CROSS-BORDER M&A · BUY-SIDE GUIDE

Acquiring a Japanese Company

Eight things that surprise foreign buyers — valuation benchmarks, FEFTA filings, the intermediary market, and why the highest bid does not win.

Built on official statistics and primary sources · Sourced, not assumed

Prepared by SEISEI INC. (Tokyo) · Financial Architecture Consulting

Version 1.0 · July 2026 · English edition

PREFACE & CONTENTS

The market does not work the way your model assumes

Japan's small and mid-cap M&A market is frequently pitched to foreign capital as a demographic arbitrage: ageing owners, no successors, cheap assets. The demographics are real. The arbitrage is not — because **price is not the variable that decides who wins the asset.**

7.3x
Median EV/EBITDA on 1,987 completed SME deals — not the 4–6x many funds anchor on

~80%
Share of the advisory market held by dual-agency intermediaries, not sell-side bankers

82.7%
Sellers ranking continued employment of staff as their top criterion

Each of those three numbers breaks a common assumption. The first says Japanese SMEs are not systematically cheap. The second says the person showing you the deal is usually also acting for the seller. The third says your bid is being scored on something your model does not contain.

This guide sets out eight areas where foreign buyers most often lose time, money, or the asset itself. Every figure is drawn from an official statistic or primary source, with the year and issuing body stated. Where no reliable public data exists, we say so rather than estimate.

Contents

PITFALL 01 · VALUATION

Japanese SMEs are not trading at 4–6x

Search funds and lower-mid-market sponsors typically arrive anchored at four to six times EBITDA. Japan publishes the actual distribution, and it sits materially higher.

Multiple	Deals	1st quartile	Median	3rd quartile
EV / EBITDA	1,987	3.6x	**7.3x**	15.5x
P / E	2,191	5.8x	11.7x	23.1x
P / B	2,830	0.7x	1.3x	2.5x

Source: SME Agency, M&A Support Agency Registration System. Deals closed April 2022–March 2025, reported by registered advisers on a seller-side basis. Sector medians cluster between 5x and 10x. The Agency notes the data is not fully standardised and is reference only.

Read the sector spread before you anchor. Sector medians published alongside the headline number range from about 5.1x (personal services) and 5.4x (construction) to 9.0x (information and communications), 10.3x (accommodation and food service) and 19.6x (real estate and leasing). A single blended anchor will make you uncompetitive in some sectors and careless in others.

The other valuation language you will meet

Many Japanese sellers and intermediaries do not price off EBITDA at all. Official guidance lists three approaches: **book net asset value, adjusted (market) net asset value, and comparable company multiples.** In practice you will often be quoted *adjusted net assets plus several years of earnings*.

Where earnings are added to net assets, the official guidance states the earnings measure is **"after-tax profit or ordinary profit"** and the multiplier is **"typically one to three years"** — and that both **"differ case by case and are often determined through negotiation."**

If you are quoted "operating profit × 3–5 years", note that this is neither the official earnings measure nor the official range. It is a negotiating anchor, and it is set above the published convention on both axes.

Two adjustments to raise early: official guidance records that a **discount of around 30%** for illiquidity is sometimes applied to SME valuations relative to listed comparables; and where multiples are used, the appropriateness of the listed comparable set is explicitly flagged as a weakness. Both are legitimate points to open with, and both are easier to win before a number is on the table.

PITFALL 02 · INBOUND INVESTMENT FILING

Your Cayman SPV triggers a filing the target never mentions

Japan screens inbound investment under the Foreign Exchange and Foreign Trade Act. For unlisted targets the rule surprises most foreign buyers — and the commonest trap has nothing to do with the target's industry.

No percentage threshold for unlisted targets

For listed companies, acquiring 1% or more of the shares or voting rights constitutes inward direct investment (down from 10% in the 2020 reform). For **unlisted** companies there is **no threshold**: the Ministry of Finance states that acquiring **one share or more** qualifies.

That classification does not by itself require a filing. A **prior notification** is required where the investor's jurisdiction is **not on the listed-country schedule** (regardless of sector), where the target **or a subsidiary** operates in a **designated business sector** without using the exemption, or where Iran-related restrictions apply.

> **This is the one that catches funds.** The listed-country schedule covers 163 countries and territories — including the US, EU, UK, China, Hong Kong and Singapore — but **not** the Cayman Islands or the BVI. A vehicle in a typical offshore fund jurisdiction therefore needs a prior filing **whatever the target does**. Discover this before the LOI, not at signing.

Stage	Statutory position
Waiting period	30 days from acceptance; the transaction may not complete during it
Shortening	Permitted where no security concern is identified; results published each business day by the Bank of Japan
Extension	Up to 4 months where substantive review is required; 5 months in defined circumstances
Filing / channel	Within 6 months before the reference date, valid 6 months from acceptance. Filed via the Bank of Japan; non-residents file through a resident agent

Many non-sensitive cases are shortened below 30 days, but no standard period is guaranteed — build the statutory period into the timetable. Designated-sector status is judged on the business **actually carried on**, applies **irrespective of scale**, and catches subsidiaries; where a "core" sector is involved, the exemption is unavailable for unlisted targets.

> **Timing note:** a FEFTA amendment promulgated on 5 June 2026 extends the regime to certain **indirect acquisitions** — taking 50% or more of the voting rights of an overseas entity holding Japanese shares. Most provisions take effect on a date fixed by Cabinet Order within one year of promulgation; confirm the position in force when you begin.

PITFALL 03 · DUAL AGENCY

There is usually no sell-side banker

Foreign buyers map Japanese deal flow onto a familiar model: a seller hires a bank, the bank runs a process, buyers respond. That is the minority case here.

Model	Contracts with	Paid by	Share of market
Intermediary (仲介)	Both parties	Both parties	~80%
Financial adviser (FA)	One party	That party	~20%

Source: Small and Medium Enterprise Agency, M&A Support Agency Registration System, FY2024 reporting (intermediary 8,029 engagements; FA 1,619).

The conflict is officially acknowledged

This is not a foreign critic's characterisation. The SME Agency's own *Guidelines for SME M&A* (3rd edition, August 2024) state that intermediaries face a **"structural conflict-of-interest risk"**, with an incentive to favour **"one party — particularly the buy-side, who may become a repeat client."**

The same guidance adds that such a conflict *"is not immediately unlawful"* and that treating the model as inappropriate for SME M&A *"would not be realistic."* It is not a scandal — it is a structure to price in.

What the guidance now prohibits. The 3rd edition specifies five prohibited conflicted behaviours, to be written into intermediary agreements as obligations: taking additional fees from the buy-side in exchange for favourable treatment; favouring repeat clients; demanding a share of the gap between the achieved and target price as an extra success fee; failing to pass on — or misrepresenting — information a party asked to be conveyed; and concealing information known to be favourable or unfavourable to only one side.

Do not ask them to value the asset. The guidance directs intermediaries not to reach conclusions on inherently one-sided workstreams — **valuation and due diligence** — and to tell clients they may seek a separate opinion from qualified professionals. If the party introducing the deal is also contracted to the seller, their view on price is not an independent one.

Before you sign an engagement: pre-contract disclosure covers 17 specified items under the guidance, including which model applies, the counterparty's fees, exclusivity, tail provisions and anticipated conflicts. Two benchmarks worth checking against: a tail provision should run **two to three years** and should be **limited to counterparties that adviser actually introduced**; and you should remain free to obtain a second opinion from independent professionals.

PITFALL 04 · NON-PRICE CRITERIA

The highest bid loses more often than you think

In succession-driven sales the owner is not running an auction to maximise proceeds. They are choosing a custodian, and they are scoring you on criteria your financial model does not contain.

What sellers say they weigh

The 2021 White Paper on Small and Medium Enterprises (survey conducted October–November 2020) found **continued employment of staff** to be the leading consideration for sellers, at **82.7%**. The White Paper concludes that *"almost all owners place importance on maintaining employment after the sale."*

It also records an age effect: owners **in their 40s and 50s** weight the character and intentions of the incoming management more heavily, while those **in their 60s and 70s and above** weight **survival of the company name and brand**.

And buyers do honour it

In the same White Paper's buy-side survey, **more than 80% of acquirers retained all employees** after closing, and in **more than half of cases the selling owner remained involved** in the business in some form. A commitment on employment is not an unusual concession — it is close to the market standard.

Three assumptions to discard

- **"No successor" does not mean "distressed".** The share of companies without an identified successor fell to **50.1% in 2025**, improving for the seventh consecutive year (Teikoku Databank). Owners increasingly promote from within: in 2025 internal promotion (36.1%) overtook family succession (32.3%) for the first time, with M&A and other routes at 20.6%.
- **Restructuring plans read as a disqualifier.** Signalling headcount reduction in a first meeting will usually end the process, whatever your price.
- **The owner's exit date is negotiable — and valuable.** The average age at handover is **68.5**, against an average serving-president age of **60.8** (Teikoku Databank, 2025). A transition period that suits the owner is a real concession you can offer instead of price.

How to open: lead with employment, the owner's intended role and timeline, and the company name — before discussing price. This is not etiquette. It gathers the information that determines whether you are shortlisted, and it is the cheapest differentiation available to a foreign bidder.

PITFALL 05 · DILIGENCE

The risk is not in the financial statements

Japanese SME accounts are generally prepared conservatively and are often clean on their face. The exposures that damage returns sit in payroll records, licence files, personal guarantees, and in one or two people's heads.

Exposure	Why it is missed	How to test it
Off-balance-sheet and contingent liabilities	Guarantees, litigation and unperformed contracts sit outside the account balances	Litigation schedule, guarantee agreements, material contracts, plus express warranties
Retirement benefit obligations	Chronically under-provided; crystallises as staff retire	Reconstruct the scheme and the true obligation on a service-year basis
Unpaid overtime and social insurance	Enforcement is retrospective and the liability transfers with the shares	Reconcile attendance records to payroll; verify enrolment. Run labour as its own workstream
Founder's joint guarantees	Owner personally guarantees bank debt; release is not automatic on closing	Engage the lenders early; put the release path and deadline in the agreement
Property carried at cost	Book and market value diverge, rewriting real net assets in either direction	Independent valuation, plus the tax consequence on any disposal
Key-person dependency	Customer relationships and technical know-how are personal, not institutional	Identify who holds what; design retention and handover before signing

Run three workstreams in parallel, not in sequence. Financial and tax, legal, and commercial diligence have to be simultaneous, because an anomaly found in one is only confirmed by the other two. Sequential diligence usually finishes after the seller has decided.

Policy is moving here. METI's *Interim Report on Reform of the SME M&A Market* (August 2025) raises, among other items, mechanisms such as buy-back provisions where contractual commitments — including release of the owner's personal guarantee — are not honoured. Confirm the framework applicable when you transact.

PITFALL 06 · STRUCTURE & LICENCES

Share purchase or asset purchase is a day-one decision

It determines which liabilities you inherit and whether the target's licences survive. Changing your mind after diligence has been scoped means redoing both the diligence and the timetable.

	Share purchase (株式譲渡)	Asset / business transfer (事業譲渡)
What transfers	The company itself — **including its history**	Only the assets and liabilities selected
Licences	Often continue, as the legal entity is unchanged	**Frequently require fresh application**
Process	Comparatively simple	Heavy: individual contract novations, re-employment of staff
Tax	Capital gains at the shareholder level	Asset-transfer treatment; goodwill may be recognised as an asset adjustment account

Do not assume licences follow the shares. Even where the legal entity survives, permits tied to a named qualified individual or to a residency or full-time-officer requirement can be affected by the change of representative director alone, triggering notification or re-examination. If the core business depends on a single permit, verify transferability licence by licence — the failure mode is discovering on the day after closing that the company cannot lawfully trade.

You will need a representative in Japan

Whatever the structure, the acquired company continues to need a functioning Japanese entity: a representative director able to sign, bank relationships that survive the change of control, and someone who can deal with the tax office, the labour bureau and the licensing authority in Japanese. Foreign buyers routinely budget for the equity cheque and not for this layer. It is the cheapest part of the deal to solve in advance and one of the most expensive to solve afterwards.

Sequencing: fix the structure before the LOI and scope diligence to match. Where the liability picture is opaque, keep an asset purchase alive as an option; where the business rests on hard-to-transfer licences, lean towards a share purchase and put the licence review at the front of diligence rather than the end.

PITFALL 07 · WARRANTIES & FEES

Who carries what diligence could not find

Diligence on a Japanese SME has real limits. If the contract does not allocate the unfound risk, it sits entirely with you from the moment it surfaces.

Four provisions to insist on

- **Scope of warranties** — no undisclosed liabilities; no shortfall in overtime pay or social insurance; licences valid and in force; no pending litigation. Warrant expressly what diligence could not close out.
- **Indemnity cap, floor and survival period** — how much, above what threshold, and for how long. Consider carving labour and tax into **specific indemnities** outside the general cap.
- **Price adjustment** — how completion net assets or working capital are trued up. If you use an earn-out, define the metric and the calculation method in the agreement.
- **Covenants** — release of the founder's personal guarantees, key-person retention, non-compete. State **who does what, by when**.

Test recoverability, not just entitlement. Where you are buying from an individual shareholder, an indemnity claim after the proceeds have been paid out and distributed may be uncollectable. Escrow, deferred consideration or earn-out structures are part of the risk allocation, and belong in the price negotiation rather than after it.

Warranty and indemnity insurance

Official guidance describes W&I cover as capable of smoothing negotiation over the scope of warranties and indemnities, and notes that it **"has begun to be offered by some non-life insurers in Japan"**. Underwriting generally requires submission of a diligence report and an underwriting review — which is itself a constraint on smaller deals where diligence is light.

No public statistics on take-up rates in Japanese SME transactions were identified in preparing this guide. We therefore make no claim about how common it is.

Adviser fees: the percentage is not the variable

Official guidance is explicit that adviser fees are **not subject to general regulation**. A Lehman scale of 5% / 4% / 3% / 2% / 1% across rising value bands is given as *one example only*. The figure that moves the invoice is **the base to which it is applied** — commonly the equity price, or **total transferred assets** (equity price plus liabilities), the latter producing a materially larger fee on a leveraged target for the identical purchase price. Fix the base in writing before you engage.

PITFALL 08 · THE FIRST HUNDRED DAYS

Installing your own CEO on day one destroys the asset

It is the standard playbook in much of the lower mid-market, and in Japan it is the most expensive available mistake — particularly at a company whose owner sold on an employment commitment.

What actually happens here

In the 2021 White Paper's buy-side survey, **the selling owner remained involved in the business in more than half of transactions**. This is not sentiment. Customer, supplier and bank relationships, undocumented operational knowledge and the practical handling of licences are all held personally by the outgoing owner, and transferring them takes months rather than weeks.

The first hundred days

- **Visit major customers and suppliers with the outgoing owner.** Who accompanies you, and in what order, carries meaning. Arriving alone reads as a takeover.
- **Leave employment terms alone initially.** Whatever the contract permits, early changes to terms are the strongest resignation signal you can send.
- **Brief the banks early.** Continuation of existing facilities and the substitution of personal guarantees are settled in this window.
- **Secure the key people before closing, not after.** Diligence should already have told you who holds what, and what disappears if they leave.
- **Say explicitly what will change and what will not.** Uncertainty alone drives attrition.

Treat the company name as a term of the deal. The White Paper records that older owners in particular weight survival of the company name and brand. Rebranding early for group consistency is read by both the seller and the workforce as a broken commitment, and it is rarely worth what it saves.

Budget for the gap. Most foreign buyers underestimate the cost of local management continuity and over-estimate how quickly relationships transfer. Plan the transition period, and pay for it, as part of the acquisition rather than as an operating surprise in year one.

PRE-MANDATE CHECKLIST

Before you commit capital or adviser fees

Structure and regulatory

- Is your acquisition vehicle in a **jurisdiction on the listed-country schedule**? If it is offshore, a prior filing applies regardless of sector
- Target **or any subsidiary** checked against the designated-sector list, on activity actually carried on?
- Statutory waiting period built into the timetable, not assumed away?
- Position under the June 2026 FEFTA amendment confirmed as at your start date?
- Share purchase or asset purchase — decided, with diligence scoped to match?
- Representative director identified, and who holds the local relationships?

Price and process

- Is your anchor benchmarked against the **published sector medians**, not a blended 4–6x?
- If quoted "net assets plus earnings" — is the measure **after-tax or operating profit**, over how many years?
- Is the adviser acting as intermediary or FA — and are they also contracted to the seller?
- Pre-contract disclosure received in writing; tail within two to three years and limited to introduced counterparties?
- Is the **fee base** — equity price or total transferred assets — fixed in writing?

Diligence and terms

- Financial/tax, legal and commercial workstreams running **in parallel**?
- Retirement benefit obligation reconstructed on a service-year basis?
- Labour reviewed as an independent workstream, including overtime and social insurance?
- Release path, deadline and responsible party for the founder's personal guarantees written into the agreement?
- Core licences reviewed individually for transferability?
- Indemnity cap, floor and survival agreed — and **recoverability** secured?
- Employment, the owner's role and the company name settled before price?
- A hundred-day plan in place before signing?

> **On sequencing:** structure, funding route and the regulatory filing question should start at the same time as target screening — not after heads of terms. Treating them as post-signing administration is the most common, and most avoidable, way for a foreign buyer to lose a Japanese deal.

ABOUT SEISEI

Buy-side only

SEISEI INC. is a Tokyo-based financial architecture and transaction advisory firm. We act as a **financial adviser to the buyer** under a single-party engagement. We are not an intermediary and we do not take a fee from both sides of a transaction.

Workstream	What we do
Mandate definition	Translating your criteria into terms the Japanese supply side can act on
Screening and assessment	Valuation basis, benchmarking against published official data
Structuring	Acquisition vehicle, funding route, regulatory filing analysis, tax architecture
Diligence	Scoping and co-ordinating financial, legal and commercial workstreams with partner firms
Negotiation	Warranties, indemnities, price adjustment and covenants
Post-close	Hundred-day planning, local management continuity, systems and reporting integration

Registering a mandate

You can set out your acquisition criteria at **seisei.tokyo/ma/apply/en/** — about five minutes. Submissions are held on our own servers and are not passed through any third-party form platform. We review and respond within one to two business days.
Direct contact: **ceo@seisei.tokyo**

Important notice
This guide is general information only and is not tax, legal or investment advice on any particular matter. Statistics and regulatory descriptions reflect published sources as at July 2026 and are subject to change. In particular, an amendment to FEFTA promulgated on 5 June 2026 had not taken full effect at the date of preparation; confirm the position in force before acting.
SEISEI INC. acts as buy-side financial adviser. We do not hold client funds, raise or manage investment capital, or solicit investment. Tax filings, corporate registration and other reserved legal work are carried out by our partner tax and law firms in Japan.

Principal sources: Small and Medium Enterprise Agency, *Guidelines for SME M&A* (3rd ed.) and reference materials; SME Agency, M&A Support Agency Registration System statistics; White Paper on Small and Medium Enterprises (2021 and 2025 editions); Teikoku Databank successor-absence and president-age surveys (2025); Ministry of Finance and Bank of Japan materials on inward direct investment under FEFTA.