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Q&A: Ropes & Gray's Tsuyoshi Imai

The growing prevalence of PE in Japan has brought a deluge of deals, but that's not without its downsides, says Ropes & Gray private equity partner and Tokyo office managing partner Tsuyoshi Imai.

Q What have been the most notable developments in Japanese PE dealmaking in recent years?

Several notable features over the last few years in Japan stand out. One is that the size, complexity and the sheer volume of deals being completed by PE firms have increased significantly over the last three to four years. In terms of history, milestone transactions were the Ripplewood Shinsei deal, the Bain Capital Skylark deal and the Bain Capital Toshiba Memory deal. The last deal really opened the floodgates in this market.

Tsuyoshi Imai

Q What is behind the growing acceptance of PE in Japan?

On the sell side, there has been an increased willingness by Japanese conglomerates to spin-off non-core businesses; generational changes in a number of founder businesses; cheap loans; and a protracted period without a recession. All these factors have, to varying degrees, facilitated dealmaking. On the sponsor side, the reality is pretty simple – a handful of PE firms have had really exceptional results in Japan, and LPs want to invest their capital with a winner, which is causing a bit of a gold rush here. As a result, there is both a push and pull effect for PE in Japan, and that has led to a rush of sponsors into the market, as well as a deluge of deals. While that has many upsides, it's also not without downsides.

Q What challenges does the increase in deal volume and complexity present?

The increase in deals has led to various regulatory hurdles associated with closing transactions, as a result of co-sponsors or co-investors. Simply put, bigger deals generally mean bigger equity cheques. That – and, on a macro level, increased geopolitical issues in recent years – is adding significant complexity and extending timelines for obtaining regulatory clearances on the larger deals. National security and antitrust have been increasingly complex every year. I don't see that trend decreasing anytime soon.

Japan was not historically a large market for complex deals, so I believe the increased volume and additional complexity on deals could be leaving some sponsors underserviced on the adviser side. While PE is more prevalent, executing sophisticated transactions takes a deep bench, a real understanding of finance and the fundamentals of global private equity, and the combination of necessary language skills. As such, an emerging knowledge gap and relative inexperience across the board is resulting in some potential vulnerabilities.

While a rising tide lifts all boats, one concern is the upcoming generation of mid-level partners on the advisory side who have never seen a recession, and securities and other practitioners who have transitioned into PE specialists who don't really understand the issues and risks. In terms of downside protection, an area that may need future attention in Japan is the issue of whether discipline has been maintained in the acquisition and financing terms, and exit opportunities. As a proponent of the industry, a concern is that come next recession – and it will come – many folks are going to be caught flatfooted. If that's widespread, that's going to have industry-wide repercussions.

That said, there are tremendous opportunities in this market for PE, as well as Asia more broadly. The next several years may be choppy, but I really do think they will be good ones for the industry, and we are going to have a lot of fun. ■