



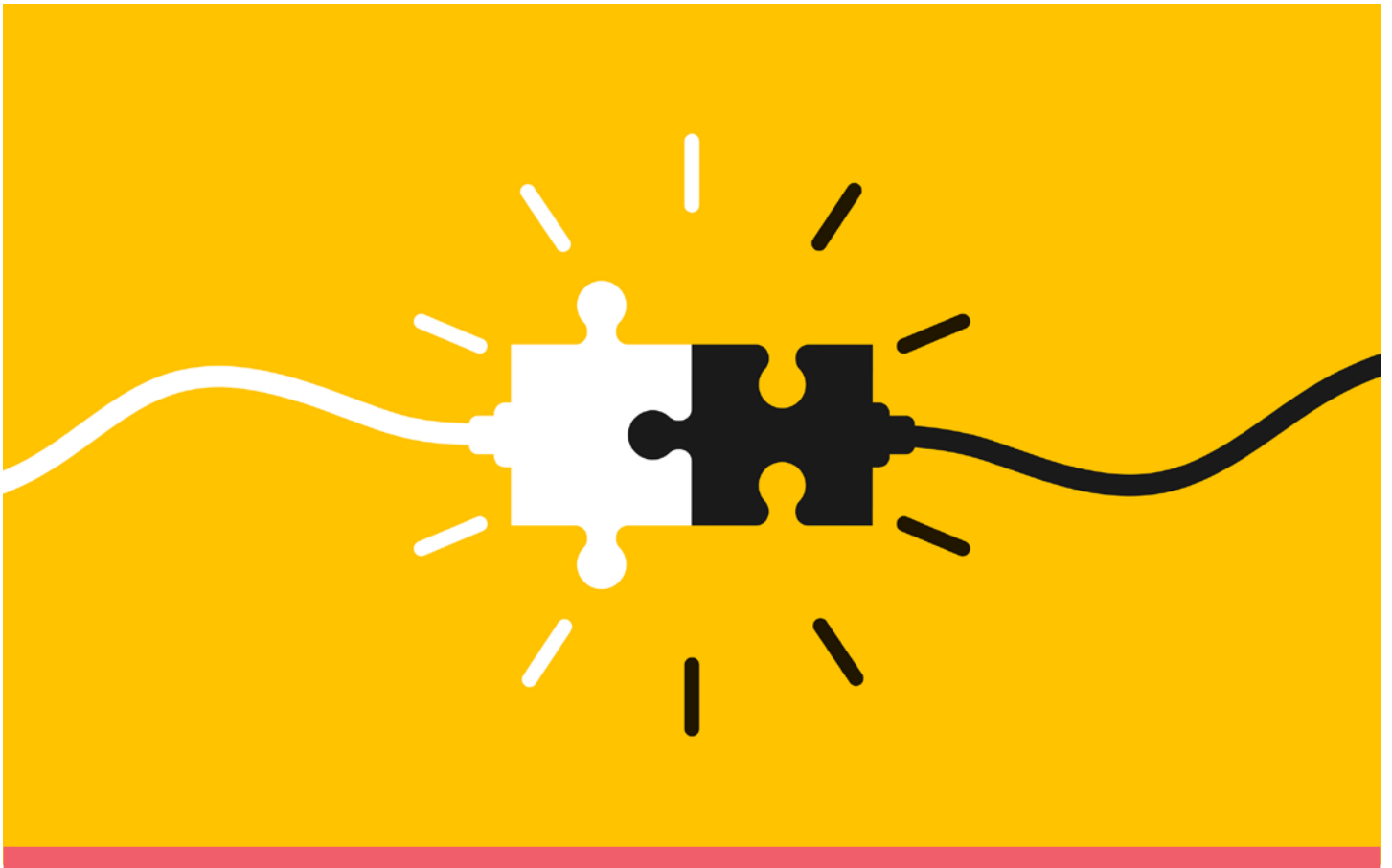
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■ SPECIAL REPORT Q&A REPRINT May 2026

Japanese M&A in 2026

FW discusses Japanese M&A in 2026 with Ryuichi Shiomi at Anderson Mōri & Tomotsune, Hideyuki Ishii at KPMG FAS, and Dominic Henderson at Sodali & Co.



Q&A: Japanese M&A in 2026

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THE PANELLISTS



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Dominic Henderson has 35 years of financial sector experience, of which 23 years are in institutional research sales and trading. He has worked in London, New York and Tokyo for Robert Fleming and Jardine Fleming. Flemings was bought by Chase in 2000 and then became JP Morgan. Mr Henderson was branch manager and head of Macquarie Securities Japan. He has extensive relationships around the world, as well as solid experience setting up, growing and managing businesses.

FW: How would you summarise the performance of Japan's M&A market over the past 12 months? To what extent are Japanese corporates adopting a more transparent, growth-focused approach?

Shiomi: Japan's M&A market has remained resilient over the past 12 months, with steady outbound investment and a marked increase in domestic restructurings and take-private transactions. Japanese corporates are increasingly adopting a more transparent, growth-focused approach, driven by governance reforms and sustained investor scrutiny. Boards are more willing to articulate capital allocation strategies, divest non-core assets and pursue strategic combinations. Management teams, traditionally conservative, are now engaging more proactively with shareholders and external advisers. Disclosure practices have also improved, particularly around valuation and process in conflict

situations, signalling a gradual but meaningful alignment with global standards in governance and deal execution.

Henderson: The level of M&A, both in value and volume terms, has continued to grow strongly. JP Morgan estimates that Japan-related M&A reached \$359bn – ¥60 trillion – in 2025. Following the Ministry of Economy, Trade and Industry (METI) of Japan guidelines, corporates are generally adopting the 'fair and transparent' approach. In addition to growth, consolidation and restructuring of business portfolios are prominent themes.

Ishii: The Japanese M&A market has remained highly active over the past 12 months. While megadeals tend to be more timing-dependent and influenced by specific players, activity has been robust across all segments, including private equity (PE) buyouts and exits, strategic acquisitions and carve outs by corporates, as well as business

succession transactions, which continue to generate a steady pipeline. Notably, the market is no longer driven solely by growth strategies. Amid increasing pressure from capital markets, there has been a rise in transactions stemming from portfolio reviews and business restructuring initiatives.

FW: What are the main factors driving the recent rise in Japan related M&A activity?

Henderson: The Tokyo Stock Exchange's (TSE's) directive requiring corporates to calculate and disclose the cost of capital and to improve capital efficiency has been a prominent driver, leading corporates to divest non-core assets and simplify their group structures. The imposition of this discipline to unlock value and sell off underperforming assets has created more opportunities for activist investors and PE companies. In addition, the weak

yen has made Japanese assets more attractive to overseas buyers. Perhaps counterintuitively, the tightening of Japan's Foreign Exchange and Foreign Trade Act's foreign investment review rules has clarified the regulations and improved predictability, and confidence for offerors considering cross-border deals. Finally, due to demographics, specifically the ageing population, Japanese corporates are looking to buy growth overseas.

Ishii: We believe that the series of corporate governance reforms led by the METI and the TSE has had a significant impact on the Japanese market. Discussion around companies trading below a price to book ratio of 1.0 has not only affected those with depressed valuations, but has also prompted a broad range of listed companies to take a more serious and proactive approach to enhancing corporate value than ever before. As part of these efforts, M&A has emerged as a key strategic option – not only to pursue growth strategies, but also to facilitate portfolio reviews through carve outs, as well as take-private transactions driven by a reassessment of the merits of remaining listed. In addition, the increasing number of unsolicited takeover approaches has created a heightened sense of urgency among companies, with management recognising that 'such proposals could happen to us'. Active PE funds, which continue to deploy capital aggressively, have become

a key outlet for a wide range of transaction opportunities, thereby supporting a sustained and robust M&A deal flow.

Shiomi: The rise in Japan-related M&A is underpinned by both structural and cyclical drivers. Governance reforms continue to incentivise capital efficiency and portfolio optimisation. Demographic pressures and succession challenges among mid-sized companies are accelerating consolidation and sponsor-led buyouts. Large corporates are actively divesting non-core businesses to focus on growth sectors such as digital transformation and energy transition. A weaker currency has enhanced the attractiveness of Japanese assets for foreign investors. In addition, significant PE dry powder has intensified competition for quality assets, supporting deal flow across both large-scale carve outs and mid-market transactions.

FW: How have the Ministry of Economy, Trade and Industry's new guidelines – together with Tokyo Stock Exchange requirements on capital efficiency – helped shape a new phase of Japanese dealmaking?

Shiomi: The METI guidelines and TSE capital efficiency initiatives have reshaped Japanese dealmaking. The guidelines emphasise fair process, including independent committees, enhanced

disclosure and appropriate market checks, particularly in transactions involving conflicts of interest. Meanwhile, stock exchange pressure on listed companies to improve capital efficiency has prompted boards to consider strategic alternatives more actively, including divestitures and take-private transactions. Together, these developments have elevated procedural rigour and positioned M&A as a legitimate and often necessary tool for enhancing corporate value.

Ishii: As corporate management increasingly focuses on enhancing enterprise value, M&A is no longer viewed solely from a buy-side perspective, as was often the case in the past. Instead, determining how and when to divest businesses under optimal conditions has become an equally important strategic consideration for corporates.

Henderson: On 31 March 2023, Hiromi Yamaji, the then new chief executive of Japan Exchange Group, sent a letter to every listed company urging them to get a true understanding of their cost of capital and to address the low valuations assigned by the stock market. This was the start of the campaign to improve shareholder returns. The results have been commendable. The METI first introduced M&A and takeover defence guidelines in 2005, but the introduction of the 'Fair M&A Guidelines' in 2019



and the 'Guidelines For Corporate Takeovers' in the summer of 2023 have had a stronger impact. The METI said that even unsolicited offers are acceptable so long as they are "fair and transparent". The process is evolving and updates continue. For example, to avoid minority shareholders being disadvantaged by underpriced takeovers, including management buyouts (MBOs), target companies are now required to have a special committee to assess offers. Related to this, third party independent valuations are required.

FW: As global PE firms continue expanding their Japan-focused teams, what competitive dynamics do you expect to emerge among domestic and international bidders?

Ishii: With the increasing number of general partners (GPs) based in Japan, along with new entrants from overseas who are still relatively unfamiliar with the Japanese market, there is a need for such players to secure deals at competitive pricing. As a result, we expect transaction valuations in the Japanese M&A market to rise, leading to a more challenging competitive environment for buyers and investors. As competition intensifies further, both global and Japan-based GPs will be required to demonstrate differentiated value-add capabilities. It will become increasingly important for asset managers to define clear strategies – leveraging their respective

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strengths – to determine how they can differentiate themselves and which sectors or opportunities they should target. From the perspective of corporates and business owners, the pool of potential buyers for divestitures and targets for acquisitions will continue to expand, creating a more favourable environment for pursuing M&A.

Henderson: Not only do PE companies bring a lot of buying power – both equity but also access to leverage – they also have a high level of global know-how and sophistication. They bring deep industry knowledge and strong networks. In-house industry knowledge is enhanced by the use of outside experts. This has been particularly noticeable in the use of outside investigators and assessors to put a value on a

target company's underlying assets. Whereas domestic PE funds have tended to do smaller deals, although this is changing to some extent, global players have large amounts of money and so can target larger deals.

Shiomi: Competition among bidders in Japan is intensifying as global PE firms expand their local presence. International sponsors bring sector specialisation, operational expertise and capacity to execute large and complex transactions. Domestic players, including financial sponsors and strategic buyers, retain advantages in local relationships and execution certainty. The market is seeing an increase in structured auction processes, as well as consortium and club deals for larger transactions. Sellers

are focusing not only on price but also on deal certainty and stakeholder considerations. As a result, the competitive gap between domestic and international bidders is narrowing, leading to more sophisticated deal structures and pricing dynamics.

FW: How are macroeconomic conditions – such as interest rates, currency movements and inflation – affecting deal financing structures and valuation expectations?

Henderson: Whereas the yields of long-term government bonds in Japan have risen, real interest rates remain negative in Japan. The majority of listed companies in Japan have little net debt and in many cases are cash rich. In

an inflationary environment, the real value of cash declines and so corporates are encouraged to return money to shareholders via increased dividends and share buy-backs, or to put that money to work to buy growth via M&A. Bank balance sheets are strong and banks are generally willing to lend. The weak yen makes Japanese assets attractive to overseas buyers, and at the same time increases the yen value of corporates' overseas earnings.

Shiomi: Macroeconomic conditions are influencing both financing structures and valuation expectations. Gradual interest rate normalisation and higher global borrowing costs are leading to more conservative leverage assumptions. At the same time,

currency weakness continues to attract inbound investment by enhancing relative value. Inflationary pressures, while moderate, are affecting cost assumptions and diligence focus. To bridge valuation gaps, parties are increasingly utilising earn-outs, deferred consideration and rollover structures. Financing remains available, particularly for high-quality assets, but lenders are more selective and focused on transactions with clear value creation strategies and stable cash flows.

Ishii: Key macroeconomic parameters have varying degrees of impact on M&A transactions – some materially influence deal outcomes, while others are less significant at present. Interest rates in Japan have been on an upward trend; however, they remain low compared to other major economies. As such, they have not yet had a meaningful impact on deal structuring or valuations, although, naturally, the risk-free rate has shifted. With respect to inflation, while levels in Japan remain relatively moderate, similar to interest rates, the ability of companies – particularly manufacturers reliant on imported raw materials – to pass on rising input costs has become an increasingly important factor in assessing forward-looking business performance, which underpins valuation assumptions. As for foreign exchange, although it is inherently difficult to forecast, the current weak yen does



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not appear to be a significant deterrent to outbound M&A by Japanese corporates. Many companies actively pursuing overseas acquisitions to access new technologies, services or markets have a clear strategic rationale, and are therefore relatively less sensitive to short term currency fluctuations.

FW: How strong is shareholder activism in Japan today? In what ways are activist funds influencing corporate strategy and pressuring boards to enhance value?

Ishii: The presence of activist investors in the Japanese market has been steadily increasing. The number of activist investors operating in Japan, as well as the volume of shareholder proposals, has roughly doubled compared to a few years ago. In addition, their investment targets have expanded to include relatively smaller companies with market capitalisations below ¥100bn. As a result, engagement with activist investors is no longer an issue limited to 'large, distant corporations', but has become a tangible and immediate management challenge for a broad range of listed companies. Consequently, management teams are increasingly mindful of capital market expectations. Another notable development is the evolution of activist investment strategies. While traditionally focused on companies with

inefficient asset and capital structures and advocating for improved capital efficiency, activists are increasingly scrutinising the validity and effectiveness of business strategies themselves, as well as management's capability to execute appropriate strategic initiatives.

Shiomi: Shareholder activism in Japan has become a significant force shaping corporate behaviour. Both domestic and international activist funds are targeting companies with underutilised assets, low profitability or excess cash reserves. Activists are advocating for measures such as divestitures, capital returns, governance reforms and strategic reviews. Campaigns are becoming more sophisticated

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and data-driven, often gaining support from institutional investors. As a result, boards are increasingly engaging with shareholders and proactively evaluating strategic alternatives. Activism is no longer viewed as exceptional, but rather as a catalyst for corporate transformation and M&A activity.

Henderson: Activism continues to grow and Japan is now the second largest activist market. The distinction between activist and engagement investors continues to narrow, as many activists are focused on good governance, efficient capital allocation and medium to long term strategy of the investee companies. Many companies in Japan have been managed conservatively, leading

to excess cash, large crossholdings and large real estate assets – the latter two of which have substantial unrealised gains. The push by the Japanese Exchange Group has made it difficult for these companies to ignore calls to reconsider capital allocations and shareholder returns. Interestingly, for the last few years it has been activist strategies which have raised money.

FW: Could you highlight recent M&A transactions – especially take-private deals – that illustrate the complexity of the current Japanese market and the tactics being used to unlock value?

Shiomi: Recent take-private and carve out transactions illustrate the growing complexity of the Japanese M&A landscape. Large-scale take-private deals have required extensive coordination among financial sponsors, lenders and multiple stakeholder groups, alongside rigorous adherence to fair process requirements. MBOs and affiliate transactions have underscored the importance of independent committees and transparent valuation frameworks. Corporate carve outs have also become more prevalent, often conducted through competitive auction processes involving both domestic and international bidders. These transactions demonstrate how value is increasingly unlocked through governance reform, strategic focus and sophisticated deal structuring.

Henderson: An obvious area on which to focus is conglomerates. Many have listed subsidiaries – parent-child listings – and in these cases minority shareholders can be disadvantaged. Rectifying this situation has been a priority for Japan. Recently, trading company Itochu announced the buy-in of the 47.5 percent of Itochu Shokuhin which it did not already own, at a 10 percent premium and on a reasonable valuation of 1.55 times the book value. However, more controversial is the recent buyout of Toyota Industries by the unlisted Toyota Fudosan. Although it is good to see the group being consolidated, the final price was at a significant discount to fair value, even after two increases in the offer price. Due to the complex structure of crossholdings and treasury shares, fair value was difficult to calculate for novice investors. As the price of Toyota Motor and other crossholdings rose, the discount to fair value increased. Elliott Advisors had been holding out but when it agreed to tender its shares and the transaction closed, the discount was bigger than when the deal was first announced.

Ishii: It is important to highlight that capital market discipline is increasingly evident not only in the underlying rationale for recent take-private transactions, but also throughout the execution process. There has been a growing number of cases where activist funds intervene in take-private transactions. Even after the

announcement of a takeover bid (TOB), activists may actively accumulate shares if they view the offer price as undervalued, resulting in an increasing number of failed TOBs. Conversely, even in cases where TOBs are successfully completed, there have been instances where the offer price is significantly increased from the initially announced level. Accordingly, both bidders and target companies must anticipate potential intervention by activist investors when structuring and executing TOBs. In particular, there is now greater scrutiny than ever as to whether the bidder's proposal is sufficiently attractive to shareholders. Furthermore, beyond activist intervention, competing tender offers in TOB transactions are also becoming more common. This is another scenario that both bidders and target companies must now recognise as a realistic possibility.

FW: Looking ahead, how do you expect Japan's M&A landscape to evolve in 2026? Which issues are likely to shape the country's dealmaking agenda over the year?

Henderson: Japan continues to move in the right direction and at a slightly accelerating pace. One should expect more M&A, both large and small, as well as more unsolicited deals. The world is changing and Japan is adapting. Recent geopolitical events have highlighted the need

for security self-dependency. This should lead to investment and more corporate activity, including M&A. With more M&A, the role of special committees will be closely scrutinised. There have been MBOs in which the special committee has arguably not adequately stood up for shareholders. The ageing population has made for a very tight labour market, which in turn encourages companies to consolidate through M&A to unlock economies of scale. At the same time and on a related note, there are too many often subscale companies competing in any one sector, leading to low profitability. Consolidation should alleviate the labour shortage problem as well as improve profitability and, in turn, shareholder returns.

Ishii: The strengthening of capital market discipline, together with the practical necessity of enhancing corporate value and

a reassessment of the merits of remaining listed, are structural drivers that continue to support M&A activity in Japan. The factors that underpinned M&A activity in 2025 are unlikely to diminish in the near term, particularly given the presence of more than 4000 listed companies in Japan. Looking ahead through 2026, we expect continued deal activity across multiple sectors, including M&A for growth, carve outs driven by portfolio reviews and take-private transactions. Business succession deals, underpinned by demographic trends, are also expected to remain at elevated levels. With PE funds continuing to play a key role as a buyer base for such transactions, overall M&A activity among Japanese corporates is expected to remain robust.

Shiomi: Looking ahead, Japan's M&A market is expected to remain active in 2026, driven by continued governance reforms, capital

efficiency pressure and shareholder engagement. Take-private transactions and corporate carve outs are likely to remain prominent, alongside steady inbound investment. Greater use of hybrid structures, including minority investments and joint ventures, is expected as parties navigate valuation gaps and strategic alignment. Regulatory expectations around process fairness and disclosure will continue to shape deal execution. Overall, Japan is evolving into a more dynamic and globally integrated M&A market, offering attractive opportunities for both strategic and financial investors. ■

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