

2016 Industrial Economic Research Commissioned Project (Research related to strengthening of industrial competitiveness of Japanese companies through sophistication of investment chain on funds)

Summary

1. Research background and purpose

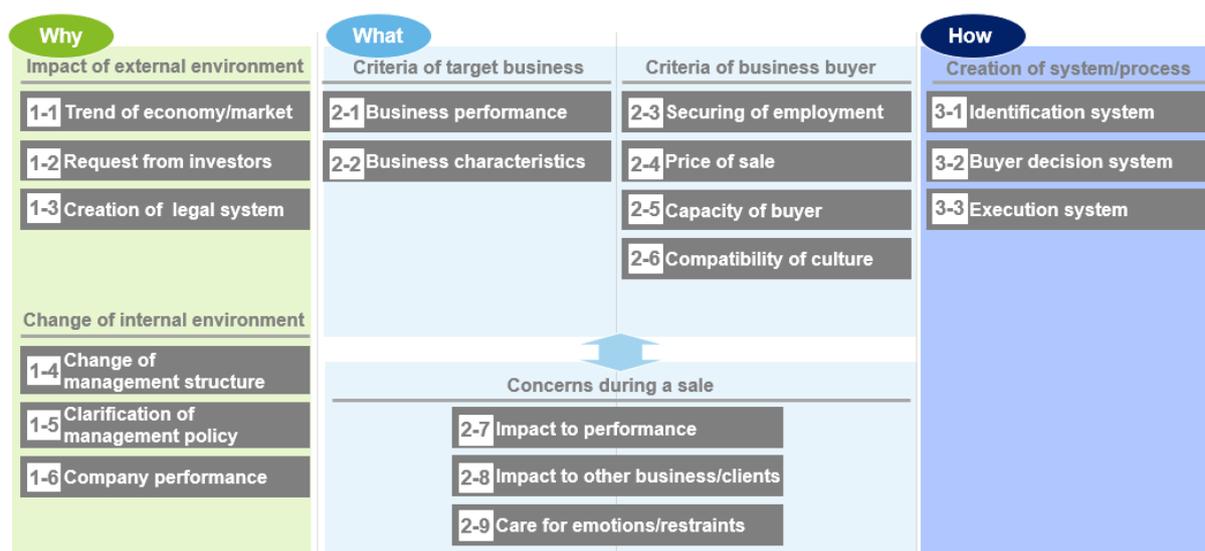
During a dramatic industrial structure change called the fourth industrial revolution, shifting management resources to businesses with high growth potential become a major issue in order for Japanese companies to survive in the global competition. Because of this, the purpose of this project is set to gain suggestion on future policies/measures by research about company metabolism and the condition/challenges of utilizing private equity funds (PE funds).

Metabolism has two sides, addition and subtraction, but this time the focus is on business sell-offs within the subtraction, as well as PE funds which can be the candidate as a buyer.

2. Business metabolism and condition/challenges of business sell-offs

The points regarding to business sell-offs can be organized into background of considering a sell-off (Why), criteria for selecting a target business and buyer (What), and system regarding each process (How).

< Points of business sell-offs >



In the project, these points were discussed during “Working group regarding strategic reformation of Japanese companies” (Non-public) that was established. Some companies mentioned that there are efforts to constantly identify businesses by establishing an advisory committee of business portfolio management which includes the discussion of business sell-offs that started from the question “why do you have that business?” of investors and outside directors.

On the other side, there are challenges such as concerns for maintaining employment and compensation, difficulties in making a decision because of past restraints, or having a hard time

during an actual sell-off because of lack of knowledge and experience.

In order to positively metabolize, it is necessary to first identify the field which the company can depend on surviving, then prepare to concentrate resources on it. That will be the base on identifying what business to have. While some companies have retreat standards, it is a response of falling behind. It is better to consider while business is running well, and judge while it is in a good condition. That way, the business and the employees of the sell-off target can have a “happy separation”.

When that is achieved, management scheme including utilizing outside director and shifting the business portfolio by selecting businesses that can win not only from past performance but from insight into the future will become fully effective.

3 . Present condition of PE funds and challenges utilizing it

PE funds, which are one of the undertakers of businesses, are small in scale in Japan (371 million \$) compared to the U.K. (1,868 million \$) and the U.S. (1,597 million \$). PE firms (an unlimited liability partner) are also small in number in Japan (174) compared to the U.S. (3,223) and the U.K. (844). Although there is the background of differences in business minds like the Japanese prefers debts over equities, there seems to be much room for growth in Japan for financial firms like PE to be the buyer in M&A because such deals have grew 3 times in volume over the past 15 years in the U.S. and the U.K.

The scale of funds has been mentioned as one of the challenges of utilizing PE funds for Japanese companies, but deals and funds are actually mutual dependent because it is difficult to compose large funds if potential deals are small to begin with. Therefore, it is possible that treating PE funds as one of the undertakers of businesses become more familiar by promoting understanding such as overturning the negative image for companies (especially employees) and showing performance for the investors.

4 . Suggestion on future policies and measures

Suggestion on future policies and measures for encouraging positive metabolism gained through this project are shown below.

【Legal/Tax system】 Simplification of company act procedures, Creation of systems that make the sell-off execution more smooth and speedy such as unifying the approvals and licenses succession/reacquisition procedures.

【Sharing information】 Case study of companies which are succeeding in metabolism including utilizing outside directors, provision of information to companies and investors about PE funds, Promotion of academic studies

【Providing platform】 Formation of eco-system including stakeholders such as companies, financial institutes, and advisors.

【Others】 Designing a flexible employment system that does not put individuals at risk while enabling business metabolism, etc.