held individually by investors Accumulate, increasing the number of shareholders to engage with during M&A term negotiations, slowing the process

Cannot Hold Discussions Aimed at Overall Optimization

- Due to shareholders' rights of first negotiation, consideration of attractive proposals from third parties is delayed, ultimately resulting in lost opportunities
- Directors act with emphasis on the interests of the shareholders who nominated them, failing to pursue the optimal solution for the company as a whole

The Minimum Conditions for M&A Become Too High

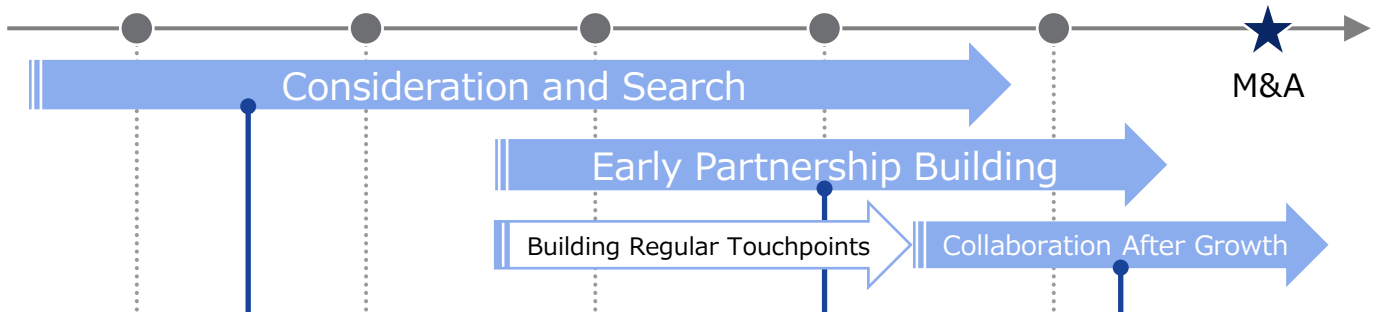
- In M&A, the "yardstick" of valuation differs between seller and buyer, leading to mismatches between the acquisition price / buyer's budget
- Due to the design of preferred shares, returns on common shares and SOs become almost zero below a certain price, causing founders and employees to object



Key Considerations Regarding Capital Strategy and Governance (in the Next Chapter)


- Check whether the structure is one in which a single shareholder holds a veto right and the deal can be blocked by even one objector. If necessary, structure things so that no single shareholder holds a veto over M&A
- While executives and directors appropriately understand and recognize the responsibilities and duties of directors, consider transitioning, as appropriate to the business phase, to governance centered on monitoring by the board of directors
- Consider valuation and fundraising design with an understanding of how valuations between sellers and buyers in M&A tend to differ


As the "front-end process" before executing M&A, it is also important to proactively seek out prospective buyers and to build partnerships from an early stage.





Point (1)


Rather than merely waiting to be approached by buyers, it is essential to proactively search for buyers

“ The ability to choose to whom to sell one's shares is a strength of unlisted companies. Proactivity equivalent to creating a long list of buyers is needed
Growth Investor 

Search from Customers 

“ If they are customers of one's own product, mutual trust and understanding are easier to build. **Startup Executive** 

Consult with VCs 

“ There are also cases in which VCs encourage entrepreneurs to "build touchpoints with prospective buyers early."
VC 

Point (2)


Even after prospective buyers are identified, whether to partner immediately depends on the nature of the business, so it is important to consider appropriate timing

Gradually Build Partnerships from an Early Stage

“ Rather than jumping straight to M&A, collaborating from the early stages of management and confirming compatibility makes it easier to continue business growth after M&A.

In doing so, it is important to organically link capital strategy and business strategy.


[Capital strategy x business strategy: considerations for alignment with a view to M&A are detailed later]

Mega-Venture Executive 

Pursue a Business Alliance in One Step After the Business Has Grown

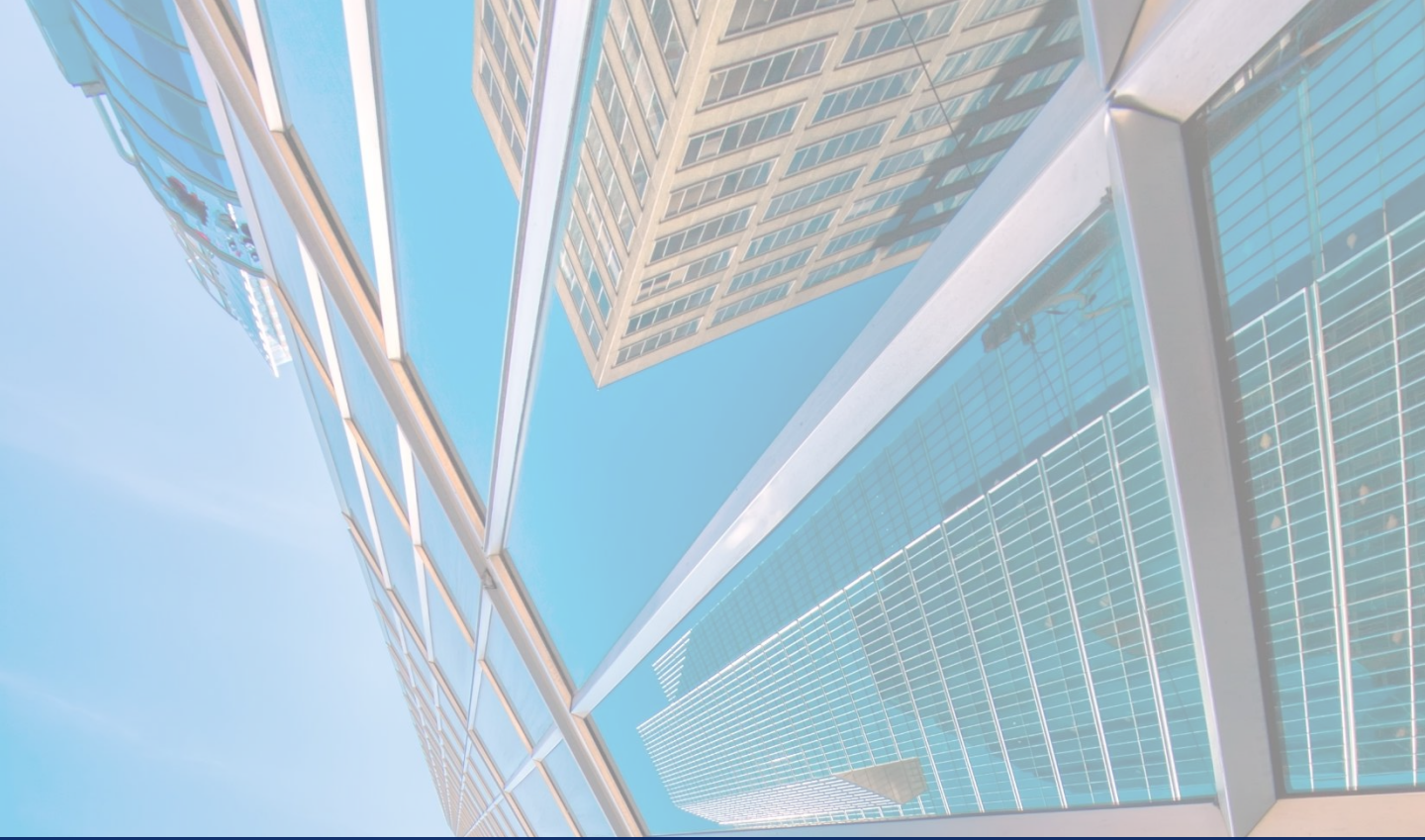
“ In the initial phase, we deliberately did not enter into deep business alliances with strategic acquirers.

In a B-to-C business format where system development is essential, it is difficult to produce numerical results that can be shown in the short term. Therefore, if you partner at a half-baked stage, the buyer may look at the results numerically and judge, "At this level, we won't make a large investment," which can actually push M&A further away.

Startup Founder with Sale Experience 

“ Of the approximately 70 deals I have been involved in, most were referrals. Relationships were born from communication between executives and key people outside the company, which led to discussions on collaboration and capital. Before we knew it, the buyer's M&A function had joined, and the conversation progressed to M&A consideration. M&A is not a single event but an option that emerges as an extension of relationship building.

Executive Officer of Strategic Acquirer 



CHAPTER 3

Guidance for "Sellers" (2) - Key Considerations
When Anticipating M&A from the Early Stages of
Management -



In considering capital strategy, it is important to set sustainable business growth as the objective and to maintain a medium- to long-term, multi-faceted perspective.

Key Points When Considering Capital Strategy (Examples)

<p>Think with a Medium- to Long-Term Perspective</p>	<p>Design capital strategy from a medium- to long-term perspective, not just based on immediate funding needs or the round directly in front.</p>	<p>If the amount of equity capital raised becomes too large, it can hinder business growth - for example, by leading to a down round in the next round, or, even when an M&A opportunity arises, by causing the acquisition price not to be agreeable. (VC)</p>
<p>Anticipate How Returns Will Be Delivered to Investors => Details in (1) below</p>	<p>Consider valuation and fundraising design while understanding the mismatch in valuation between sellers and buyers in M&A.</p>	<p>Because perspectives differ between seller and buyer in pricing, it is useful to recognize and grasp this in advance. (VC)</p>
<p>Select and Procure Suitable Investors => Details in (2) below</p>	<p>Assess the differences and literacy among investor types and align capital strategy from an early stage.</p>	<p>It is important to receive investment after properly identifying not only the investor's funding capacity but also each investor's approach to returns and their capabilities. (VC)</p>
<p>Comprehensively Consider Conditions in the Investment Agreement => Details in (3) below</p>	<p>In addition to valuation, comprehensively consider the conditions in the investment agreement (such as preferred residual asset distribution and prior approval items).</p>	<p>Even if dilution is controlled by raising valuation, the design of preferred residual asset distribution can prevent returns from accruing to the entrepreneur in the future. (VC)</p>
<p>Consider Non-Equity Financing => Details in (4) below</p>	<p>Consider whether necessary funds can be raised through means other than equity (debt financing, etc.).</p>	<p>The success or failure of M&A can be influenced more by the amount of equity capital raised than by valuation itself. (Mega-Venture Executive)</p>

Challenges Encountered in Fundraising (Examples)

- From the perspective of avoiding dilution of existing shareholders' equity or maximizing enterprise value as management, incentives to raise valuation tend to operate.
- Because share prices are determined by the consensus of a small number of investors, expectations regarding future growth stories are readily reflected.
- As a result, there are cases in which valuation overshoots reality, which can make it difficult to construct a medium- to long-term capital strategy.

“Business value should originally be calculated from future profits and cash flows based on a business plan. Setting valuation by back-calculating from shareholding ratios in order to avoid dilution can diverge from intrinsic enterprise value, leading to a mismatch in price in later M&A.”

Board Member of Strategic Acquirer



In M&A, the "yardstick" of valuation tends to differ between seller and buyer. It is also useful to understand the typical differences between IPO and M&A.

Mismatch in Valuation in M&A: Differences in "Yardsticks"

Seller (Startup Side)

- VCs factor in future value when valuing.
- Based on the assumption of future growth and synergies, they value relative to the price at the time of VC financing.
- Returns need to be delivered to external investors, including VCs, when executing M&A.

Buyer (Strategic Acquirer)

- Evaluate enterprise value based on existing financial figures (revenue / profit / cash flow).
- Strategic acquirers often do not assume resale and tend to evaluate conservatively.

Tendency to Value Higher 

Tendency to Value Lower 

Mismatch in the Valuation Yardstick

“Because unlisted shares are traded in closed markets without liquidity, high future potential is highly evaluated and incorporated by VCs, and there are also cases in which high valuations are assigned.”


Strategic Acquirer (Buyer)

“Because buyers value using different "yardsticks" such as DCF, the actual offered price often falls significantly below the immediately preceding post-money valuation.”


Strategic Acquirer (Buyer)

Typical Differences Between IPO and M&A

IPO

- In an IPO, enterprise value is evaluated by adding future growth expectations and growth stories to current profitability (factoring in future prospects such as revenue growth rates and market growth potential), and in some cases, higher valuations are obtained compared with M&A.



M&A

- In M&A, the buyer company calculates enterprise value through methods such as discounted cash flow (DCF) based on future cash flows.
- In addition, the buyer's investment budget acts as a cap, so if valuation is too high, M&A is difficult to complete.



“Because IPO valuation places more weight on future growth expectations than on current profits, even at present a high valuation can be achievable if growth potential can be explained.”


M&A Intermediation

“If losses are too large, deals with buyers that value enterprise value via DCF become difficult to close.”


M&A Intermediation



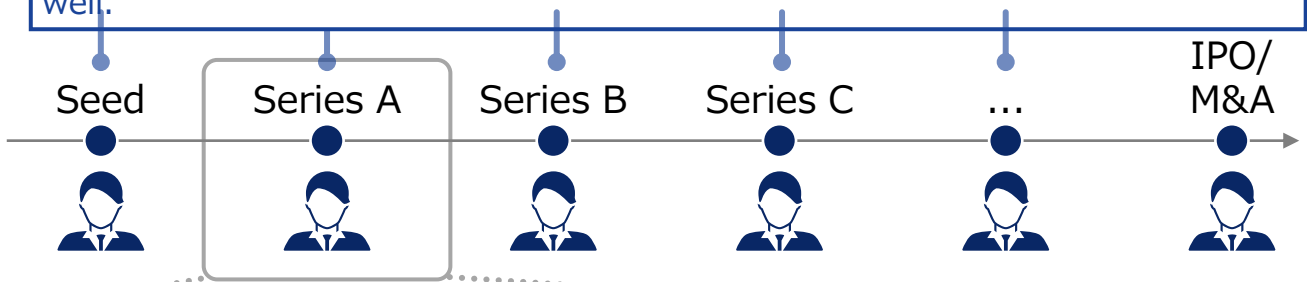
Examples of Valuation and Fundraising Design with a View to M&A

When designing valuation and fundraising with a view to M&A, one approach is to consider the maximum enterprise value in light of prospective buyers' budget expectations.

However, this is just one approach for designing valuation and fundraising. In practice, the price at the time of M&A is influenced by many factors, so this should be regarded only as one of several possible methods or practices.

Key Points

At each fundraising round, including in the early stages, consider "M&A" once. If there is any possibility of M&A, consider enterprise value assuming M&A as well.



The basis of valuation is future cash flow (DCF), and sustainable cash flow generation capability determines enterprise value. In addition...

Approach at the Time of Fundraising

Considerations of dilution, incorporating growth potential, aiming to maximize enterprise value as management, etc.

With a View to M&A

Considering prospective buyers' budgets, where is the maximum enterprise value?

Key Points

Depending on prospective buyers' budgets, there may be a certain gap in enterprise value levels

Enterprise Value Level Considered Based on the Above Perspectives

Enterprise Value Level with a View to M&A

Comparison

Key Points

It is conceivable to consider the final enterprise value while also understanding the enterprise value level with a view to M&A

At Each Fundraising Round Valuation

Because what investors seek from startups varies by their attributes, it is important to receive investment from suitable investors in light of one's growth strategy.

Types of Funding Sources for Startups ↔

VC

Strategic Acquirer / CVC

Characteristics



- Invest in startups with funds entrusted by LPs (investors)
- Tend to seek financial returns from startups (improvement of enterprise value)

- Invest in startups either directly from the strategic acquirer or through its CVC arm
- Tend to invest with the primary aim of strategic returns (such as synergy with the core business)
- However, like VCs, some CVCs also seek financial returns, so it is important to confirm objectives on a case-by-case basis

Key Considerations Toward M&A



- Returns at M&A must reflect the valuation and terms at the time of investment
- However, because each VC's approach to M&A differs, it is useful to design capital strategy after speaking with them early (details below)

- **When there is collaboration / synergy, they tend to be proactive about M&A**
- On the other hand, if reliance on a specific company strengthens with investment, future M&A and partnership opportunities can be narrowed, so careful confirmation and consideration are required when accepting investment. (Details below)

“ Raising funds from investors carries the responsibility of delivering returns. Entrepreneurs should be more conscious that "they are entrusted with money from investors."

Because we are entrusted with other people's money, equity must deliver returns of 2-3x. It is the same as repaying a bank with interest.

Startup Executive: With Listing Experience



“ There are many examples, both globally and in Japan, of CVC investment leading to M&A. There are also examples of business collaboration with strategic acquirers progressing after CVC investment.

In addition, because investors who emphasize strategic value continue to hold shares after listing, they can also become important shareholders in "dual-track management," which targets both M&A and IPO.

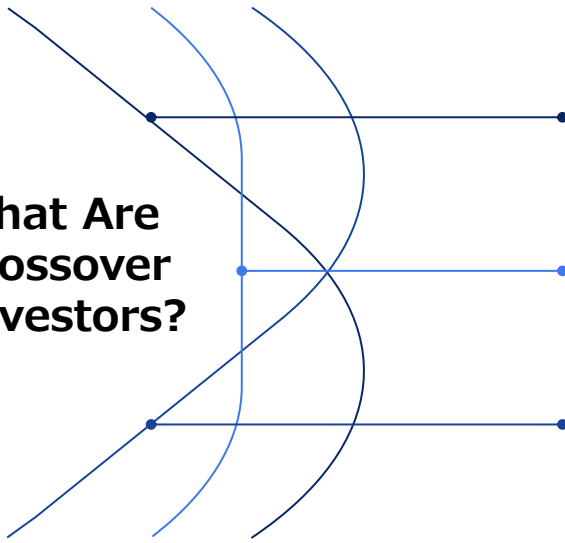
Former CVC Executive





The Option of "Crossover Investors" at Later Stages

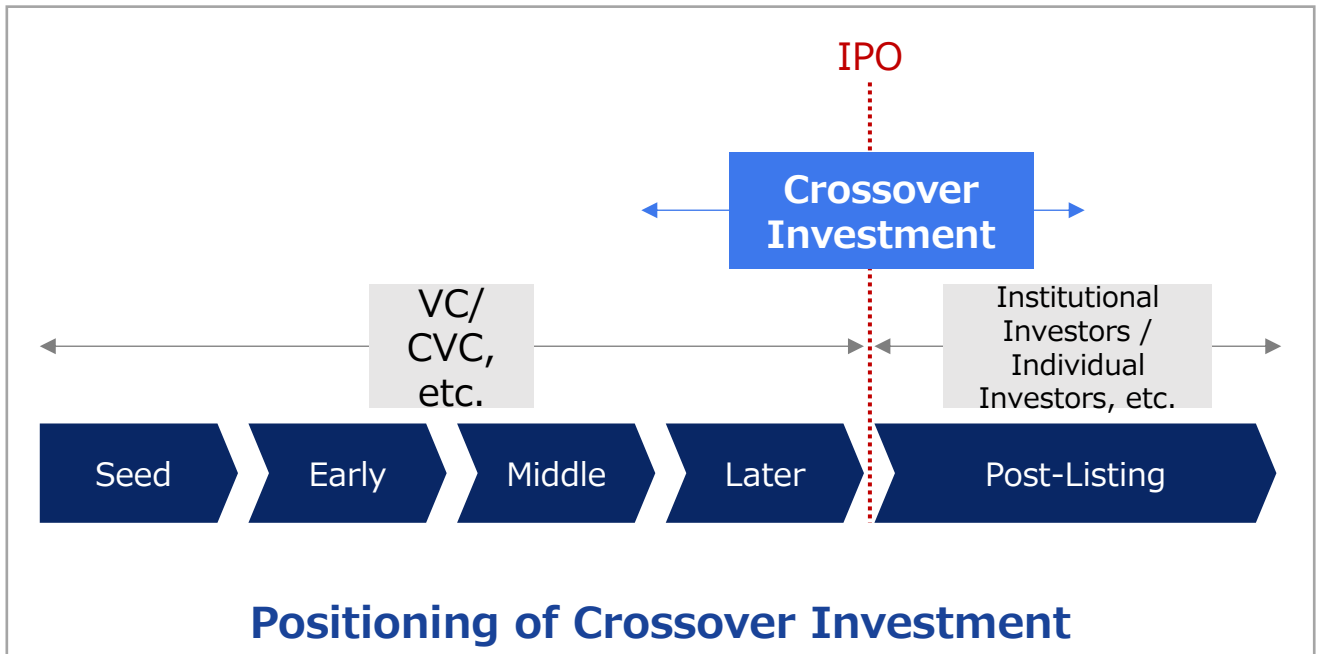
What Are Crossover Investors?



Invest seamlessly from the unlisted (later-stage) phase through to just before and just after listing

Unlike VCs, they are often not constrained by fund maturity and thus, with respect to the timing of IPO and the execution of M&A, capital design can potentially be set flexibly

Because they invest for the long term with a view to post-listing, they can also become stable shareholders after listing



Positioning of Crossover Investment

“ As fund maturity approaches, VCs tend to recommend that startup executives adopt an IPO-premised strategy. When operating under such an IPO-premised approach, switching to M&A later is essentially too late.

On the other hand, by accepting investment from crossover investors, the company can redesign the capital strategy that should be in place from a business perspective, independent of VC redemption deadlines. Within that, it becomes easier to actively consider M&A as one of the options

Institutional Investors



In investor selection, it is also important to emphasize not only funding capacity but also literacy and practical capabilities related to M&A and secondary.

Perspectives for Selecting a VC

In M&A, highly specialized judgment and practical capability are required for investment agreements, valuation, shareholder structure, and negotiation with buyers. If fundraising is repeated without understanding the mechanisms of exits, including M&A, the company may end up with shareholder structures or unfavorable contracts that make later M&A difficult, significantly constraining the available options



The ability to correctly understand issues related to capital strategy and to judge which option is optimal

- The ability to consider how to integrate business strategy and capital strategy
- Understanding of how contract terms, valuation, shareholder structure, etc. affect capital strategy



The capability to handle the practical work on the ground, including coordination with buyers, negotiation of terms, and responding to DD

- Track record of involvement in M&A
- Practical experience from buyer selection to terms negotiation to closing



It is important to confirm in advance the VC's track record and stance on exits



In Japan, there are many cases in which contracts pile up without discussion of future M&A, leaving the startup with limited flexibility later. VCs also need M&A literacy, and there is a shortage of personnel who can drive the practical work

Strategic Acquirer(Buyer)



Specifically, it is important to confirm past M&A track records, how the VC positions M&A within business strategy, and whether the VC can describe the "thinking steps" of capital strategy and growth strategy together with the entrepreneur.

Startup Executive



Because approaches to M&A differ from VC to VC, it is useful to understand the differences among individual VCs and to align on capital strategy from an early stage.

Points Where Approaches Tend to Differ by VC (Examples)

Stage of the Startup in Which the VC Invests



The expected scale of growth and timing of recovery tend to vary depending on the stage of the startups in which the VC invests.

Investment Amount



The larger the investment amount, the larger the expected recovery amount can be, and the level of expectation for the price at the time of M&A may not align with management's assumptions.

Fund Redemption Deadline



Because VCs are subject to fund maturity constraints (e.g., 5 years, 10 years), they may seek to recover their investment relatively early when fund maturity is approaching.

Cases That Tend to Occur in Practice (Examples)

Case (1): Even when an M&A proposal is received, judgments split among shareholders (VCs)

Some VCs may think "there is still room for growth," while others may think "we should recover at the current price." When awareness of capital strategy differs by investor, M&A decisions may not be reached.

Case (2): Valuation at the time of fundraising makes later sale difficult

Even when M&A is rational as a means of achieving growth, in some cases the expected returns of certain investors cannot be met in light of the valuation at the time of fundraising, and the sale decision does not progress.

Case (3): Fund maturity can cause misalignment of appropriate timing

Because VCs are subject to fund maturity constraints, as maturity approaches they may try to recover their investment early. This can cause misalignment with executives on the timing of M&A.



It is important to candidly discuss the timeline of sale and expected returns with each VC from the fundraising stage and to build a shared understanding

“ Because outcomes vary depending on the personality and philosophy of the lead investor and its GP, it is important to look beyond the fund's attributes and align with the lead VC's GP and others in advance on the timing and methods of delivering returns on investment

VC Investor





VC Business Model

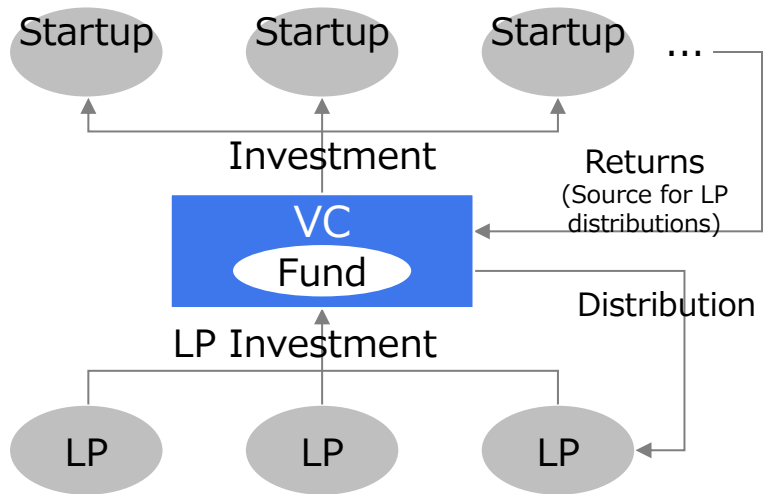
VCs operate funds raised from LPs and have a business model in which they receive performance-based compensation when they "return cash to LPs." Therefore, VC decision-making on M&A depends on whether the M&A is at a fair price.

VC Business Model

VCs operate funds raised from LPs (limited partners), monetize shares through exits of portfolio startups, and receive part of the returns as performance-based compensation (carry)

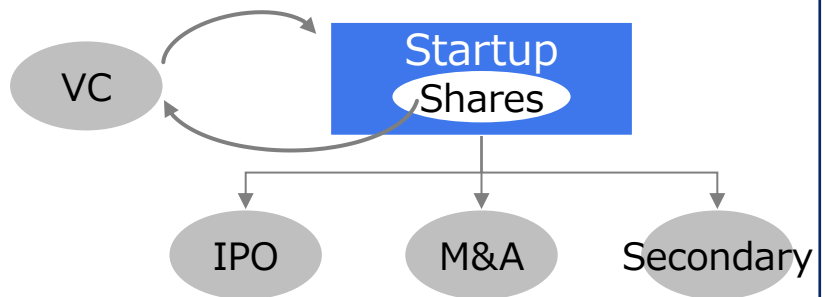
- Funds flow from LP -> VC -> startup
Cash is returned at exit (IPO / M&A / secondary)
- Proceeds recovered are first distributed to LPs, and depending on performance, carry is received
- > VCs, as fiduciaries operating funds entrusted by LPs, bear accountability to LPs and the responsibility to maximize returns

* Carry = compensation received by VCs after distributions to LPs, upon meeting certain conditions



Means of Generating Returns

- Means by which startups generate returns are IPO, M&A, and secondary



“ Japanese VCs often manage funds from institutional investors and are accountable to LPs. Therefore, if an M&A deal is concluded on fair terms that allow returns to LPs, there is fundamentally no reason for the VC to oppose, and they should agree to the M&A.

Mega-Venture Executive

There are various types of "buyers" of startups, each with different characteristics. It is desirable to be able to select the optimal buyer with a view to post-M&A business growth and other factors.

Large Corporation



Has enormous assets, but cultural fit and speed of decision-making warrant attention

- A certain number of large corporations believe that acquiring a startup with an established track record will allow them to launch new businesses more quickly and reliably than attempting to do so on their own
- After acquisition, the company's assets can be leveraged to grow the business non-continuously
- On the other hand, large corporations may differ from startups in decision-making speed and corporate culture

In new domains, many large corporations find it more time-efficient and less risky to incorporate already-operating mechanisms



Startup Founder with Sale Experience

There are also cases in which M&A does not progress because management systems (such as performance management and decision-making processes) and culture do not fit with those of the startup



Board Member of Strategic Acquirer

Mega-Venture / Startup



Reasonably Good Affinity with Startups

- **Tend to seek products and talent in areas close to their own business that can be combined with existing services to grow**
- **In some cases, the CEO directly makes M&A decisions, so decision-making speed may be faster than that of large corporations**
- Decision-making mechanisms and corporate culture are relatively close to those of startups, and business integration including PMI is often easier
- Against the backdrop of similar management styles, there are also cases of intending to develop the acquired company's executives as next-generation management after acquisition

Growing startups sometimes seek to bring in talent and technology "in a way that buys time"



VC

When mega-ventures acquire startups, there are cases where the cultures of the two sides fit well, and PMI tends to succeed



VC

Fund



Secure a Growth Period Under New Shareholders

- Pursue business growth under new shareholders, such as PE funds or later-stage VCs, and explore subsequent means of growth such as IPO or M&A.
- Compared with an environment evaluated by the parent company or the market, investment in business growth and fundraising may be easier in some cases.

For VCs, M&A and secondary become important and powerful means of recovery



VC

Securing a growth period under a new fund is also effective for the startup



Growth Investor

When you wish to deepen the relationship with a prospective buyer, it is desirable to choose between the two dimensions of capital and business in line with the company's strategy.

Characteristics 

Alliance Patterns 

Business Alignment



- Verify the effectiveness of synergy creation on the business side.
- Directly tied to business growth, and mutual understanding as prospective buyers deepens.

- Utilization of the Startup's Product
- Joint Product / PoC Development
- Cross-Referral Leveraging Customer Bases
- Joint Sales Leveraging Both Parties' Sales Organizations

Capital Alignment



- Internal momentum on the buyer's side toward further collaboration may be enhanced.
- However, judgments on whether to attach restrictions on collaboration with other companies or rights of first refusal should be made with care, especially in the early stages.

- Investor: CVC, strategic acquirer
- Investment form: minority investment (capital and business alliance)
- Linkage with governance: director dispatch, prior approval (veto rights), presence or absence of right of first refusal, etc.

Key Considerations When Conducting Capital Alliances from an Early Stage 

“**Strategic acquirers / CVCs tend to seek to include a right of first refusal / preemptive purchase right (the right to receive notice of terms and have priority negotiation when a transaction with a third party is contemplated) in investment. However, since these constrain subsequent capital strategy, startups should respond strategically, such as not including them in minority investments and judging acceptance based on the stage of fundraising.**

Strategic Acquirer 

“With CVC investment, attention should be paid to whether "side letters impose excessive restrictions or grant superior positions." Narrowing business freedom undermines long-term enterprise value. Maintain the principle that the consideration for investment is, in essence, the share certificate; if side letters are signed, they should be paired with business-side collaboration.

VC 

“**Clauses that include a right of first refusal / preemptive purchase right make it difficult to progress when an M&A offer arrives, and should generally be avoided where possible.**

Startup Executive in the U.S. 

“**Because CVCs seeking strategic returns can become "negative drivers (refusal of additional investment, sale restrictions)," they can also become a reason for a buyer to withdraw, saying "this shareholder structure can't be brought together."**

“There are also examples in which capital alliances result in shares being "pickled," unable to be sold, due to a change in the strategic acquirer's strategy.

Strategic Acquirer 

Strategic Acquirer 

In order to manage the company with M&A in mind, it is also useful to pay attention to whether the investment agreement contains provisions that make M&A decisions more difficult.

Definition and Impact on M&A

Considerations (Prepared from Expert Interviews)

Issue (1) A small number of or single shareholders oppose M&A (or hold veto rights)

Prior Approval Clauses

(Veto Rights)

- [Definition] Clauses requiring prior approval of investors for certain matters such as transfer of shares and M&A.
- [Impact on M&A] If an investor solely holds a veto over M&A, negotiations can reach a deadlock, requiring attention.
- Consider, as needed, structuring so that no single shareholder holds a veto over M&A, and so that the deal can be executed by approval of the board and a majority (more than half or two-thirds or more) of shareholders. [See the Governance section for details]

Drag-Along Clauses

- [Definition] Clauses that compel other shareholders to sell when a major shareholder sells
- [Impact on M&A] Prevents transactions from failing when a major shareholder decides on a sale but minority shareholders object, makes leadership by the lead investor easier, and is expected to increase the probability of closing.
- Regarding settings on whether the executive team's consent is required, there are also examples of explicitly providing that the consent of the management team, not only of a certain range of shareholders, is required, because executing an acquisition without management's agreement may compromise enterprise value.

Issue (2) Difficult to reach agreement because economic incentives for M&A are not aligned

Preferred Residual Asset Distribution

(Also see the next column)

- [Definition] A mechanism that gives priority in the order of distribution at sale of the company or at liquidation so that investors can recover "first" the funds they invested
- [Impact on M&A] Depending on the sale price, returns may be skewed toward preferred shareholders, with none allocated to executives or employees. As a result, agreement formation may be difficult even when M&A would be rational.
- The content of preferred residual asset distribution should be negotiated and determined among the contracting parties in light of the outcomes under the assumed exit scenarios, governance, and the design of drag-along rights.

Issue (3) Entrepreneurs / startup executives misunderstand that IPO is the best option and M&A is a second-best

Best-Efforts Obligation to List

- [Definition] Clauses obliging the company or founders to "make efforts to realize an IPO in the future"
- [Impact on M&A] Although this is only a best-efforts obligation, especially early-stage entrepreneurs are prone to misunderstand that "listing" = the first choice, requiring attention
- For example, possible responses include (1) not stipulating a best-efforts obligation to list, or (2) instead of limiting to listing, making it a best-efforts obligation for exit, including options such as M&A.



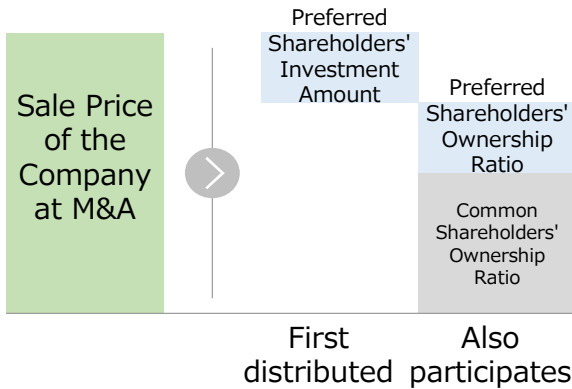
Design of Preferred Residual Asset Distribution

After understanding the "distribution structure of economic returns" at the time of M&A, it is useful to consider and adjust the distribution structure while communicating carefully with investors and other parties.

Distribution of Assets Between Common Shareholders and Preferred Shareholders

1x Participating Preferred Shares

Investors first recover their investment principal. Thereafter, they redistribute residual assets with common shareholders.



1x Non-Participating Preferred Shares

Investors only "recover principal." However, by converting to common shares, they can obtain a residual asset distribution at the same ratio as common shares

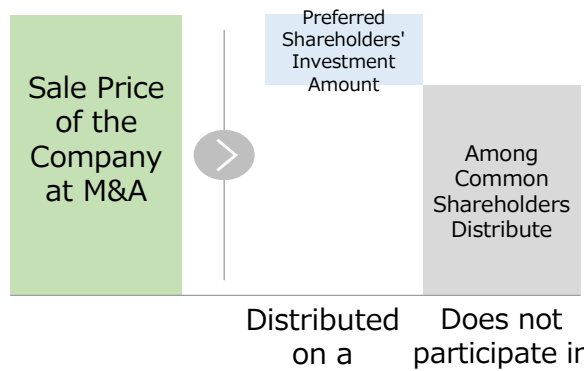


Figure source: Prepared by Boston Consulting Group based on the content and information of "Differences Between Participating Preferred Shares and Non-Participating Preferred Shares" in the Japan Startup Association, Japan-U.S. Comparison of Startup Investment Agreement Terms

“ Because investors' share is secured even at returns of 1.1-1.2x, participating preferred shareholders find it easier to agree to M&A

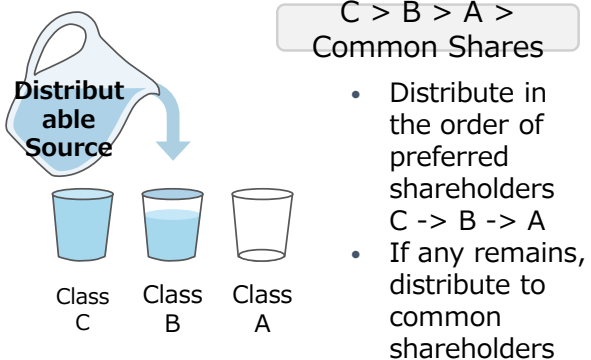
M&A Intermediary

“ The non-participating type can leave more share with the founders and tends to work positively in terms of incentivizing the founders

Startup Executive

Distribution of Assets Among Investors

Stacked Structure



Pari Passu Structure

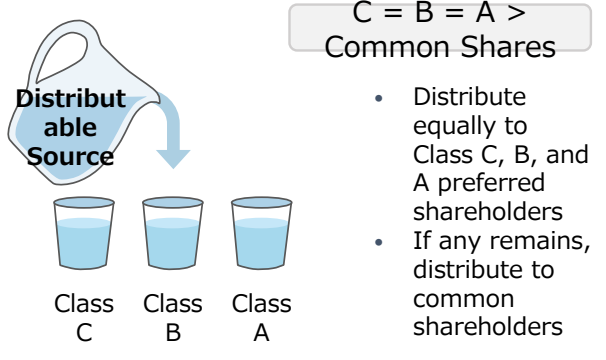


Figure source: Prepared by Boston Consulting Group based on the content and information of "Preferred Shares and Investment Agreements" by Coral Capital

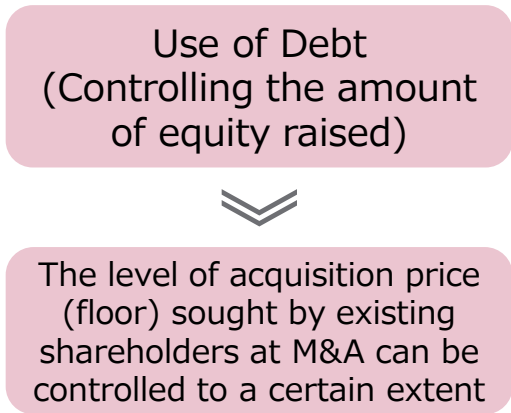
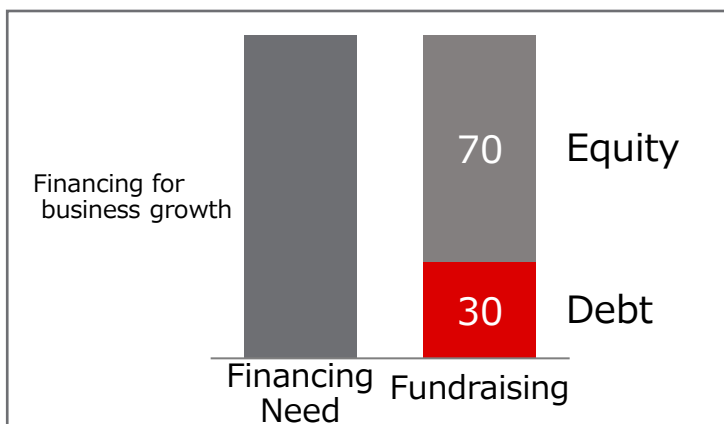
“ Under the stacked type, priority is skewed to the most recent rounds, and older investors lose out. As a result, they tend to oppose M&A, and consensus formation is more likely to stall. There is also a growing debate that "pari passu" is preferable.

VC

Because the amount of equity raised itself can also affect the acquisition price at M&A, it is useful to consider debt financing as one of the fundraising options.

Adjustment of Capital Raised Through the Use of Debt

- In capital strategy with a view to M&A, not only valuation but also the "amount of equity (shares) raised" can affect the acquisition price at M&A.
- Especially when the period until commercialization is long and the required funds are large, combining debt (borrowing) is also effective.
- **It is desirable to consider capital strategy while keeping in mind that in some cases, debt financing can increase the likelihood of M&A proceeding smoothly.**



“

Because many preferred shares have a structure of "first recovering the investment amount," M&A below this line is structured so that investors lose, making agreement essentially difficult.

Therefore, as the amount of equity raised increases, the floor price for M&A rises, becoming more likely to deviate from the buyer's budget range, and the difficulty of completing M&A rises in some cases.

If this mechanism is not understood at the fundraising stage, future options may be narrowed.

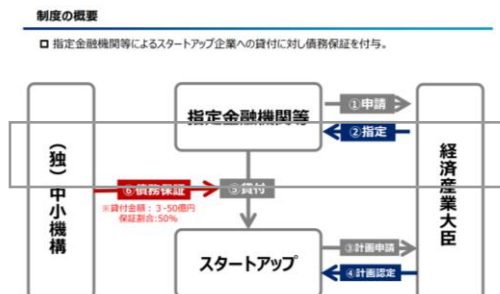
M&A Intermediary



Column

Debt Guarantee Program for Private Loans to Deep Tech Ventures

- In July 2021, the Government established a system in which the Organization for Small & Medium Enterprises and Regional Innovation (SMRJ) guarantees certain loans taken by venture companies whose business plans have been approved, from private financial institutions designated by the Minister of Economy, Trade and Industry
- For details, see the website of the Ministry of Economy, Trade and Industry





Use of Convertible Investment Instruments

By using convertible investment instruments, the timing of valuation can be shifted, making it easier to approach a more appropriate valuation.

The Ministry of Economy, Trade and Industry released the "Guidelines for the Use of Convertible Investment Instruments" in 2020, introducing a method of fundraising through stock acquisition rights and other instruments in which only a formula for the conversion price is set, and converting to shares at a timing when the accuracy of future value assessment has improved.

By utilizing such methods that can defer strict valuation of enterprise value, it is possible to more easily approach an accurate valuation.

Specific methods include J-KISS published by Coral Capital and SAFE published by Y Combinator.

For details, see the "Guidelines for the Use of Convertible Investment Instruments" published by the Ministry of Economy, Trade and Industry.

我が国でも、VCが無償公開する契約ひな形が普及を加速

Coral Capital「J-KISS」の概要



概要

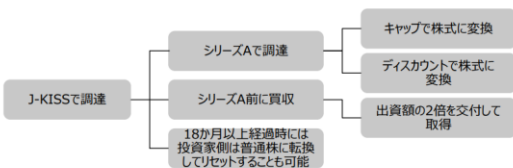
- 2016年4月に無償公開された、シード期投資のためのフォーマット
 - https://coralcap.co/2016/04/j-kiss/
 - なお、海外投資家からの資金調達にあたっては、英語版フォーマットの利用も可能。
- 500 Startups Japanが無償公開し、Coral Capitalがメンテナンスを実施
- 米国で利用されている「KISS (Keep It Simple Security)」を日本の規制や実務に合わせる形で設計されており、弁護士・税理士によるチェック済
- 必要最小限の箇所を更新するのみの簡易な構成
- 契約時の企業価値評価は簡易評価・評価無しと出来、BS上資本計上される点が特徴

ルール

- 契約時にはJ-KISSが何株になるかは決めず、転換価額決定時の計算式のみ決定
 - 株数決定が不要なため、企業価値評価は簡易評価・評価無し
 - 転換価額は、ディスカウントand/orキャップを用いて決定
- シリーズAに進んだタイミングで、J-KISSを消滅させて株式に転換
 - シリーズAラウンドの定義は「株式で1億円以上を調達するタイミング」

調達後のシナリオパターン

- 調達後は、シリーズA調達が発生した場合・転換前売却・満期まで調達無しの場合の3パターンに応じて決められている



出典: Coral Capital 公開資料

第3章 活用の具体策① - シード期スタートアップの資金調達 36

我が国企業による海外スタートアップへの投資についてはSAFEも多用されている

Y Combinator「SAFE」の概要



概要

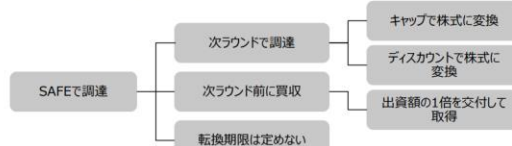
- 2013年12月にY Combinatorが無償公開した、シード期投資のためのフォーマット
- 契約パターン別に4つのフォーマットが存在するのが特徴
 - キャップ有無×ディスカウント有無
- 米国でのシード期の資金調達はSAFEを利用して行われることが多い
- 必要最小限の箇所を更新するのみの簡易な構成
- 契約時の企業価値評価は簡易評価・評価無しと出来る

ルール

- 契約時にはSAFEが何株になるかは決めず、転換価額決定時の計算式のみ決定
 - 株数決定が不要なため、企業価値評価は簡易評価・評価無し
 - 転換価額は、ディスカウントand/orキャップを用いて決定
- 次の資金調達ラウンドに進んだタイミングで、SAFEを消滅させて株式に転換

調達後のシナリオパターン

- 調達後は、シリーズA調達が発生した場合・転換前売却・満期まで調達無しの場合の3パターンに応じて決められている



SAFEによる調達に必要な契約ひな形が存在

- SAFEによる4つの契約パターンごとに必要となる契約ひな形をY combinatorのオフィシャルホームページで公開

SAFE FINANCING DOCUMENTS
Investment Agreement for Founders



出典: John F. Coyle and Joseph M. Green "The SAFE, the KISS, and the Note: A Survey of Startup Seed Financing Contracts" (2019)

第3章 活用の具体策① - シード期スタートアップの資金調達 38

In order to realize timely and appropriate M&A, governance must be designed appropriately so that fast and high-quality decision-making is enabled.

Fundamental Approach to Governance

Things to Avoid

- When the influence of specific shareholders or founders is excessively strong due to investor veto rights or initial contract terms, decisions related to M&A can be delayed or become rigid
- Contract terms from initial rounds become fixed, and even as fundraising rounds progress, the contract terms are not reviewed in light of the management structure and shareholder composition at the relevant point in time

Fundamental Approach

- Because M&A often requires high-quality decision-making at high speed, governance should be put in place to be able to respond
- Because capital strategy and governance are integrated, by being conscious of them from the early stages of management, situations that "cannot be reversed" can be prevented
- By routinely discussing M&A as one option in management, the company can clarify its decision-making criteria and heighten sensitivity to information



Specific Points on Governance

See Details in This Section

Adjust Investors' Prior Approval Items (Veto Rights)



- Consider adjusting contract terms so that veto rights over sale are not concentrated in specific shareholders
- Make efforts to design the overall governance that should be in place in light of the nature of the company's business, the maturity stage of governance, and the complexification of the capital structure as the number of investors (shareholders) increases, and position veto rights as one issue within that discussion

and/
or

See Details in This Section

Transition to governance centered around the board, etc. Pursue Maturation of Governance



- As shareholder composition diversifies, coordination of interests is required and the complexity of decision-making increases. As necessary, consider transitioning to governance centered on monitoring by the board, etc.
- Aiming for high-quality discussions at the board, pay attention to the design of board agendas and the selection of directors

and/
or

See the "Talent" section for details

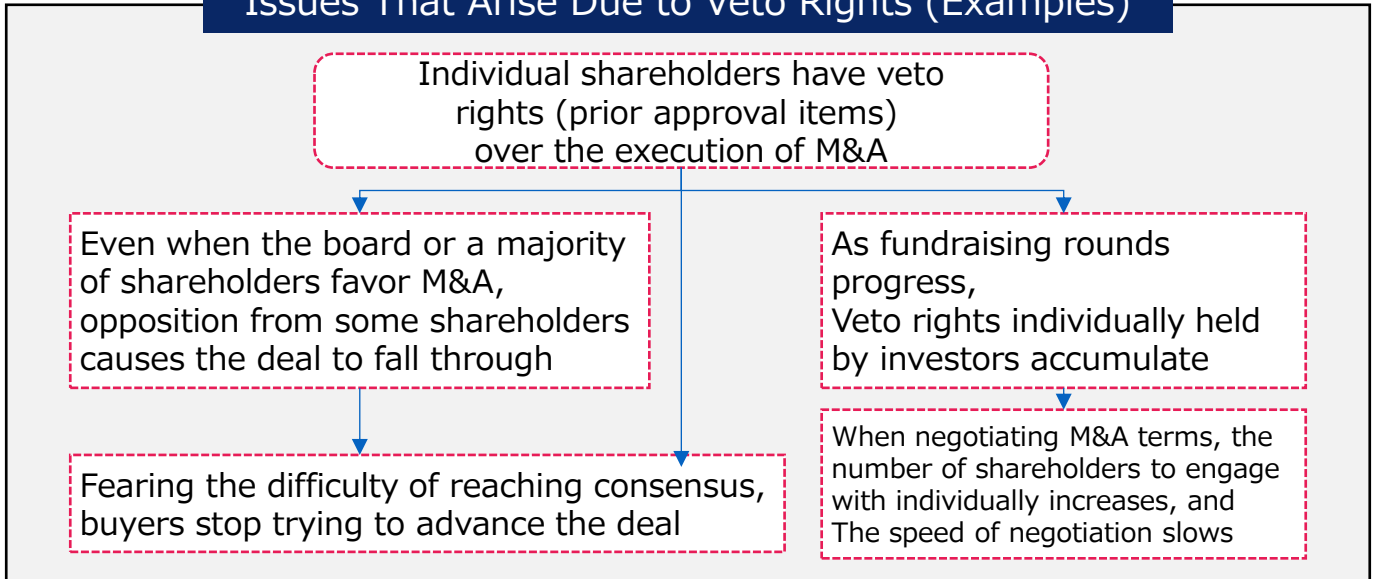
Strengthen Internal Structure (Hiring of CFO, etc.)



- Build an organization in which officers and the administrative function understand capital strategy and governance and can hold discussions with investors on an equal footing
- Hire a CFO who can lead the need for M&A and the design of terms

When raising funds through equity, it is useful to pay attention to the setting of veto rights (prior approval items) from an early stage and to consider revisions as needed based on the company's stage.

Issues That Arise Due to Veto Rights (Examples)



Response Measures to the Above Issues (Examples)

When Setting Veto Rights Going Forward

When M&A is in view, it can be useful to structure things so that no single shareholder holds a veto over M&A, and so that M&A can be executed by approval of the board and a majority (more than half or two-thirds or more) of shareholders.

The design of the conditions under which veto rights can be exercised should be appropriately designed in consultation with legal experts in light of the individual circumstances of each startup, such as its shareholder composition. Possible provisions include, for example, "the consent of a majority of all investors is required" or "the consent of a majority of investors in each round is required."

When Veto Rights to a Single Shareholder Have Already Been Set

Because the matters that should be subject to prior approval may change with the nature of the company's business, the maturity stage of governance, and the complexification of the capital structure as the number of investors (shareholders) increases, it is appropriate to review their scope in a timely manner in accordance with the startup's phase.



In negotiations to adjust veto rights that have already been set, focusing solely on veto rights tends to make adjustments difficult. By designing the overall governance that should be in place in line with the maturity of the corporation and positioning veto rights as one issue within that discussion, it becomes easier to gain understanding of the necessity adjusting veto rights.

VC



It is important to pursue maturation of governance, such as transitioning to governance centered on monitoring by the board, in line with the company's stage.

Governance by Shareholders



Governance by the Board



- From founding to the early phase, the founder (or a small founding team) often acts as the substantive decision-making body, enabling quick judgments. The number of shareholders is also limited, and flexible decision-making is easier through individual dialogue.
- On the other hand, as fundraising rounds are repeated and shareholder composition diversifies, various interest adjustments become necessary, and the complexity of decision-making increases.

- The board makes management judgments for the benefit of the company.
- **Often functions at a certain growth stage, such as after shareholder composition has diversified.**
 - By including independent outside directors as members in addition to executives and investors, neutral and constructive discussions and considerations can be made easier.

Points for Raising the Quality of Discussions at the Board

Agenda Setting

It is useful to clearly distinguish agenda items from execution-level discussions and to spend time on important capital strategy matters, such as decision-making and the underlying approach when an M&A offer arrives.

Not This...

- Responding only to what is required by rules such as the Companies Act
- Limited to performance reports and responses to issues, etc.



But this

- Spend time on discussions of medium- to long-term, irreversible decisions
 - Allocation of resources, capital strategy, etc.



Board Composition

In order to make timely and appropriate M&A decisions, it is important to assign personnel who can discuss matters from a management perspective with the aim of corporate growth. It is also important to maintain a structure that allows decision-making at appropriate speeds.

As rounds progress, the number of VC-dispatched directors increases. It is necessary to constantly be conscious of whether the composition is appropriate from the perspective of meaningful discussion.



VC

With an investor with extensive M&A experience on the board, we were able to make high-quality decisions with speed.



Startup Executive with Sale Experience

When appointing internal personnel central to execution as directors, it is desirable to confirm whether they have a management perspective.

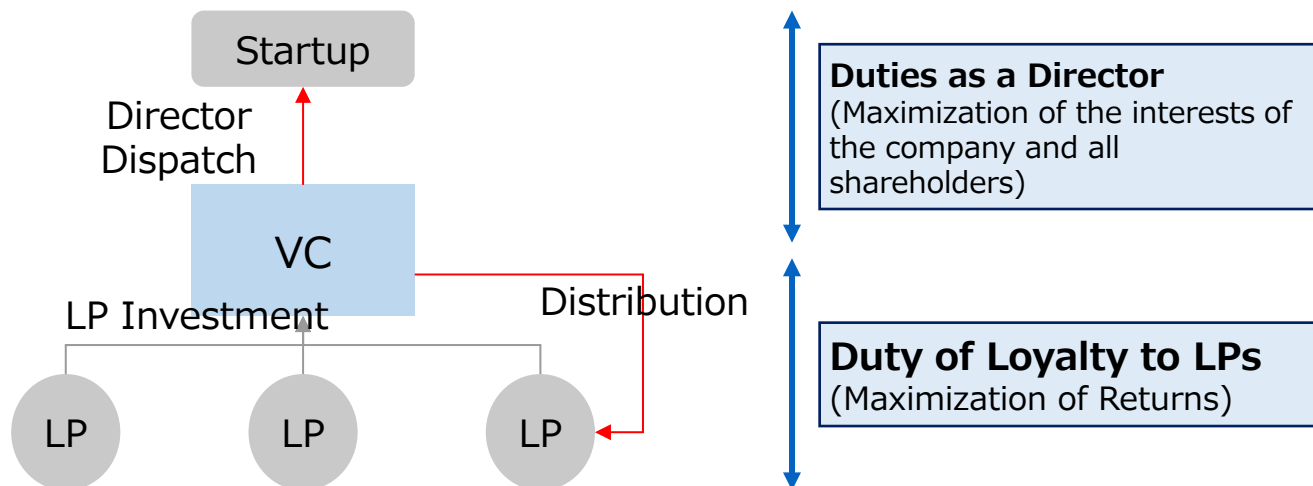


VC



Conflict of Duties When a VC Becomes a Director of a Startup

When VCs dispatch directors to startups, there is a structure prone to conflict between "the duties the GP owes to LPs" and "the duties the director owes to the company and all shareholders."



Even for startups, in the U.S., where so-called board governance is mainstream, when the two duties conflict, directors are considered to bear the duty of protecting the interests of "the company and all shareholders," and this is often considered to take precedence over the duty to LPs.

Therefore, in the U.S., in M&A situations as well, even if it conflicts with the duty owed to one's own LPs, if the option is the one with the highest shareholder value, it is the director's duty as an institution to decide accordingly.

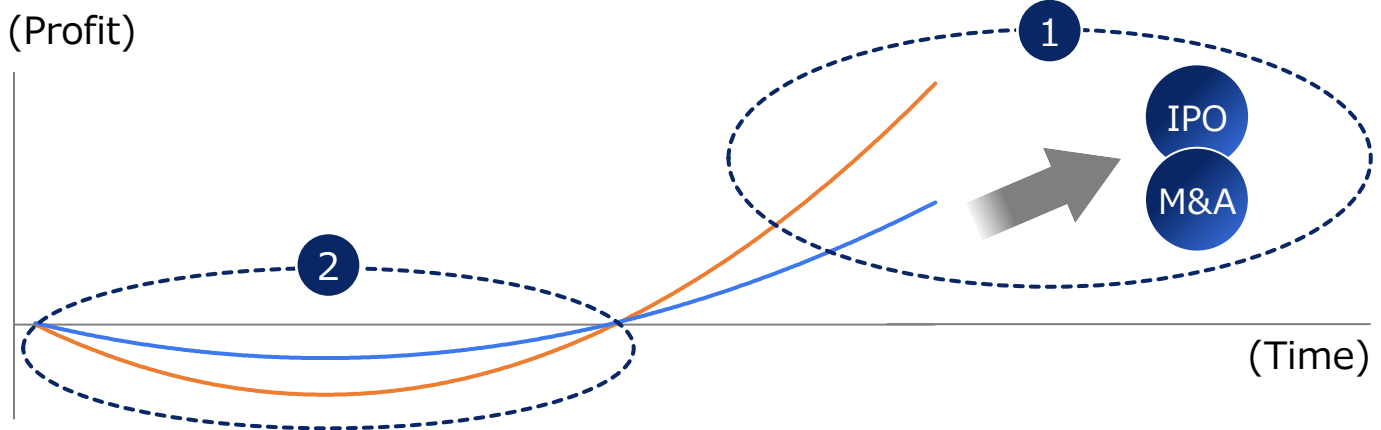
Once appointed as a director, the person represents the interests of the company as a whole and all shareholders. In other words, they must act based on fiduciary duty, and directors are not supposed to make decisions prioritizing the interests of specific investors alone.

Startup Executive
(With Experience of a Sale in the U.S.)



Because risks similar to those in the U.S. exist in Japan as well, possible responses include, for example, considering the establishment of independent outside directors. * See p. 11 of the enlarged edition of "Main Considerations Regarding Sound Venture Investment Contracts in Japan."

Since buyers may treat business progress and growth status as important indicators, it is useful to be conscious of basic financial indicators such as revenue and profit from an early stage.



Key Points (1)

The importance of business growth does not change between IPO and M&A. Therefore, in dual-track management as well, it is important to place emphasis on business growth

Startups that are not growing are not considered for M&A. Management that sacrifices business growth on the premise of short-term sale is likely to ultimately drive the company further away from M&A, requiring attention.



Mega-Venture Executive

Key Points (2)

In M&A, not only revenue but also profit is an important perspective. Startups tend to seek growth in business scale, with revenue as the KPI, but it is useful to set business strategy with profit also in mind.

- There are a fair number of startups whose business model assumes deficits and intensive upfront investment, with returns recovered later (the so-called "J-curve").
- However, when viewing M&A, the scale of losses that buyers can tolerate may change, and care is needed.

That said, focusing too much on profit in the initial phase (seed, etc.) can make it difficult to launch the business, so there are phases in which revenue, not profit, should be the KPI.

Strategic acquirers in particular tend to value companies based on "easy-to-read numbers" such as revenue and profit. While reforming the valuation methods of strategic acquirers is also important, startups too need to be conscious of nurturing businesses that can grow profits.



M&A Intermediary

Due in part to the impact of the TSE's Growth Market reforms, the number of startups in Japan aiming for growth while securing profits is increasing, and the wind direction has shifted. From the perspective of M&A buyers, such changes feel like a tailwind.



Mega-Venture Executive

If profits are pursued with M&A in mind from the start, investments may be held back, and growth may not follow, which can be counterproductive.



Startup Executive (with Listing Experience)



Cash-Flow-Conscious Management at Deep Tech Companies

Even for deep tech companies, future cash flow can also be questioned when evaluating enterprise value. Even for deep tech companies, it is useful to manage the business with attention to cash flow, taking into account the characteristics of one's own business.

Common Misconception:
In deep tech, cash-flow-conscious management is difficult

R&D Requires Long Periods

Existing Business Models are Difficult to Apply

Estimating Markets and Demand Is Difficult

...



Management Approach:
By grasping the elements unique to deep tech, Cash-flow-conscious management may be feasible

Deep Tech Often Adopts a B-to-B Business Model Relatively Often



Taking the Entire Supply Chain into Account, Estimating the Size of Final Demand and Building a Business Plan May Make Cash Flow Easier to Project

<Image>

- In the automotive industry, the size of the market can be estimated from the "vehicle production volume" as final demand, and by decomposing the supply chain and defining the value added by one's own services, it may be possible to estimate business plans and free cash flow generated.

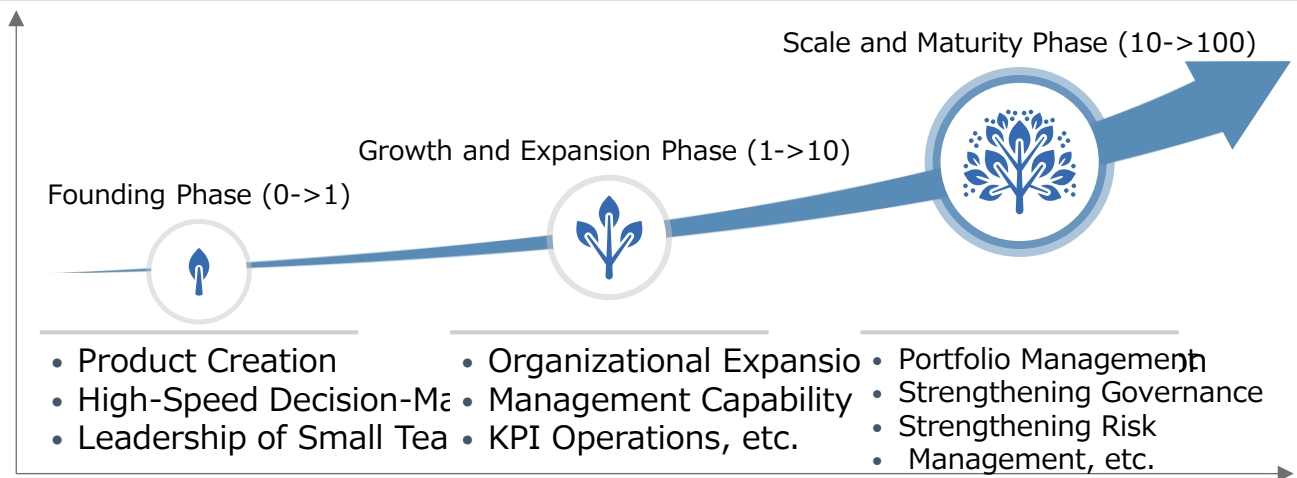
“ Premises such as "because it is deep tech, DCF cannot evaluate it," or "because it is deep tech, it can be valued highly through special logic," are fundamentally incorrect and misleading. **Enterprise value should originally be explained by the size of future free cash flow generated. The basic principle does not change even for deep tech. It is generally advisable to avoid being dragged by "the valuation of the previous round" or "market multiples at any given time."**

VC Investor
(With Deep Tech Expertise)

It is useful to manage the company while also considering the succession of the executive themselves as one option. This is common to both M&A and IPO as means of growth.

- The managerial capabilities required as an organization tend to change significantly with the growth stage of a startup.
- Regarding executive succession, it is useful for the CEO of a startup to think frequently about it, and for outside directors (such as VC investors) to make recommendations to the startup as needed
- However, not all required managerial capabilities need to be assembled in-house; there is also an approach of pursuing M&A to complement the organization's capabilities.

The Managerial Skills Required Change



Many startup executives are first-time entrepreneurs, but 7-8 years after founding, the 0->1 phase that is originally their strength comes to an end, and they enter a phase requiring different capabilities such as systematization, strategic alliances, and large-scale operations.

In Japan, it is fairly common for founders to continue managing the startup, but in the U.S., management is often replaced at times such as fundraising rounds.

M&A
Intermediary



Column

Paper Analyzing Executive Succession in the U.S.



- A paper covering approximately 11,900 U.S. VC-backed startups founded between 1995 and 2008 showed that founder replacement increases the probability of IPO and high-quality M&A.
- It also showed that the effect was particularly large for replacements at the CXO level, such as CEO and CFO.
- The replacement executives have longer business experience than the founders, but few have experience founding companies themselves (many are so-called "professional executives from large corporations").
- It was also shown that the probability of replacement is particularly high immediately after fundraising rounds and at companies with many investor directors.

Source: Ewens, Michael and Marx, Matt, Founder Replacement and Startup Performance (May 15, 2017). Review of Financial Economics, Vol. 31, No. 4, 2018, <http://dx.doi.org/10.2139/ssrn.2717124>

Prepared by Boston Consulting Group based on the content and information of

Due to individual preferences and the differing career orientations of professionals such as CFOs and COOs, views on "when and which capital strategy to choose" can split within the management team.

Points to Be Mindful Of

Examples of Issues

- A CFO Who Has Been with the Company Since Founding Is Not Necessarily Skilled in M&A
- When a CFO is hired in the middle stages or later, the CFO personally may favor IPO over M&A.
 - Among startup CFOs, there is a sizable career path of retiring after listing and then moving to another unlisted company



Considerations in Securing Talent



- **At the time of hiring or appointing a CFO, explain that M&A is also among the options for growth and align on policy.**
- In addition to those with investment banking / securities firm experience, talent with extensive M&A experience on the strategic acquirer side is also an option



What is required of a CFO is "hands-on experience executing M&A," and whether this comes from an investment bank or a strategic acquirer is not the essence. Indeed, there are many cases where someone with multiple M&A experiences on the strategic acquirer side, covering PMI, post-merger management, and investment / exit decisions, is more practically capable

Institutional Investors



Differences in Career Orientation (Examples)

Differences in Direction Among Founders

Differences in Direction Between Founders and Professionals (CFO, COO, etc.)

Wants to Grow the Business
Wants to Aim for Listing



Founder A

Now that the business has reached a milestone, M&A is also an option if moving on to the next challenge



Founder B

A track record of achieving listing
Is important for my career



CFO



For example, in startups, the CFO is often the one whose interests come into conflict in M&A situations. For a CFO, achieving an IPO and handling disclosure and capital markets as a listed company is strongly valued as a track record and leads to the next career step.

Startup Executive



To advance M&A smoothly, it is important to establish a cooperation system with external experts such as lawyers, FAs, and tax advisors from an early stage.

Collaboration with External Experts

Because startups have limited internal resources, when M&A is contemplated, collaborating with external experts (lawyers, FAs, tax advisors, etc.) from an early stage (or establishing a system in which consultation is possible) can increase the probability of deal success.

✓ Do

Consult Early Before M&A

Building a routine relationship with experts may improve DD speed, the credibility of explanations, and price negotiating power

“ By collaborating with experts from an early stage, startups with little M&A experience can negotiate without being placed at a disadvantage

Mega-Venture Executive



✗ Don't

Consult Just Before M&A

Even if external experts are consulted just before execution (intent), DD preparation tends to be insufficient, and the deal often ends up with unfavorable terms on price and conditions

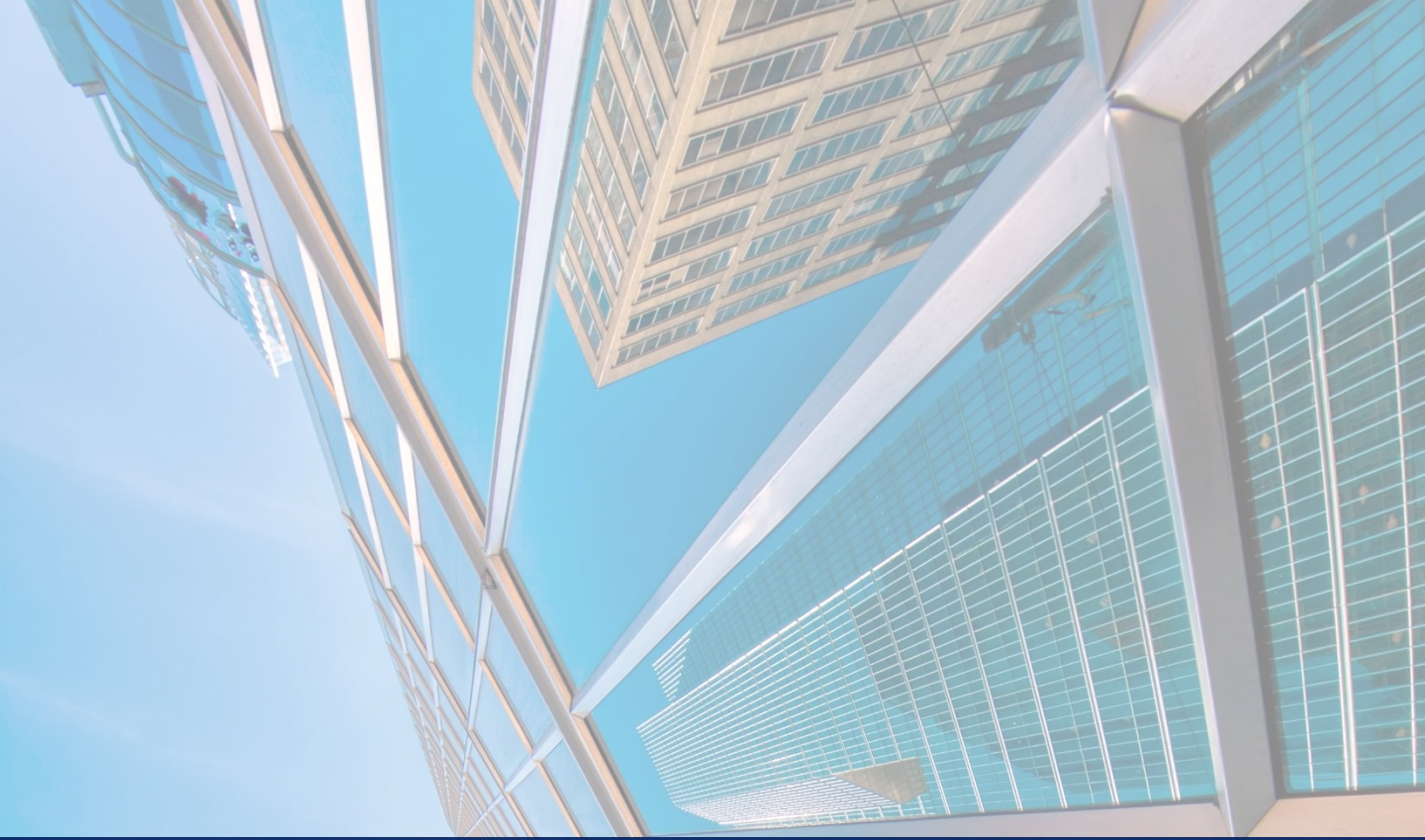
“ For example, consulting external experts in a state where the cash runway will run out in two months often does not allow recovery in many cases

M&A Intermediary Executive



Experts to Consult Early and Main Consultation Topics

Lawyer (M&A Field)	Investment agreement terms, SO design, organizing contract risks (e.g., design of veto rights, treatment of SOs at M&A, confirmation of representations and warranties risks)
FA (Financial Advisor)	Grasping enterprise value ranges, organizing prospective buyers, considering negotiation policy (e.g., which companies may be potential buyers, organizing assumed price ranges)
Tax Advisor	Confirming the sale scheme and tax risks (e.g., differences in tax burden between share sale and business transfer, tax implications of potential liabilities)
Accounting / Audit Advisor	Preparation for DD response, organizing financial risks (e.g., revenue recognition, asset capitalization, presence of off-balance-sheet liabilities)
VC / Existing Shareholders	Introduction of prospective buyers, organizing capital strategy (e.g., when to begin considering a sale, adjusting policies among shareholders)



CHAPTER 4

Guidance for "Buyers" (1) - Approaching Startup M&A as a Corporate Strategy -



The "Buyer" section of this Guidance is prepared primarily with strategic acquirers (large corporations) and mega-ventures in mind.

Strategic Acquirer (Large Corporation)



- Main Target of This Guidance
- Systems for M&A are sometimes built on the premise of the existing business framework.
- Because they are often public companies and from the perspective of affinity with startup culture, they tend to face difficult points in startup M&A.

Mega-Venture



- Sub-Target of This Guidance
- While parts of the description in this Guidance are expected to be useful as reference, there may also be parts where the description does not apply, due to the proximity of decision-making mechanisms and startup culture.

How to Utilize the Guidance Depending on the Situation of the "Buyer" (Examples)

"Buyer" Situations (Examples)



M&A Systems Premised on the Existing Business Framework

- In-house growth centered on existing businesses tends to be the baseline, and the search for startups in adjacent domains can become passive.
- Collaboration with existing business divisions does not progress, discussion of synergy creation remains abstract, and deals tend not to move forward.
- Even after acquisition, there is a stronger tendency to be dragged by existing business evaluation criteria from the perspective of performance evaluation.



Public Company with Significant Accountability

- Acquisitions are management judgments accompanied by explanations to the capital markets.
- As public companies, accountability is significant, and goodwill, impairment risk, the explainability in IR, and consistency with business plans are strictly questioned.
- Against this backdrop, conservative valuations using DCF are conducted, and there are cases in which valuation perspectives between buyer and startup do not align.



Lack of Affinity with Startup Culture

- Because pressure for assimilation into existing systems and evaluation criteria operates strongly, friction tends to arise even after acquisition, and integration does not go well. As a result, synergies factored into the price may not be realized.

How to Utilize the Guidance (Examples)

Chapter 4

Explains points where the approach must change from existing business and traditional M&A when acquiring startups

Chapter 5

Explains the search for acquisition targets and post-acquisition integration

Chapter 4

Explains points for building systems including coordination with IR

Chapter 5

Explains the approach to setting acquisition prices

Chapter 5

Explains practical know-how on sourcing, partnering with, and integrating after acquisition of startups

It is important for top management to lead and position startup acquisitions within corporate strategy as a means of realizing inorganic growth strategy*.

Distinctive Difficulties in Startup M&A

Because startup M&A has features different from those of ordinary M&A, rather than directly applying the existing M&A approach and structure, a distinct response is required

M&A Mainly Covered in This Guidance

Objective

- Realize Inorganic Growth
- Strategically important to the company; needed to launch new fields

Business Characteristics

- Future P/L can be difficult to read, and it is hard to assign an objective enterprise value
- Effects and synergies emerge in the medium to long term

Organization

- Because the approach and personnel requirements differ from ordinary M&A, establishing or expanding a new (dedicated) department is effective

(Reference) Ordinary M&A

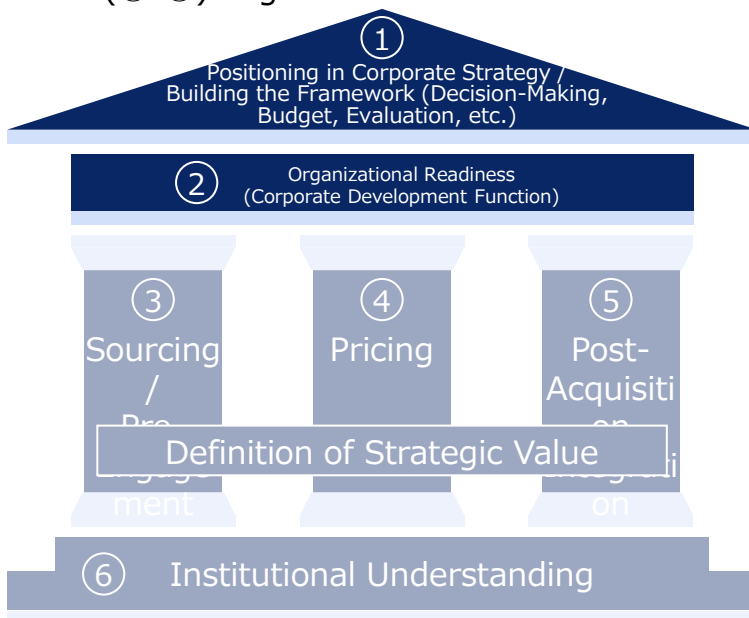
- Growth and Scale Expansion of Existing Businesses

- Easier to assume future P/L, making it easier to objectively calculate enterprise value
- Short-term P/L returns can also be expected

- A department responsible for M&A often exists within an existing department (such as corporate planning)

Key Considerations in Principle When Acquiring a Startup

After top management understands the differences from ordinary M&A, it is useful to position startup M&A within corporate strategy, develop a dedicated framework, and, as needed, build a dedicated organization for startup M&A. Only then do the specific items (③-⑥) begin to function.



- Clearly define, in corporate strategy (such as mid-term management plans), the new domains (strategic domains) that are strategically important to the company. Based on this, top management proactively searches for startups before the M&A stage and identifies future M&A targets important to the company.
- Build an independent framework and organization "dedicated to startup M&A" that is fundamentally different from existing businesses and departments.

*In this Guidance, inorganic growth is positioned as growth through the acquisition of external resources via M&A, capital alliances, and similar means.



Stances of Large Corporations Toward Startup M&A (Prepared from Expert Interviews)

While Japanese large corporations tend to rely strongly on in-house development, large U.S. corporations incorporate startup M&A as a core process of growth strategy.



Japanese Large Corporation Model (Example)



U.S. Large Corporation Model (Example)

① Basic Structure of Growth



An "extension-line model" continuously building on the foundation of existing businesses. New businesses tend to aim for growth through in-house development.

An "integration model" that incorporates external startups and reconstructs the business portfolio. Designed on the premise of non-continuous growth.

② Role of M&A



Rather than as a core growth process, it tends to function as a supplementary means to fill missing capabilities.

Positioned as a core growth process, with continuous accumulation of M&A leading to inorganic growth.

③ Reproducibility of Growth



Depends on individual deals, with the growth of acquired startups subject to a wide range of success and failure. As a result, growth know-how through M&A is difficult to accumulate as organizational capability.

Institutionalized as programmatic M&A (a method of continuously accumulating small deals), with processes from acquisition to integration and growth standardized and operated with reproducibility.

④ Structure for Absorbing Risk



Strongly conscious of impairment on individual deals, tending to act in the direction of risk avoidance.

Absorbed at the portfolio level. Designed on the premise of a certain rate of failure.

⑤ Philosophy of Integration



Assumes assimilation into the existing organization. The strengths of startups are easily buried.

A design that leverages heterogeneity. Integration is conducted on the premise of amplifying the strengths of the acquisition target.



Examples of Challenges Faced by Large Corporations in Japanese Startup M&A

When pursuing startup M&A, large corporations often face challenges arising from its distinctive characteristics. To fundamentally overcome these challenges, it is useful to position startup M&A within corporate strategy and to build a dedicated framework and organization.

Decision-Making, Budget, Evaluation, etc. (Content prepared from expert interviews)

1 Absence of Sourcing, Evaluation, and Decision-Making Connected to Strategy

- When the department in charge of partnerships with startups and the strategic department considering M&A are separate, and coordination between the two is insufficient, deal sourcing tends to become passive, and targeting and long-list formation, back-calculated from the company's growth strategy, tend to be weak.
- In addition, when judgment criteria and risk tolerance are not organizationally structured, deal advancement tends to depend on the experience and networks of specific individuals, with evaluations and decisions delayed and momentum easily lost.

2 Emphasis on "Short-Term P/L Criteria"

- The valuation of a startup often factors in medium- to long-term growth expectations. On the other hand, because the buyer side bears consolidated P/L and impairment risk after acquisition, tension with short-term performance impact tends to arise.
 - Single-year, standalone performance impact tends to be strongly emphasized, making it difficult to make judgments premised on value creation over time.
- When the R&D phase is followed by the commercialization phase, the business may be evaluated using the same criteria as large-scale businesses (short-term P/L, early break-even, fixed exit lines).
- If the "switch in evaluation and responsibility" is excessively abrupt, the upfront investment required in the market-formation phase (sales structure, customer adoption, product improvement, etc.) cannot be secured, and the business tends to be scaled down or discontinued before it scales.

3 Relative Evaluation Against Existing Initiatives Within the Company

- Even at a scale that would be considered a success for a startup, within a large corporation it may look small by relative comparison with existing businesses, and internal recognition and sufficient investment may not be obtained.
 - When compared side by side with existing businesses or other M&A deals, deals "with numbers (performance) already established" are easier to explain, and the future positioning or strategic significance of a product may be relatively undervalued.
- In addition, if evaluation criteria and exit decisions for new businesses are operated under criteria similar to those for existing businesses (i.e., short-term P/L responsibility), this can be a factor in early exit before the market or product matures.



Examples of Challenges Faced by Large Corporations in Japanese Startup M&A

When pursuing startup M&A, large corporations often face challenges arising from its distinctive characteristics. To fundamentally overcome these challenges, it is useful to position startup M&A within corporate strategy and to build a dedicated framework and organization.

Talent, HR Evaluation, Incentives, etc. (Content prepared from expert interviews)

4 Lack of Talent Capabilities Needed for 0->1 and Constraints / Burden from Internal Rules

- Talent with proven results in existing products and services do not necessarily possess the capabilities needed for launching new businesses or planning and proposing products.
- When personnel are not appropriately assigned, the quality of product planning declines and momentum is dampened, and the launch of new businesses through startup M&A is delayed. In areas where the brand and existing expertise are hard to leverage, such talent constraints may become more pronounced.
- Because work is highly subdivided at large corporations, it is difficult to develop "talent capable of cross-functional judgment (across business, product, finance, etc.)" that is needed when speedily expanding a new business.
- In addition, even simple business lines as new businesses tend to be subject to the application of heavy internal rules created for broad existing businesses and to the burden of coordination with related departments. As a result, the time and energy of the driver are absorbed into coordination work; exhaustion makes successive challenges difficult to chain, and the organization's momentum for startup M&A can be lost.

5 Mismatch in HR Evaluation and Incentives

- While new products and services tend to take time to deliver results, when sales / sales-representative evaluation and compensation are skewed toward short-term revenue, existing products are prioritized as a rational choice for the person in charge, with the result that internal and external sales channels are not sufficiently committed to selling new products.
- On the startup side and the large corporation side, HR evaluations and compensation rules are not aligned. For example, when dispatching personnel from the large corporation to the startup after M&A, or transferring employees, the hurdles for actions toward optimal placement of talent rise.
- Furthermore, when the continued involvement of startup executives and key personnel is the premise of value even after acquisition, retention issues tend to arise due to misalignment with the existing evaluation system and compensation structure.



The Need for Top Management Leadership in Startup M&A

Experts involved in the startup ecosystem point out that top leadership is essential for startup M&A.

Stating it in mid-term management plans, etc. generates internal understanding and smooths processes

Top management has clearly set out the promotion of startup M&A as a management policy, and "absorbing external innovation" and "leveraging startup technology" have permeated the organizational culture.

Major Strategic Acquirer (Head of Open Innovation)



Buyer

Successful deals often involve the top

The larger the deal, the more often it comes from "introductions by people whom the directors themselves or top management trust," and the more frequently the top is involved.

Major Strategic Acquirer (Head of Open Innovation)



Buyer

Because there is a large gap in values between a startup executive and a single line employee, top-to-top dialogue is indispensable.

Mega-Venture Executive



Buyer

M&A is heavily about company-to-company encounters. As top managements meet and discuss, an image of "we could do this together if growth takes this form" emerges, and as a result M&A arises as an option.

Venture Executive



Seller

Post-acquisition business growth requires decisions including organizational reform

HR systems, compensation levels, and work styles differ significantly between large corporations and startups. As a result, post-acquisition growth requires major management judgments, including the integration of various systems and organizational reform as needed, so top commitment is indispensable.

Major Strategic Acquirer (Head of Open Innovation)



Buyer

To grow after acquisition, the redesign of incentives, including talent, stock options (SOs), and compensation, is unavoidable. Without being able to discuss this candidly with the buyer's management, it is difficult.

Mega-Venture Executive



Seller

To execute startup M&A as a growth strategy, a dedicated framework different from existing businesses is needed regarding decision-making, budget planning, and incentive design.

Underlying Premises of Large-Corporation Management

Existing Business (Traditional Business Operations)



- Revenue models and customer bases are established, and operations are run on the premise of short- to medium-term performance targets.
- Investment judgments are made relatively often based on financial indicators such as revenue, profit, and ROIC.
- Success or failure is appropriately reflected in performance, and consistency with annual plans is emphasized.
- Decision-making, budget allocation, and accountability are clear.

New Business (Business Operations After Startup M&A)



- Challenges markets and technologies different from existing businesses, with high uncertainty.
- Many investments based on medium- to long-term growth strategies, and time is required before results materialize, so rationality cannot be sufficiently explained by short-term financial indicators alone.
- **Impairment and failure risks tend to be emphasized, making decisions and budget allocation difficult.**

Points for Building a Dedicated "Framework" for Startup M&A

Internal Collaboration Processes



Taking into account the strategic significance of realizing the growth strategy and connecting with top management, it is effective to build a process so that sourcing, evaluation, and decision-making for startups are carried out.

It is important that the positioning of startup M&A within corporate strategy, sourcing policies, and judgment criteria are recognized and shared, including by the management level.



Startup Executive

Budget Planning



Secure budget for investments in launching new business domains (strategic domains) that are strategically important to the company, over multiple fiscal years. Rather than managing performance on a single-year, single-deal basis, securing budget across the entire portfolio and over multiple years and conducting performance management with that perspective is useful.

It is important for business units to have plans they truly buy into and to budget them. Rather than managing performance on a single-year, single-deal basis, a perspective of managing across the entire portfolio is needed



Executive Officer of Strategic Acquirer

Incentive Design



When accountability for post-integration impairment and failure is emphasized, drivers tend to act so as to avoid challenge. Therefore, include not only outcomes but also the act of challenging and driving itself within evaluation. Avoid attributing all failure of post-acquisition integration to the driver; an institutional design that allows the organization to absorb risk is important.

Psychological bias to avoid failure risk tends to outweigh the incentive to pursue growth through acquisitions



Startup Executive (With Experience of a Sale in the U.S.)



Characteristics of M&A in the U.S.

In the U.S., capital market and shareholder discipline and the perspective of maximizing shareholder value lead to a strong orientation toward pursuing inorganic growth through M&A.

Capital Market and Shareholder Discipline

- Accumulating retained earnings makes companies targets of activists; compared with Japan, dividends, share buybacks, and actions to improve capital efficiency are more strongly demanded.
 - Institutional investors and others expect the implementation of actions leading to improved enterprise value, including acq
-
- **Strong incentives to channel excess cash into growth investment to maximize shareholder returns by improving ROE, etc.**
 - **M&A tends to be selected as a means of realizing growth**



In the U.S., from the perspective of maximizing shareholder value, management focused on ROE and similar metrics is required.

On the other hand, in Japan, a very large amount of retained earnings accumulates without explanation to shareholders; businesses that are not growing at all are left as they are, and promising growth investments are not pursued.



Characteristics of the Board of Directors

- In the U.S., directors owe a duty of care and a duty of loyalty, prioritizing shareholder interests.
 - Therefore, at the board, including outside directors, decisions are made from the perspective of maximizing shareholder value.
-
- **From the perspective of maximizing shareholder value, when M&A is rational, the board strongly drives M&A in its decision-making**



In U.S. company boards, ending merely with reports or making decisions without sufficient discussion is rare. There is always a sense of tension in board discussions.



Startup Executive
(With Experience of a Sale in the U.S.)

In the U.S., from the perspectives of capital market discipline and maximization of shareholder value, M&A is chosen as a standard means of enhancing enterprise value

By building a dedicated structure that runs through strategy formulation, investment, and PMI, based on a top-led growth strategy, the likelihood of effectively utilizing startup M&A increases.

Concept



- To execute startup M&A as part of the company's growth strategy rather than as a one-off decision, the top's growth strategy and leadership are important. At the same time, it is effective to establish a Corporate Development function as a unit that consolidates the intentions of business units, management, and the board, and oversees execution.
- On the buyer side, the accumulation of M&A experience tends to improve M&A performance (1), and the establishment of a Corporate Development function is also important from the standpoint of know-how accumulation. 1. Source: Boston Consulting Group, "Ten Lessons from 20 Years of BCG's M&A Report"
- However, because startup M&A also entails its own risks, in addition to positioning within the growth strategy, it is also important to be able to appropriately recognize the risks.

When large U.S. corporations acquire startups, a Corporate Development function exists within the organization, responsible for preparing acquisition target lists, negotiating, and conducting evaluations. However, this function is largely absent in Japanese companies.

Startup Executive
(With Experience of a Sale in the U.S.)



When handling startup M&A as an extension of ordinary M&A, valuation methods and the approach to PMI often do not align with those of the startup, and deals often do not come together

Major Strategic Acquirer (Head of Open Innovation)



Functions Needed for a Corporate Development Function (Examples)

New-Domain Strategy Function



- Plays the role of concretizing and structuring the growth strategy of the board and management. Organizes strategic hypotheses for domains that are "adjacencies" for the company. Clarifies the budget and risk tolerance after connecting to the top's growth strategy.

Sourcing Function



- Creates long lists and short lists based on the top's strategic intent, proactively searches for startups, and builds relationships.

PMI Function



- After acquisition, with company-wide differences in mindset from the startup, leverages the internal network to support the startup while also acting as its advocate inside the company - a "translator" function.

Valuation Function



- From the initial stage, plays the role of conveying the broad direction of the acquisition price, and when an actual acquisition is made, formulates the business plan and valuation that incorporate strategic value.

IR / Risk Management Function



- Especially when conducting large acquisitions, assesses the risks to the company as a whole, including impairment risk, and as needed considers in advance the story for explaining to shareholders and investors, and coordinates with the IR department.



Status of Startup M&A Departments in the U.S.

In the U.S., dedicated Corporate Development departments tend to actively act as the M&A-responsible function and absorb technology and talent.

Item	 U.S. (Corp Dev) * Prepared from expert interviews
Main Roles	Dedicated to M&A, strategic alliances, and investments
Talent	Specialists with backgrounds in IBD / PE / consulting, often with finance, negotiation, and industry expertise.
Evaluation Metrics	Under merit-based evaluation, "creating deals" is rewarded, making challenge rational.
Use of External Resources	Engage specialist advisors to conduct "buyer-side search," approaching even companies not for sale.
Sources of Information	Proactively gather information through proprietary databases, scout networks, and theme-based searches.



Examples of U.S. Companies That Have Set Up Corporate Development Functions and Linked M&A to Business Growth

Cisco Systems:

Does not create 0->1 in-house but accelerates technology acquisition by nurturing externally and absorbing



- **A model in which Cisco provides capital so that outstanding internal engineers or external entrepreneurial teams establish independent startups, and the development of specific technologies is advanced externally**
- Built a mechanism by setting acquisition rights (options) and outcome-based acquisition terms in advance, ensuring that when the technology or product achieves certain results, it is reliably absorbed into the main body

Google (Alphabet):

Deploys "strategic scout-type M&A" aimed at acquiring both technology and talent



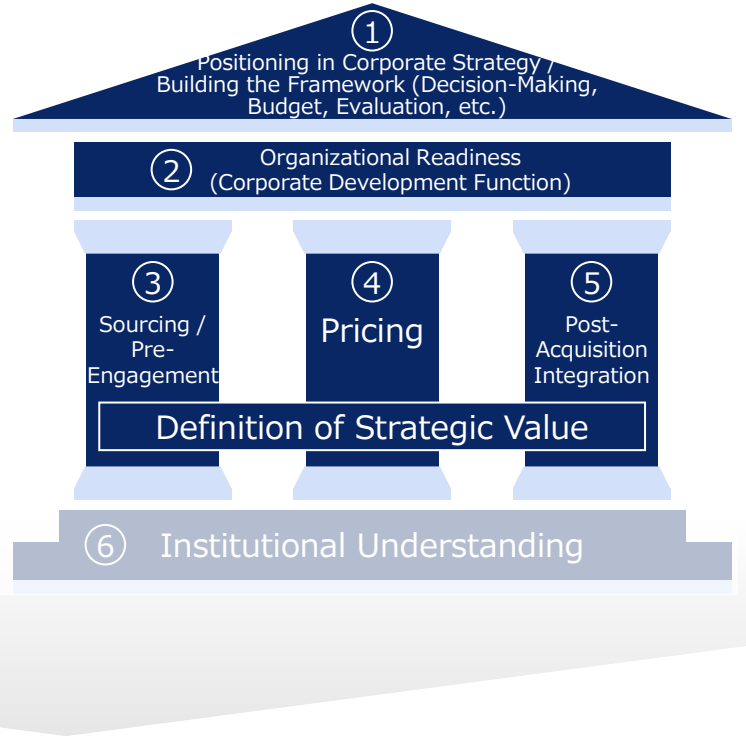
- **Established a system to identify technologies that will be important in the future at an early stage and execute M&A strategically**
 - For example, at the time of the Android acquisition, the Corp Dev department foresaw the strategic importance of mobile OS and acquired it for about USD 50 million
- The development team and key engineers were also absorbed and rapidly integrated into the core business, also contributing to securing excellent engineering talent itself

Source: Prepared by Boston Consulting Group based on the content and information of Cisco Systems (2002), Cisco Systems to Acquire Andiamo Systems; Cisco (2006), Cisco Announces Investment and Option Agreement with Nuova Systems; Reuters (2010), "Google exec: Android was 'best deal ever.'"

It is useful to advance the specific items - sourcing / pre-engagement, pricing, post-acquisition integration, etc. - consistently after establishing strategy, framework, and organization for startup M&A.

Key Considerations in Principle When Acquiring a Startup

To effectively pursue M&A, as preconditions, it is important to ① clearly position M&A within corporate strategy and build a framework, and ② develop an organization to execute it. Only then can the specifics of ③ sourcing, ④ pricing, and ⑤ post-acquisition integration be effectively considered.



- In particular, by preparing in advance a multi-standard framework and organization that allows for premises different from existing businesses, the specifics can be advanced not as ad-hoc responses but as consistent decision-making aligned with strategy.

Points on the Specific Items (③-⑤)

③ Sourcing / Pre-Engagement



- Rather than depending on inbound deals, define target profiles back-calculated from the company's growth strategy, and have top management proactively build relationships with startups.
- As needed, conduct collaboration before M&A to concretize strategic synergies, and create a state in which appropriate means of partnership can be selected.

④ Pricing



- Understand that desired acquisition prices between buyer and seller tend to differ for structural reasons.
- In a situation where there is no single right answer in valuation, aim to concretize synergies, anticipate execution, and quantitatively incorporate them into the business plan.

⑤ Post-Acquisition Integration



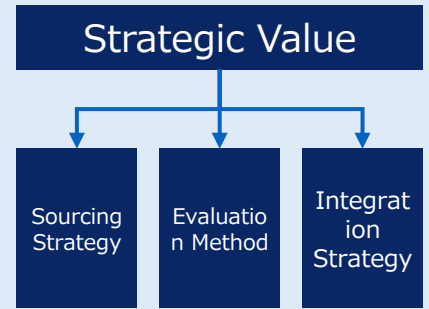
- Design organization and incentives that allow executives and personnel to continuously commit to business growth even after M&A.
- Integrate authority, evaluation, and compensation around talent retention and value creation, aiming for outcome-creating PMI rather than assimilation.

To smoothly advance the acquisition of a startup, as a precondition, it is useful to clearly define the strategic value that the acquisition aims to achieve.



Importance of Defining Strategic Value

- **Strategic value refers to the value the buyer intends to realize through the acquisition.**
- The setting of strategic value influences all phases of sourcing, evaluation, and integration.
- Therefore, strategic value should be defined first.



If strategic value is not defined, what kind of startup to search for, the approach to calculating acquisition price, and what to be mindful of in post-acquisition integration (PMI) are determined accordingly. However, the challenge in Japan is that the M&A process often advances without a clear definition of strategic value.

Lawyer
(With Extensive M&A Support Experience)



Types of Strategic Value

(1) Talent

- Acquisition of talent with specialized technologies and knowledge
- Talent skilled in creating new businesses
- Talent who will become future executive candidates, etc.



In an experienced sale, the large corporation as buyer had the aim of investing in and acquiring not only the business but also the entrepreneurial talent

Startup Executive with Sale Experience



(2) IP / Technology

- Technologies, patents, and data difficult to develop or obtain in-house
- Technologies and IP for which it is necessary to "buy time," etc.



Because startups can develop at a faster speed than large corporations, even when in-house development is possible, "buying time" is effective

VC



(3) Products

- Complement existing businesses and maximize value
- Acquire products that could become competitors and eliminate the threat



By being incorporated into a large corporation's service portfolio, the value that is hard to convey on a standalone basis becomes clear, and the progression of sales discussions changes significantly

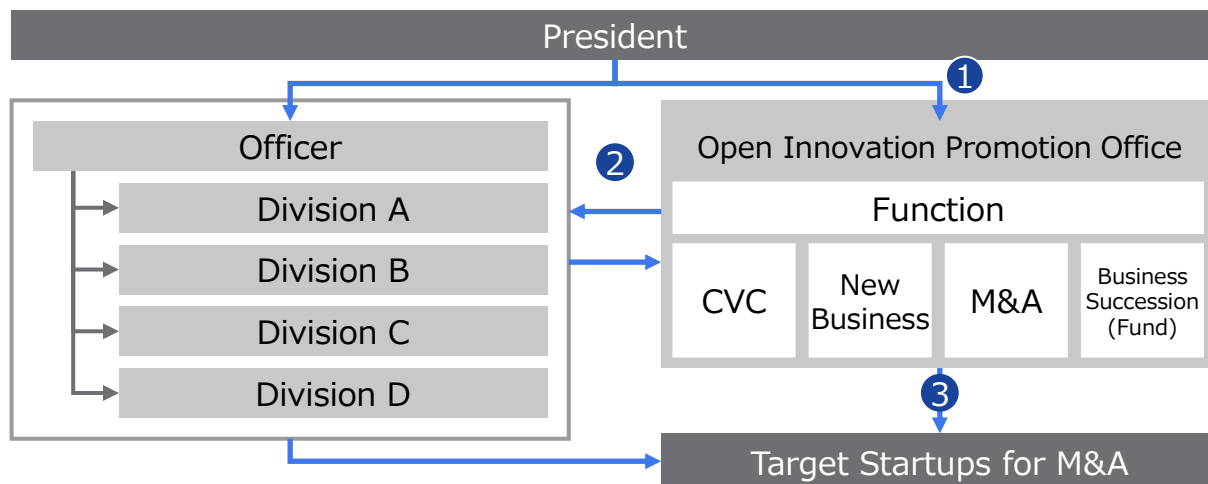
Executive Officer of Strategic Acquirer





Case Study: Seino Holdings' Open Innovation Promotion Office

Seino Holdings has established an Open Innovation Promotion Office under the direct control of the president. It has strengthened collaboration with startups through business-unit ownership and PMI-anticipated design.



Key Points of the Organizational Design of the Open Innovation Promotion Office

1 Consolidation of Growth Investment Decisions Directly Under the President

The Open Innovation Promotion Office, under the direct control of the president, was established as a unit that integrally supervises CVC, M&A, new business, and business succession funds. By consolidating long-list creation, negotiation with external VCs and intermediaries, drafting of acquisition prices in M&A, and PMI support, the company makes decisions with speed.

2 Collaboration on the Premise of Business-Unit Commitment

The owner of the growth strategy is ultimately each business unit; by having each business unit articulate the needed functions, M&A and partnerships are designed so as not to become "someone else's problem." In pre-M&A partnerships as well, portfolio startups and business units discuss directly, and on-the-spot opportunities to propose business collaboration are provided.

3 PMI Aimed at Business Creation

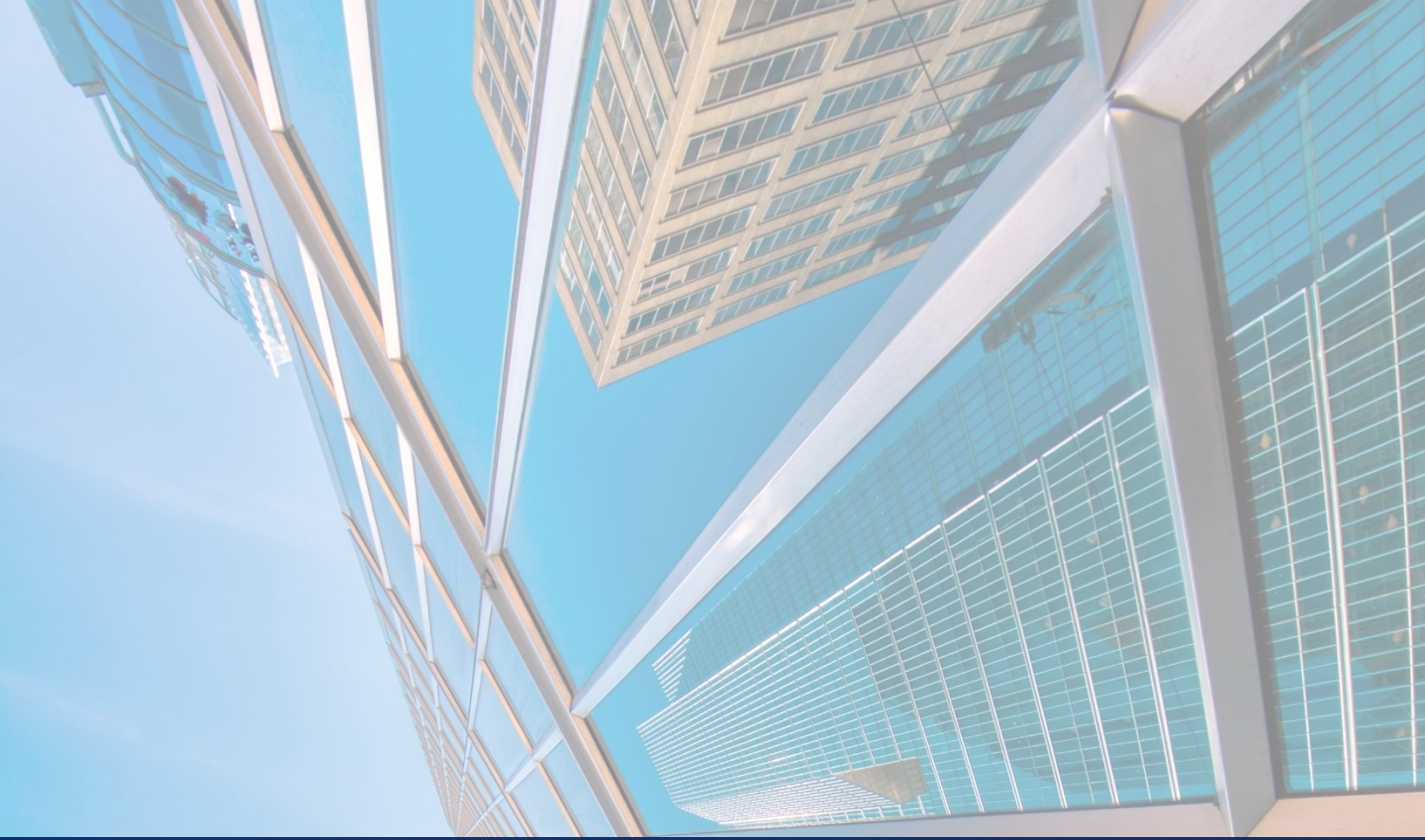
After integration, rather than uniformly applying the parent's rules, autonomy is respected, optimizing the balance between growth speed and governance on a case-by-case basis.

Acquisition Case of "Hacobell"

Seino Holdings acquired the logistics startup "Hacobell." Rather than simply absorbing it, the company adopted integration design premised on accelerated growth

- Evaluating its future potential, decided in advance to tolerate a certain period of upfront-investment-type performance
- Even after integration, did not uniformly apply group rules; maintained a system aligned with the startup's operations
 - The management team is in principle continued
 - No full-time officer is dispatched from the company, securing autonomy

Source: Interview with Mr. Kawai, Executive Officer, Seino Holdings



CHAPTER 5

Guidance for "Buyers" (2) - Key Considerations When Pursuing Startup M&A -



When collaborating or partnering with a startup in the pre-M&A stage, it is useful to appropriately set objectives, role allocations, and milestones.

Strategic Sourcing



Remaining at the level of passively responding to "inbound deals" (proposals from the startup side or intermediaries)



Clarify startups important to the company's strategy and proactively conduct sourcing

- Dive into the startup ecosystem and gather information
- Clarify the technologies and business areas sought and disclose them on websites and at events

In Japan, M&A candidates are often considered from among companies already up for sale in the market. In the U.S., it is the opposite: companies create lists of companies not yet on the market but that should be acquired. Creating such "lists of startups that are not for sale but important to the company" is urgent for Japanese strategic acquirers to succeed in M&A.



U.S.-Based Startup Executive

In the U.S., buyers sometimes communicate to the startup ecosystem what kind of businesses or technologies they would like to acquire, in line with their own strategies.



Mega-Venture Executive

(If Necessary) Pre-Engagement

- In some cases, it is appropriate to immediately enter M&A negotiations after sourcing; in others, pre-engagement in business and capital terms is appropriate
- However, since pre-engagement is not always correct, it is important to appropriately judge whether and how to collaborate based on the objective

Minority investment alone cannot build a strategic relationship; future M&A may also become difficult due to changes in the strategic acquirer's policy. In the initial phase, deepening relationships through business alliances rather than minority investment is sometimes preferable.



Board Member of Strategic Acquirer

In many cases, pre-engagement makes it less likely for "misunderstandings" to arise on both sides after M&A. On the other hand, there are cases in which the speed of business growth is faster and the deal is easier to close without pre-engagement. Therefore, whether to engage in pre-engagement varies depending on how one thinks about the probability of deal success and the probability of post-M&A business growth success.



Open Innovation Manager at a Strategic Acquirer

To proactively discover companies that match the strategy, a sourcing structure combining the use of financial advisory and data-driven market understanding is useful.

Use of Financial Advisory (FA)



- Depending on deals driven by the seller side or routed through intermediaries can limit deals to those already on the market (For Sale), and access to strategically desirable unsold companies may be difficult.
- Therefore, leveraging FA support for proactive sourcing activities aligned with strategic themes - such as creating target lists and initial outreach to unsold companies - to complement and strengthen internal sourcing functions is effective.

In the U.S., companies make continuous investments in "startup search" - including companies not for sale - by paying retainers (monthly fixed fees) to FAs.



Startup Executive (With Experience of a Sale in the U.S.)

Data-Driven Sourcing



- By leveraging data, it is possible to comprehensively visualize "unseen targets."
- Beyond visualizing corporate databases, it is effective to build a comprehensive search structure by systematically extracting candidate companies using indicators such as growth rates, hiring trends, and technology trends and external tools, and by mapping companies along the value chain starting from specific themes.

In the U.S., Corp Dev uses external tools to analyze signs of growth and potential for sale.

They list very early-stage startups, including those that have not yet even received VC investment, and approach them before competitors notice.



Startup Executive (With Experience of a Sale in the U.S.)



Use of FAs in the U.S.

In the U.S., "buyer-driven" proactive sourcing is conducted by leveraging FAs.

U.S. Model for Using FAs (Examples)

Compensation Model	Compensation model of retainer (monthly fixed fee) + success fee
Search Policy	Search for partners that fit the client's strategy
Value Provided	Consistent support from candidate sourcing to outreach and terms negotiation
Scope	The entire market, including Not-For-Sale companies

Background for Why FAs Function in the U.S. (Prepared from Expert Interviews)

Compensation Structure	<ul style="list-style-type: none"> • Under a compensation structure that includes retainers, advisors can search based on "companies that fit the strategy" rather than "deals that are easy to sell." • Therefore, they can map the market, conduct cold calls and networking with hundreds of listed target companies, and focus on time-consuming sourcing activities such as planting seeds for sale.
Institutions / Culture	<ul style="list-style-type: none"> • In the U.S., the legal framework of shareholder-value-maximization duty is considered to exist, and management often considers M&A execution when there is a proposal significantly above shareholder value. • For this reason, high-valuation acquisition proposals and cold outreach by investment banks tend to function as legitimate means.
Specialist Firms	<ul style="list-style-type: none"> • In recent years, in addition to traditional investment banks, specialist firms and platforms specializing in "deal origination" have emerged. • They screen the market based on specific investment themes and approach owner-executives directly. The deliverable is the "introduction" itself, and it is often evaluated separately from the subsequent execution.

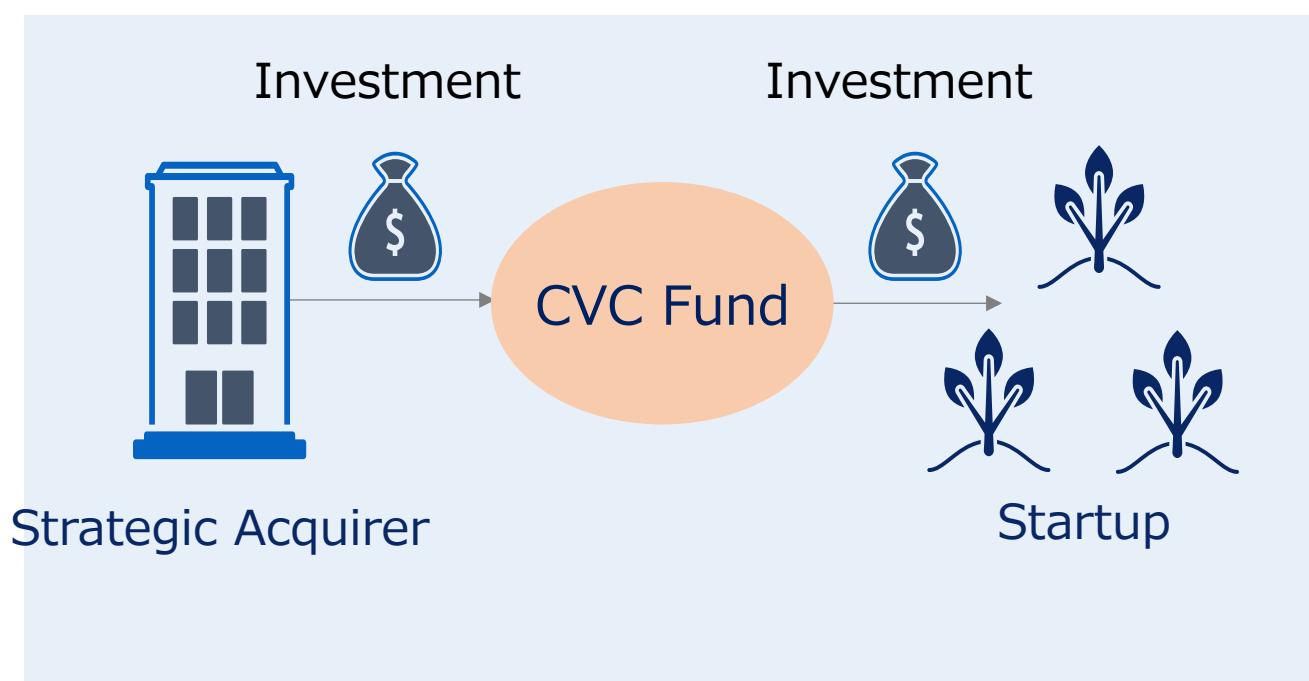


Practical Considerations in Japan Suggested by the U.S. Model (Examples)

- When using FAs or M&A intermediaries, because candidate search and outreach must be conducted on the premise that no sale deals exist, it can be useful to consider a design that pays compensation not only on a success basis but also for search activities (e.g., engagement fee / monthly retainer + success fee).
- By engaging FAs not only in execution support for acquisitions but also consistently in target sourcing and pre-validation through DD and PMI design, the process from deal creation to execution can be advanced seamlessly.



Considerations on the Use of CVC



Small-scale, speedy, risk-limited investments are possible, and accounting / audit treatment is clear and easy to operate. On the other hand, when investments remain at a minor level, substantive involvement in management and business operations can be difficult. Therefore, in addition to CVC (minority investment), It is also useful to consider, as needed, building a system that anticipates Corporate Development (M&A).

“ When CVC investment remains at a minor level, substantive involvement in management and business operations is difficult, and partnerships involving business units, such as joint development, become difficult. As a result, the CVC originally established for business synergy purposes can approach being a mere form of financial investment, lowering the effectiveness of open innovation.

Startup Executive





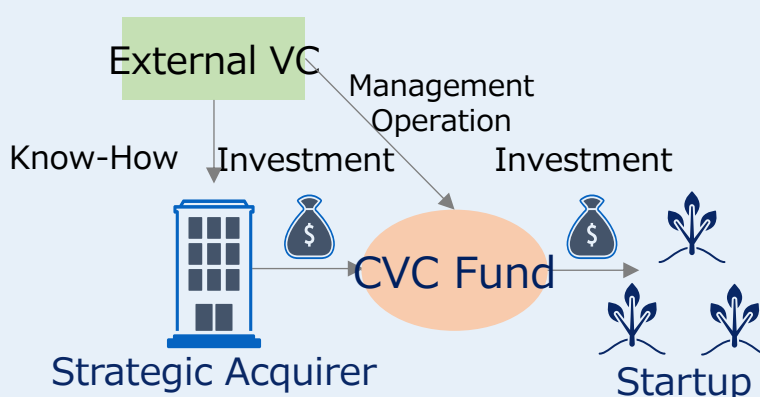
Considerations on the Use of External VCs

Forming a partnership with an external VC and outsourcing operations (such as a two-party partnership) is effective in quickly establishing deal access and investment practice, and can be a rational choice when there is little investment talent in-house.

However, there is a risk of staying at superficial functional supplementation, such as deal access and the outsourcing of investment operations, and of deviating from the purpose of creating open innovation.

Mechanism of External VC Use (Two-Party Partnership, etc.)

Refers to the structure of forming a CVC fund with an external VC, or of outsourcing the operation of a CVC fund



“ When investment practice is left to the external VC, it can be difficult to involve internal business units at the investment stage, and the relationship with startups may remain a mere capital alliance.

For the VC that takes on the two-party partnership, invested capital (investment outstanding) becomes an incentive. There is a risk of investments made to consume the budget, or of investments deviating from strategic purposes - for example, investments into existing portfolio companies of other funds managed by that VC.

Therefore, when adopting a two-party partnership, it is important for the strategic acquirer to improve its capability to verify investment judgments and to share information and strategy between the strategic acquirer and the external VC.

Startup Executive





Overall View of Methods by Which Strategic Acquirers Engage with Startups Before M&A

There are diverse means by which strategic acquirers can partner with startups, and selection is needed based on objectives and expected effects.

		Overview	Effects Expected for E
Methods That Do Not (Necessarily) Involve Investment	Incubation Programs	Support short-term growth of SUs through intensive mentoring and networking <ul style="list-style-type: none"> Support activities mainly aimed at seed-stage SUs 	<ul style="list-style-type: none"> Stimulus to Corporate Culture Early-Stage Information Gathering on Frontier Areas Cultivation of Future Partnership Candidates
	Accelerator Programs	A program of several months to brush up the business plan of VB1 and accelerate business growth. Often targets startups whose prototypes are completed	<ul style="list-style-type: none"> Stimulus to Corporate Culture Early-Stage Information Gathering on Frontier Areas Discovery of Joint Business Ideas
	Business / Technology Alliances	Provide capital, technology, talent, and other management resources together with a venture company and jointly conduct business. Does not involve capital movement	<ul style="list-style-type: none"> Utilize technologies held by SUs to solve specific problems Discovery of Joint Business Ideas
Methods That Involve Investment	Venture Investments by CVC	A company contributes funds, and the business unit or other main company entity invests in a venture company	<ul style="list-style-type: none"> Strengthening of the company's own platform, exploration of innovation, stimulus to corporate culture <ul style="list-style-type: none"> Subjective investment and exit judgment is possible
	On-Balance-Sheet Investments		
	Investments by CVC Funds / Subsidiaries	A company contributes funds and invests in venture companies for which business synergies with its own are expected. The fund is managed by the company's own investment department or by an external VC	<ul style="list-style-type: none"> Exploration of innovation, deepening of insights into new markets <ul style="list-style-type: none"> Both cases exist where business-strategy returns are sought and where financial returns are sought
	LP Investments in VCs	A company contributes funds and invests in venture companies through LP investment in a VC	<ul style="list-style-type: none"> Information gathering in business-strategy domains, deepening of insights into new markets <ul style="list-style-type: none"> The investment amount is smaller than other investments
	JVs with Ventures	Jointly invest with a venture company to establish a company	<ul style="list-style-type: none"> Strengthening of the company's own business / platform Stimulus to Corporate Culture

1. VB=venture business

Source: Cited from the Ministry of Economy, Trade and Industry and Boston Consulting Group, "Guidance on Evaluation of and Collaboration with Deep Tech Startups," prepared based on KPMG FAS 2018 "Practical CVC" and pp. 17-18 of the Ministry of Economy, Trade and Industry, "Guidebook for Collaboration Between Strategic Acquirers and R&D-Type Venture Companies (Third Edition)." Note that on-balance-sheet investments include not only minority investments; this point has been modified.



Considerations for Strategic Acquirers Partnering with Startups Before M&A

Issues such as the appropriate level of partnership with startups based on the investment ratio, how to assess startups, and how to design returns are pointed out to a certain extent.

Current Issues

How It Should Be

Appropriate "Way of Engagement" According to Investment Ratio

The requirements and engagement style toward the startup are not clearly distinguished between the minority investment / business alliance phase and the majority investment / M&A phase.

Be particularly mindful of the engagement style in the minority phase, avoiding pushing excessive expectations or requirements onto the startup.

How to "Find" the Right Startups Based on the Current State and Aspired State of the Business Portfolio
How to Search

Unable to clarify the business expansion the company aims for and the businesses / functions to acquire through startups.

Change the scope of search depending on the degree of linkage with existing businesses.

- When linked: clarify the startup's domain and technology and then conduct the search.
- When expanding the business: set axes such as future market potential and business confidence.

(Especially in CVC) Setting the Returns to Aim For Through Partnership, Investment, etc.

Thinking about it as a dichotomy: "business-strategy returns" or "capital gains."

Both ultimately lead to profits, and they are not in conflict. Rather, invest and evaluate on the premise of obtaining both.

At the same time, at each point in time it is necessary to clarify which to emphasize (or whether to pursue both).

Source: Prepared by Boston Consulting Group based on the content and information of "How Strategic Acquirers Should Be and Current Issues" in the "Guidance on Evaluation of and Collaboration with Deep Tech Startups" prepared by the Ministry of Economy, Trade and Industry and Boston Consulting Group



Forums for Interaction Between Strategic Acquirers and Startups

In Japan as well, examples are emerging in which strategic acquirers proactively host forums for interaction with startups, search for startups useful to the company, and seek partnerships from as early as possible.

Case Study of KDDI (KDDI ∞ Labo)



- KDDI, as the first incubation program of a domestic strategic acquirer in 2011, has been promoting activities that lead to joint business creation between large corporations and startups
- More than 100 partner companies have participated, providing more than 1,000 matching opportunities per year through pitch events. Business support is provided more than 800 times per year, including mentoring, individual business meetings, and PoCs
- Other programs include the space co-creation program "MUGENLABO UNIVERSE"

Support
Examples

Company Name / Overview



- Marketplace-type luggage storage service

ONE. MEDIA

- TikTok and YouTube marketing, ad production / distribution, video production

Collaboration

- Invested from KDDI's main CVC (KDDI Open Innovation Fund, "KOIF") in 2014
- In 2025, started PoCs at four KDDI directly operated stores (au Style) in the Kanto region (Shinjuku / Ikebukuro / Ueno / Minatomirai)
- Triggered by the pitch event in April 2025, Tobu Railway also started introducing the service at its own commercial facilities
- Invested from KOIF in 2019, collaborated in areas such as video advertising production
- Triggered by the pitch event in September 2025, KCJ GROUP also decided to enter a business partnership in KidZania's marketing initiatives

Source: Prepared by Boston Consulting Group based on the content and information of KDDI ∞ Labo (official KDDI Corporation website) and MUGENLABO Magazine interviews

Because acquisition prices based solely on financial indicators often do not align, it is useful to concretize synergies, anticipate execution, and quantitatively incorporate them into the business plan.

Fundamental Approach



- ✓ The basis for the acquisition price lies in the business plan.
 - Especially for public companies, consistency with goodwill recognition, impairment tests, and audit responses is required, so an executable plan to support the price is indispensable.
 - Therefore, in order to factor strategic synergies into the acquisition price, abstract "strategic significance" is insufficient; they must be reflected concretely and quantitatively in the business plan.
- ✓ The background to the gap between the buyer's and seller's desired prices is a difference in structural premises.
 - Buyers evaluate conservatively on the premise of the current business and bear post-acquisition impairment and financial risks.
 - Because the sale of a startup requires the agreement of existing shareholders and directors, the level at which investors can recover their returns must be kept in mind, taking into account equity capital raised and the liquidation preference of preferred shares.

Flow of Setting the Acquisition Price



Setting the acquisition price can be roughly organized into three steps. In practice, it is effective to refine assumptions by iterating among ① price range, ② strategic synergies, and ③ the business plan, ultimately designing them to a level that management can underwrite

Step	Objective	Key Design Points
① Confirmation of Price Range (Real-World Constraints)	Establish guidelines for the lower and upper bounds of the acceptable acquisition price	<ul style="list-style-type: none"> • Grasp the capital structure and the minimum sale price of the seller startup
② Hypothesis Design of Strategic Synergies (Qualitative)	Clarify the significance of acquiring the target startup for the company	<ul style="list-style-type: none"> • Identify existing businesses where synergies can be expected, and clarify the direction for incorporating them into the business plan of the relevant business unit • Clarify the type of synergy effect (revenue uplift, cost reduction, etc.)
③ Reflection in the Business Plan (Quantitative)	Quantify Synergies and Reflect them in the business plan with execution in mind	<ul style="list-style-type: none"> • Reflect them in revenue and profit in the business plan • Clarify the probability of synergy realization (the probability of realization of items assumed when preparing the business plan) • Concretize the structure (personnel, those in charge) for the steady execution of the business plan • Estimate the budget needed to achieve the business plan and form internal agreement on the budget



Approaches to Calculating Enterprise Value Other than the DCF Method in the U.S.

In M&A practice in Japan, the focus is often on cash flow, EBITDA, etc., centered on the DCF method. In the U.S., examples are starting to emerge in which the enterprise value of startups is calculated using different approaches depending on the acquisition's objective.

When acquiring a seed- to early-stage startup, it is still in the investment phase of building assets and is not generating cash flow, so it can be difficult to apply the DCF method

Issues

Approach (1)

Approach (2)

Primary Acquisition Objective: Intellectual Property, etc.

Primary Acquisition Objective: Talent (Acqui-hire)

- When the market is still immature and there are no reasonable cash flow forecasts or comparable market transactions, the creation / re-creation cost of the relevant intellectual property can be used to assess value.
- Often includes R&D costs, protection costs (patent-related expenses), labor costs, equipment costs, indirect costs (utilities, etc.), and taxes.
- Calculated as the cost actually invested by the seller (creation cost), or the cost estimated to be needed if the buyer were to create the same or similar intellectual property again (re-creation cost, replacement cost).
- However, since the buyer often has more assets than the seller and costs tend to be lower, and since the cost method does not reflect the future value generated by the intellectual property, care is needed.

- Acqui-hire refers to M&A primarily aimed at acquiring specific talent or teams.
- Used as a means for major corporations to rapidly acquire capabilities in areas where it is difficult to secure highly skilled engineering talent and teams.
- Often calculated using the "hiring-replacement cost" of the key persons the buyer wishes to acquire (agency / recruiting fees that would be incurred if equivalent talent were hired through ordinary recruitment, plus the time and opportunity costs until hiring, etc.).
- In addition to the value of individual talent, when there is value in the team, a team premium may be added.
- The startup enters into an agreement agreeing not to sue over poaching, and receives capital in return.

Source: Prepared by Boston Consulting Group based on the content and information of the World Intellectual Property Organization, "Intellectual Property Valuation Basics for Technology Transfer Professionals"

Source: Prepared by Boston Consulting Group based on the content and information of Masakazu Masushima (ed.), Takahiro Iijima (ed.), Takaaki Okano (ed.), SMBC Nikko Securities Group (ed.), "Practical Aspects of Startup Acquisitions: Strategic Investment for Successful Open Innovation" (2023)

It is important to understand that M&A is not a "goal" but a "start," and to commit as a whole company to realizing the growth of the acquired business.

Important Elements in PMI on the Buyer Side

Management:
Buyer Side
Continuous
Commitment
of Key Persons



- Business growth of startups requires consistent decision-making and support over the medium to long term. Therefore, it is important that key persons at the executive level continue to commit



When key persons on the buyer side move to other positions, the level of enthusiasm and priorities can suddenly change, and discussions in progress may be reset. For the seller-side startup, the continued commitment of the buyer's key persons is extremely important.

Startup Executive



Organization
/Compensation:
Retention



(Design incentives such as stock compensation and bonuses after acquisition)

- Combine stock compensation and bonuses to design incentives that keep management and employees committed to business growth even after acquisition



To realize business growth for both seller and buyer through the acquisition, stock compensation and incentive design, such as bonuses, are important for retaining executives appropriately.

Startup Executive



Business:
Clarify Business
Expectations



- The business plans of strategic acquirers are scrutinized more severely by shareholders, etc., and the premises differ from those of business plans prepared by startups. Therefore, in the early stages of PMI, after clarifying the positioning and premises of the business plan, it is necessary to recast it into a realistic plan and KPIs.



In the PMI stage, from the perspective of communicating with shareholders as a large corporation, it is better to revise the business plan to a level that is realistically achievable and then aim for upside on top of that

Open Innovation Head, Major
Strategic Acquirer



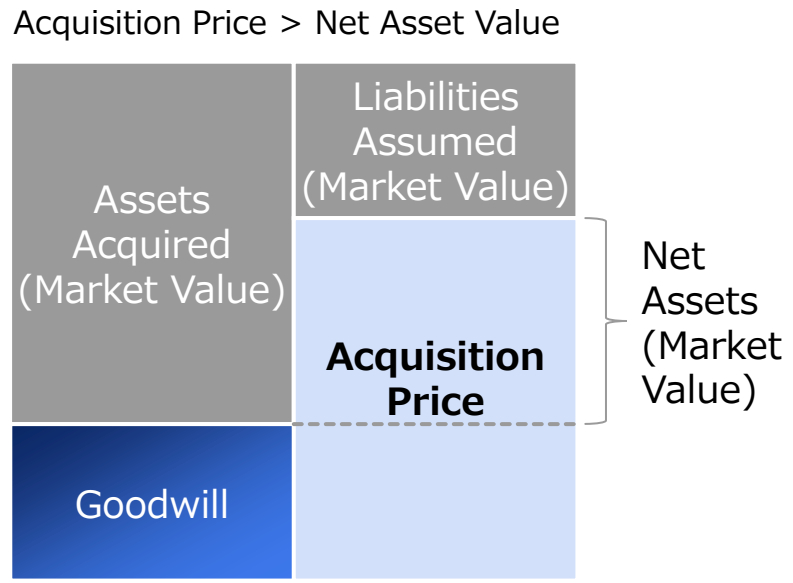
When executing a startup M&A, it is useful to understand the accounting treatment that underlies the transaction.

Overview of Goodwill



= Refers to the difference between the acquisition price at the time of merging or acquiring a company (or business) and the net asset value of the acquired company (or business), and represents a kind of premium (excess earning power) consisting of synergies, employee capabilities, etc.

Image on the Balance Sheet (Figure)



Voices of Stakeholders on the Relationship with M&A

Under Japanese accounting standards, "goodwill" must be amortized periodically. Goodwill amortization expense compresses or weighs on the buyer's earnings, which can make buyers cautious about M&A decisions



Large corporations extremely dislike impairment in the first year of a startup acquisition. As a result, the acquisition decision itself becomes cautious, and the entire M&A process can be designed on a "risk-premise" basis



Note: For an overview of goodwill and its image on the balance sheet, refer to (Reference) "Overview of Goodwill" included in Ministry of Economy, Trade and Industry materials, prepared by Boston Consulting Group

When executing a startup M&A, it is useful to understand the accounting treatment that underlies the transaction.

Treatment of Goodwill Under Accounting Standards in Japan and Overseas

Japanese listed companies may choose among Japanese GAAP, IFRS, and US GAAP.

Item	Japanese GAAP Goodwill Amortization	IFRS Non-Amortization of Goodwill	US GAAP Non-Amortization of Goodwill
Accounting Treatment	Regular amortization (within 20 years) + Impairment approach	Impairment-Only Approach	Impairment-Only Approach
Impairment Test	Performed when indications* exist. When total undiscounted CF is below book value, estimate the recoverable amount and measure the impairment loss (two-step approach).	Performed annually. When recoverable amount is below book value, recognize an impairment loss (one-step approach).	Performed annually. When fair value is below book value, recognize an impairment loss (one-step approach).

* Events or changes in circumstances suggesting the possibility of an inability to recover the investment (Continuing operating losses, significant deterioration of the business environment, etc.)

About IFRS



In Japan as well, IFRS is becoming an established practical standard among large corporations such as trading houses, pharmaceuticals, transportation equipment, and electronics, where global competition and M&A have become the norm

On the other hand, especially among mid-sized companies centered on manufacturing, the burden of adopting IFRS - including consolidated management, subsidiary management, systems, and governance - is significant, and migration to IFRS is not easy. As a result, many companies use Japanese GAAP, and goodwill amortization tends to affect M&A decisions

Startup Executive
(With Experience of a Sale in the U.S.)



Of the total market capitalization of companies listed on the TSE (JPY 1,012 trillion), companies that have already adopted IFRS, those that have decided to adopt IFRS, and those that plan to adopt IFRS account for 49.8% (as of the end of June 2025). Source: "III-4. Status of IFRS Adoption <TSE Listed Companies>" in the Tokyo Stock Exchange, "Analysis of Disclosure Content of 'Basic Approach to the Selection of Accounting Standards.'"

Note: The table on "Treatment of Goodwill Under Accounting Standards in Japan and Overseas" was prepared by Boston Consulting Group based on the figure of the same title included in Ministry of Economy, Trade and Industry materials

The Government, with the aim of promoting open innovation between startups and large corporations, including through M&A, also provides support from the tax-system side.

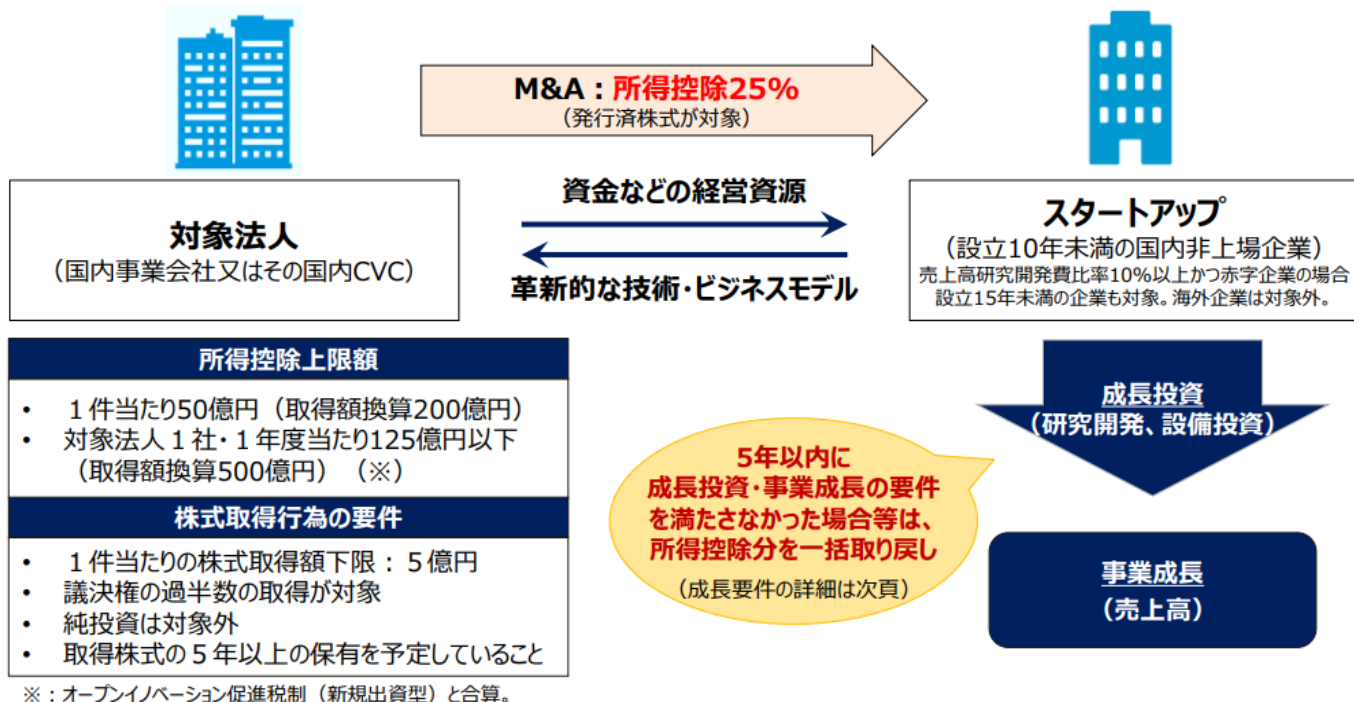
Open Innovation Promotion Tax System (M&A Type) <From April 2023>

For details, check the Ministry of Economy, Trade and Industry website (Open Innovation Promotion Tax System).

オープンイノベーション促進税制（M&A型）の概要

- 国内の対象法人等が、スタートアップ企業のM&A（議決権の過半数の取得）を行った場合、**取得した発行済株式の取得価額の25%を課税所得から控除**できる制度。

※令和5年4月1日以降のM&A（株式取得）が対象



Note 1: The above is cited from "Overview of the Open Innovation Promotion Tax System (M&A Type) (PDF, 397 KB)."

Note 2: This overview of the system reflects content through the end of FY2025. Under the FY2026 tax reform, some content of the system has changed for FY2026 onward. For example, the "minimum amount per share acquisition" under the "requirements for share acquisition actions" has changed from "JPY 500 million" to "JPY 700 million." Reflecting other amendments, the Ministry of Economy, Trade and Industry website and posted materials will be updated as appropriate.

Guidance Issued by the Government

The Government has issued various guidance to deepen collaboration between strategic acquirers - which are the main buyers of startups - and startups.

- Each guidance document listed on this page can be downloaded from the Ministry of Economy, Trade and Industry website (Collaboration Between Startup Companies and Strategic Acquirers).

スタートアップとの事業連携及び
スタートアップへの出資に関する指針

令和4年3月31日

公正取引委員会
経済産業省

ステークホルダー全員参加型 クローズ戦略のポイント

M&Aを活用して ディープテック・ スタートアップを 発展させる！

- ディープテック・スタートアップ
- 事業会社
- 大学
- VC
- 弁理士・弁理士
- 会計士
- 支援機関 (マッチング事業者) の方必見！

経済産業省

事業会社と研究開発型ベンチャー企業の 連携のための手引き (第三版)

経済産業省 産業技術環境局 技術振興・大学連携推進課
平成31年4月 (Ver.1.0)

ディープテックスタートアップの評価・連携の手引き

- 事業会社とディープテックスタートアップの連携に向け -

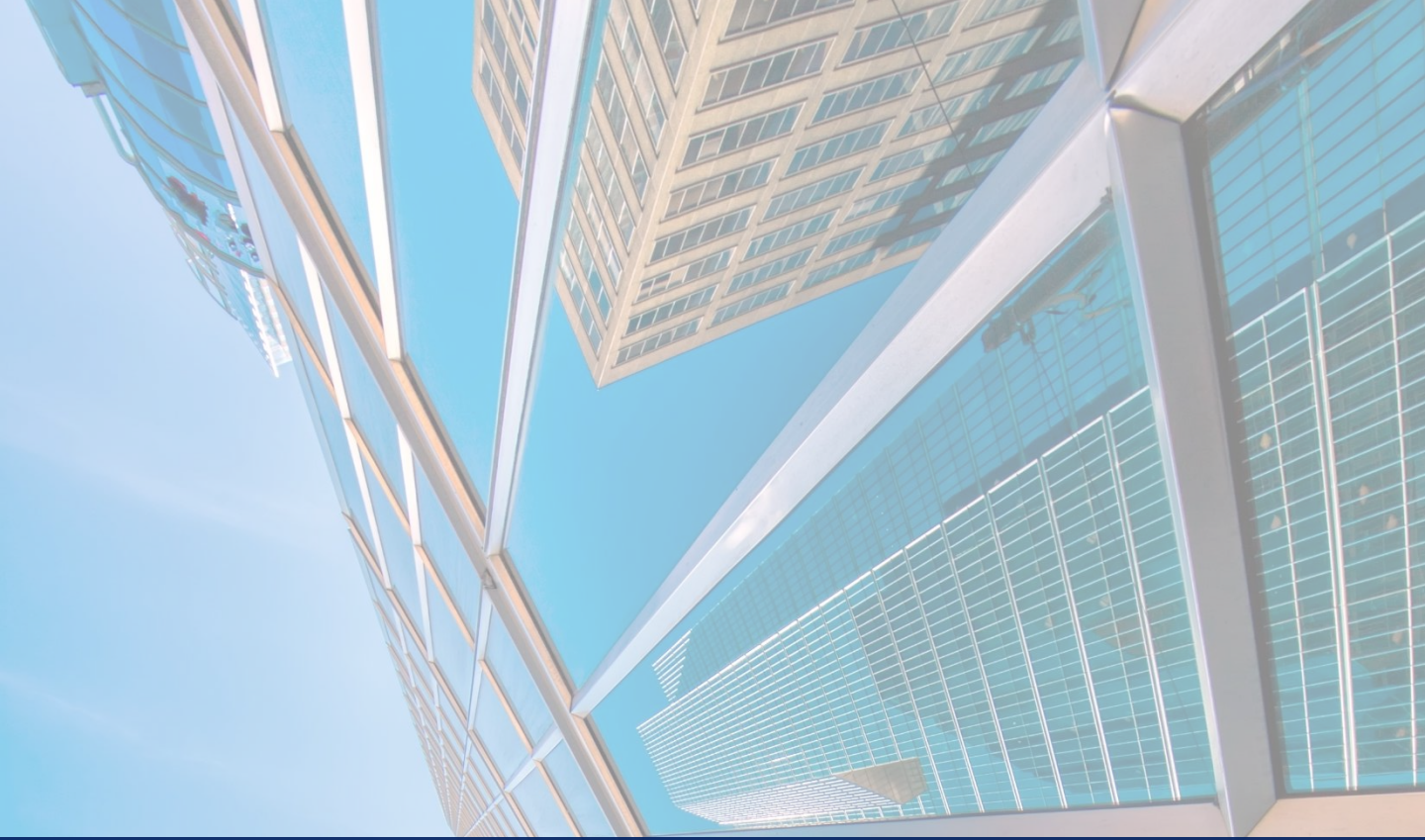
研究開発に係る無形資産価値の可視化研究会
研究開発型スタートアップの無形資産価値の
可視化に係る課題検討ワーキンググループ

経済産業省
Ministry of Economy, Trade and Industry

(概要版) 共創パートナーシップ 調達・購買ガイドライン

令和7年4月
経済産業省 イノベーション・環境局
イノベーション創出新事業推進課

本ガイドラインは、国立研究開発法人新エネルギー・産業技術総合開発機構 (NEDO) 「令和6年度『ディープテック・スタートアップの成長に資する事業会社との新たな協業に必要なモデル・手法等に関する調査』事業 (受託者：プロイット・トゥー・マフ・ベンチャーサポート株式会社)」を基に作成

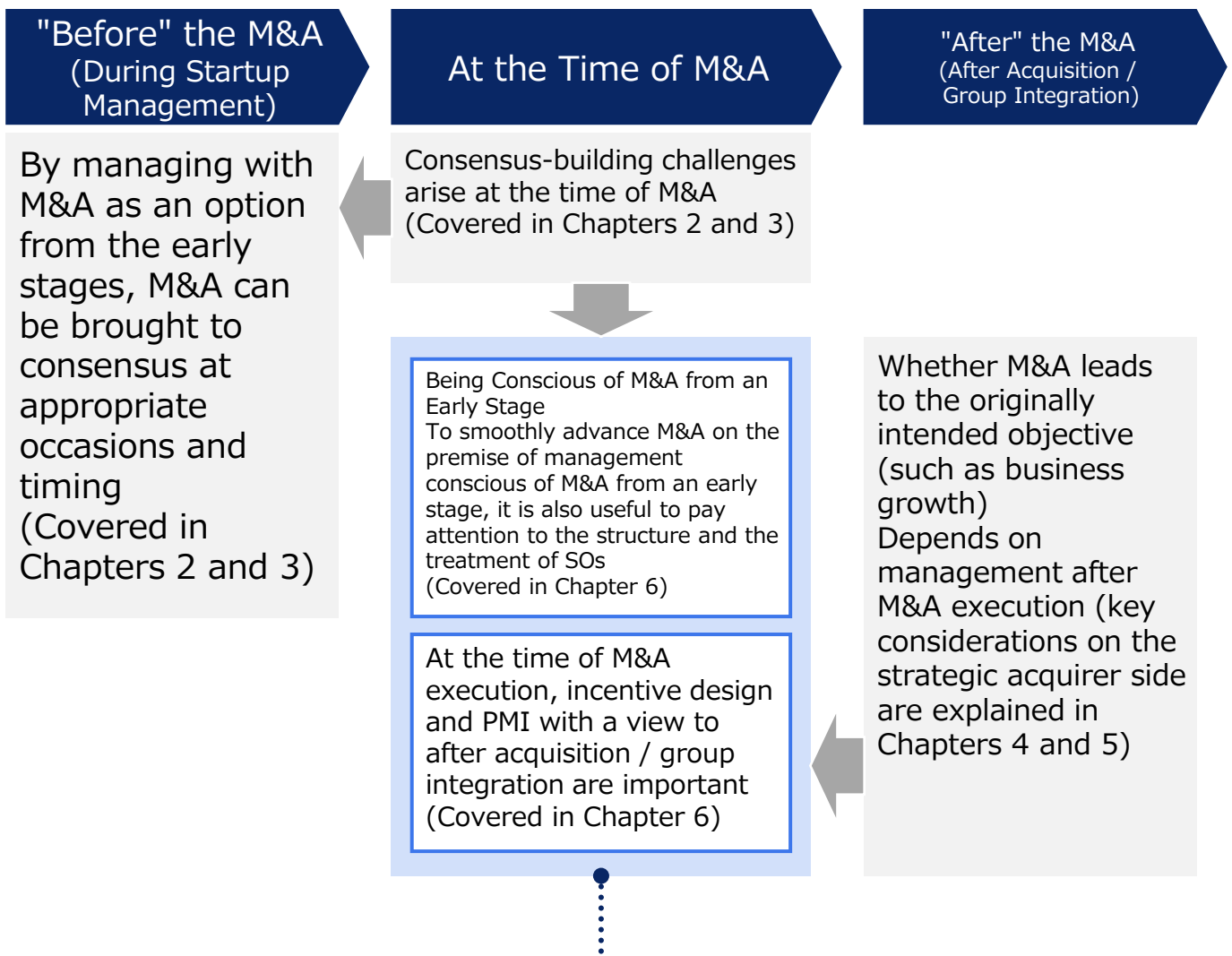


CHAPTER 6

Key Considerations When Executing M&A



To lead M&A to success, management from "before" the M&A, as explained in Chapters 2 and 3, is important, and negotiations and contracts with a view to "after" the M&A are also important.



Topics Covered in Chapter 6

Smooth Execution of M&A	Planning and Agreement with a View to Post-M&A
1. Understanding the M&A Process	4. Incentive Design After Acquisition (Group Integration)
2. Considering M&A Structure	5. Coordination with a View to PMI After Acquisition (Group Integration), etc.
3. Treatment of Stock Acquisition Rights, etc. at M&A	
6. Approach to Communicating with Startup Employees	
7. Key Considerations at Contracting	

Even when the seller is a startup, the overall flow of M&A is similar to that of ordinary M&A, but there are also points unique to startups.

Key Considerations When Executing M&A - Overview

Smooth Execution of M&A

Agreement on Planning with a View to Post-M&A

M&A Process Flow

Structure

Stock Acquisition Rights, etc.

Incentives

PMI Coordination

Approach to Communicating with Startup Employees

Key Considerations at Contracting

M&A Process and Considerations Unique to Startups



Seller-Initiated

- Organize Sale Intent and Terms
- Search for Buyers (Contact with Intermediaries or FAs)

Buyer-Initiated

- Formulate Strategic Themes
- Build Target Hypotheses
- Search for Selling Companies

Common to Seller and Buyer

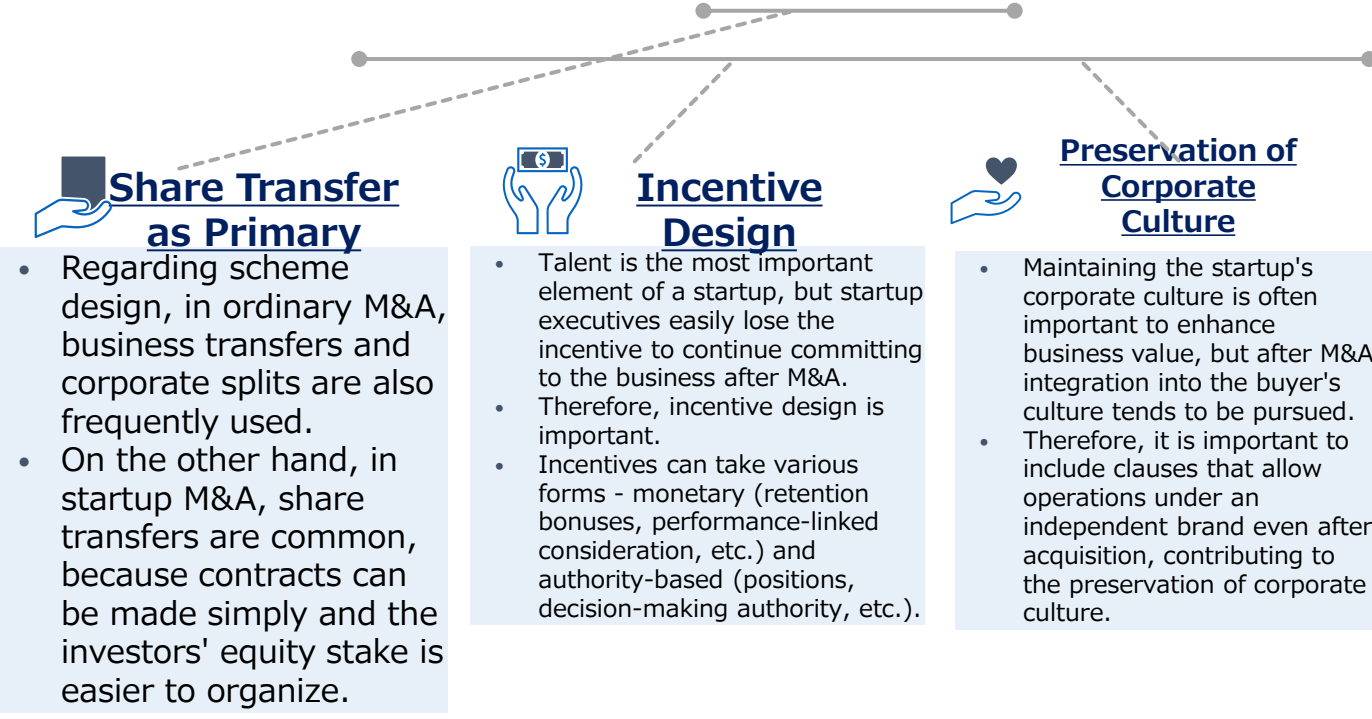
- NDA Execution
- Intent Confirmation
- Presentation and Negotiation of Price Range

Common to Seller and Buyer

- Financial DD
- Legal DD
- Tax DD
- IP / HR
- Representations and Warranties / Scheme Design

Common to Seller and Buyer

- Formulate Integration Roadmap
- Key Person Retention
- Governance Design



There are several structures for executing M&A. It is useful to manage based on an understanding of the merits and concerns of each structure.

Key Considerations When Executing M&A - Overview

Smooth Execution of M&A

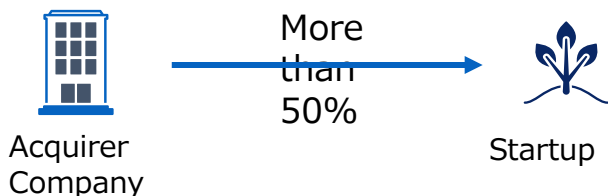
Agreement on Planning with a View to Post-M&A



Classification of Structures by the Stage of Share Acquisition

When executing M&A, the difficulty and probability of success of PMI vary significantly depending on the method of share acquisition. After understanding the merits and concerns of each structure, it is important to make an appropriate choice based on the objective and phase.

Immediate Acquisition (Majority or More)



- ✓ **Speed-focused decision-making and integration can proceed**
- Decision-making authority can be unified, reducing the need for downstream term adjustments and renegotiations

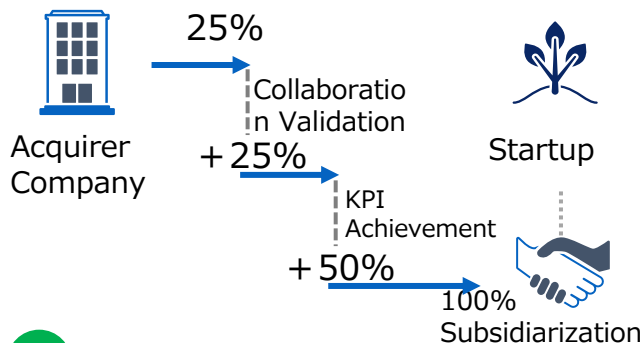
- ⚠ **Expectation gaps and cultural friction tend to surface, so aligning expectations before acquisition is important**
- If failures occur early, the impact tends to rebound on business value, making early-stage PMI design important

“While staged acquisition reduces expectation gaps, it increases the probability of the deal falling through. On the other hand, an immediate acquisition prioritizes speed but raises PMI risk.

How to think about the trade-off between "the probability of completion" and "the probability of success after completion" varies on a deal-by-deal basis

Strategic Acquirer (Open Innovation Head)

Staged Acquisition



- ✓ Mutual understanding can be deepened through collaboration and validation
- Especially in high-risk areas and new businesses, business viability can be assessed as the deal progresses

- ⚠ **Purposeless minority acquisitions complicate the shareholder composition and tend to become obstacles to capital strategy design, so initial design is important**

“In Japan, there are many cases of "first making a small minority investment for the time being," but it is very common for shareholders to become scattered and become an obstacle to M&A.

It is desirable to transition to a strategic acquisition or alliance at the stage when the company has matured sufficiently and the buyer and seller have mutually judged that "we will commit ourselves to this company"

Strategic Acquirer



The Option of "Swing-By IPO"

Swing-By IPO is, as one means of growth, a method in which a startup company enhances its enterprise value through M&A and then aims for an IPO.



Characteristics

Leverages the parent company's resources to accelerate business growth

- Can utilize the parent company's capital, customers, brand, and sales network to advance growth investment at once
- Because the parent company supports cash flow during the loss-making period, investments that would be difficult on a standalone basis become possible

Shareholder composition and enterprise value are more easily organized

- The shareholder composition is organized, and the parent company may become a stable shareholder after listing

Executive motivation can be maintained (retention effect)

- In structures that retain the executive's shares, incentives operate toward enhancing enterprise value toward listing



Swing-By IPO is not something to be designed and pursued in advance; rather, it is something that emerges as an option as a result of first growing the business itself. When a concrete image becomes visible through dialogue and collaboration between top managements, it is chosen as a result as a means of growth leveraging resources.

Startup Executive
(Seller)



Swing-By IPO is not something that is designed and executed in a finished form from the start; the optimal form differs by company, and there is no single right answer. It is important to build relationships through small deals and collaborations, learning along the way, and to progress in stages.

Strategic Acquirer
(Buyer)



By retaining a certain portion of the shares held by startup executives at the time of M&A with Swing-By IPO in mind, motivation toward business growth can be maintained even after acquisition.

Strategic Acquirer
(Buyer)



Regarding the treatment of stock acquisition rights, etc. at the time of M&A, attention is required regarding "CB / CE" and "treatment of SOs."

Key Considerations When Executing M&A - Overview

Smooth Execution of M&A

Agreement on Planning with a View to Post-M&A

M&A Process Flow

Structure

Stock Acquisition Rights, etc.

Incentives

PMI Coordination

Approach to Communicating with Startup Employees

Key Considerations at Contracting

CB / CE (Including J-KISS)

Content

In practice, it is common for the issuance terms to be designed so that, in the case of M&A, one of the following treatments is applied.

- Conversion to shares: Convert to shares using as the conversion price the valuation cap divided by total issued shares (fully diluted basis)
- Cash redemption: Receive payment from the selling company of the issue price of the CB / CE or an amount with a certain premium added

Note: CB refers to Convertible Bond, and CE refers to Convertible Equity. J-KISS is the seed investment contract for use with convertible equity, maintained by Coral Capital and released as open source for free.

Points to Note

- From the perspective of the holder of stock acquisition rights, in principle, when a sufficient valuation is given at the time of M&A, the CB / CE is exercised and converted into shares, which are then sold to the buyer. When a sufficient valuation is not given, cash redemption is received to recover the invested capital
- From the buyer's perspective, in principle, in line with the holder's choice, when conversion to shares occurs, the buyer buys the shares; when cash redemption occurs, the corresponding cash consideration is reflected in the valuation of the selling company

Treatment of SOs (Repurchase, Forfeiture, etc.)

Content

Either method requires the consent of the holder of stock acquisition rights, so it is possible to make obtaining such consent a condition precedent to closing in the definitive agreement.

- A method of buying the shares acquired by the holder through exercising the SO
- A method of buying the SOs themselves
- A method of having SOs forfeited (consider alternative incentives, etc.)

[SO design details are discussed later]

Points to Note

- If SOs are forfeited, the holder loses the incentives that had been granted up to that point. With M&A in mind, it is important to design the SO scheme and communicate it from the SO grant stage so that the holders' reasonable expectations are not impaired in the case of M&A
- In addition, depending on the method of SO repurchase, etc., tax treatment (tax-qualified status, etc.) may be affected, so tax-side consideration by structure is necessary

For startups to continue to grow after acquisition (group integration), appropriate incentive design is important so that key personnel can continue to commit to the business.

Key Considerations When Executing M&A - Overview

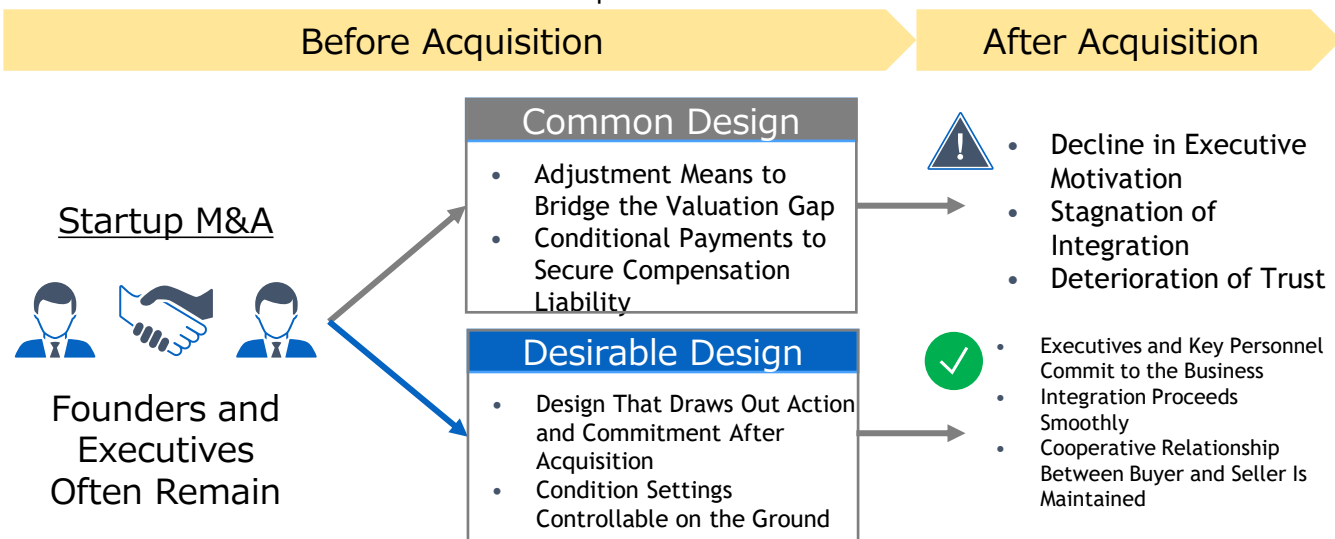
Smooth Execution of M&A

Agreement on Planning with a View to Post-M&A



Importance of Incentive Design

Because the source of a startup's enterprise value lies in "people," designing incentives that motivate executives and key personnel to commit to business growth after acquisition determines the success or failure of the acquisition.



Types of Incentive Design at and After Acquisition

Incentives at the Time of Acquisition

Post-Acquisition Retention

Acquisition Terms	Deal Structuring	SO Design	Compensation Design
Earn-out <ul style="list-style-type: none"> A mechanism to pay part of the acquisition consideration additionally based on post-acquisition performance achievement 	Share Exchange <p>A transaction scheme that pays the acquisition consideration using the buyer's shares instead of cash</p>	Treatment of SOs at M&A <ul style="list-style-type: none"> Because there are cases in which SOs cannot be exercised due to M&A, careful consultation and discussion with legal experts when designing SO contracts is useful 	Retention Bonus <ul style="list-style-type: none"> Compensation paid to executives and key personnel on the condition of remaining for a certain period after acquisition Performance-Linked Compensation <ul style="list-style-type: none"> Medium- to long-term compensation in which the payment amount varies based on the achievement of roles and KPIs

The way the acquisition consideration is delivered greatly influences how much executives and key personnel continue to commit to business growth after acquisition.

Incentive Design

Deal Structuring

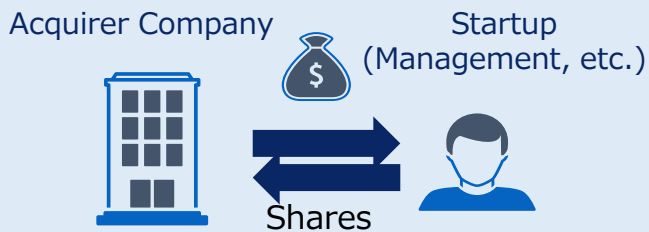
Acquisition Terms

SO Design

Compensation Design



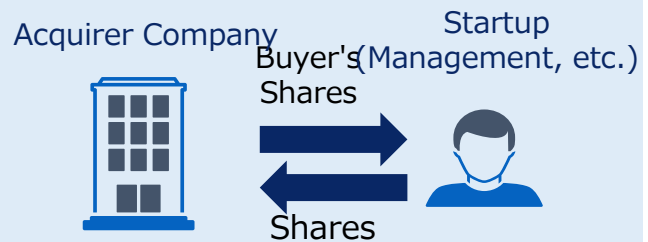
Acquisition Through Cash Consideration



- Because the certainty of the transaction is high and the seller bears little risk, the deal is easier to complete.
- On the other hand, since the economic relationship between the seller and the business ends at the time of sale, post-acquisition business growth and the seller's returns are decoupled.



Acquisition Through Share Consideration



- For the seller's executives, the buyer's business growth directly translates to their own returns, so economic incentives align with those of the buyer's executives.
- For the buyer, the cost of capital is also lower than cash, expanding the range of acquisition options.
- On the other hand, there are also cases where the seller's executives want cash.



When designing transactions, balancing cash consideration with share consideration makes it easier for the seller's executives to commit to medium- to long-term business growth and aligns the incentives of all stakeholders, making integrated management easier.

(A mixed design combining cash and shares is also possible)



Earn-outs are difficult to design with KPIs, so we rarely use them. Rather, by having executives hold shares of the company group-integrated through share exchange, they can commit to the growth of the entire group, and we find that incentives align more easily.

Mega-Venture Executive



Note: Share consideration here is not limited to corporate reorganizations such as share exchanges, but also includes forms such as reinvesting a portion of cash consideration into the buyer's (or group's) shares.

After acquisition (group integration), for the startup to further grow, a design that aligns incentives with the buyer while retaining business discretion is important.

Incentive Design

Deal Structuring

Acquisition Terms

SO Design

Compensation Design



Content

Negotiation Points and Considerations

Earn-out

- An earn-out is a mechanism in which part of the acquisition consideration is paid additionally based on the achievement of future performance or KPIs.
- Used to bridge price gaps when future value assessments diverge.
- Buyers can complete deals while limiting overvaluation risk, and sellers can conditionally reflect growth hypotheses in price.

- Unless the definition and calculation method of the performance indicators (recognition basis, adjustment items, etc.) are clearly agreed upon, disputes over achievement determination may arise.
- Because post-acquisition management discretion influences performance achievement, the scope of responsibility and decision-making authority must be organized.
- For listed companies, it is desirable to design a structure in which the rationality of the price can be explained by the business plan and KPIs.



(Reference) Holdback

- Holdback is a mechanism in which part of the acquisition consideration is held back for a certain period as a source for indemnification against breaches of representations and warranties or contingent liabilities; it is mainly designed for risk allocation.
- By holding back consideration via escrow*, etc., the buyer's recovery certainty is increased while the scope of the seller's liability is clarified.

- The amount and period of the holdback must be aligned with the risk level of the selling company; excessive setting can hinder deal completion.
- It is important to clearly define the conditions for return and compensation claim procedures, and to design so as to avoid disputes over the timing of releasing the held-back amount.
- Holdback is a mechanism for risk security and should be considered separately from personnel incentive design.



* Escrow: A mechanism in which, at the time of M&A, a third party such as a financial institution mediates between the buyer and the seller in the transfer of payment.

Because there are designs in which SOs cannot be exercised due to M&A, careful contract design through consultation and discussion with legal experts from the time of issuance is useful.

Incentive Design

Deal Structuring

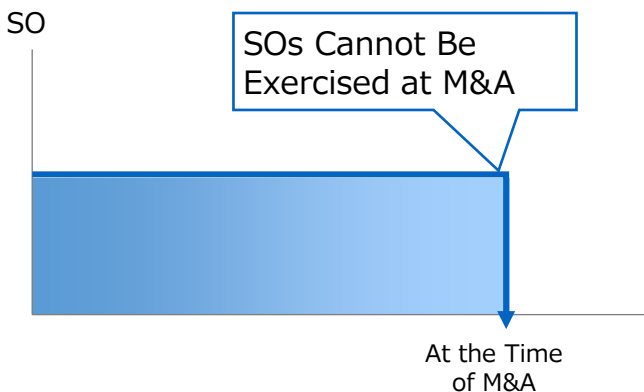
Repurchase Terms

SO Design

Compensation Design



Cases Where SOs Cannot Be Exercised Due to M&A



- In Japan, there are cases designed so that SOs cannot be exercised due to no longer meeting the exercise conditions or being subject to acquisition provisions because of M&A.
- In such cases, the SOs issued may not be able to fully exert their effect as incentives.

“

In Japan, in 50-60% of cases, SOs cannot be exercised due to M&A. Furthermore, there are also cases in which participating preferred shares significantly cut the share allocated to executives and employees.

VC Investor



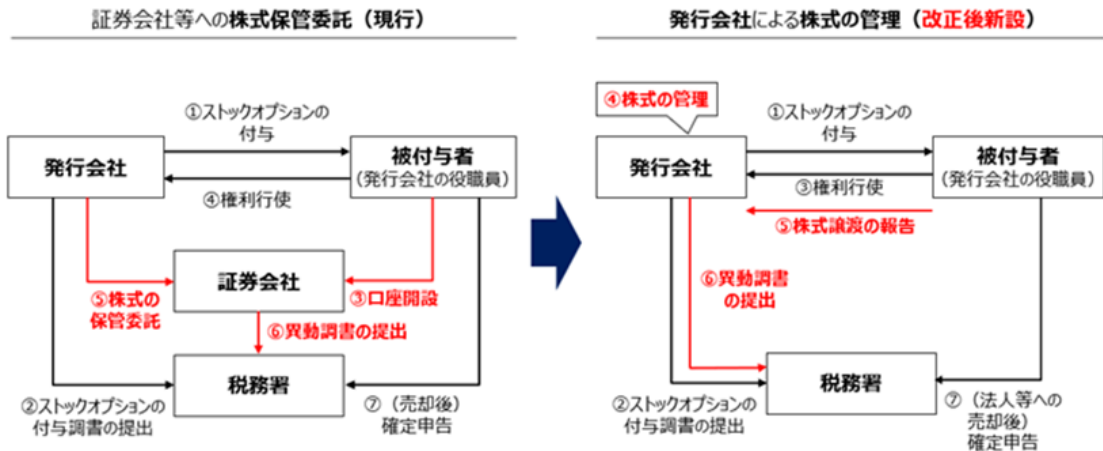
To make SOs continue to function as incentives even after M&A, it is necessary and useful to consult and discuss with legal experts from the time of issuance, appropriately design the scheme from the issuance stage with acquisition scenarios in view, and negotiate and agree at the time of acquisition so that the incentives actually function



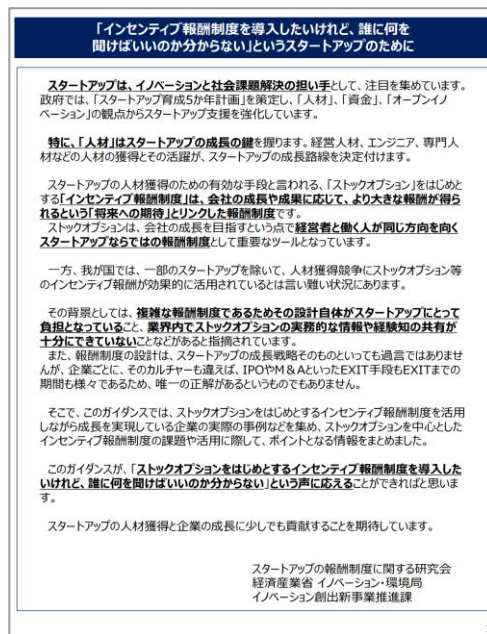
Tax Reform on Stock Options

Previously, with respect to shares acquired through the exercise of stock options, custody by securities firms was a requirement for tax-qualified treatment. Under the FY2024 tax reform, for transfer-restricted shares only, in lieu of custody by securities firms, share management is also possible.

As a result, exercising tax-qualified stock options at the unlisted stage has become easier, and it has been pointed out that operations such as including converted shares in the subject of transfer in M&A via share transfer have become smoother than before.



For details on stock option design, see also the Ministry of Economy, Trade and Industry, "Incentive Compensation Guidance for the Growth of Startups - How to Use Stock Options for Talent Acquisition -."



Source: Prepared by Boston Consulting based on the content and information of the Ministry of Economy, Trade and Industry website



SO Design in the U.S.

In the U.S., on the premise that key personnel will drive business growth even after acquisition, retention designs combining cash compensation and equity compensation are commonly incorporated as part of acquisition terms.



SO

1 Year 2 Years 3 Years 4 Years At the Time of M&A

SOs Continue After M&A, or Are Converted to RSUs, etc.

- In the U.S., it is common for SOs to accumulate gradually over 4 years while one remains employed, after exceeding 1 year of tenure.
- It is also common for contract design to be such that SO rights remain or continue to be exercisable after M&A.
- There are also cases of conversion to RSUs* and the like at the time of M&A.

* RSU = Restricted Stock Unit: A right to receive shares in the future upon meeting certain conditions (such as tenure)



In many cases, retention functions effectively, and key personnel remain after acquisition and proactively drive PMI and business growth

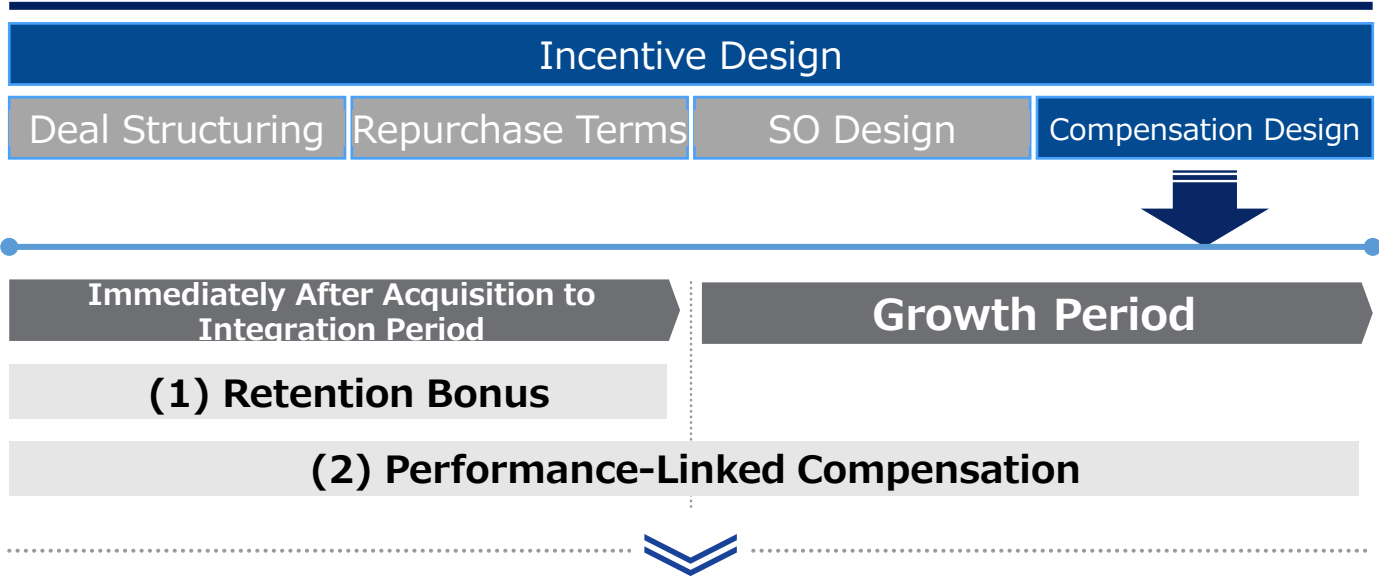
“ Retention is extremely important, and in the U.S., significant budgets are spent to retain talent.

For example, at Microsoft, SOs are converted to RSUs after acquisition, achieving retention

Startup Executive
(With Experience of a Sale in the U.S.)



In post-acquisition compensation design, it is important to separately design short-term "talent retention" and medium- to long-term "action / outcome creation."



(1) Retention Bonus

The objective is to prevent the departure of executives and key personnel immediately after acquisition through the integration period, and to support a stable launch

Seller

- Concretely understand which periods and roles are expected to be undertaken after acquisition
- Clearly confirm the payment conditions - whether "paid as long as one remains" or "premised on certain roles / contributions"

Buyer

- Design after organizing who and for what period needs to be retained, on the premise of the risk of talent departure during the integration period
- Set conditions not as mere tenure-based but linked to minimum roles and responsibilities, and avoid punitive condition setting

(2) Performance-Linked Compensation

The objective is to encourage executives and key personnel to remain proactively involved in business growth and integration over the medium to long term

Seller

- Confirm whether the roles and responsibilities undertaken after acquisition are concretely linked to KPIs
- Identify whether the conditions are subject to elements outside one's own control, such as decisions by the parent company or changes in group-wide policy

Buyer

- Clarify the actions and outcomes to be realized after acquisition and design indicators that reflect the seller-side's results
- Position performance-linked compensation as a mechanism to draw out action, not as deferred payment for a valuation gap

In PMI coordination, it is useful to create in advance a state where "decision-making functions and value and operations are connected" after acquisition.

Key Considerations When Executing M&A - Overview

Smooth Execution of M&A

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M&A Process Flow

Structure

Stock Acquisition Rights, etc.

Incentives

PMI Coordination

Approach to Communicating with Startup Employees

Key Considerations at Contracting

Considerations for PMI

Decision-Making Process

- Between large corporations and startups, the criteria for decision-making (short-term KPI / risk management vs. long-term value creation) and the sense of speed differ significantly
- If these are advanced while remaining ambiguous at the time of integration, they surface as cultural gaps, and decision-making stagnates

Value Design

- If both buyer and seller are vague about "what to absorb on a priority basis (talent, technology, products, etc.)," PMI as a whole tends to wander
- If it is unclear which value to develop after acquisition, resource allocation and decision-making become ad hoc

Operations

- In the execution phase, on-the-ground approval processes and system constraints tend to become PMI bottlenecks
- Especially in the B-to-C domain, when parent-company approvals and system modifications take time, integration often stagnates



Large corporations tend to place the highest importance on achieving the annual budget, and decision-making tends to become short-term oriented.

On the other hand, the venture side has a value-creation orientation of "believing in latent value and drawing the J-curve." These also lead to cultural differences

Startup Executive



On the seller side as well as the buyer side, expertise and experience in PMI are often insufficient.

Therefore, it is important to specify as concretely as possible in advance "what to gain after M&A" and to prioritize the resources and support contents desired

Startup Executive



Both sides had agreed on the big picture of PMI, such as mutual referral of customer bases.

However, when actually trying to realize it, obtaining on-the-ground consent and the system development on the large corporation side took considerable time

Startup Executive



Seller Buyer

Clarify who decides what and to what extent by area after acquisition, and design approval processes that prevent decision-making speed from slowing in the early stages of PMI



Seller Buyer

Determine the value (talent, technology, products, customers) to develop with top priority after acquisition, and share criteria for judgment and resource allocation in PMI in advance



Buyer

Identify in advance on-the-ground approval processes and system constraints, and organize constraints and alternative means so that PMI does not stop in the execution phase

For the business to grow smoothly after acquisition (group integration), it is desirable to carefully explain to employees the positioning and significance of the M&A.

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Considerations in Communication to Employees

After the M&A announcement, employees tend to harbor anxieties about their roles and treatment, so it is important to repeatedly explain the purpose of the business and future policies, and to prepare an environment in which they can work with peace of mind.

However, since some degree of environmental change is unavoidable, it is not realistic to aim for all employees to remain, and post-M&A turnover should also be anticipated.



Internal Communication

Explanation of the Significance of Group Integration

Seller

- Have the executive explain M&A in a positive context and minimize employee anxiety.
- For example, clarify the positioning of the business under the parent company after group integration, the direction of synergy creation, the method of decision-making, and the sense of speed.
- Words such as "acquisition" and "M&A" can evoke a hierarchical relationship with the parent company and easily cause anxiety within the startup. Therefore, using positive expressions such as "group integration" is also effective.

Explanation of Incentives

Seller

Buyer

- **Clearly explain how the SOs held by employees will be treated. [-> For the treatment of SOs, see 6-4. Incentive Design After Acquisition (Group Integration)]**
- Also explain the evaluation / compensation design policy after group integration.



External Communication

Seller

Buyer

- **Key persons of both seller and buyer speak about the significance of the group integration through the media.**
- By communicating externally through the media, startup employees can also feel that the management of both seller and buyer are committed to business growth.



Company XX is at the core of the group's growth strategy. Through integration, we will enhance the value of both the business and our talent together.

When concluding an M&A contract, matters concerning closing procedures and indemnification liability should desirably be appropriately recognized and addressed by both buyer and seller.

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Overall View of M&A

Transfer Consideration

-> Share consideration, earn-out / holdback, etc. See Section 6-4

Matters Concerning Closing

-> For squeeze-out, see the right item

Conditions Precedent to Closing

Representations and Warranties

-> For contents and considerations, see the right item

Covenants

Indemnification

Other General Provisions

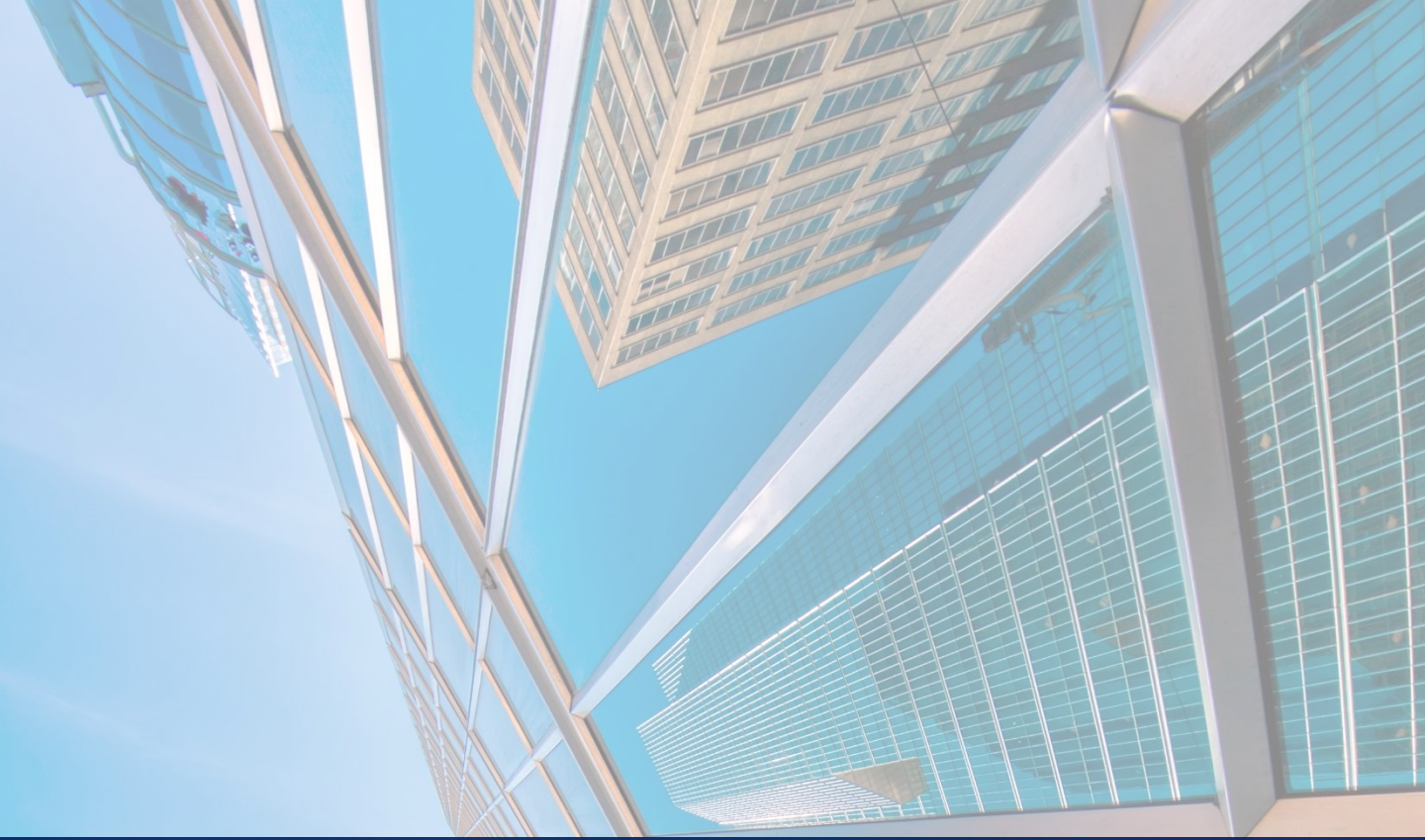
Content

- Techniques to achieve 100% subsidiarization without obtaining the consent of minority shareholders. Depending on the voting rights, methods such as a demand for share sales to a special controlling shareholder (90% or more) or share consolidation (special resolution of 2/3 or more) are used to organize minority shareholders.

- Provisions that guarantee that statements of fact - regarding such matters as the existence of the selling company itself and its authority to enter into the contract, the absence of defects in the transferred shares, and the contents of the seller's business - and their contents are true and accurate.
- The concept is the allocation of responsibility between seller and buyer for matters of uncertainty regarding the selling company.

Negotiation Points and Considerations

- Because the available methods differ depending on the voting ratio, it is important to organize in advance the acquisition design and schedule consistent with the target shareholding ratio and procedures.
- In startups, the executive shareholders most familiar with the business often serve as the parties giving representations and warranties. (Investors such as VCs typically limit their liability on the grounds that they are not directly involved in business operations.)
- When personal indemnification liability is imposed on executive shareholders, the effectiveness is limited in terms of financial capacity. (For example, confirm that the indemnification liability does not exceed the executive shareholders' shareholding ratio (such as liability equal to the entire consideration).)
- Therefore, as preparation for breaches of representations and warranties, it is useful to clarify the scope of indemnification, monetary caps, and the period.



CHAPTER 7

Case Studies



By partnering with MUFG, Kanmu - growing in the payment business - obtained a robust balance sheet and trust, while MUFG absorbed a younger-generation user base and payment know-how, enhancing the business value of both sides.

Company Overview and Aim of the M&A

Seller (Startup)

Kanmu, Inc.

Year of Founding

2011

Business Description

Planning, development, and operation of payment and asset-formation services including prepaid cards and credit cards with investment functions

Total Revenue

N/A

Buyer (Large Corporation)

MUFG Bank, Ltd.

2006 (Established through integration)

Provides deposits, lending, payments, corporate financial services, and investment banking services in Japan and overseas

JPY 9.7 trillion (FY2025 / consolidated)

M&A's Objectives and Effects



- **Diversification of Funding Means**
- Reduced User Churn / Improved Conversion
- Improved Trust in the Hiring Market
- Expanded services with a focus on younger-generation customers
- Combined payment know-how with our services to strengthen functionality

Background Leading to M&A / Managerial Benefits of Choosing M&A

Background from Founding to Considering M&A

Background from Founding to Awareness of M&A

- In the early phase, the term "fintech" had not yet become widespread, and it was difficult to predict how large a balance sheet would be needed. However, through conversations with senior entrepreneurs who had experienced M&A, we recognized that M&A was a familiar option. Therefore, we were aware of the M&A option from the early stages of management.
- Given that the business required a sizable amount of capital and given the personal closeness, we accepted majority investment from Freakout Inc. in 2018.

From Concrete M&A Consideration to M&A

- We aimed for listing on the TSE with the lead underwriter, but the deterioration of market conditions around 2022 required reconsidering the timing, and the lead underwriter proposed MUFG as a business partner.
- **The deal was concluded because MUFG and existing shareholders were able to agree on a valuation that allowed for reasonable returns.**

Source: Interview with Mr. Yamaki, Founder of Kanmu; MUFG Bank press release (December 27, 2022)

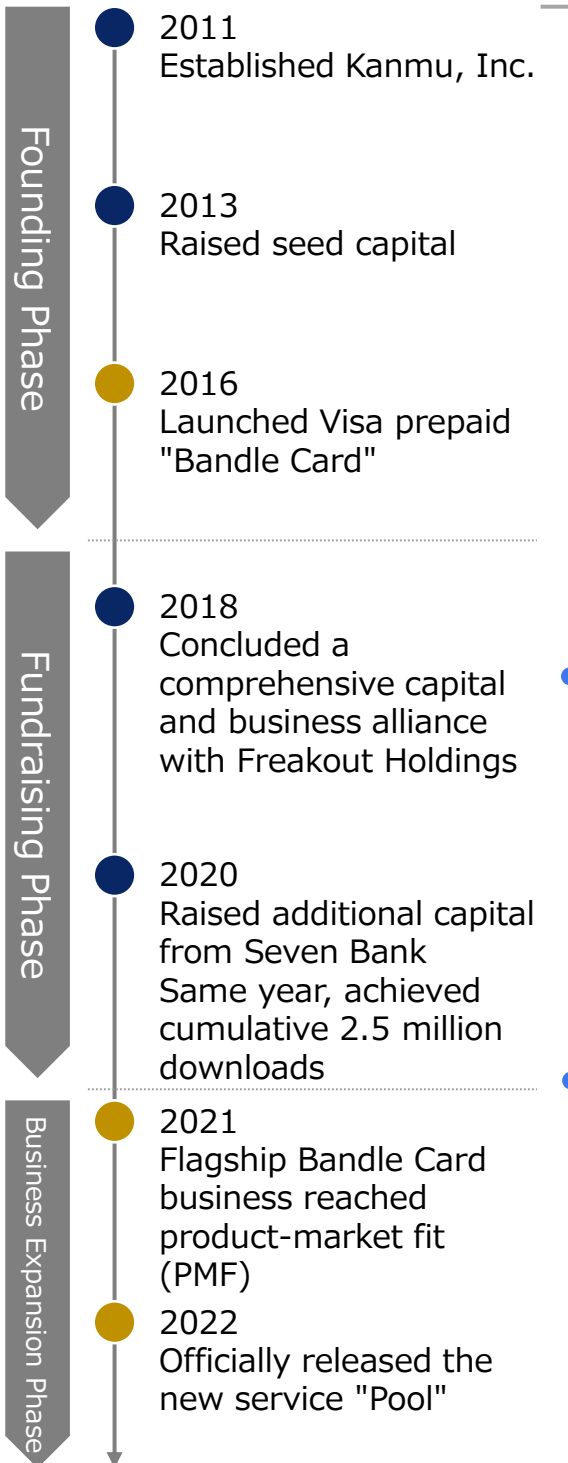
From the very early stages of founding, valuation was kept moderate to preserve M&A and IPO options. In M&A preparation, key persons were engaged and internal messaging was conducted from an early stage.

Things It Was Good / Would Have Been Good to Bear in Mind Toward M&A (1/2)

Key Events

Things It Was Good / Would Have Been Good to Bear in Mind

● : Capital Strategy ● : Business Events



Capital Strategy

Valuation Design with M&A in Mind

- From the founding, in order to retain M&A as an option, in rounds before large-scale fundraising we always "back-calculated from prospective buyers' budget expectations" and maintained a policy of not raising valuation above the low JPY 1 billion range based on the M&A budget expectations of the time.

By not chasing a high valuation, both M&A and IPO options were preserved.

Capital Strategy

Shareholder Design Reflecting VC Fund Structure

- In Kanmu's case, relationships had been built with existing shareholders, making it easier to adjust interests early.
 - Many funds had already secured returns from other portfolio companies.
 - We raised capital from people we knew from the start, so high-frequency communication was possible on a daily basis.

In each round, it is important to select shareholders with a view to the possibility of M&A.

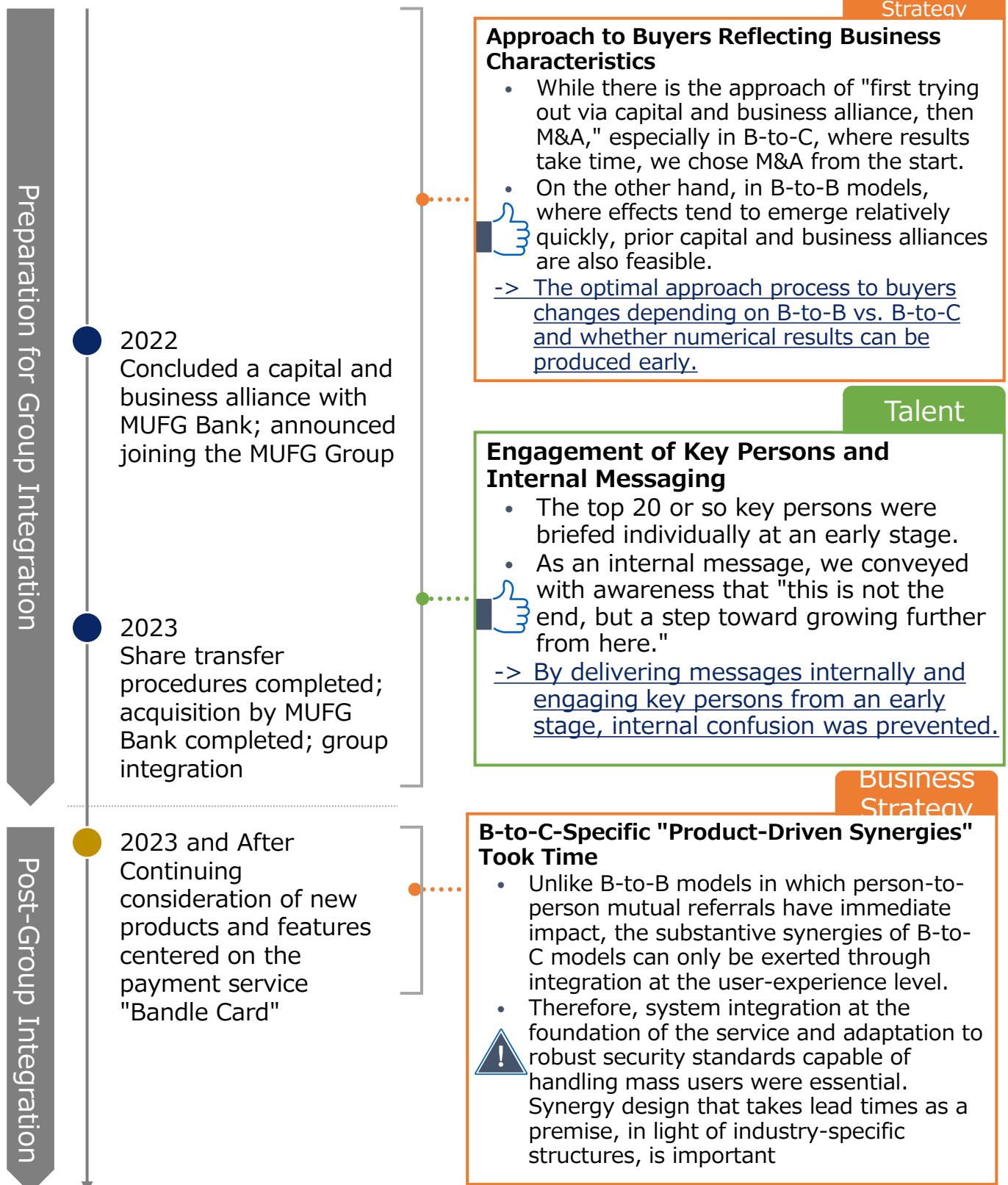
Source: Interview with Mr. Yamaki, Founder of Kanmu

Things It Was Good / Would Have Been Good to Bear in Mind Toward M&A (2/2)

Key Events

Things It Was Good / Would Have Been Good to Bear in Mind

● : Capital Strategy ● : Business Events



Source: Interview with Mr. Yamaki, Founder of Kanmu

Strengths of UPSIDER in the payment and credit area for startups and SMEs combined with the financial powerhouse <Mizuho> aim for new financial services through the fusion of AI and people.

Company Overview

Seller (Startup)

UPSIDER Holdings, Inc.

Buyer (Large Corporation)

Mizuho Bank, Ltd.

Year of Founding	2024 * UPSIDER, Inc. was established in May 2018; became a holding company in 2024.	2013 (Year of establishment)
Business Description	Payment and financial services for startups and SMEs, such as the corporate unsecured card "UPSIDER"	Provides comprehensive financial services such as deposits, lending, corporate finance, fundraising support, and corporate growth support
Total Revenue	NA	JPY 9.0 trillion (FY2025) * Mizuho Financial Group consolidated

M&A's Aim



- Provide an integrated service solution to customers by combining both companies' services, solutions, and networks
- **Build a new credit model through the co-creation of AI and people**
- Build a new ecosystem through open collaboration with various partner companies

Background Leading to M&A / Managerial Benefits of Choosing M&A

Background from Founding to Considering M&A

Background from Founding to Awareness of M&A

- Because B-to-B payment and credit services require a large financial base, the scale may exceed what is feasible through bank borrowings without capital relationships. In addition, given the nature of the business, there was also a view that being incorporated into a platform with a large economic sphere makes it easier to scale.
- Therefore, UPSIDER kept M&A in view from the early stages of founding as an eventual option, continuously and actively maintained contact with multiple buyers, and explored "with which partner the business and economic sphere could be maximized."

From Concrete M&A Consideration to M&A

- **With <Mizuho>, the two parties jointly established the "UPSIDER BLUE DREAM Fund" in 2023 and advanced collaboration.**
- Although a small-scale investment was initially discussed, the conclusion was that majority investment would be more effective for stronger commitment, ultimately leading to group integration.

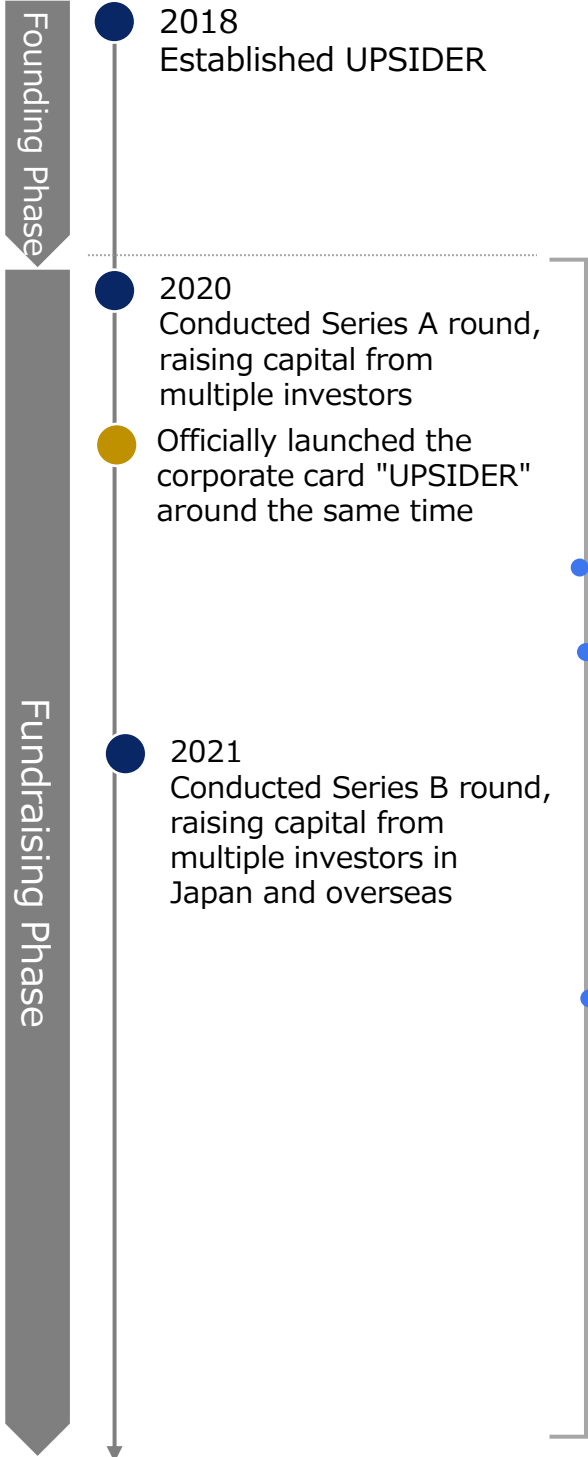
Source: Interview with Mr. Miyagi, Founder of UPSIDER; UPSIDER, Inc. press release (July 19, 2025)

From the early stages of founding, governance enabling agile decision-making and valuation design that does not close off future options were implemented.

Things It Was Good / Would Have Been Good to Bear in Mind Toward M&A (1/1)

Key Events

● : Capital Strategy ● : Business Events



Things It Was Good / Would Have Been Good to Bear in Mind

Capital Strategy

Capital Raised from Multiple Investors

- Seven lead VCs across rounds and about 15 preferred shareholders required careful consensus formation when considering M&A.

To smoothly make decisions, it is important either to simplify the shareholder structure or to build trust across investors

Capital Strategy **Governance**

Selection of VCs Knowledgeable About M&A

- An outside director was a VC with experience in large M&A and deep knowledge of negotiation with buyers, scheme design, and risk points; this director played an important role in advancing M&A.
- The director also had persuasive power with other VCs, enabling consensus formation among shareholders to move forward.

Selecting VCs with M&A know-how and experience and asking them to serve as directors makes M&A consensus formation easier

Governance

Board Composition

- The board consisted of two co-founders and two outside directors. The number of inside directors was kept to a minimum to enable "painful decisions."
- Made clear not to increase board seats for VCs; new VCs joining would replace existing VCs.

-> To enable agile decision-making, it is important to set the number of directors intentionally

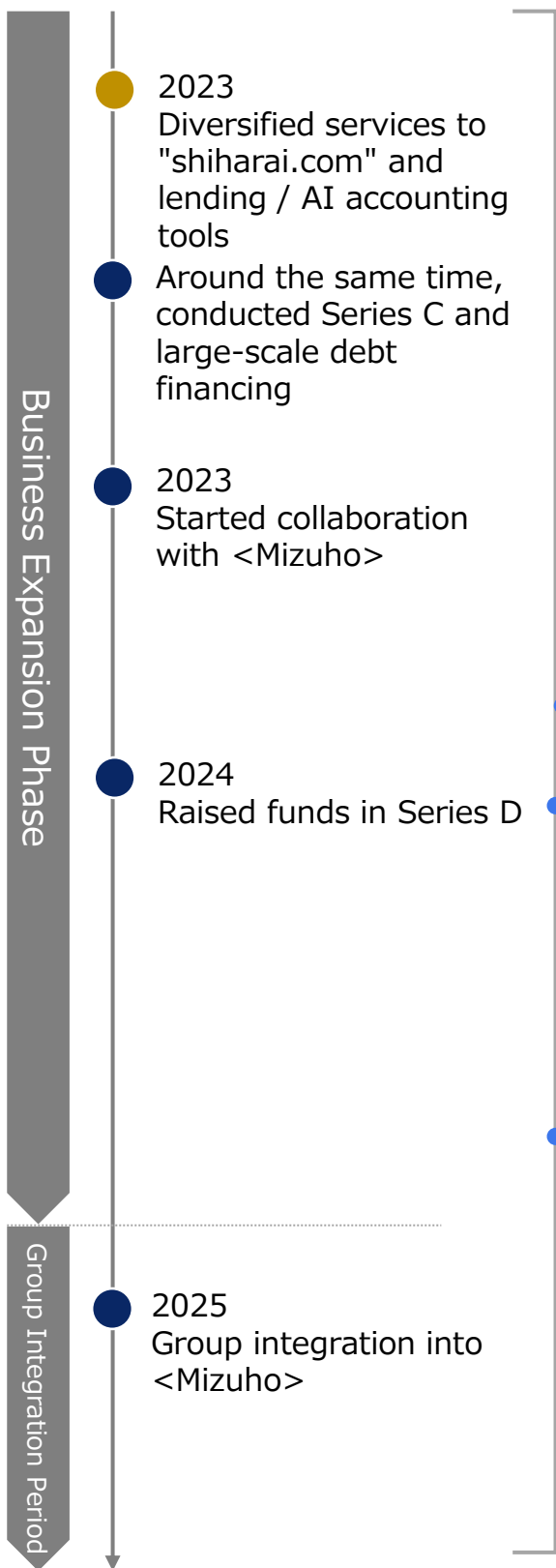
Source: Interview with Mr. Miyagi, Founder of UPSIDER

Things It Was Good / Would Have Been Good to Bear in Mind Toward M&A (2/2)

Key Events

Things It Was Good / Would Have Been Good to Bear in Mind

● : Capital Strategy ● : Business Events



Capital Strategy

Valuation Aligned with the Market

- Although a high valuation was obtained in Series C, raising valuation at the same multiple in Series D raised concerns that future M&A or secondary deals would not be feasible.
- Therefore, in Series D, the valuation was designed after preparing materials (DCF, multiples, market comparisons) to explain "why this price."



->With future M&A in mind, designing valuation using formulas that assume M&A and raising capital accordingly is important

Capital Strategy

Governance

Design of the Scope of Veto Rights / Approval Provisions

- While the design conformed to standard descriptions in the startup industry, the industry as a whole assumed IPO, and some provisions did not necessarily assume M&A or lacked clarity for M&A. It is important to make explicit in the contract, not only for IPO but also for M&A, "whose decisions are subject to veto rights"



Capital Strategy

Governance

Use of Drag-Along

Although it was not triggered in this case as investor consent was obtained, as a general matter, setting drag-along from the fundraising stage and clarifying the conditions for its activation - to prevent opposition by some shareholders from blocking M&A - facilitates smooth M&A



Source: Interview with Mr. Miyagi, Founder of UPSIDER

The fusion of GRAND, which grew with elevator media, and Mitsubishi Estate, which holds real assets, led to media expansion and the creation of new customer experiences.

Company Overview

Seller (Startup)

GRAND, Inc.

2017

Operation, development, and ad sales of various media including the elevator media "GRAND"

N/A

Buyer (Large Corporation)

Mitsubishi Estate Co., Ltd.

1937

(Established by spinning off from the former Mitsubishi Goshi Kaisha)

Development and operation of office buildings, commercial facilities, residences, hotels, logistics facilities, airports, etc.

JPY 1.5 trillion (FY2025 / consolidated)

Year of Founding

Business Description

Total Revenue

M&A's Objectives and Effects



- Backed by Mitsubishi Estate's brand and credibility, obtained permission to install elevator media and increased the evaluation from media brands and advertisers
- Created new customer experiences through the fusion of real real-estate assets and digital technology

Background Leading to M&A / Managerial Benefits of Choosing M&A

Background from Founding to Considering M&A

Background from Founding to Awareness of M&A

- In the early stages of founding, the stance was that "without strongly being conscious of IPO / M&A, options would naturally expand as the business grew."
- Introduced to Mitsubishi Estate by existing shareholders, started a business alliance. From Mitsubishi Estate's perspective, they valued not putting themselves too much in the front to capture share in a fragmented market and being able to secure startup speed.
- From this stage, the validation of elevator media was co-created with Mitsubishi Estate.

From Concrete M&A Consideration to M&A

- With the increased possibility of Chinese elevator media entering the Japanese market, the need for large-scale capital expenditure and sales investment quickly materialized.
- In discussion with existing shareholders, the conclusion was that "injecting large funds and group integration are essentially no different," and the focus shifted to M&A consideration.

Background

Source: Interview with Mr. Ra, Founder of GRAND; press release of the establishment of the joint venture spacemotion (November 5, 2019); press release of group integration into Tokyo Group, Inc. (March 31, 2024)

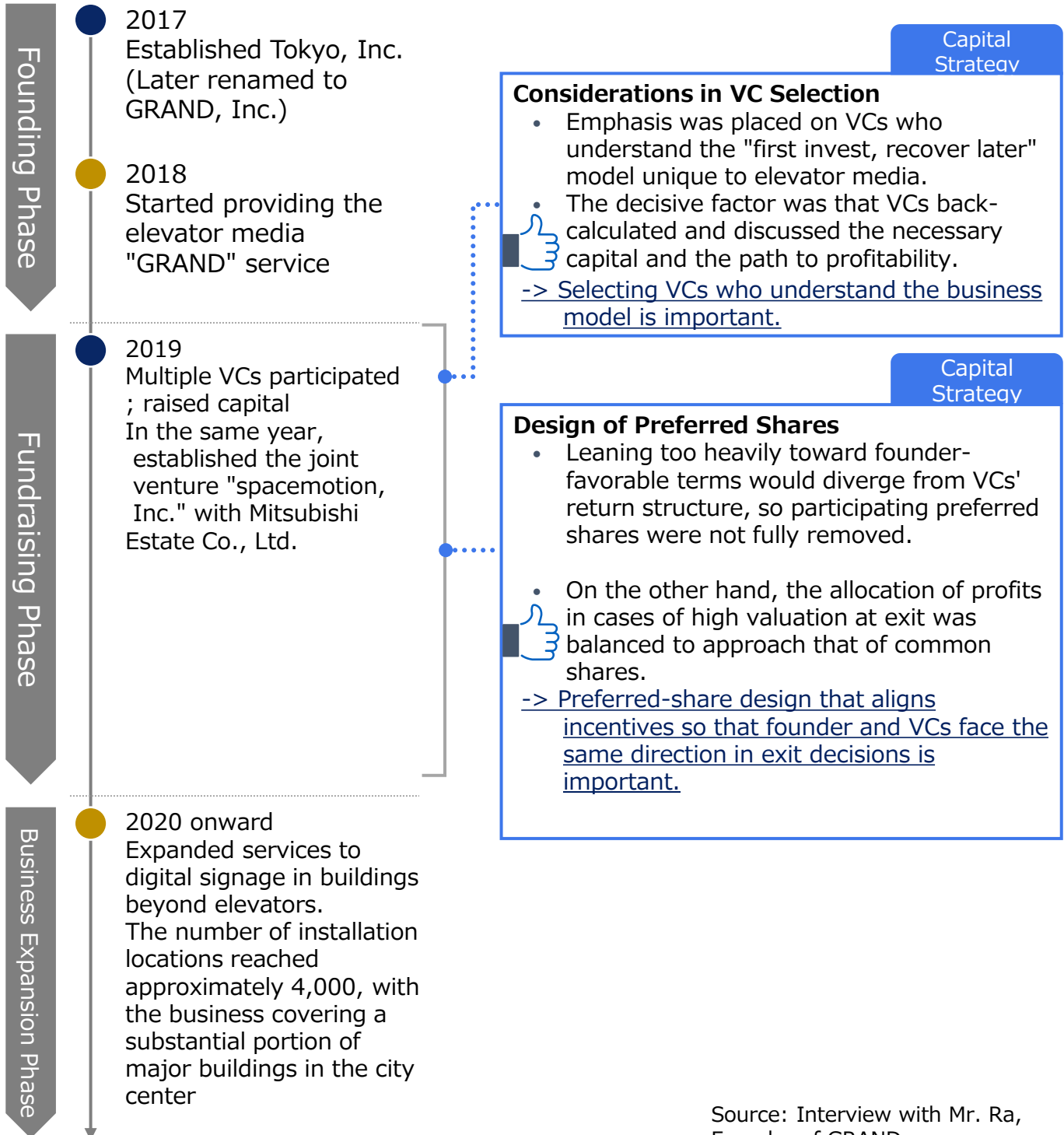
In the fundraising phase, selecting VCs that understand the business and designing preferred shares that align the interests of founder and VC are important. In M&A preparation, SOs were used to increase a sense of security among employees.

Things It Was Good / Would Have Been Good to Bear in Mind Toward M&A (1/2)

Key Events

Things It Was Good / Would Have Been Good to Bear in Mind Toward M&A (1/2)

● : Capital Strategy ● : Business Events



Source: Interview with Mr. Ra, Founder of GRAND

Things It Was Good / Would Have Been Good to Bear in Mind Toward M&A (2/2)

Key Events

Things It Was Good / Would Have Been Good to Bear in Mind


● : Capital Strategy ● : Business Events



Business Strategy

Scheme (Share Transfer / Share Exchange)


- Because in share exchanges, when the buyer is large, the seller's contribution is hard to reflect in the share price and founder returns are limited, the deal was executed via "share transfer."

 -> The optimal scheme must also be judged based on the size of the buyer.

Talent

Employee Incentives

- In M&A, stock options (SOs) often lose value, making the return to employees a recurring issue.
- By converting part of the acquisition price to SOs, the acquisition price itself decreases. The founder accepted reducing his own share to emphasize rewards to employees through the design and negotiated with shareholders.

 -> For employee retention, organizing the return policy in acquisition terms is important.

Source: Interview with Mr. Ra, Founder of GRAND

SmartCamp, which grew in SaaS marketing, and Money Forward, which has a base of SMEs, have high complementarity, and the acquisition aimed to enhance the value of both.

Company Overview

Seller (Startup)

SmartCamp, Inc.

Year of Founding

2014

Business Description

Operation of "BOXIL," one of the largest SaaS marketing platforms in Japan, and the inside sales / consulting service "BALES"

Total Revenue

JPY 4.04 billion (FY2024, ended November)

Buyer (Mega-Venture)

Money Forward, Inc.

2012

Provides a wide range of financial services from household budget / asset management services to corporate cloud ERP

JPY 40.36 billion (FY2024, ended November)

M&A's Objectives and Effects



- Expansion of customer base leveraging brand and sales network
- Acquisition of management perspective such as how to engage with finance and markets as a listed company

- **New entry into the SaaS marketing business**

Background Leading to M&A / Managerial Benefits of Choosing M&A

Background

Background from Founding to Considering M&A

Background from Founding to Awareness of M&A

- At the time, the common path among startups was "IPO in 5-6 years after fundraising."
- However, given that the management team had no IPO experience and the revenue volatility of the lead-fee model, the company judged that an IPO-only path carried risk.
- From around 2019, when the flagship BOXIL business reached its growth trajectory, dual-track management with M&A also in view was fully adopted.

From Concrete M&A Consideration to M&A

- In 2019, contact was made with Mr. Tsuji, the founder of prospective buyer Money Forward, and through nearly weekly discussions, a long-term collaboration image solidified.
- Among buyer comparisons, Money Forward was chosen for "alignment of philosophy between management teams" and "the visibility of the buyer."

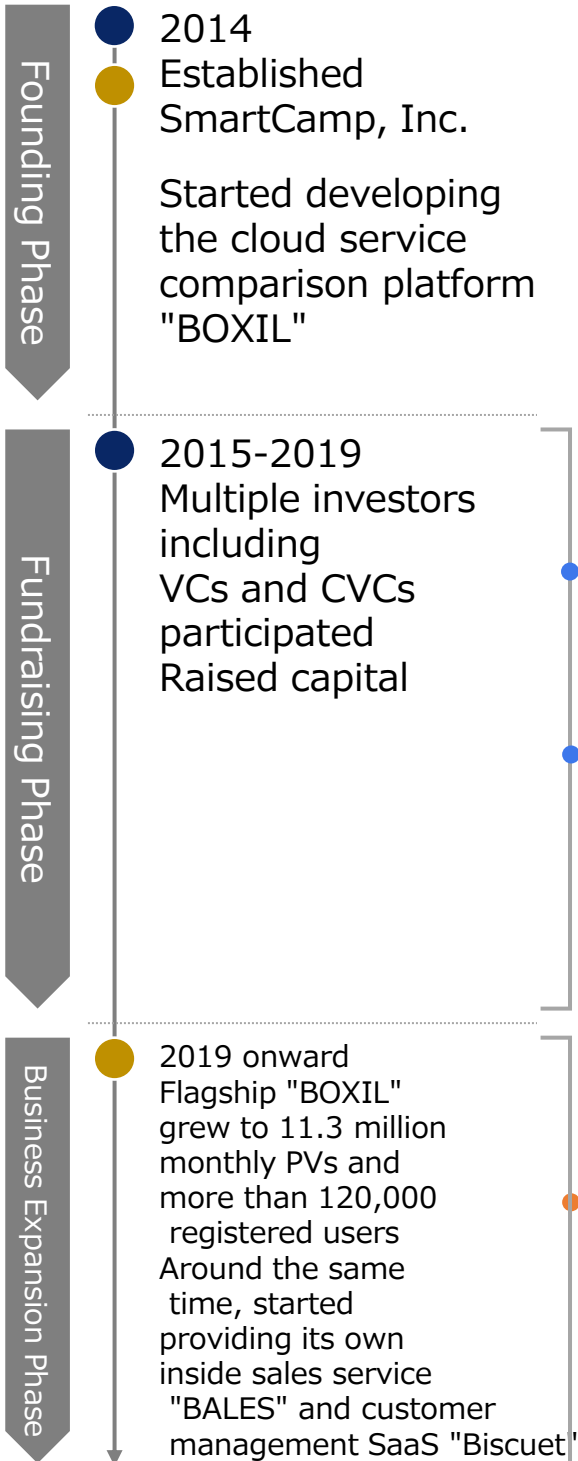
Source: Interview with Mr. Furuhashi, Founder of SmartCamp; Speda "Money Forward Mr. Tsuji x SmartCamp Mr. Furuhashi Dialogue Article" (December 24, 2019)

Having contact with multiple prospective buyers from an early stage, the company identified the right partner. In M&A preparation, dense dialogue with shareholders led to smooth decision-making.

Things It Was Good / Would Have Been Good to Bear in Mind Toward M&A (1/2)

Key Events

● : Capital Strategy ● : Business Events



Things It Was Good / Would Have Been Good to Bear in Mind

Considerations in VC Selection

- In Japan as well, VCs with entrepreneurial backgrounds and rich practical experience are increasing.
- By selecting investors who understand exit processes and how to advance M&A, decision-making from the growth phase to the exit phase became smooth.

-> When selecting VCs, it is important to also consider practical experience and exit know-how.

Capital Strategy

Design of Fundraising Methods

- At the time of founding, fundraising was centered on equity, with cumulative capital raised kept moderate.
- On the other hand, today, non-equity options such as subordinated loans and venture debt have expanded. This makes it possible to design growth investments while controlling equity dilution.

-> Depending on the growth stage and business risk, it is good to consider fundraising designs combining equity and debt.

Capital Strategy

Search for Buyers

- Recognizing the risk of an IPO-only path as business growth became visible around 2018-2019, M&A was also seriously considered.
- Around this time, the company began maintaining ongoing contact with multiple strategic acquirers and began exploring the most suitable partner profile.

-> It is important to proactively search for companies that fit by building relationships with multiple prospective buyers from an early stage.

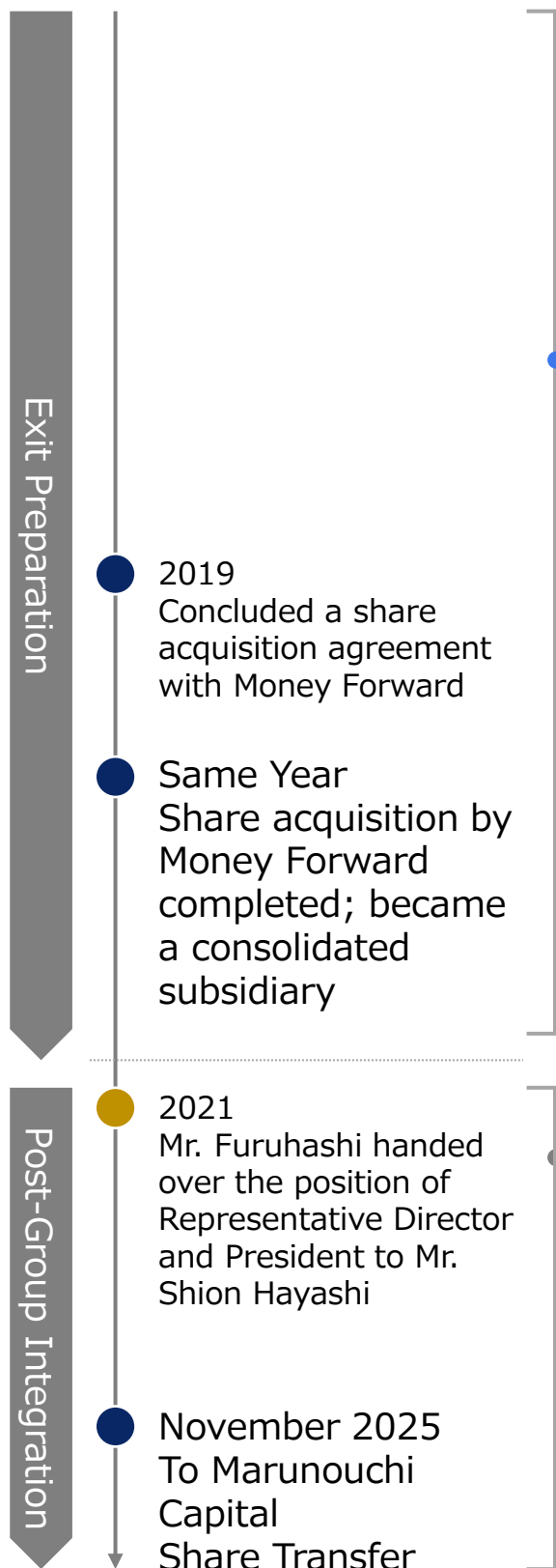
Business Strategy

Source: Interview with Mr. Furuhashi, Founder of SmartCamp

Things It Was Good / Would Have Been Good to Bear in Mind Toward M&A (2/2)

Key Events

● : Capital Strategy ● : Business Events



Things It Was Good / Would Have Been Good to Bear in Mind

Capital Strategy

Decision-Making Policy and Shareholder Communication

- Whether to pursue IPO or M&A was a policy the founder led.
- With seed VCs, there was a deep relationship, and by sharing concerns and the status of candidates on a daily basis, gaps in awareness were minimized.



On the other hand, some later-stage investors had designed returns assuming an IPO. Therefore, rather than informing them only after M&A was decided, regular disclosure, sharing of direction, and updates on candidates' progress were thoroughly maintained to share the process.

-> Dense, highly transparent communication with investors can prevent conflicts during the process.

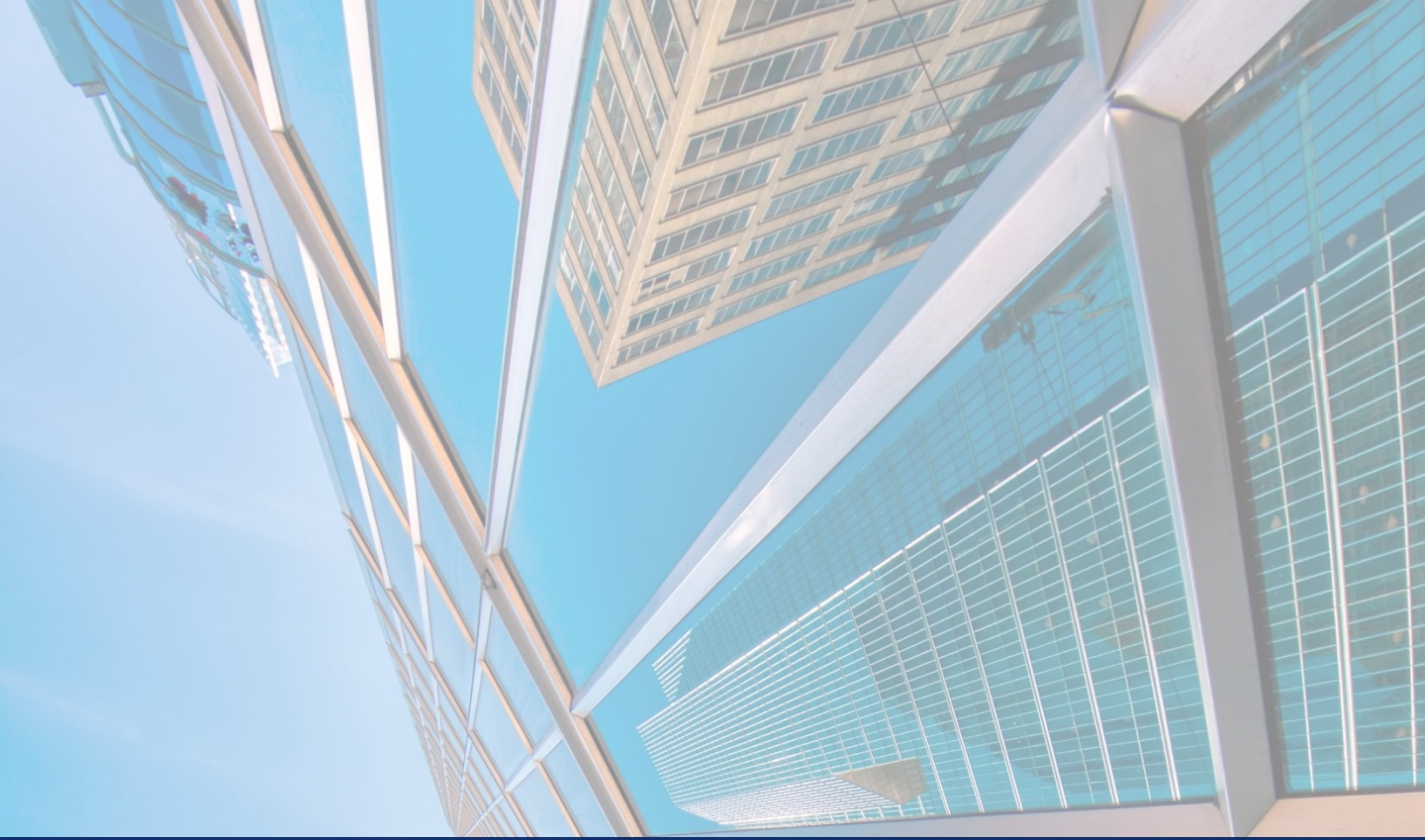
Career of Founder Mr. Furuhashi After M&A

- Leveraging the networks and management perspective gained through founding and M&A, Mr. Furuhashi launched a startup VC "HIRAC FUND" in 2020 as a new business within Money Forward.
- Furthermore, in 2023, he established And L, Inc., which is engaged in the healthcare business



-> Even after M&A, the experience gained from founding can be leveraged to open new career paths

Source: Interview with Mr. Furuhashi, Founder of SmartCamp



APPENDIX

Convened in Preparing This Guidance
List of Members of the Expert Study Group



List of Members of the Expert Study Group

8 members, 3 observers (honorifics omitted, listed by affiliation in Japanese syllabic order)

	Affiliation / Title	Name
Startup Sale Experience	Kanmu, Inc. Representative Director, Executive Officer, CEO	Wataru Yamaki
	General Partner, Carbide Ventures / Chairman & Co-Founder, Treasure Data, Inc.	Hiromasa Yoshikawa
VC	UntroD Capital Japan, Inc. Representative Director and President	Akihiko Nagata
	Signifiant, Inc. Co-Representative	Masanori Murakami
Startup Acquisition Experience	Money Forward, Inc. Director, Executive Officer	Naoya Kanasaka
	Mizuho Financial Group, Inc. / Mizuho Bank, Ltd. Executive Officer, CBDO	Kazuhiko Chuma
M&A Intermediary	Representative Director and President, Strike Group, Inc. Representative Director, Strike, Inc.	Kunihiko Arai
Law Firm	Mori Hamada & Matsumoto Foreign Law Joint Enterprise Partner Attorney	Takahiro Iijima
Observers	Keio University Associate Professor	Michiko Ashizawa
	Japan Startup Association Director	Takeshi Yokokawa
	Japan Venture Capital Association Director	Shinichiro Shiraki

In preparing this Guidance, a draft was created after interviews with experts in various industries (approximately 30 people). Important issues were discussed in the Expert Study Group composed of the above members, and based on their opinions, final adjustments were made and the content was compiled.

Each member of the study group provided opinions on the points on which their views were sought, within the limited time of three meetings (about two hours each); they did not provide overall supervision of this material, and the content of this document does not necessarily match the opinions of each member. In addition, this material does not necessarily reflect the opinions of individual members or the organizations to which they belong.



経済産業省

Ministry of Economy, Trade and Industry

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