



KIKAN FUND INVESTMENT THESIS

A new era of large-scale Private Equity opportunities in Japan is opening

The KIKAN GP Founders believe that the Japanese private equity (PE) market is entering a new phase of increasing large-scale investment opportunities driven by Japan-specific themes, such as governance reform, demographic trends for business owners, and the restructuring of the regional banking sector, leading to an expansion of the PE market size. This view is shared and supported by the highest levels of government, with whom the Founders have had long and close relationships.

The KIKAN GP Founders also believe that there is a limited number of participants, if any, who have access, support, experience and capabilities to address these opportunities and execute large-scale transactions. It is a fact that the main challenge hindering the growth of the Japanese PE market has never been the origination of new opportunities, but rather the supply-side shortage of capable players who have the necessary background and track record to independently unlock and handle large-scale transactions and Japan-specific themes.

Japan is the third largest economy in the world. Its PE market is a dwarf, creating frustration within the ranks of Japanese asset owners, some of them being the largest investing institutions on the planet. So it can be expected that there will be a push and pull for an expansion of the PE market, driven both by the domestic supply and demand for patient capital.

Tectonic shifts affecting the Japanese Private Equity market and unlocking never-seen-before opportunities

The Japanese PE market appeared in the late 1990s, and therefore only has a history of approximately 20 years: still very young! In contrast with other developed countries and even certain emerging countries, the PE industry in Japan is still relatively small in size. In 2018, the ratio of the PE industry to GDP in the US, UK and Western Europe was 1.1%, 1.1% and 0.6% respectively, while in Japan the PE/GDP ratio stood only at 0.06%. So it is not only a young and immature market, it is also significantly under-developed.

The KIKAN GP Founders anticipate that this will change in the next 10 years and that the Japan PE market will expand and catch up in size, especially with respect to large-scale transactions, primarily due to 3 structural factors:

(i) ***Corporate governance reform of Japan Inc:***

The Japan Corporate Governance Code introduced in 2015 is driving and propelling a major strategy shift by large Japanese companies, from organic growth to external M&A-led growth. The Code compels Japanese companies to rebalance and rationalize their portfolio of activities and invest into new businesses. This alone has resulted into a significant increase of M&A transactions, reaching a historical high in 2019 of 4,088 deals, up 68% from 2015.

(ii) ***The succession of aging top management and shareholders of large family businesses:***



This is a well-documented demographic issue. The numbers are staggering: there will be 2.5 million business owners aged over 70 by 2025. The coincidence of this indicator with the significantly high 55% inheritance tax rate creates a critical need for tax-saving structures. The KIKAN GP Founders believe they have established the right model and approach for such structures.

(iii) ***Changes in regional banking policies and regulations:***

Japan's Financial Service Agency (FSA) applies increasing pressure to promote the restructuring and consolidation of the regional banking industry. Anti-trust legislation has also been amended to allow the consolidation of regional banks. Finally, the FSA, through various means (including one-on-one meetings with regional bank CEOs) is engaging the industry, forcing it to take direct action and requiring assurance on the viability and validity of the banks' respective plans. In a sense, this very un-Japanese, but has the merit to create an avenue of opportunities for KIKAN.

A TALENT POOL WELL SUITED TO ADDRESS THE OPPORTUNITY

- The three KIKAN GP Founders enjoy a wide recognition throughout corporate Japan and have unfettered access to any boardroom, as C-level and former top leaders of the major financial services institutions in Japan. The KIKAN GP Founders also hold senior roles in the Association of Corporate Executives (*keizai doyu kai*), a prestigious and influential economic organization assembling over 1,500 C-level leaders of Japan Inc. The Fund they raise will benefit from this unique network strength. Early sign of this effect is the present deal flow of multiple large-scale, high quality and exclusive deals brought directly from the CEOs of Japanese firms.
- The three KIKAN GP Founders have a deep history of working together. The GP Founders have worked together extensively in the past across various organizations and deals, further cementing the important collective spirit of a team that has 'hit the ground running' on the formation of their Fund. This long-standing professional and personal familiarity stretches down to the main investment management team, a team headed by Mr. Yarita and which possesses one of the most impressive private investment track-record in Japan. Additional positions are soon to be filled by ex-colleagues and well-known peers.
- It can be argued that the Fund is a first-time Fund, but in reality it is a successor fund to the legendary Nomura Principal Finance Group. Its members have worked together for more than 10 years, investing \$2.8bn and achieving a 24% IRR. We recognize this established track record as an important differentiating factor to other new funds.
- With a unique combination of a respected and recognized domestic and culturally accepted 'home-brew' background, backed by quality global institutional investors, the KIKAN GP Founders are convinced the team will successfully source highly sought-after deals and otherwise difficult-



to-enter transactions. There have been multiple instances reported where US PE firms have lost an auction process in Japan, even though they were proposing the highest purchase price: the simple fact that they were not integrating and not part of the Japanese business culture caused exclusion.

AN INVESTMENT VEHICLE GEARED TO PURSUE THE VAST OPPORTUNITY

- The Fund is targeting a size of circa \$3bn (ideally within 2yrs), with a 1st close of minimum \$400m in June 2020. The Fund seeks a differentiated sourcing by seeking high quality deals, large enough to attract Global PE firms, but too large for other, Japanese PE peers.
- A relatively large fund is required to ensure independence in Japan, providing comfort and inspiring confidence across the family-offices, regional banks and corporate M&A opportunities which the fund will seek.
- We estimate 10-12 deals with an average ticket size of \$200m, with perhaps 2/3 deals closer to \$500m.
- The GP is fully-funded, up and running, the office is staffed, documents are ready and the investment pipeline has been ascertained.
- There is on the table an offer to 'warehouse' a number of early pipeline transactions. This has arisen from an ongoing conversation with one of the potential anchors. This would be able to significantly flatten the 'J-Curve', eliminate 'blind-pool' concerns, establish the team's investment execution capabilities, and bring in these deals to the Fund at 1st closing to likely add an immediate value uplift for LPs. The team is working on two criteria eligible deals today and may move to execute in the following weeks.
- The LP fund raising process consists of two phases. Early 2020, a survey of important LPs is being performed to identify potential "anchor investors". Then a formal fund-raising process will take place with the appointment of a Fund placement agent. It is expected that by opening the Fund opportunity first to a limited number of global potential institutional investors and thought leaders in the PE investment arena, then to a wider universe of investors, a quicker fund-raising cycle will ultimately be achieved.