Management Buyouts in Japan

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1. The Recent Growth of MBO Activity in Japan

1) Need to create favorable conditions

The term "management buyout" (or "MBO") denotes a type of corporate acquisition where the management[1] of the company (or section of a company) being acquired (the "target company") finances all or part of the acquisition and becomes the company's owners (shareholders). As the management is usually not in a position to finance all of the acquisition itself, part of the acquisition is usually financed by a bank or a private equity fund.

In Japan, there has been considerable interest in management buyouts as a means of corporate restructuring. They have also become easier to carry out as a result of a number of regulatory changes that have occurred during the past 2-3 years.

First, there used to be a problem when a management team seeking to acquire 100% of the shares in a company was unable to do so because minority shareholders in the company opposed the buyout and retained their minority interest. Following an amendment to the Commercial Code in 1999, which allowed "share-for-share transactions" and "share transfers",[2] the management team can now exclude such minority shareholders and acquire 100% of the shares in the company by having the shell company issue new shares and exchanging them for all the shares in the target company.

Second, in the absence of any comprehensive provision in the Commercial Code for corporate separation, ensuring that a company could be easily restructured so that a management buyout could be successful used to be a very expensive process.

1 In some cases (called "employee buyouts" or "EBOs"), buyouts are financed by the workforce.

2 The two companies agree to exchange their shares—one as the parent, the other as the subsidiary—such that the parent issues new shares in exchange for all the shares of the subsidiary.

For example, resolving personnel matters such as pension and wage schemes could be very expensive and time-consuming if the target of the acquisition was a section of a company. However, since the Commercial Code was amended in 2000 to allow companies to be broken up, it has been possible to restructure them in a short space of time.

Third, while private equity funds investing in management buyouts in the United States were often able to realize a gain on their investments by listing or relisting companies on markets such as the NASDAQ or selling them to third parties, the small scale of Japan's OTC market and the fact that mergers and acquisitions were still rather rare meant that investors had few opportunities to realize a gain on their investments. However, following the creation of two new venture capital markets in Japan (the Mothers market on the Tokyo Stock Exchange in November 1999 and the Nasdaq Japan market on the Osaka Securities Exchange in May 2000) and developments on the OTC market (e.g., the creation of a proper market-making system), more such opportunities now exist. There is now also much more M&A activity as the need for corporate restructuring has grown.

In addition, restrictions on buyout targets have been eased to make it easier to raise finance prior to going public. In July 1999 the period for which these restrictions applied was reduced as part of a package of measures, but further action was taken in September 2001 as the earlier measures were felt to be inadequate. It is now therefore possible, on certain conditions, for a company to list new shares (1) even if it has issued new shares by means of a third-party issue in the same fiscal year as the day on which it has applied for a listing or (2) even if it has not converted any convertible bonds or exercised any warrants it has issued in the same fiscal year as it has applied for a listing. Similarly, while under the old rules companies could only list one type of share and were therefore prevented from issuing preferred shares and subordinated shares, now that these restrictions have been eased there should be more buyout opportunities and incentives for investors such as private equity funds.

Fourth, the Corporate Rehabilitation Law, which sets out the procedure for a company to begin bankruptcy proceedings with a view to rehabilitation, often led to delays in divesting a section of a company that had failed by means of a management buyout because of the time it used to take to draw up rehabilitation plans. During this time the company's assets could be impaired, and it might lose some of its best staff. It was also very difficult without such a plan to transfer a company's operations in a short space of time. The Reorganization Law was therefore passed in April 2000 to enable such companies to adopt this procedure simply and speedily. The procedure also allows companies to transfer their operations without delay.

2) Recently created private equity funds

Following these changes in the law, a number of private equity funds have been created in recent years to invest in management buyouts (see Table 1). Many of these funds are capitalized at ¥20-¥40 billion and funded by Japanese and non-Japanese institutional investors as well as banks and trading houses.

Table 1 Main Investment Funds and Companies Involved in Management Buyouts in Japan

Investment Funds/Companies	Launch date	Size	Main deals
Japanese			
Advantage Partners	97/10 (#1) 00/1 (#2)	¥3 bil (#1) ¥18 bil (#2)	・ Fuji Machinery MFG. & Electronics ・ KISCO ・ AICO Technology ・ ACTUS
JAFCO	00/2	¥28 bil	・ ICS ・ Maruha Pet Food ・ Tocalo
Fuji Capital Management	00/3	¥20 bil	・ Proudfoot Japan ・ Nissho Iwai Alconix ・ Printemps Ginza
Unison Capital	00/7	¥38 bil	・ Orient Credit ・ Mine Mart (formerly Daimon)
Nomura Principal Finance	00/7 (Establishment)	—	・ Dowa Works ・ CCI
Tokio Marine Capital	00/10	¥22.3 bil	・ XYMAX (formerly Recruit Building Management) ・ Zero
Non-Japanese			
Schroder Ventures	98/2	¥17 bil	・ XYMAX (formerly Recruit Building Management) ・ Orient Credit
3i	00/3	¥20-40 bil	・ Vantec

Source: NRI, from Websites of companies concerned.

Table 2 Main Management Buyouts in Japan (2001)

Company (business)	Vendor	Financiers	Size	Comments
Tocalo (formerly on JASDAQ: metal)	Nittetsu Shoji (TSE 2nd .: steel)	JAFCO , Tokai Bank	¥6.3 bil	Defense against hostile takeover bid by European company. To go private after takeover bid.
Vantec (general distributor)	Nissan Motor (TSE 1st .: autos)	3*i*, IBJ	¥15 bil	Divestment by parent of non-core business.
Maruha Pet Food (pet food)	Maruha (TSE 1st .: fishery)	JAFCO, IBJ	¥9.0 bil	Divestment by parent of non-core business. Maruha to take another stake after buyout.
ACTUS (imported furniture retailer)	Minebea (TSE 1st .: electronics)	Advantage Partners, Fuji Bank, Tokio Marine & Fire	—	Divestment by parent of non-core business.
Victoria, retail department (sports goods retailer)	Victoria	JAFCO, Deutsche Bank, Lone Star	¥27.5 bil	Restructuring to reduce Victoria's excess debt
Kawasaki Electric (formerly TSE 2nd .: circuit board manufacturer)	—	Softbank Investments	—	Restructuring under Reorganization Law.
Nissho Iwai Alconix (metal retailer)	Nissho Iwai (TSE 1st .: general trading house)	Fuji Capital Management, Fuji Bank, Sanwa Bank	¥17 bil	Divestment of subsidiary as part of restructuring. Nissho Iwai to take another stake after the buyout.
Zero (transport)	Nissan Motor	Tokio Marine Capital, AIG Japan Partners	¥3-4 bil	Divestment by parent of non-core business.
CCI (JASDAQ: auto brake fluids)	Banks etc.	Nomura Principal Finance	¥9.9 bil	To go private after takeover bid.
Printemps Ginza (department store)	Daiei (TSE 1st .: supermarket)	Fuji Capital Management, Fuji Bank	¥7.0 bil	Move by management to establish independence and by parent to reduce debt.
Kansai Maintenance (OSE 2nd .: general building management)	Management team	Orix	¥4.3 bil	To go private after takeover bid.

Source: NRI, from Nihon Keizai Shimbun, etc.

3) Growing number of deals

These changes have led to a rapid increase in the number of management buyouts. The first management buyout proper in Japan is considered to be the sale of ICS, which publishes the magazine *Ryugaku Journal* [Studying Abroad], in December 1998 by its parent company WDI Holdings. Between then and September 2001 more than 50 management buyouts have taken place in Japan. Although many of these have been companies in manufacturing and retailing, the companies involved have come from a wide variety of sectors. Similarly, the deals have varied in size from about ¥10 million to ¥20 billion. Most of the deals involving private equity

funds have been worth between ¥5 billion and ¥15 billion. Four of the buyouts have been of public companies.

2. Types of Management Buyout in Japan

1) According to buyout scheme

In most management buyouts involving a bank or a private equity fund the acquisition is made using one of a number of methods, depending on factors such as (1) whether the target is the result of a divestiture or not, (2) tax issues and (3) whether the shares are listed or not.

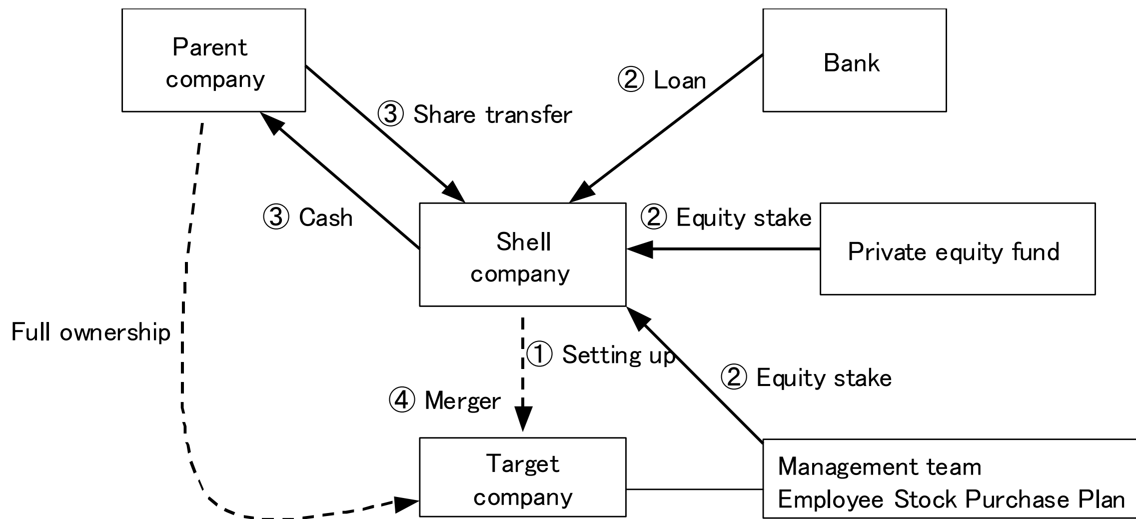
The main types of management buyout in Japan are "equity acquisitions" and "business transfers." In both cases, it is usual to set up a shell company. The main reason for this is probably to save individual managers from having to draw up a financing plan and from having to raise the finances needed.

Also, in recent years there have been a significant number of buyouts where companies have gone private or been recapitalized. The aim is presumably to boost the management's motivation and the company's performance in a short period of time by delisting the shares, concentrating control rights in the hands of just a few shareholders, and increasing financial leverage.

(1) The "equity acquisition" method using a shell company

In brief, the process is as follows: (1) a shell company is set up; (2) (debt) finance is arranged (in order to enhance the return for equity investors); (3) the shell company acquires the target company's shares from its parent company and (4) the shell company and the acquisition are merged (see Figure 1). The two reasons for this are presumably to transfer the debt directly to the acquirer and because the parent and subsidiary companies cannot consolidate their earnings until they pay taxes on a consolidated basis.

Figure 1 Example of an MBO Scheme Using a Shell Company



Source: NRI.

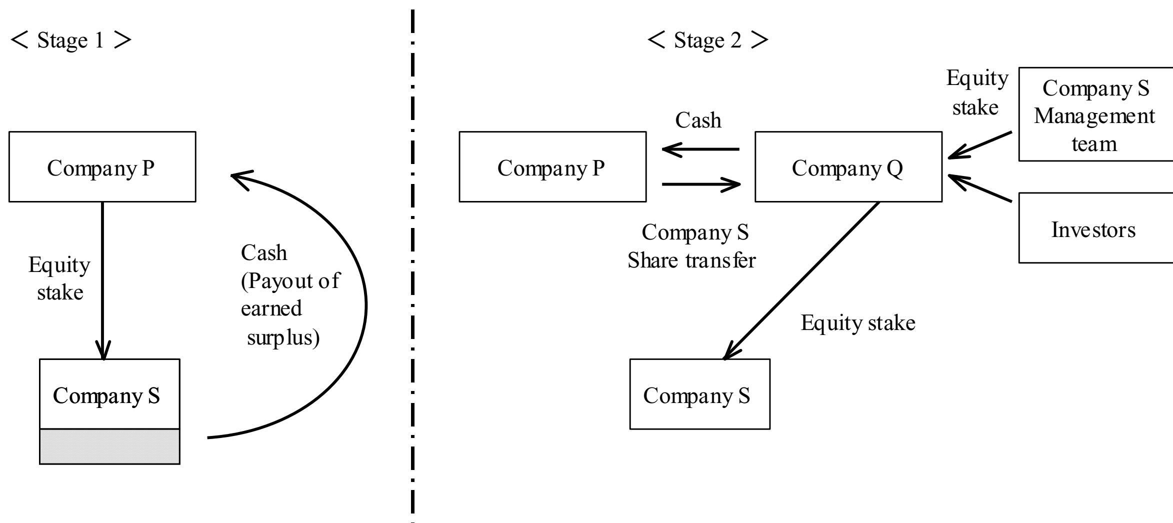
(2) The "business transfer" method

This method is used when buying out a section of companies. It is usual to set up a shell company, and the process is the same as with the "equity acquisition" method. However, it should be noted that the approval of a general meeting of shareholders is required if the transfer is of either the whole or an important part of the company , as this will have a significant impact on the company.

(3) The "earned surplus payout + equity acquisition" method

This involves paying out the earned surplus of the acquired company in the form of a dividend and acquiring its shares without setting up a shell company (see Figure 2). This method would appear to be used because it maximizes the vendor's net cash flow as a result of the way in which it is taxed, and where, if the acquired company operates a licensed business or provides a public service, it may not be possible to continue the business or extend the license.

Figure 2 "Earned Surplus Payout + Equity Acquisition" Process



Source: NRI.

(4) The use of share-for-share exchange offer

With this method the management and equity investors set up a shell company, and both the company to be acquired and the shell company call a general meeting of shareholders. These vote, respectively, to offer all the shares in the company to be acquired to the shell company and to allocate all of the shares in the shell company to the shareholders of the company to be acquired. By this exchange of shares the management and the equity investors acquire the company. This method can be thought of as a way of eliminating minority interests.

2) According to buyout aim

(1) Business reconstruction type

Vendor-led buyouts are sometimes chosen when large companies with excessive debt want to restructure the operations of the entire group and sell off non-core subsidiaries and sections as part of the process of rationalizing their peripheral operations.

The number of such deals has increased significantly since the beginning of 2001. Banks and lead managers sometimes recommend this type of management buyout to large companies with many subsidiaries as a means of reducing their debt, and sometimes they approach private equity funds with such deals.

There are a number of differences between selling a non-core business or subsidiary to a rival (a "strategic investor") and carrying out a management buyout.

First, in a management buyout the existing management team usually remains in charge. Since some or all of them will have a stake in the company (or section) that is being acquired, they will have a strong incentive to make the business succeed. Also, free of the parent company's controls and with greater discretionary powers, they are likely to be more highly motivated than before.

Second, a management buyout is an attractive option if the parent company does not need to have the section or subsidiary under its control (because it is involved in a non-core business) but does not want to sell it to a rival, either.

If this type of management buyout is to succeed, the company to be acquired (1) must be able to carry on its business independently of its former parent and (something that applies to all management buyouts) (2) have a highly motivated management team.

(2) Entrepreneurial type

In some cases, a management buyout may offer the acquirers (led by the existing management team) the opportunity to go it alone. The reasons for wanting to do this can include (1) the desire to adopt a different approach from that of the parent company, (2) a growing shortage of resources as the company's importance within the group declines and (3) the fact that the company has become a target for rationalization as an overseas subsidiary of a non-Japanese parent company that has fallen on hard times.

(3) Management-succession type

In some cases, a management buyout may be used to enable the existing management team to succeed the existing owner-manager. Succession is apparently one of the issues of most concern to the managers of small- and medium-sized companies in Japan who are also the founders or major shareholders. In the case of a public company, any attempt by a major shareholder to dispose of his shares will be fraught with difficulty as it is likely to lead to a collapse in the share price, while a sale to a rival company will also be problematic because of concern about what may happen to the employees or to business partners and because of the effect on the company's image. At the same time, many smaller companies will be grooming the next generation of owner-managers.

Management buyouts offer considerable advantages in such cases. First, the fact that they do not involve a sale to a rival means that stakeholders are unlikely to have strong objections. Second, because management buyouts enable equity investors to take a stake in a company while it also makes full use of financial leverage, the capital that the management team will have to risk will be modest in comparison with the company's current net value.

This is not to say that there are no problems. For example, if a buyout involves going private, the future owner-managers will probably want to avoid the negative impact that this would have on the company's image, while the actual procedure of going private can also be problematic. In addition, equity investors such as private equity funds will have to decide how a company's capital structure should be reflected in the apportionment of control rights.

(4) Friendly-takeover-bid type

A private equity fund can initiate a friendly takeover bid for a company on the assumption that it will go private, and then a management buyout can take place by inviting the company's management and employees (through their employee stock purchase plan) to take a stake in the company again once the takeover bid has been accepted. Usually, a fund will send directors to the company to carry out management reforms from within, and it will hope to make an exit by relisting the company's shares or selling them to a third party. Many such friendly takeovers have been at a significant premium to the company's market value. Companies that have been the target of a friendly takeover bid have tended to have (1) low levels of debt, (2) a low price-book value ratio (PBR) and (3) steady cash flows.

(5) Reorganization type

Management buyouts initiated by private equity funds are sometimes used if a company's existence is threatened or if it has already gone out of business and is filing for bankruptcy under the Corporate Rehabilitation Law or the Reorganization Law. In such cases, the fund will usually appoint one of its staff as a director of the company that is being acquired (in what is called a "management buy-in") and be closely involved in its day-to-day running. The fund's aim will be to increase the company's enterprise value from within and to seek an exit within a few years.

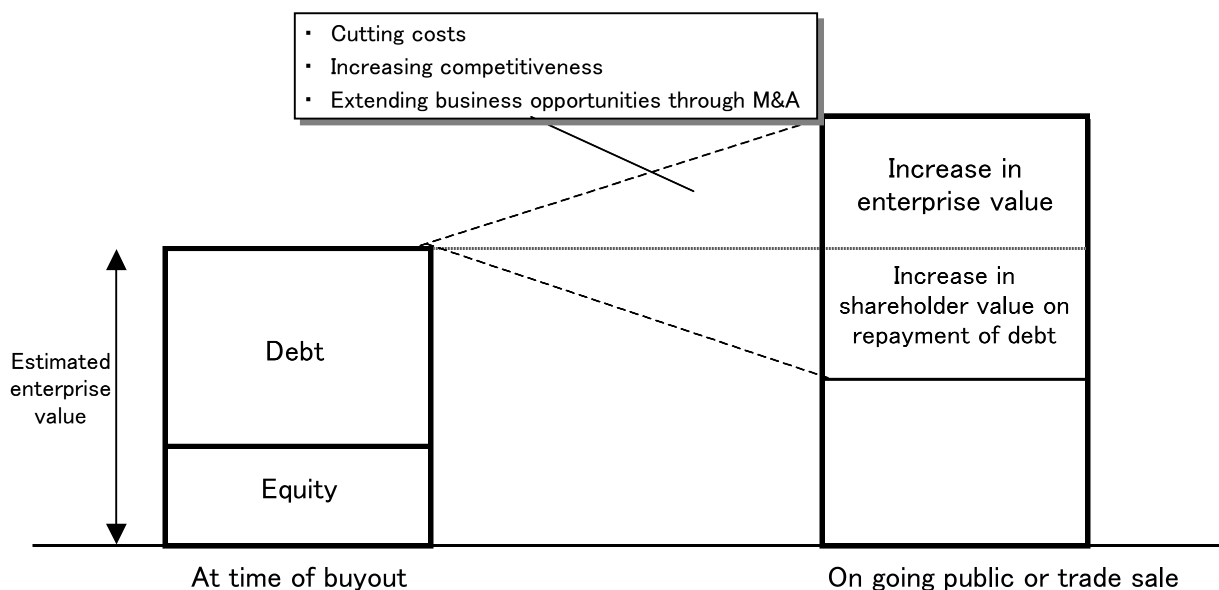
In management buyouts of troubled companies, the shell company acquires only those sections of the company that are doing well. It hives them off from the rest of the company, which it then disposes of. Where a company has already filed for bankruptcy, a private equity fund could also offer to help by means of a buyout in which it takes an equity stake in the company.

In Japan, it is quite common for a rival company to offer to help a company that is in trouble or has gone out of business. However, a good alternative (where a company's main business or some of its operations are still doing well) would be for a private equity fund to initiate a buyout to reorganize the company.

3) Ways in which investors in a management buyout can realize a return

Equity investors in a management buyout can realize a return on their investment when the new company goes public or is sold again. This return is generated by two main factors: (1) an increase in the value of the shares when the company pays off its debts and (2) an arbitrage profit generated by an increase in enterprise value (see Figure 3).

Figure 3 Realizing a Return on a Management Buyout



Source: NRI.

When a company draws up a financing plan, it is therefore important for it to decide how it is going to increase its enterprise value and what degree of financial leverage it wants. Where a private equity fund is involved, the timing of when it realizes its return is also important as it will use an internal rate of return (IRR) as its benchmark. However, the fact that management buyouts have only come into their own in the past 1-2 years in Japan means that, so far, there have been only a few cases where investors have been able to realize a return on an investment in a management buyout when the company has later gone public.

3. Issues Remaining and Prospects

1) Legal issues

(1) Audit system

The requirement under Japan's Commercial Code that a company that receives more than a certain amount of assets from another company within two years of being founded must undergo a special audit appointed by a court is said to complicate management buyouts. This is not only because of the time and cost of such an audit but also because, in many cases, the price of acquiring the company or section concerned is often calculated using a DCF (discounted cash flow) model, which tends to value companies at more than their net asset value. Management buyouts in Japan therefore have to resort to expedients such as using a joint-stock company that has been in existence for at least two years (i.e., a so-called "sleeping company") as the shell company rather than a newly established company.

(2) Issues involving minority interests

In Japan, there is no effective way to acquire 100% of the shares in a company by means of a management buyout and eliminate its minority interests. Even if a share-for-share transaction is used, the fact that the minority interests in the subsidiary company have to receive shares in its parent means that this method cannot be used where the aim is to eliminate the minority interests in a subsidiary from the group as a whole .

At the moment, minority interests are not necessarily considered a serious obstacle to management buyouts in Japan. However, objections by minority interests could inhibit a management's freedom to maneuver after a buyout and prevent the company from restructuring as it had planned. This situation needs to be remedied—e.g., by drawing on the experience of cashout mergers in the United States, where they are commonly used.

(3) Going private

As we have seen, management buyouts in Japan also allow what might be called "strategic delisting."

There have hardly been any cases of delisting from a Japanese stock exchange at the request of the company concerned—because of the widely held view that

depriving shareholders of an opportunity to dispose of their shares is undesirable.[3] This means that the only way for a company to have its shares delisted is for its parent company to use a share-for-share transaction or share transfer to convert it into a full subsidiary, or (if this is not possible) to accumulate the shares and reduce the number of shareholders or increase the number of shares in the hands of shareholders with control rights to the point where the distribution of the shares no longer satisfies the listing requirements.[4]

Another problem (even if a company's shares no longer satisfy the listing requirements) is that Japan's Securities and Exchange Law makes it difficult for any company to be exempted from the "continuous disclosure requirement." This apparently prevents a company from cutting its disclosure costs and thereby enjoying the full benefits of going private. For example, if a company has ever carried out a primary or secondary share offering that requires it to submit a set of disclosure documents to the Prime Minister , it will not be exempted from the obligation to continue such disclosure unless it has fewer than 25 shareholders on its register (or in the exceptional circumstances that it is being wound up or is ceasing business).

(4) Effect of contracts between shareholders on investors' rights

In Japan, contracts between shareholders that restrict the transfer of shares have in recent years been deemed to be valid provided they are in the spirit of the Commercial Code. However, insofar as such contracts cannot be included in a company's articles of incorporation, any transfer of shares cannot be deemed to be invalid once it has taken place.[5] Similarly, any attempt to fix in advance the price at which shares are to be transferred (e.g., by establishing pre-emptive rights or requiring shareholders to transfer their shares under certain conditions) is likely to be frowned upon. (However, it is acceptable to stipulate a fair method for calculating the price at which shares will be transferred.)

As contracts between shareholders cover very important conditions for the management team involved in a buyout—concerning, for example, the appointment of a director of the new company by the private equity fund; how the management

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3 In the case of the Tokyo Stock Exchange, delisting is allowed in three situations: (1) where the Exchange decides that a company should be delisted; (2) where a company itself applies to be delisted; and (3) where the Prime Minister orders the Exchange to delist a company.

4 In the case of the Tokyo Stock Exchange, a company will automatically be delisted if more than 75% of its shares are held by a minority of its shareholders for at least 12 months.

5 The general view is that any shareholder who transfers his shares in a company in spite of having contracted with another shareholder not to do this under certain circumstances can be obliged to make good any loss suffered by the shareholder with whom he exchanged the contract or to refrain from transferring them.

team will be involved in running the company after the buyout; and how management will be allowed to increase their shareholding if they succeed in improving the company's performance by an agreed amount—more work will have to be done on collecting examples and considering the problems involved.

2) Financing-related issues

(1) Issues related to loans

The type of loan used in a management buyout is a limited recourse loan secured on the assets of the company that is going to be acquired. "Non-recourse" or "limited recourse" means that the lender depends on (or is limited to) the borrower's cash flow for a return on his loan and will not seek a personal guarantee (or recourse) from the management or shareholders.

In the view of some, however, such loans cannot be said to depend solely on the company's cash flow. Under the terms of the loan agreement, accountants and lawyers carry out a due diligence inspection of the shell company (i.e., the borrower) and the company (or section) that has been acquired, and all the assets of the shell company and the company that has been acquired have to be pledged as collateral. These assets include claims on deposits, receivables, returnable rental deposits, insurance claim rights, intangible assets, personal estate and real estate. As the company that has been acquired may have considerable inventories or have large numbers of stores (large amounts of plant and equipment) under lease (depending on its type of business), it will have to consider all sorts of issues, including whether it should put an affirmation on each of its assets or negotiate with the lessor what the collateral should be for each leasing agreement. It is also apparently common for the management team and the private equity fund to pledge as collateral their shares in the shell company or the company that has been acquired.

In addition, for example, the bank may place restrictions (e.g., in the form of a covenant) on what type of business the company that has been acquired may engage in once the loan has been granted, or restrictions may be placed on borrowing from third parties other than the lender. Similarly, the company may be required to satisfy certain financial criteria—e.g., that it maintain a particular debt-service coverage ratio.

(2) Growth of mezzanine finance

In the broad sense of the term, "mezzanine finance" denotes any financing method other than equity (ordinary voting shares) and senior debt (bank loans), and is frequently used in management buyouts arranged by banks. In Japan, however, the

use of subordinated debt, subordinated loans, warrants and preferred shares—common in the United States and Europe—is still rare. Instead, Japanese companies have to issue convertible bonds or warrants bonds, and this is often cited as one of the obstacles to the growth of mezzanine finance in Japan.

(a) Preferred shares and different kinds of shares

Since restrictions such as debt-service ratio requirements are often placed on loans for management buyouts, the greater the flexibility allowed by preferred shares and different kinds of shares, the easier it is assumed to be for companies to draw up financing plans.

Under the Commercial Code as it currently stands, the only non-voting shares permitted are dividend preferred shares. Moreover, the Code limits the number of such shares that a company may issue to one third of its outstanding shares. Also, if a company fails even once to pay the agreed dividend on such shares, they automatically become voting shares again.

These rules have been criticized for (1) reducing the flexibility with which preferred shares may be used in mergers and acquisitions as well as in management buyouts and (2) not matching the requirements of holders of non-voting shares in private companies (who, for example, may prefer to realize a capital gain when the company goes public than to receive a dividend in the short term).

In this connection, the amendments to the Commercial Code[6] are intended to make it easier for companies to raise capital by means of non-voting shares by allowing them to issue shares with different voting rights—regardless of whether they offer a preferred dividend. Similarly, the limit on the number of shares with limited voting rights that could be issued would be increased to half of the outstanding shares. Hopefully, as well as giving companies greater flexibility in how they use preferred shares, this will offer them a greater range of financing options by allowing them to issue shares with different voting rights (including the right to vote only on matters affecting the way a company is organized)—and not just non-voting shares.

(b) Warrants and subordinated debt

In Japan there has been criticism that under the Bankruptcy Law the status of contractual provisions for subordinated bonds and loans is unclear. There have also been considerable practical difficulties in issuing warrants to third parties and expecting them to hold these for several years. The reason for this is that the

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6 The draft bill was passed on Nov. 21st, 2001 and will come into force in April 2002.

exercise price is usually fixed at a low level and that the issue of shares on preferential terms has to be approved by a general meeting of shareholders. In addition, a vote in favor of such an issue only has effect if payment for the shares is made within six months of the day of the vote (because the new shares have to be issued within this period).

In this connection, the amendments to the Commercial Code would allow a company to issue rights to subscribe to new shares.[7] As a result, investors would be invited to subscribe for corporate bonds and warrants at the same time (rather than for warrant bonds), and the two would also be allocated at the same time. This should enable companies to enjoy the same degree of flexibility in their financing plans as US and European companies.

4) Prospects: Possibility of Japanese-style management buyouts

The fact that most management buyouts in Japan have involved private companies and that there have not been many examples so far of equity investors realizing a return on their investment means that there is little material for empirical studies of the effect of buyouts on corporate performance in Japan. However, the general picture would suggest that management and leveraged buyouts in Japan tend to differ in a number of respects from those in the United States and Europe. Examples of this are the fact that employees are often offered incentives (e.g., employee share ownership plans and share options); the fact that smaller companies often consider using management buyouts as a means of ensuring a smooth succession; the fact that the level of debt leverage used to finance buyouts is not particularly high;[8] and the fact that private equity funds tend to be represented by part-time directors. Given the style of Japanese management (e.g., the fact that job mobility among managers is not particularly high and that it is difficult for outsiders to implement reform; the fact that hostile takeover bids are generally considered unacceptable; and the fact that considerable consideration is given to the interests of employees) and the traditional behavior of Japanese banks, what might be called a "Japanese style of management buyouts" may well emerge.

All this suggests that the following types of management buyout are likely to increase in Japan.

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[7] A holder of rights to subscribe to new shares who exercises them can oblige the company concerned to issue new shares or transfer him the equivalent in treasury stock.

[8] Published data indicates that management buyouts in Japan tend to have a high equity element—usually just over 30%, sometimes even more than 40%. This compares with an average of 27.4% in the United Kingdom for 1989-1994 (excluding management buy-ins) and a figure of 25.9% for buyouts worth £10 million or more.

First, greater use is likely to be made of management buyouts in the restructuring of major corporate groups. When management buyouts were first introduced and tried out in Japan, there were high hopes that the managers of companies in groups dominated by large trading houses and former *zaibatsu* companies would use them as a means of asserting their independence; but, so far, there have been very few management buyouts of large companies. The main reason for this may be that, although buyouts would give the company that was being acquired and its management access to investment and finance from outside the group, the parent company (i.e., the vendor) may have lacked incentives. In future, however, factors such as the unwinding of cross-shareholdings, the restructuring of financial groups, accounting reforms and amendments to the Commercial Code may well induce managers of large companies to give more serious consideration to the use of management buyouts as a means of restructuring.

Second, more examples can be expected of what might be called "rollup-type buyouts." Given the small market share of many medium-sized Japanese companies in a certain number of industrial subsectors, competition in such markets is intense. Management buyouts should offer experienced managers considerable opportunities for rationalizing such subsectors in a limited period of time and for increasing the enterprise value of the companies that remained by acquiring and merging rival companies in cooperation with financial investors.

The growth of such buyouts at a time when many listed companies are trading on a price-book value ratio of less than 1 might also help to reinvigorate the stock market. As a relatively recent development in Japan, management buyouts are likely to continue to attract interest because of their impact on management and corporate finances.