

Research on Japanese Mid-sized Companies: Growth Strategy with utilization of PE Funds

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Japan Investment Corporation

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Background and Purpose

- Mid-sized companies play a vital role in Japan's economic growth by creating jobs and revitalizing regional economies. In response, METI has introduced initiatives such as the “Mid-sized Enterprise Growth Promotion Package,” while JIC is exploring how best to support their development.
- However, the lack of a clear legal definition and limited research means their actual conditions remain insufficiently understood. This study therefore aims to assess their growth ambitions, as well as the challenges and expectations related to the use of private equity (PE) funds.
- To achieve this, we conducted desktop research on TSE-listed mid-sized firms to identify High Growth characteristics, followed by a questionnaire survey of employees. We also carried out in-depth interviews with selected companies and PE funds to gain practical and investor perspectives.

Topics Covered in this Report

1. Characteristics of High Growth Mid-Sized Companies
2. Growth Ambition of Mid-Sized Companies
3. Key Barriers to Growth for Mid-Sized Companies
4. Concerns and Expectations among Mid-Sized Companies in utilizing PE Funds
5. Effectiveness of PE Funds: Mid-Sized Companies' Perspective
6. Drivers Boosting Growth Ambition of Mid-Sized Companies
7. Value-Added Support Provided by PE Funds

1 Characteristics of High Growth Mid-Sized Companies

- Mid-sized TSE-listed companies that expanded employment by over 500 employees in the past decade show stronger sales growth and market capitalization, and invest more actively in Capex, R&D, and M&A than their peers.
- In manufacturing, they invest roughly three times more operating cash flow and their long-term financing was higher by an annual average of 1 billion yen than the Stable group.

2 Growth Ambition of Mid-Sized Companies

- While growth ambitions vary, many mid-sized companies have increasingly focused on capital efficiency and corporate value, influenced by TSE reforms.
- However, most continue along existing growth paths, with limited proactive efforts toward the next growth stage unless external pressures arise.

3 Key Barriers to Growth for Mid-Sized Companies

- Mid-sized companies often identify shortages of human resources and information as growth constraints, but also recognize that effective utilization of resources is equally important. Some firms have achieved growth through innovation despite limited resources.

4 Concerns and Expectations among Mid-Sized Companies in utilizing PE Fund

- Mid-sized companies hesitate to use PE funds due to concerns about management involvement and exit strategies, largely driven by limited understanding.
- They expect PE funds to provide continuous hands-on support and help secure key talent.

5 Effectiveness of PE Funds: Mid-Sized Companies' Perspective

- Among employees at mid-sized companies that received PE investment, around 60% found the support beneficial.
- Value was particularly seen in areas beyond financing, such as strategy development and human capital enhancement.

6 Drivers Boosting Growth Ambition of Mid-Sized Companies

- Public-sector support for promoting the autonomous growth of mid-sized companies has focused on measures such as subsidies, tax incentives, and deregulation, with strong expectations for their impact.
- There have been calls to further improve the effectiveness of these measures by enhancing institutional design and strengthening policy implementation.

7 Value-Added Support Provided by PE Funds

- PE funds investing in mid-sized companies typically provide structured support programs to strengthen management foundations, including strategy formulation, improved management systems, and human resource development.
- From PE funds perspective, the key challenge is not simply a lack of management resources, but rather insufficient urgency and willingness to pursue reform within management itself.
- In addition to enhancing portfolio companies through external expertise, these funds emphasize the importance of fostering and unlocking the potential of existing internal resources as a critical driver of sustainable growth.

8 Implications

- Although mid-sized companies are increasingly ambitious about growth, their ability to independently advance remains limited, with constraints stemming more from resource allocation and insufficient management urgency than from labor shortages.
- PE funds can act as effective growth partners by offering both capital and strategic and human resource support; however, concerns over management involvement and exit conditions have created perception gaps that hinder their use, making it important to address these issues.
- From a policy perspective, mechanisms such as tax incentives, subsidies, and deregulation are needed to encourage companies to take on new challenges and promote autonomous growth.

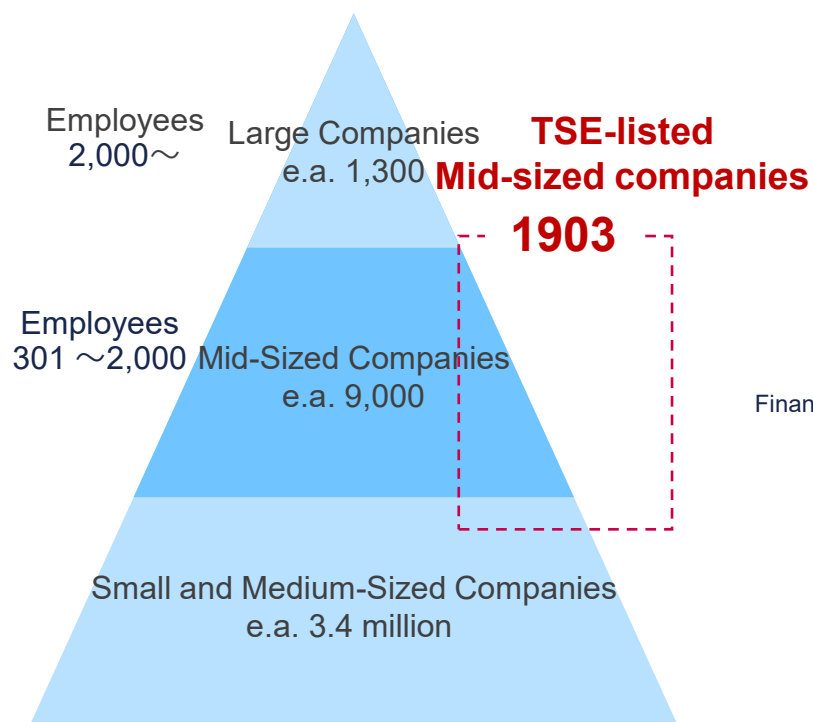
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1. Desktop Research: TSE-Listed Companies

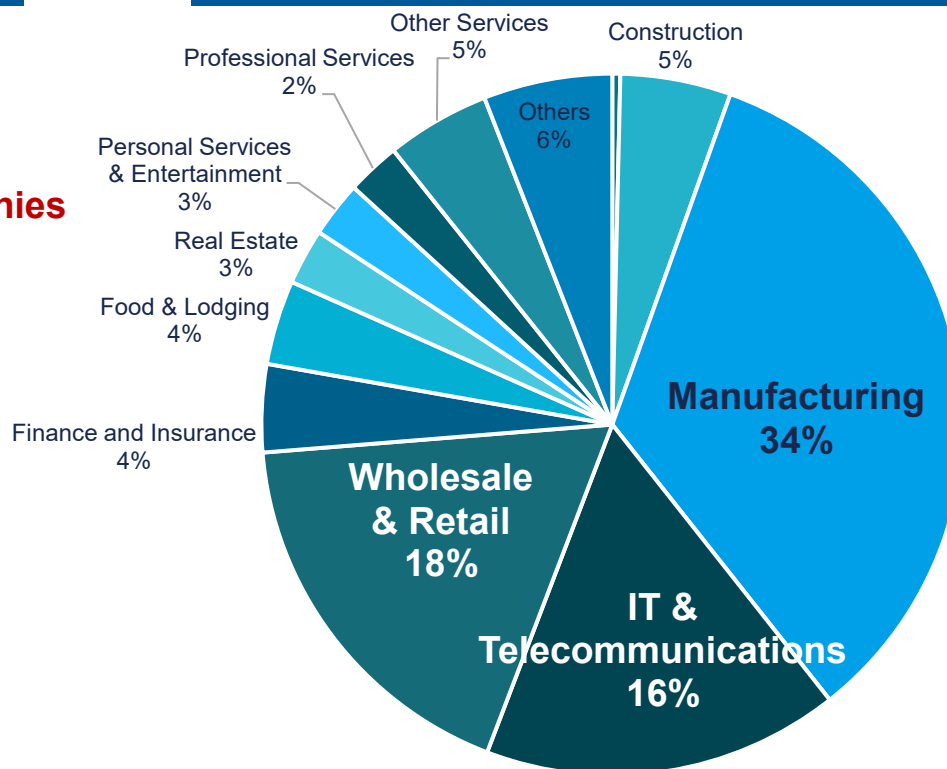
Scope of Analysis

- This study analyzes 1,903 TSE-listed mid-sized companies (those with fewer than 2,000 employees as of FY2013 and 301 or more employees as of FY2023).
- The sample is concentrated in manufacturing, IT & Telecommunications, and Wholesale & Retail, collectively accounting for 68% of the total.

Number of Japanese Companies by Employee Size



Industry Breakdown of the Analysis Sample



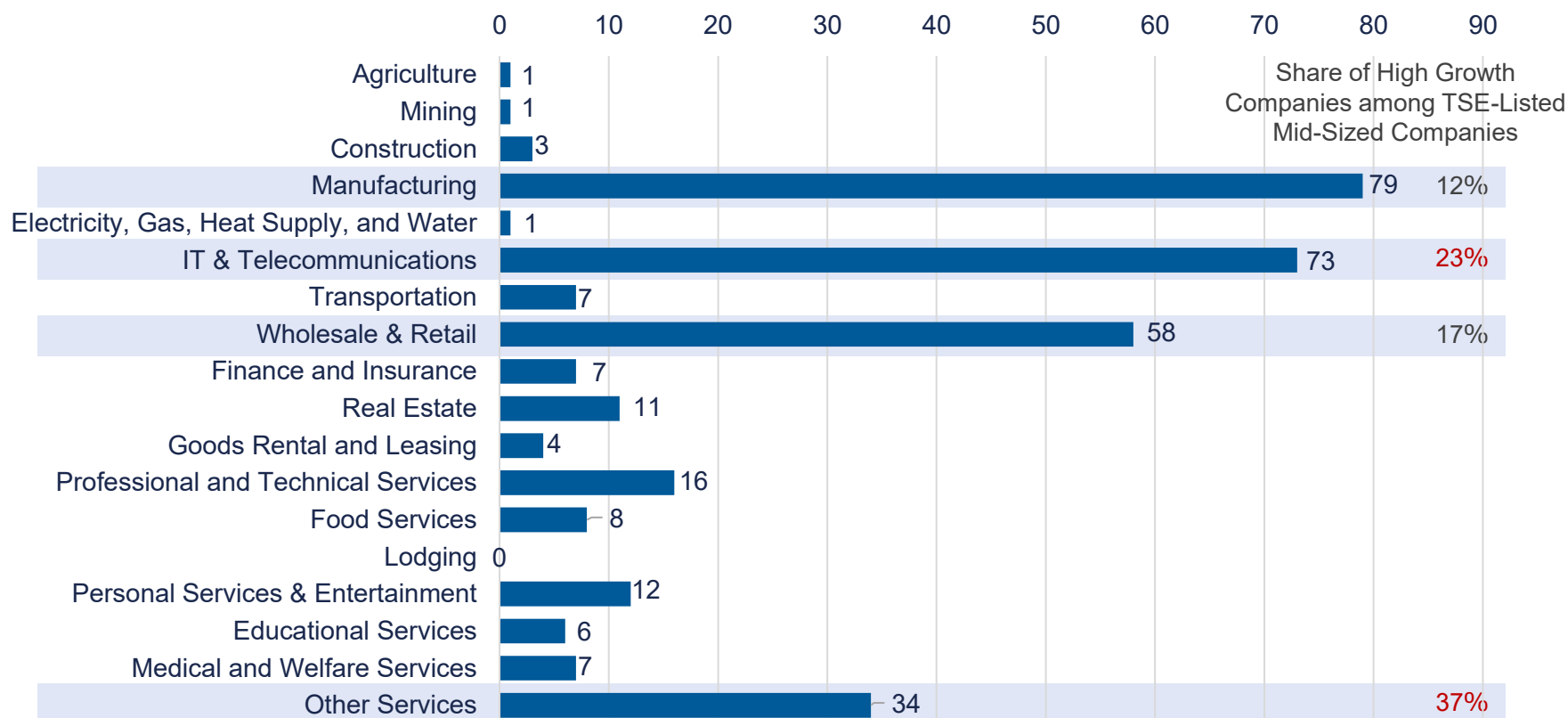
Note: Selection of Mid-Sized Companies: Among firms with 2,000 or fewer employees at fiscal year-end 2013, those with 301 or more employees at fiscal year-end 2023 were selected as mid-sized companies for this analysis. Companies that were founded or went public in 2013 or later were also included. Companies formed via **mergers were excluded if any of the original companies had 2,000 or more employees. In cases where a division of a company was spun off, the new company was excluded if the departing division clearly had 2,000 or more employees at the time of separation.

Source: Ministry of Economy, Trade and Industry, "On Policies to Promote the Growth of Mid-Sized Companies with High Growth Potential that Drive Regional Economies" and SPEEDA data.

High Growth Group Definition

- Companies are classified into High Growth Group and Stable Group for comparative analysis.
- Companies that have increased their workforce by 500 or more over the past 10 years are classified as the “High Growth Group.” There are 328 such companies (representing 17.2% of the sample). The rest of the companies are classified as “Stable Group”.
- Industry Composition: The manufacturing, IT & Telecommunications, wholesale and retail, and other services sectors together account for 74% of the High Growth Group.

Number of Companies in the High Growth Group by Industry (328)



Source: SPEEDA data.

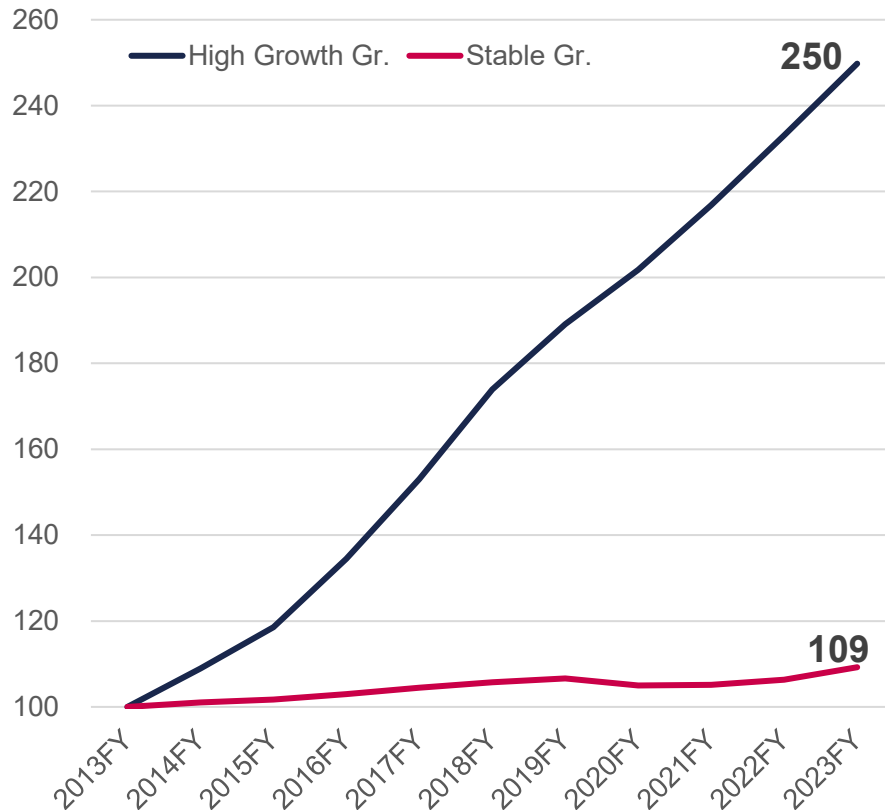
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All Industries : Comparison ①

Employee Count & Revenue

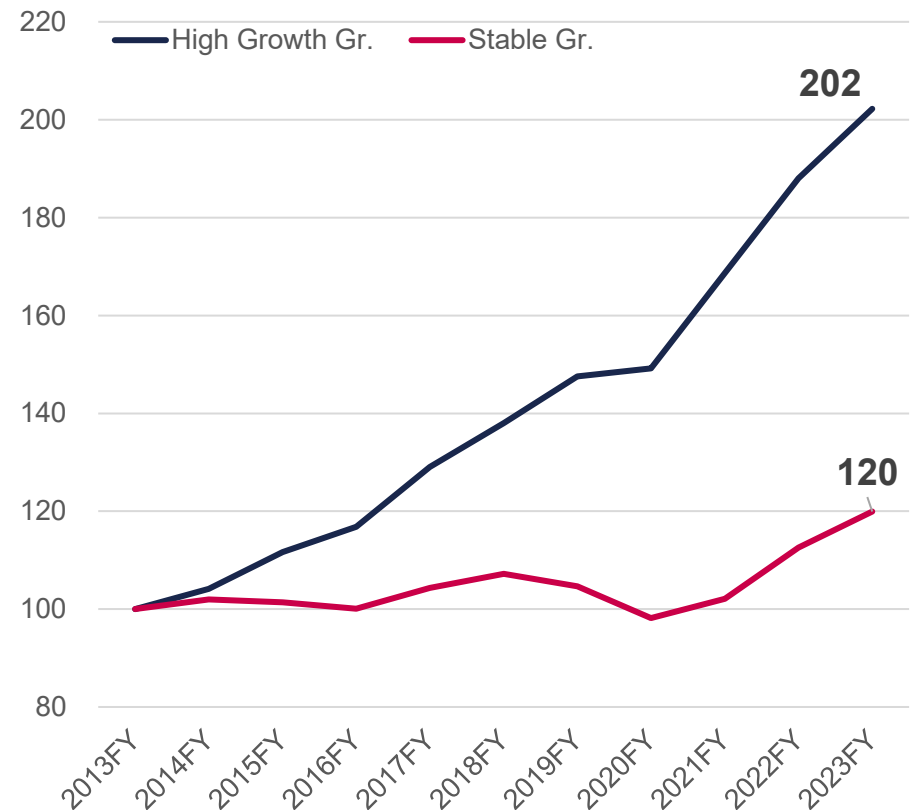
- The High Growth Group's number of employees grew to approximately 2.5 times and revenue to about 2 times their levels of ten years ago.
- In contrast, the Stable Group stagnated in both metrics, resulting in a significant difference with the High Growth Group. The High Growth Group's employee count growth rate is higher than its revenue growth rate.

Employee Count Trend (FY2013 = 100)



Source: SPEEDA data.

Revenue Trend (FY2013 = 100)

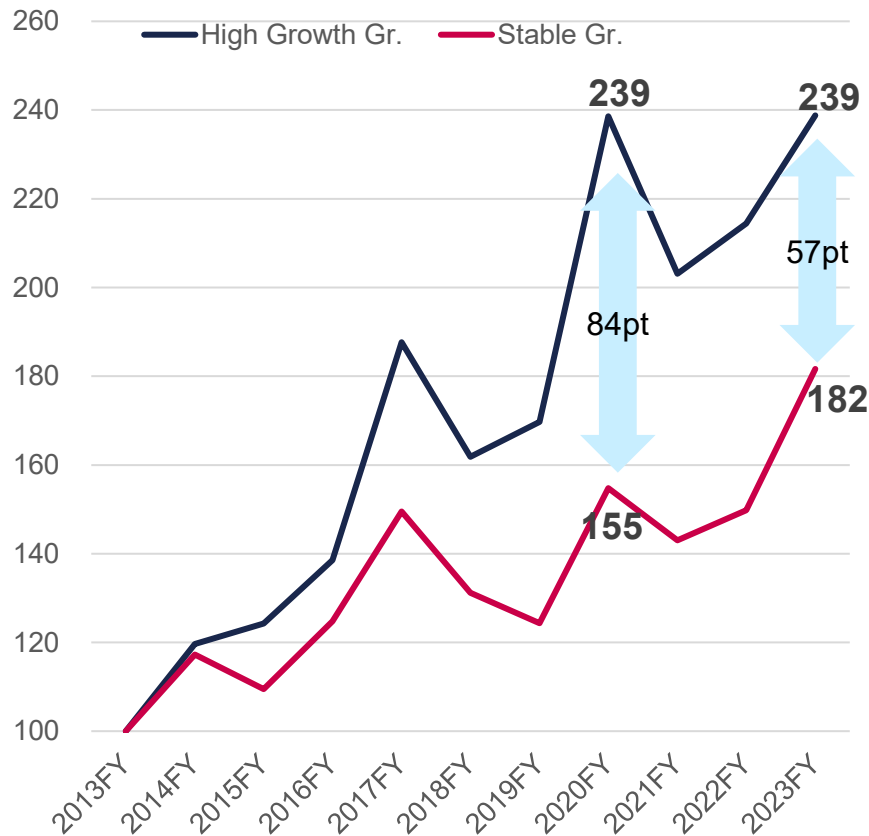


All Industries : Comparison ②

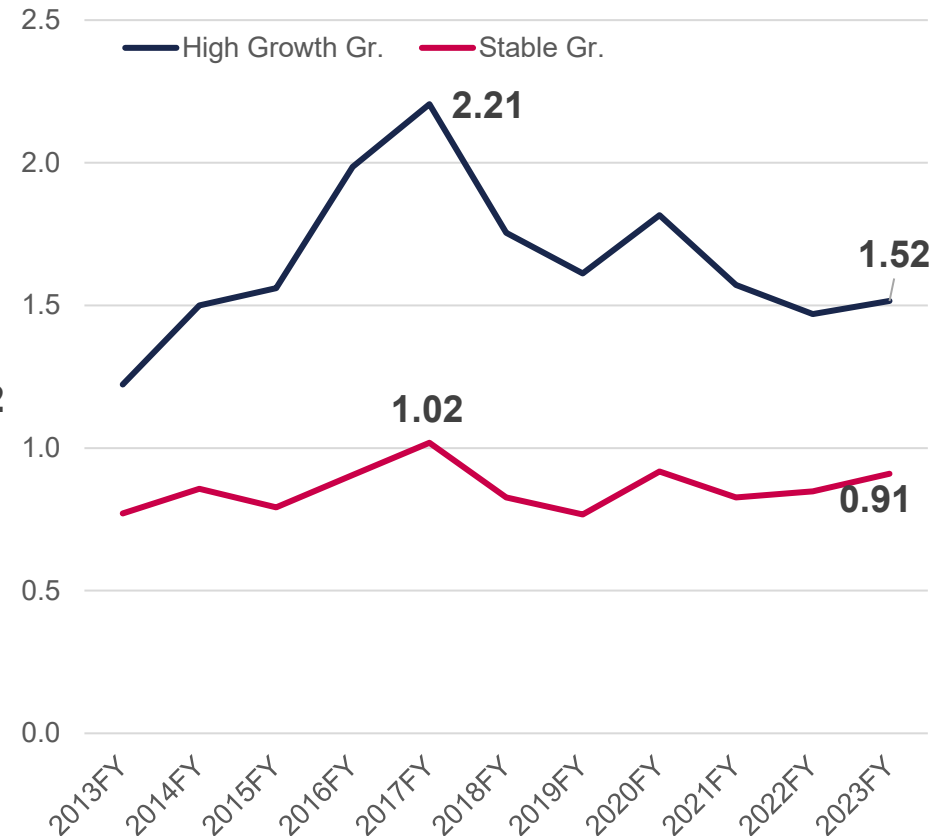
Market Capitalization & PBR

- The High Growth Group's market capitalization expanded to approximately 2.4 times its level of ten years ago, whereas the Stable Group's market capitalization expanded to about 1.8 times, indicating a wider gap in growth between them.
- The High Growth Group's PBR (median) ranges from 1.2 to 2.2, while the Stable Group's median PBR remains below 1.

Market Capitalization Trend (FY2013 = 100)

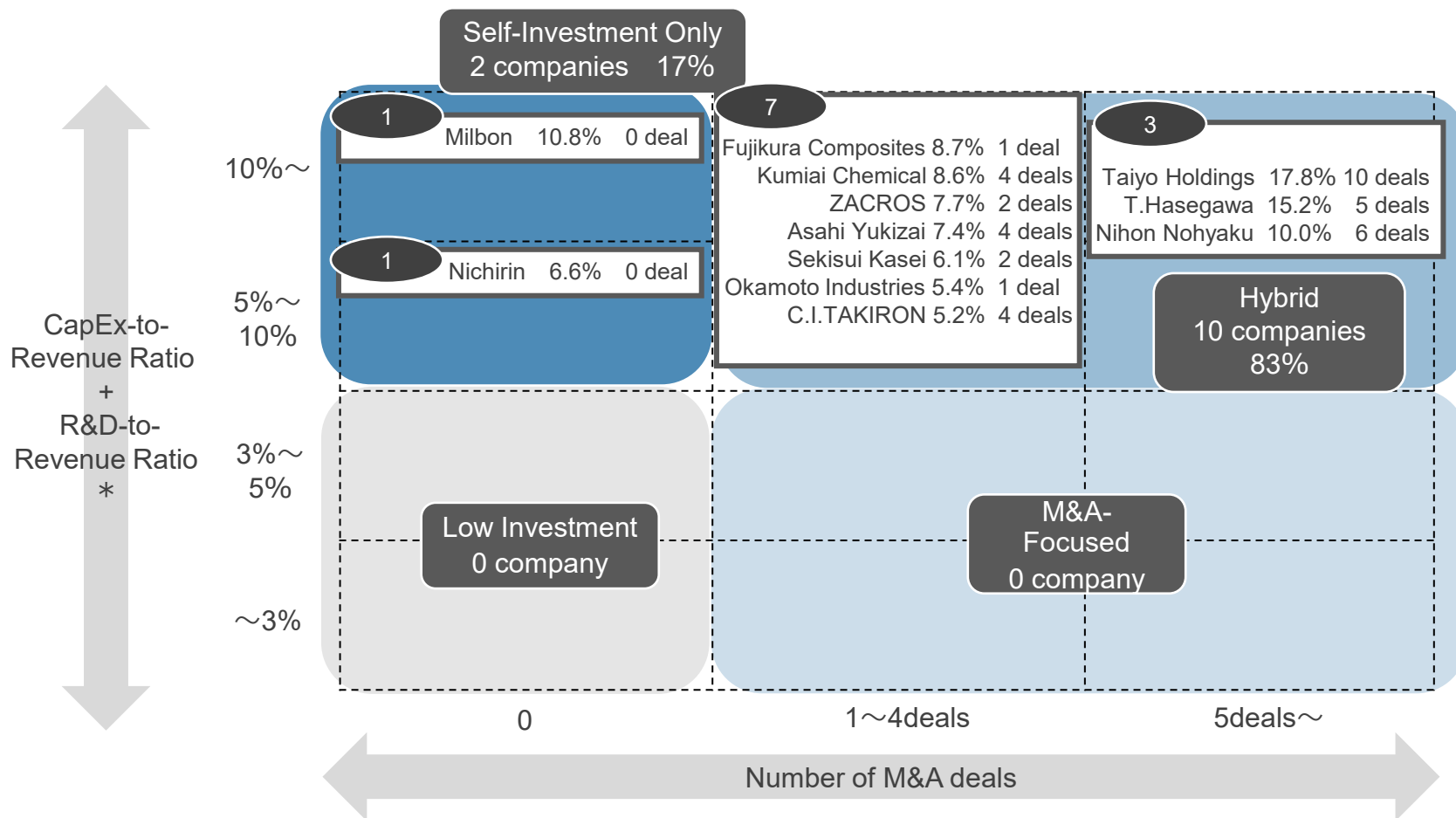


PBR (Median) Trend (FY2013 = 100)



Source: SPEEDA data.
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- In the chemicals & rubber industry, all mid-sized companies in the High growth group deploy capital in Capex and R&D at a high level (5% or more), and the majority (83%) are also actively engaged in M&A.



* Calculated by taking each company's average CapEx-to-revenue and R&D-to-revenue ratios from FY2013 to FY2023, and then summing them
Source: SPEEDA data.

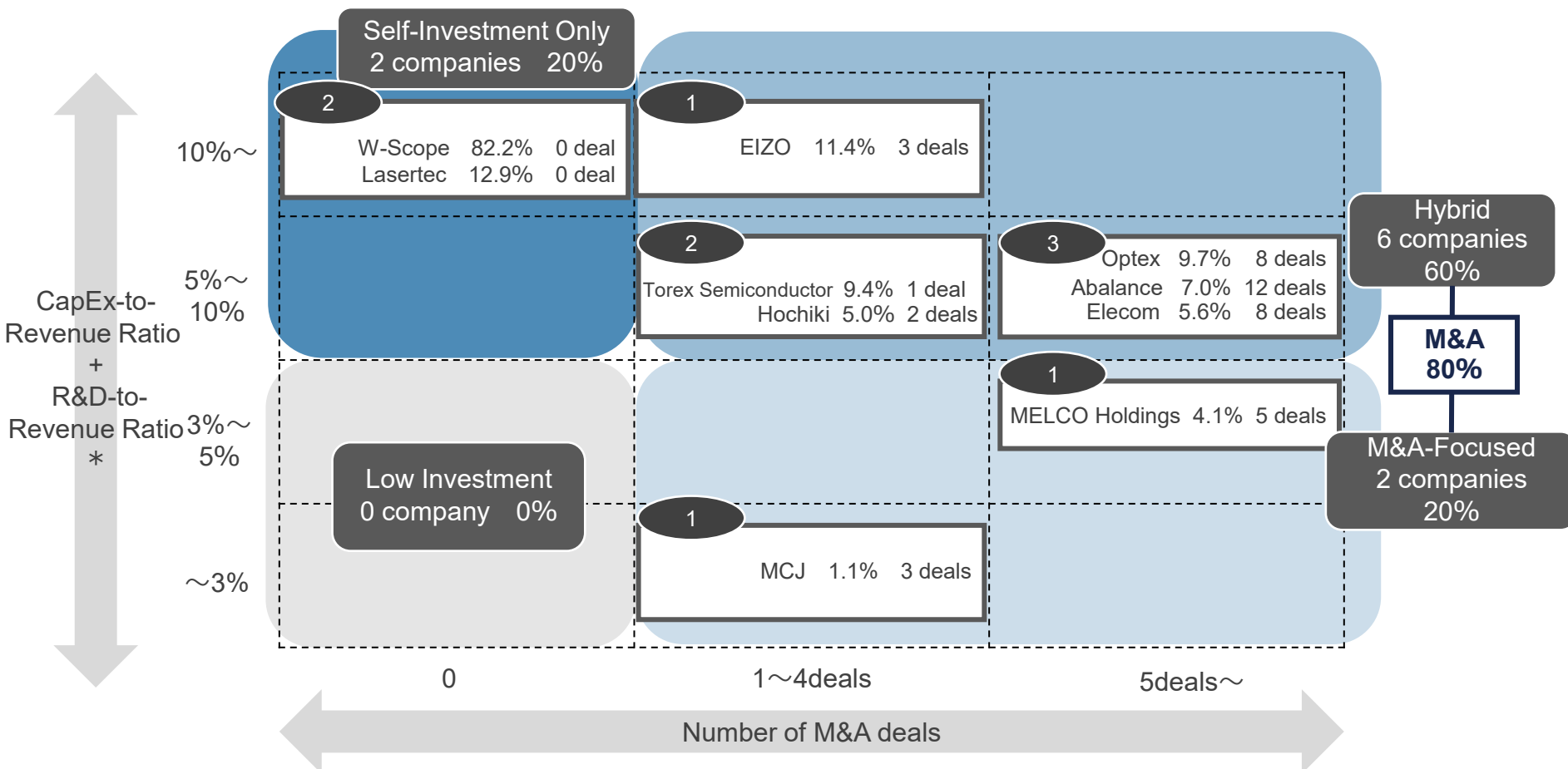
Electrical Equipment

High Growth Group Self-Investment and M&A Trends



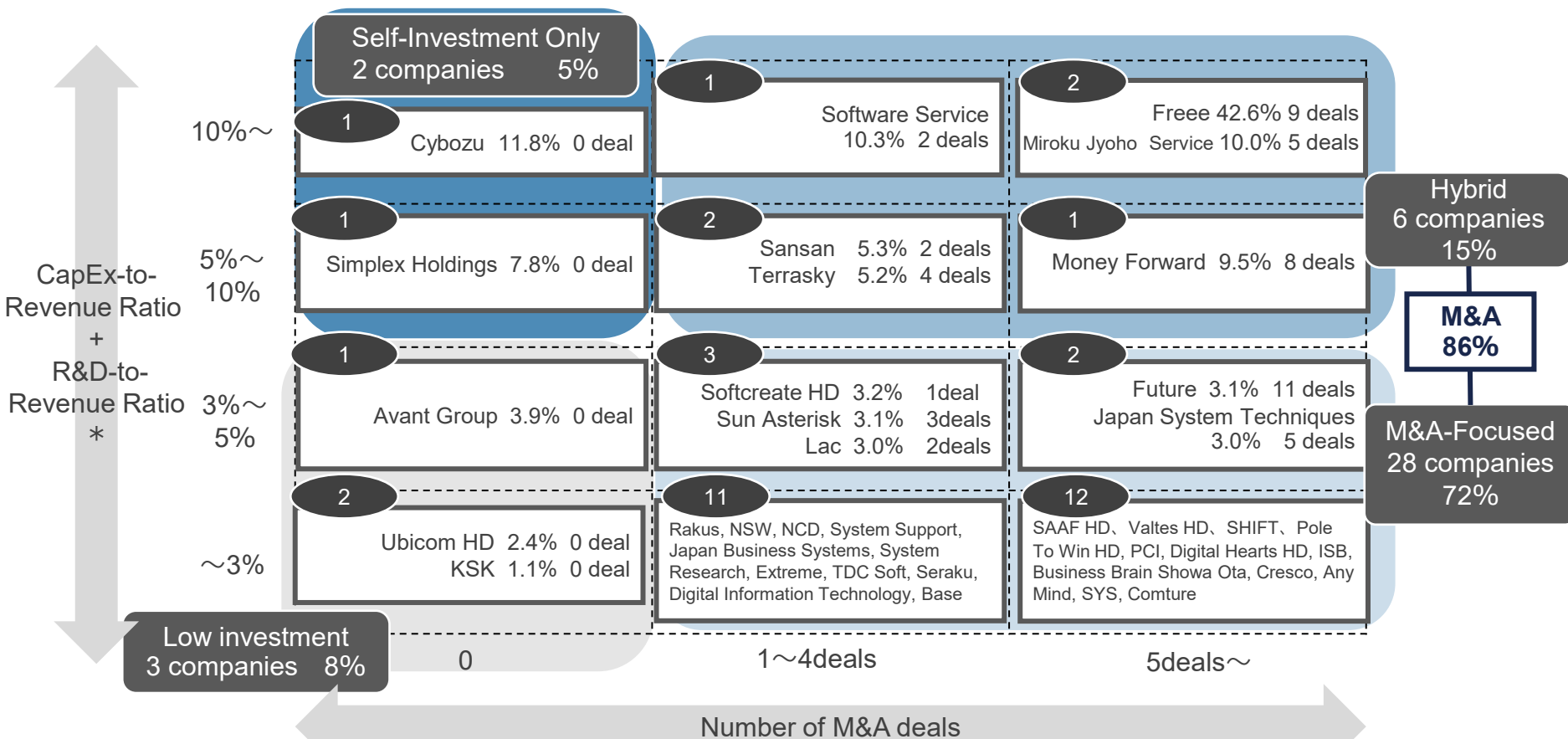
株式会社産業革新投資機構

- In the electrical equipment industry, companies in the high growth group engage in either high levels of investment in Capex and R&D or M&A, or a combination of both. In particular, those growing without M&A clearly undertake aggressive investments with capital expenditure and R&D ratios exceeding 10%.



* Calculated by taking each company's average CapEx-to-revenue and R&D-to-revenue ratios from FY2013 to FY2023, and then summing them
Source: SPEEDA data.

- 72% of high growth group companies grew primarily through M&A, while 15% actively pursued M&A alongside high levels of Capex and R&D investment, meaning a combined 86% of the high growth group engaged in M&A.
- Three of the “low investment” companies actually had conducted M&A prior to 2013, which is outside the scope of this analysis, and had subsequently focused on human resource investments (such as hiring and improving employee conditions)—factors that ultimately enabled them to join the High Growth group.



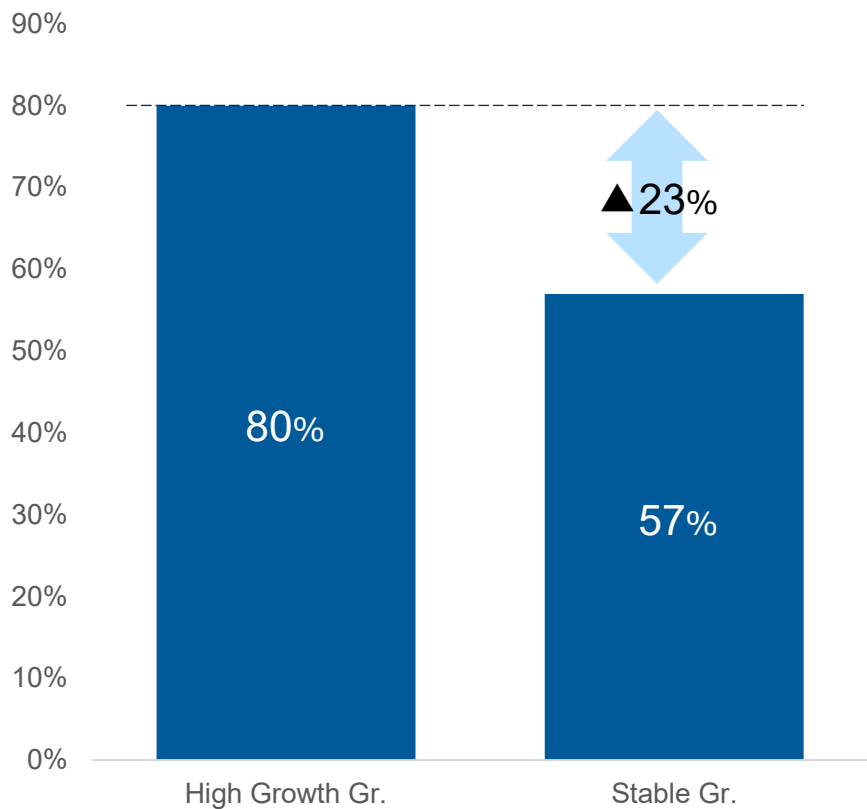
* Calculated by taking each company's average CapEx-to-revenue and R&D-to-revenue ratios from FY2013 to FY2023, and then summing them

Source: SPEEDA data.

High Growth vs. Stable Group Comparison

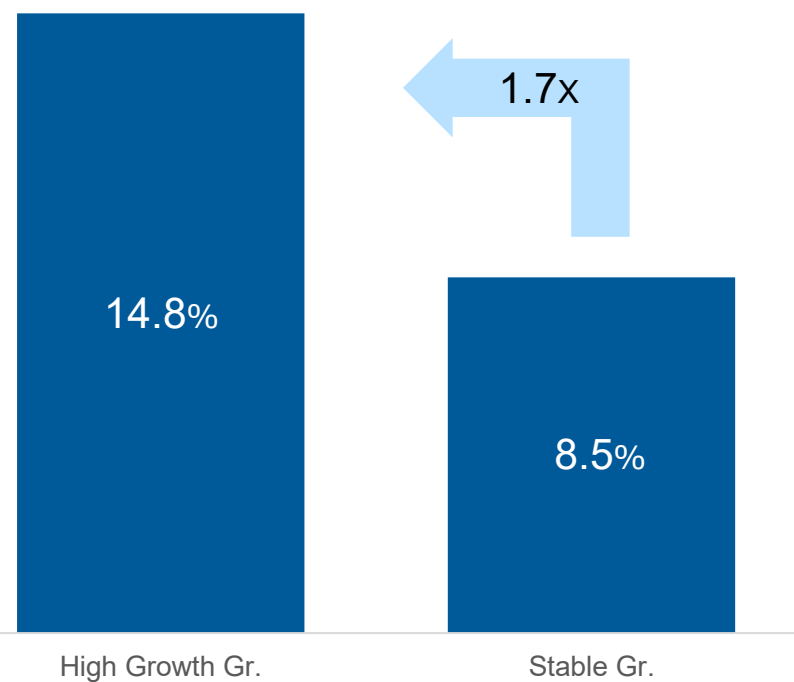
- The High Growth Group and Stable Group exhibit notable differences. The Stable Group's M&A execution rate is 57%, which is 23 percentage points lower than the High Growth Group's 80%, indicating the Stable Group tends to rely on organic growth. Additionally, the Stable Group's self-investment level is 8.5%, compared to 14.8% for the High Growth Group — a 1.7-fold gap.

M&A Execution Rate



Self-Investment Ratio

$$* \text{ Self-Investment Ratio} = \frac{\text{CapEx}}{\text{Revenue}} + \frac{\text{R\&D}}{\text{Revenue}}$$

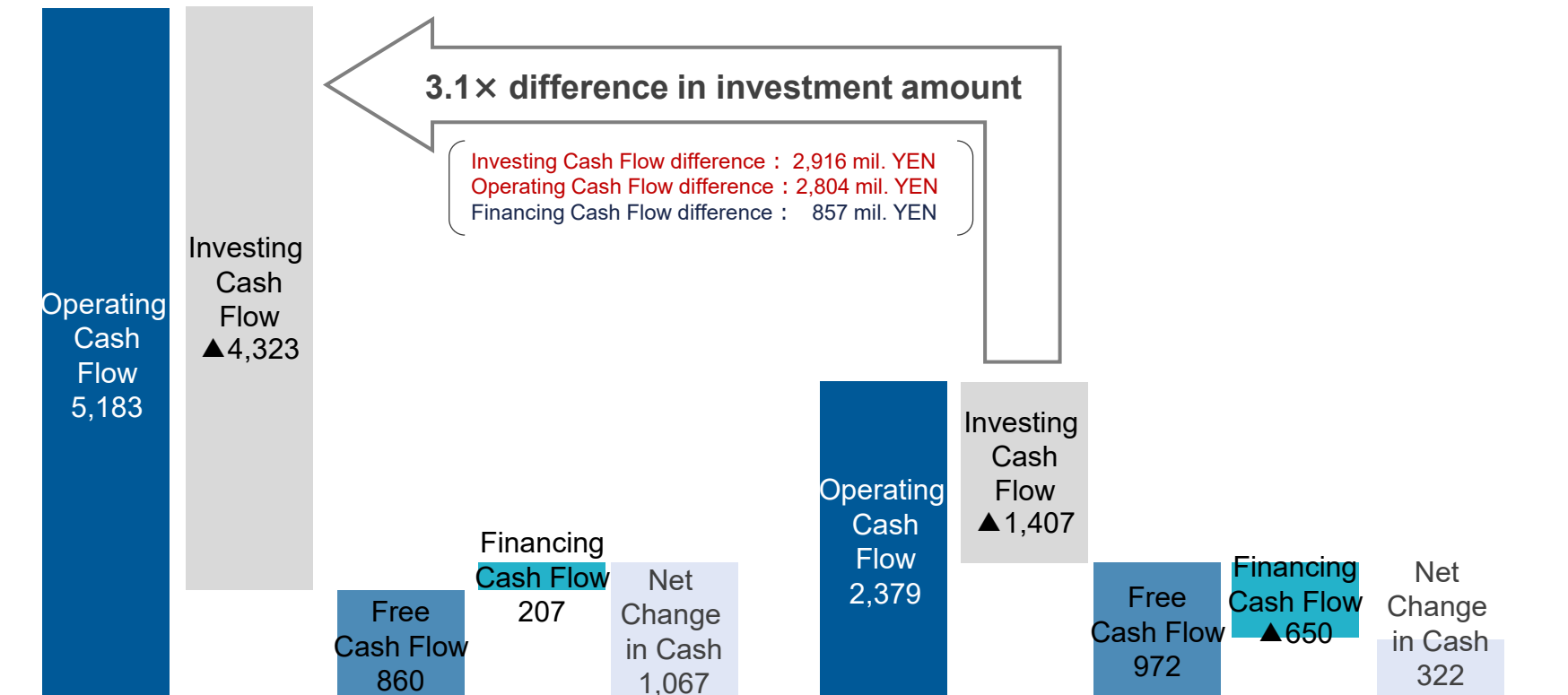


Note: In the electrical equipment sector, there are 10 High Growth companies and 73 non-growth companies. The M&A implementation ratio is based on actual performance during FY2013–FY2023, while the internal investment ratio represents the average for FY2013–FY2023
Source: SPEEDA data.

- In the manufacturing sector, the High Growth Group and Stable Group exhibit different cash flow patterns (averages for FY2013–FY2023).
- The difference in “earning power” indicated by Operating Cash Flow appears to directly translate into differences in investing cash flow.

High Growth Group (Cash Flows)

Stable Group (Cash Flows)

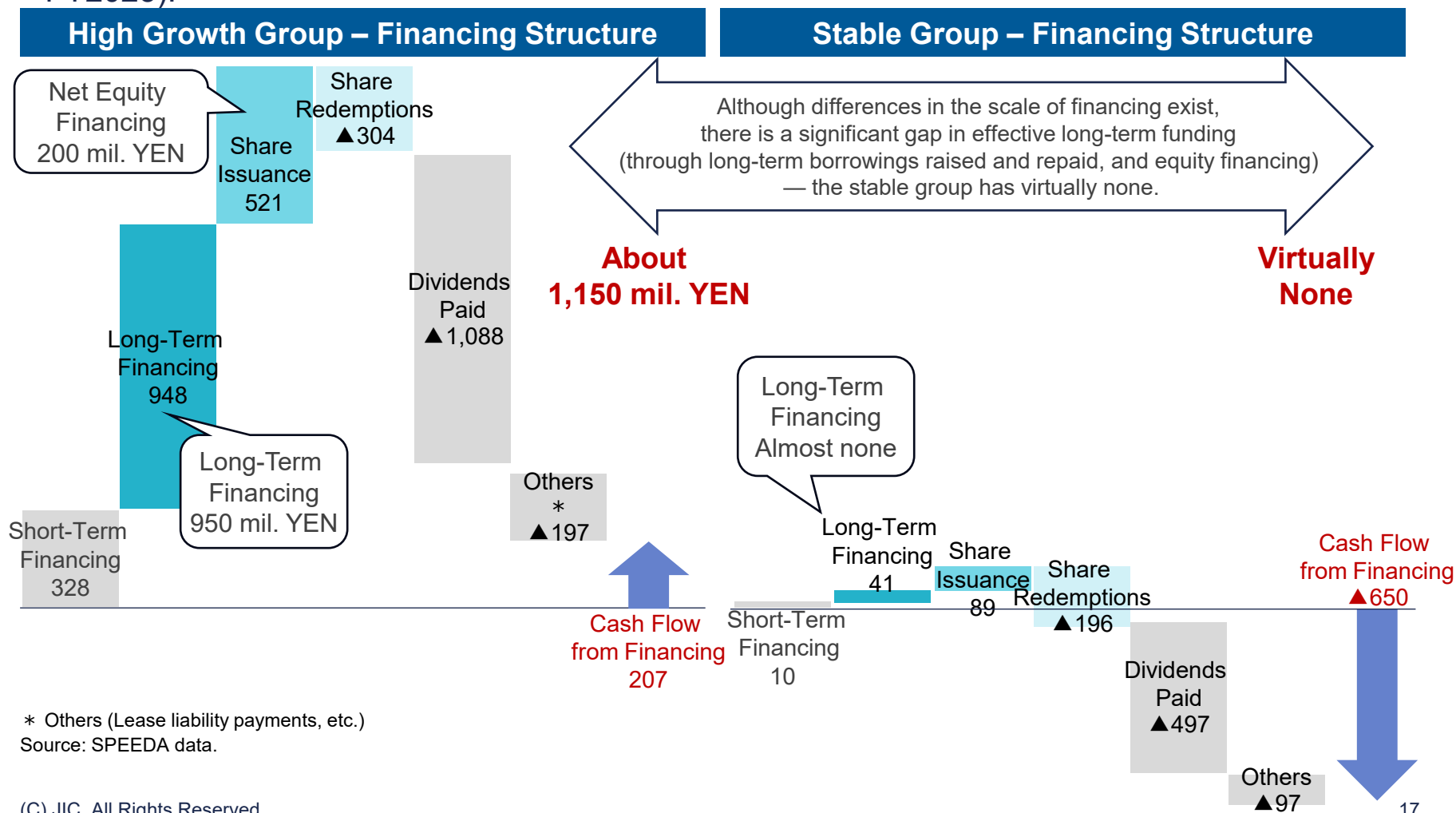


Note: Cash Flow is the averages for FY2013-FY2023.

Source: SPEEDA data.

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- A closer look into “cash flows from financing activities” reveals that the Stable Group fails to secure long-term financing (via borrowings and share issuances combined), causing its financing cash flow to turn negative. In contrast, the High Growth Group successfully secures long-term financing, maintaining a positive financing cash flow (the figure below presents average values for FY2013–FY2023).



- This analysis compared TSE-listed mid-sized companies that increased their workforce by at least 500 over the past ten years (defined as the “High Growth Group”) with other mid-sized companies (the “Stable Group”). Key findings are as follows:

Higher Growth Metrics

The high growth group achieved higher growth in sales revenue and market capitalization. Thus maintained a higher PBR (price-to-book ratio), than the stable group.

- Using a sales index (FY2013 = 100), the High Growth Group reached 202 by FY2023, compared to 120 for the Stable Group (representing a 1.7-fold higher growth rate). Similarly, on a market capitalization index (FY2013 = 100), the High Growth Group reached 239 by FY2023, compared to 182 for the Stable Group (a 1.3-fold outperformance). Reflecting these valuation dynamics, the median P/B ratio stood at 1.52x for the High Growth Group, significantly outpacing the 0.91x recorded by the Stable Group.

Investments and M&A activity: The high growth group has been more active than the stable group in Capex, R&D, and M&A.

- For example, in the manufacturing sector (the electrical equipment industry), the M&A execution rate from FY2013 to FY2023 was 80% for the High Growth Group, compared to 57% for the Stable Group (a 23-percentage-point difference). Similarly, the average combined ratio of capital expenditure and R&D to sales (FY2013-FY2023) stood at 14.8% for the High Growth Group, versus 8.5% for the Stable Group (representing a 1.7-fold higher investment intensity).

Cash Flow and Financing: In the manufacturing sector, the high growth group utilized operating cash flow to fund investments approximately three times larger than those of the stable group, and secured roughly 1 billion yen more per year in long-term financing on average.

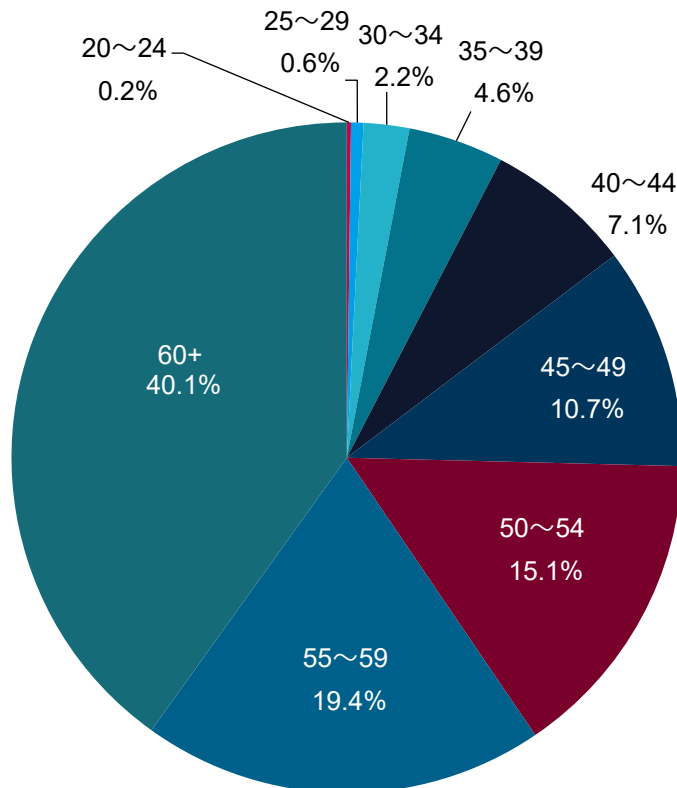
- In the manufacturing sector, the High Growth Group’s investing cash flow was approximately 3.1 times that of the Stable Group, a disparity that likely reflects differences in their ability to generate operating cash flow.
- In terms of financing cash flows, net long-term funding (long-term borrowings raised minus repaid, plus shares issued minus shares repurchased) averaged JPY 1.15 billion for the High Growth Group, whereas it stood at virtually zero for the Stable Group.

2. Survey Research: Employees of Mid-Sized Companies

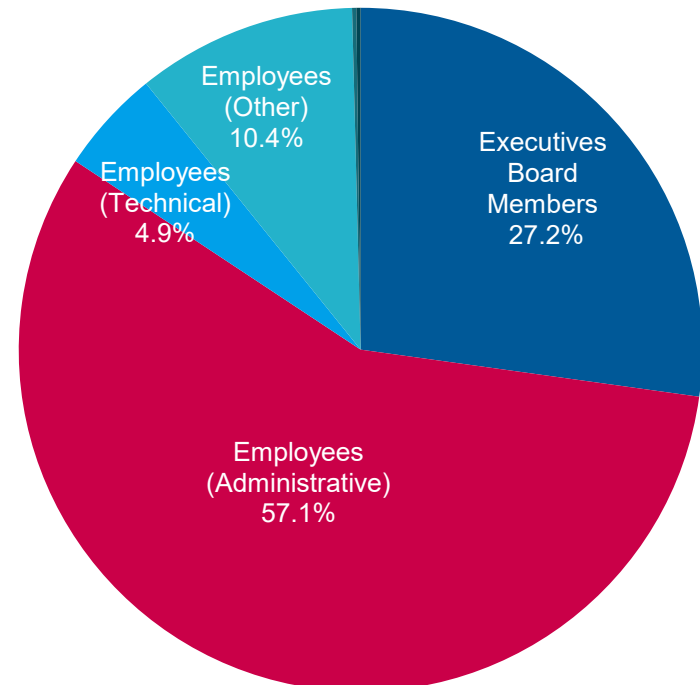
Respondent Attributes

- A survey targeted employees at mid-sized companies (300–1,999 employees) working in corporate planning, finance, or accounting departments, as well as company executives and directors, obtaining 1,007 responses.
- Respondents' ages: 18% in their 40s, 35% in their 50s, 40% are 60 or older (75% are aged 50 and above).
- Respondents' roles: 27% are executives or board members, and 57% are administrative office workers.

Respondent Age (n=1,007)



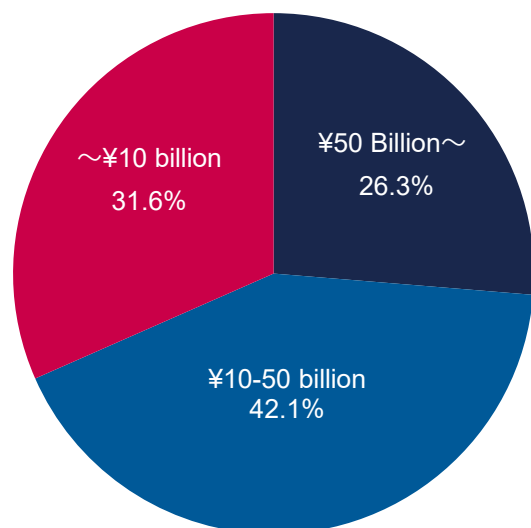
Respondent Occupation (n=1,007)



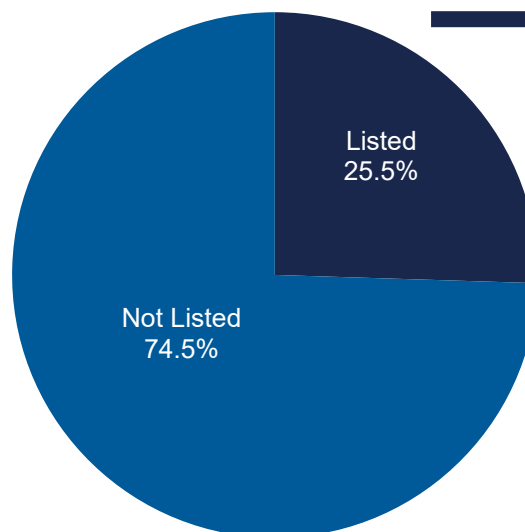
Company Revenue & Listing Status

- By annual sales, 42% of respondents work at companies with ¥10–50 billion in revenue, and 26% at companies over ¥50 billion.
- By listing status, 26% of respondents work at listed companies, closely aligning with the ~16% overall listing rate for mid-sized companies (see Note).
- Among the respondents who work at listed companies, 50% of them work at companies with market capitalization above ¥25 billion, 26% at companies with ¥10–25 billion market cap, and 24% at companies with under ¥10 billion market cap.

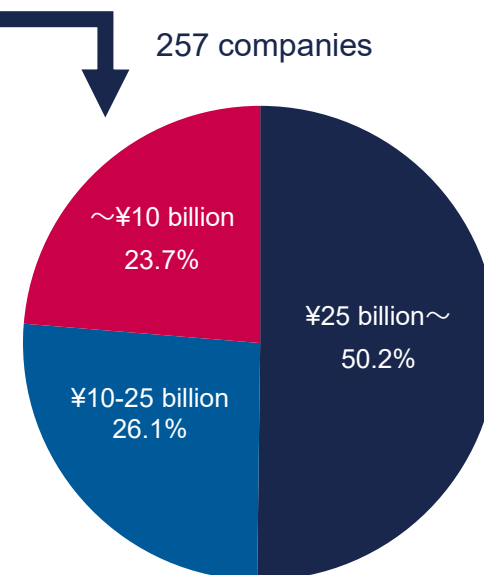
Workplace Annual Sales (n=1,007)



Listing Status (n=1,007)



Market Capitalization (n=257)

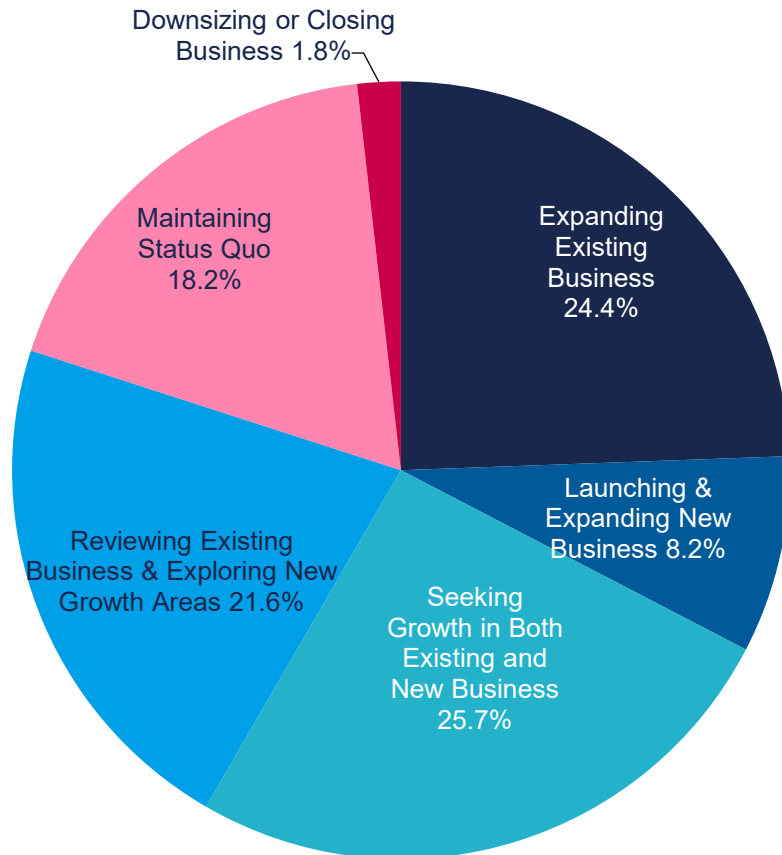


*Note: According to a CDI survey (“2024 White Paper on Listed Mid-Sized Companies”), there are approximately 9,000 mid-sized companies in Japan, of which 1,464 were listed as of 2022, indicating a listing ratio of 15.8%.

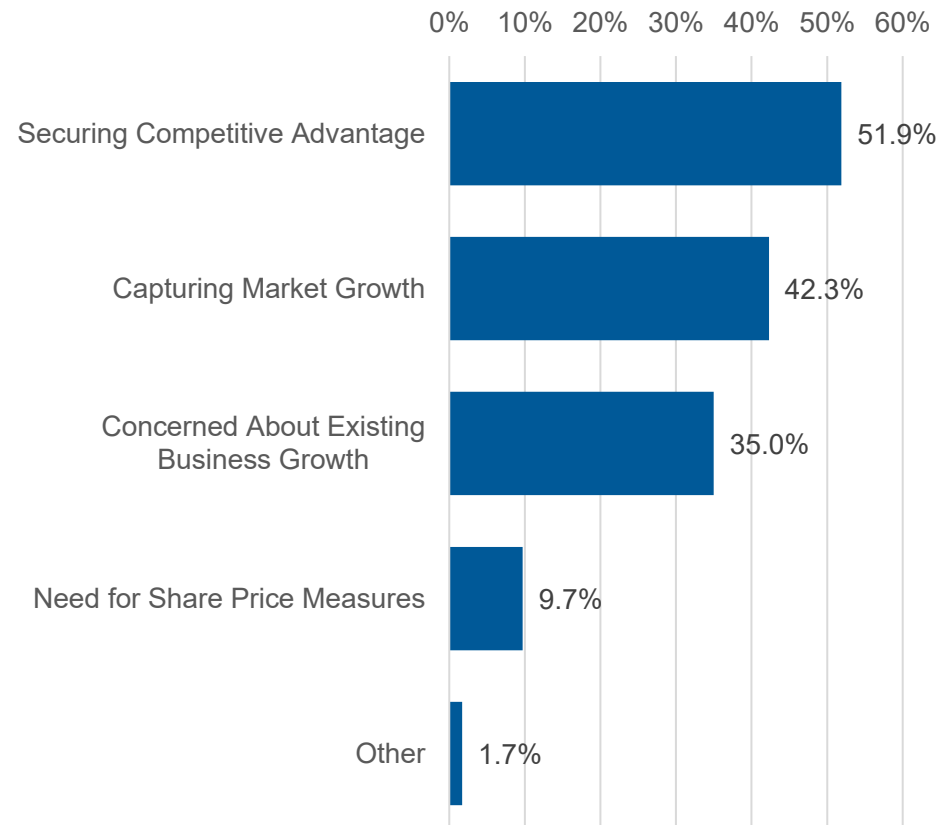
Growth Ambition

- 80% of the respondents perceive their employers as having growth ambitions—specifically, 24% view the focus as expanding existing businesses, while 56% see it as pursuing growth that includes new business fields. According to the respondents, the top reasons cited for their companies pursuing growth are securing a competitive advantage (52%), capturing market growth (42%), and concerns over stagnant growth in existing markets (35%).

Ambition and Direction for Business Expansion (n=1,007)

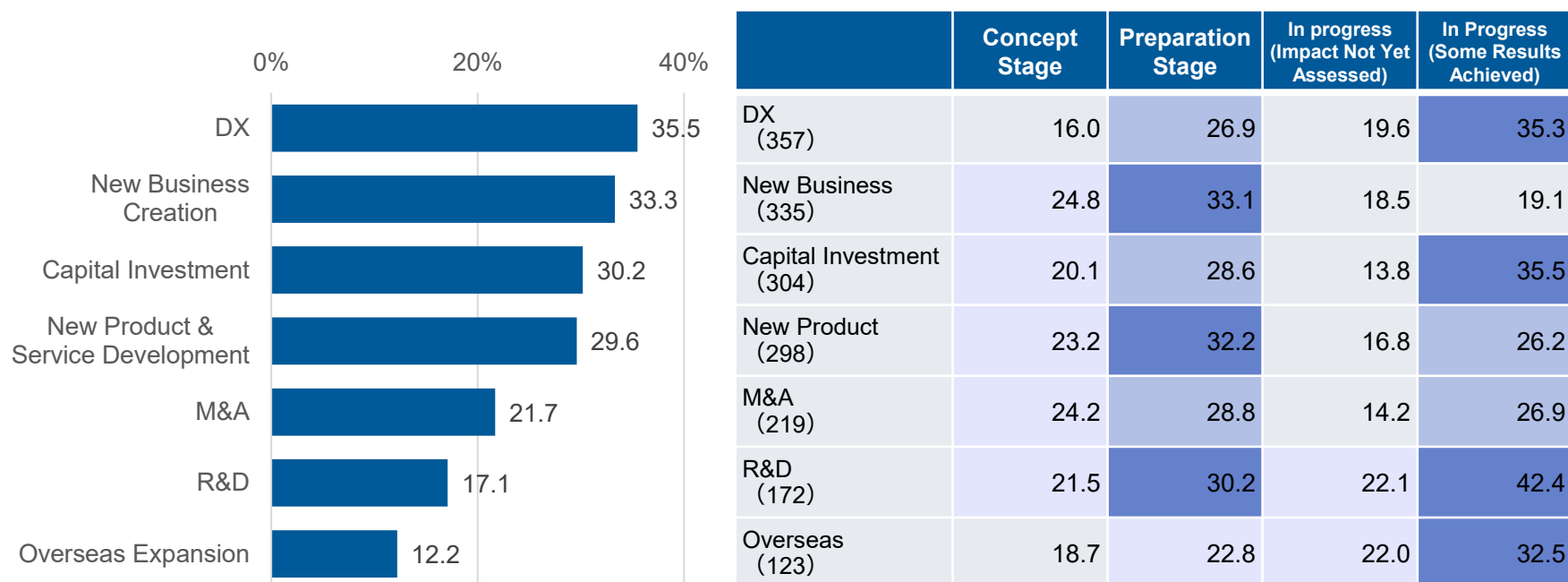


Background of Business Expansion Plans (n=588)



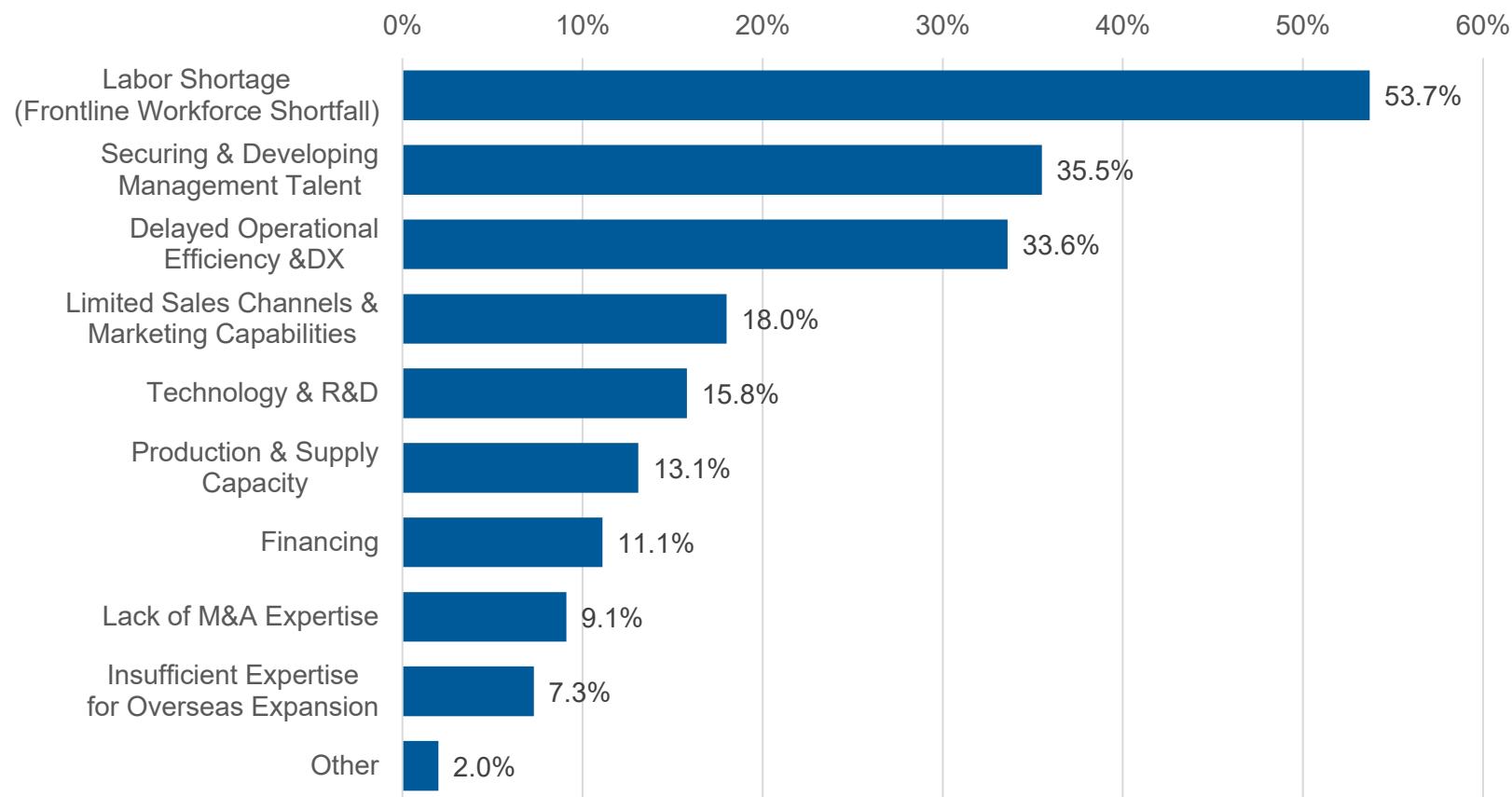
- Around 30% of respondents cite capital investment, digital transformation (DX), new product / service development, or new business creation as the strategic focus of their employers; around 20% point to R&D or M&A; and about 12% indicate overseas expansion.
- With regard to implementation stage, respondents report that capital investment, DX, R&D, and overseas expansion are already being executed and seeing results. In contrast, they note that many of their employers remain in the planning or preparation phase for new product development and new business creation. Additionally, just under 30% state that their employers have entered the preparation stage with an eye toward M&A.

Growth Strategies (Under Execution or Consideration) and Implementation Stage (n=1,007)



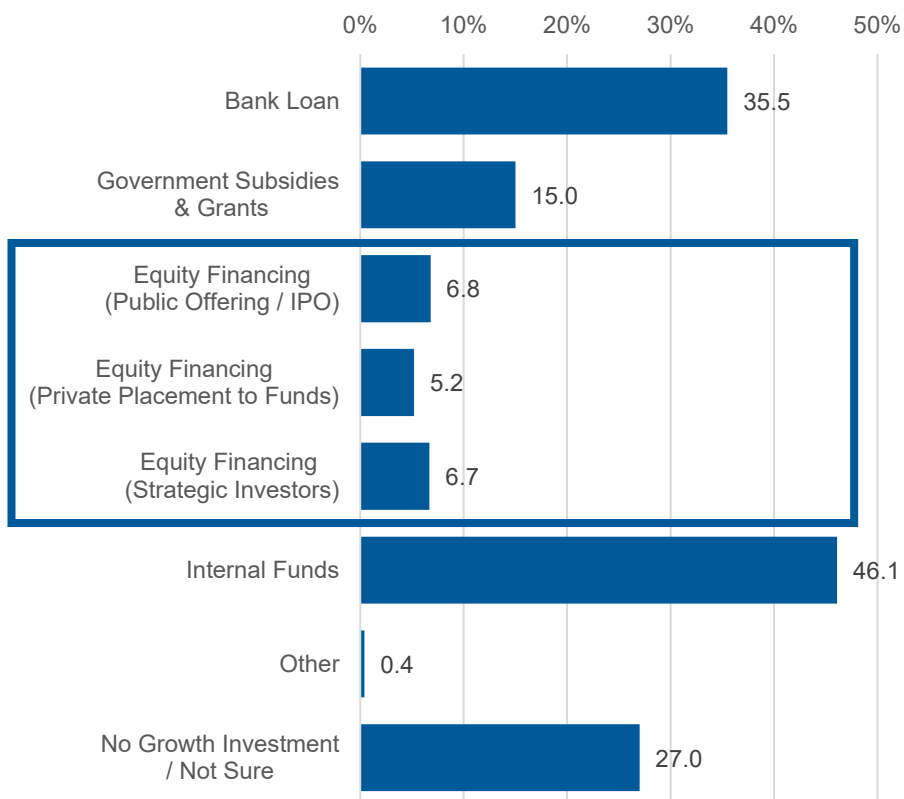
- 54% of respondents identified a shortage of workers as the most significant challenge. This was followed by a shortage of management personnel and the need for improved operational efficiency, each cited in the 30% range.
- Looking further down the list, the expansion of sales channels and marketing, along with technology and R&D, were also cited by just under 20% of respondents.

Barriers to achieving growth; respondents could select up to 3 (n=1,007)

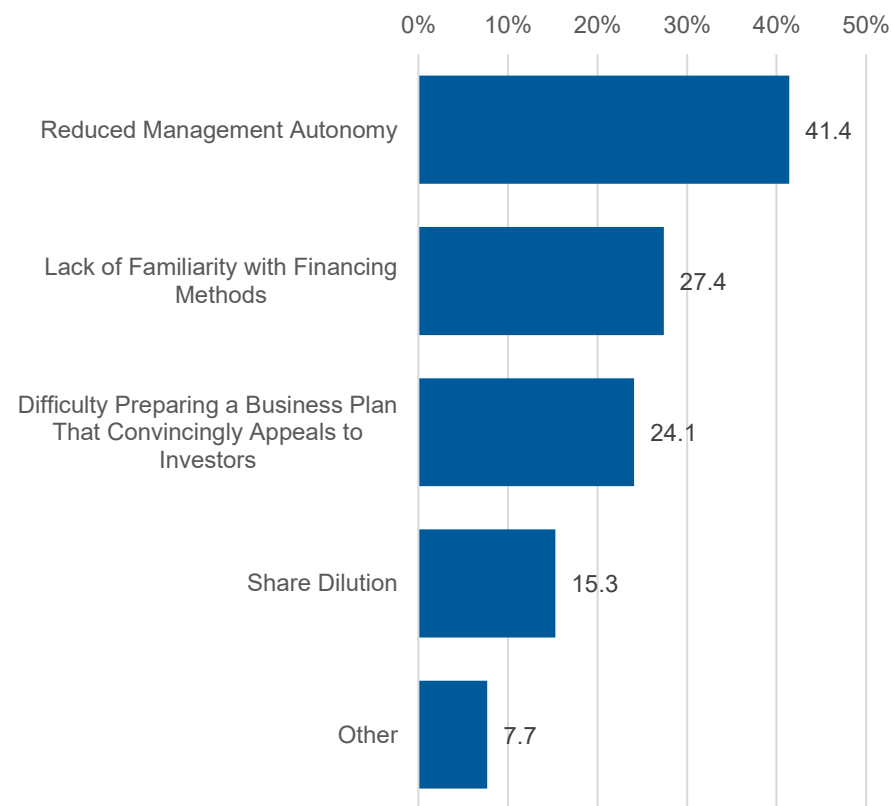


- Respondents report that their companies predominantly rely on internal funds and bank loans, with only about 5–7% perceiving equity financing as an option.
- Reflecting this general hesitation, over 40% of respondents expressed concerns that raising equity capital could reduce managerial flexibility, identifying this as the primary barrier.

Growth Investment Funding Methods
(Multiple Responses) (n=1,007)



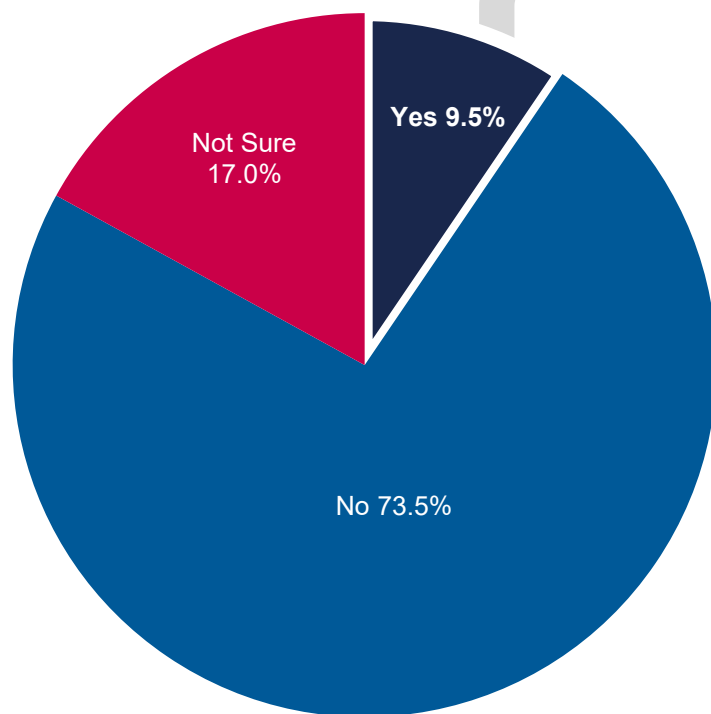
Barriers When Raising Equity Capital
(n=1,007)



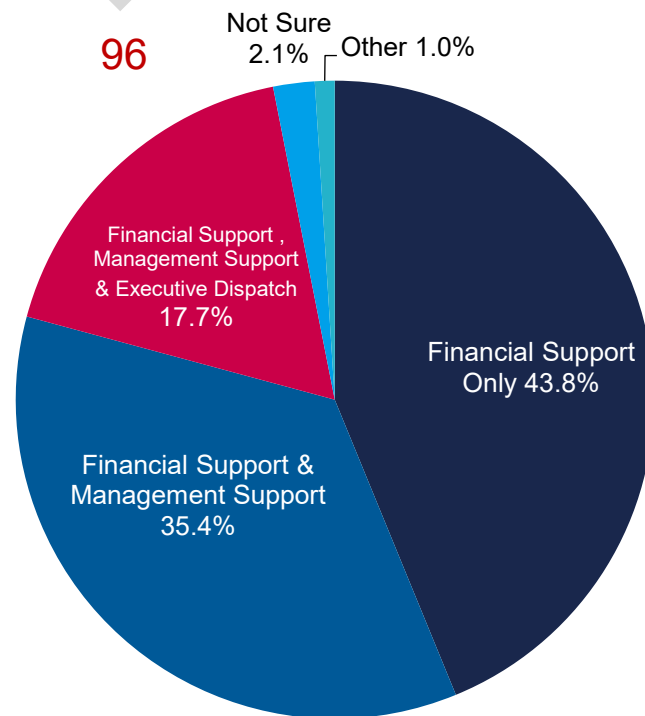
Support by PE Fund

- Regarding past support from PE funds, 9.5% of respondents reported that their employers have such experience (96 total responses, which may include overlapping counts from multiple respondents at the same company). In describing the nature of this support, these respondents indicated that 44% felt it was limited to funding only, 35% recognized it as including active management support, and 18% noted that it extended to executive secondment.

Received Support from a Fund (n=1,007)



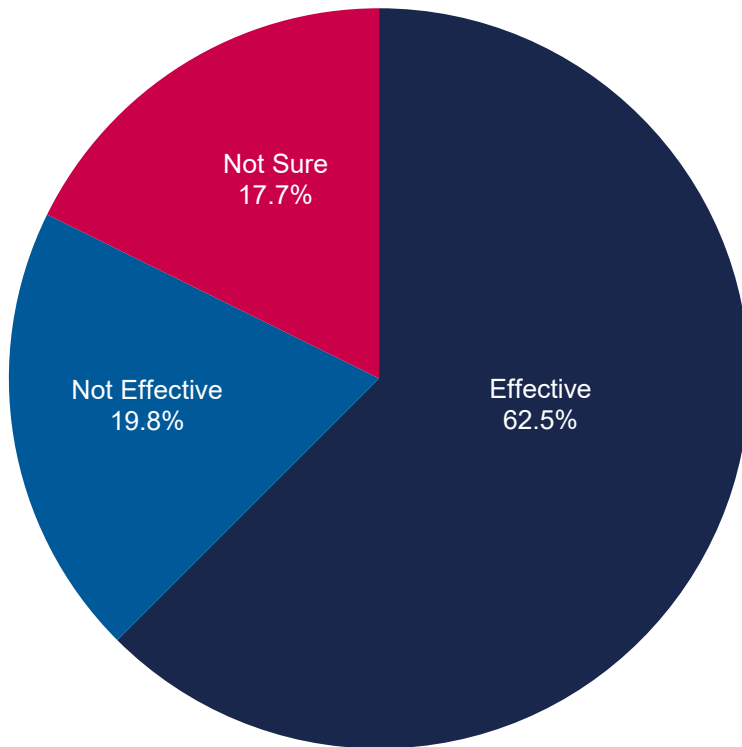
Support Received from Fund (n=96)



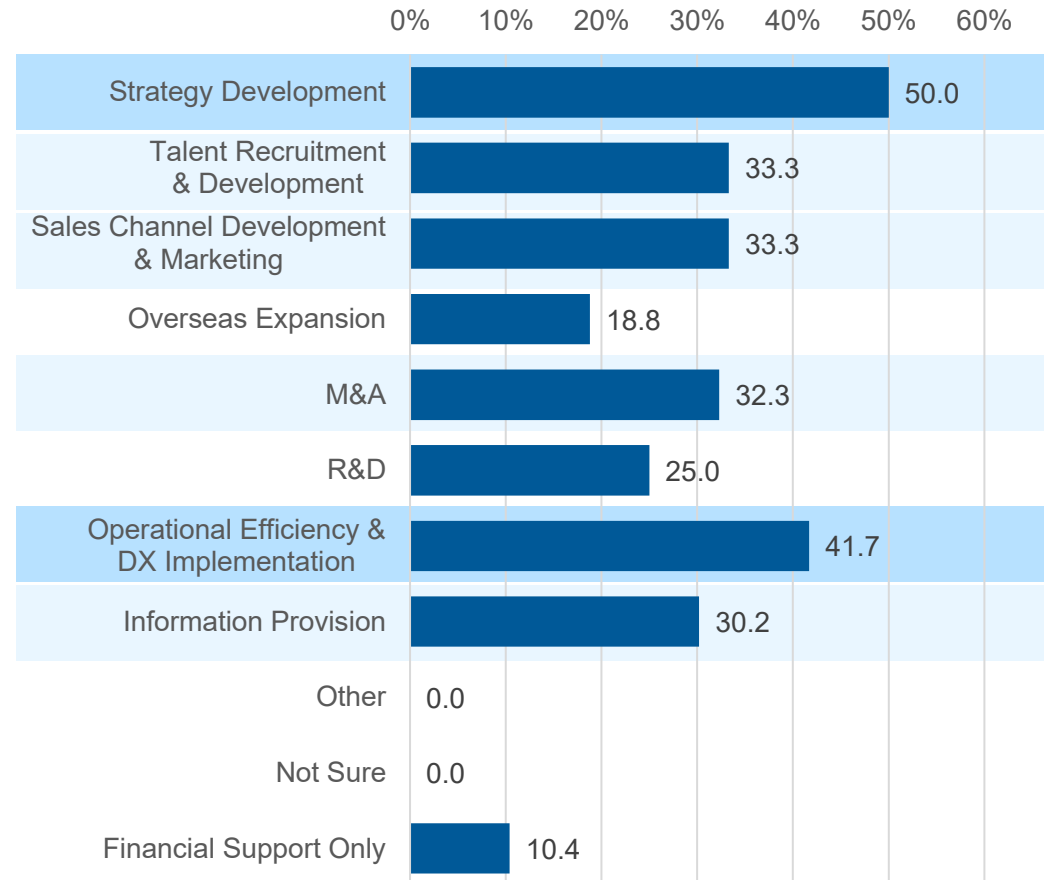
Effectiveness of the PE fund support

- Among the respondents whose employers have received support from PE funds, 62.5% indicated that the support was effective.
- These respondents expect PE funds to provide management support primarily in strategic planning (50%) and operational efficiency/DX (42%), while over 30% also desire assistance in talent recruitment and development, sales channel expansion, M&A, and market insight.

Fund Support Effective? (n=96)



Areas Where Support Is Expected (n=96)



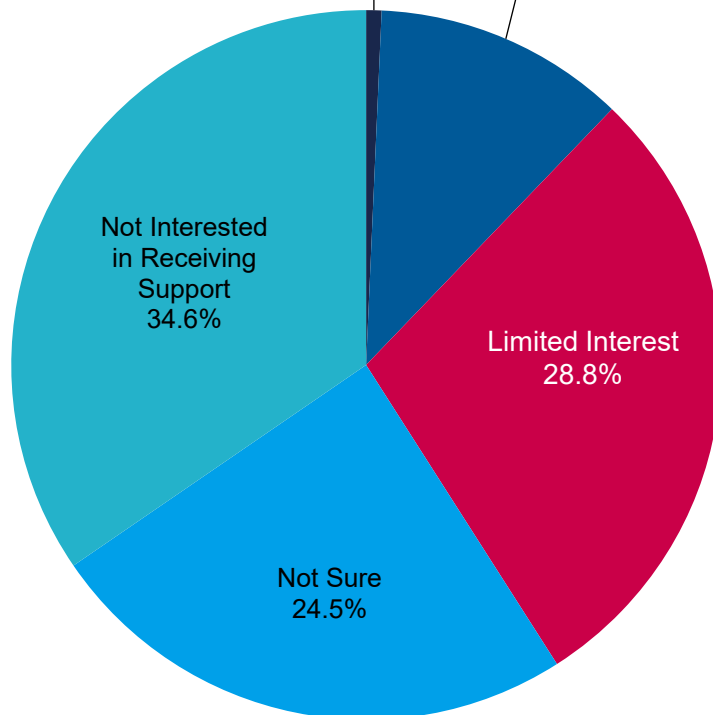
Expectation to support by PE Fund

- Among respondents whose employers have never received support by PE funds, 12% indicated that they would consider it as an option.
- In describing their expected level of involvement, 23% felt it should be limited to funding only, while 20% envisioned it extending to management support, and 8% believed it should go as far as executive placement.

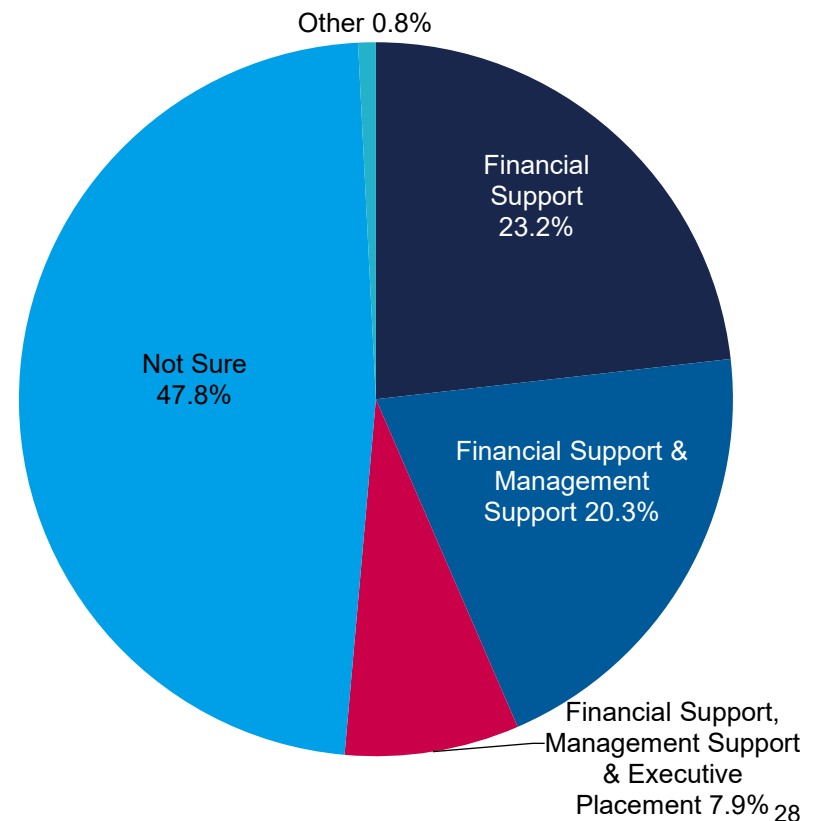
Considering Fund Support (n=911)

Interested in Receiving Support but Unsure How to Make Contact 0.7%

Willing to Consider, Depending on Conditions 11.5%



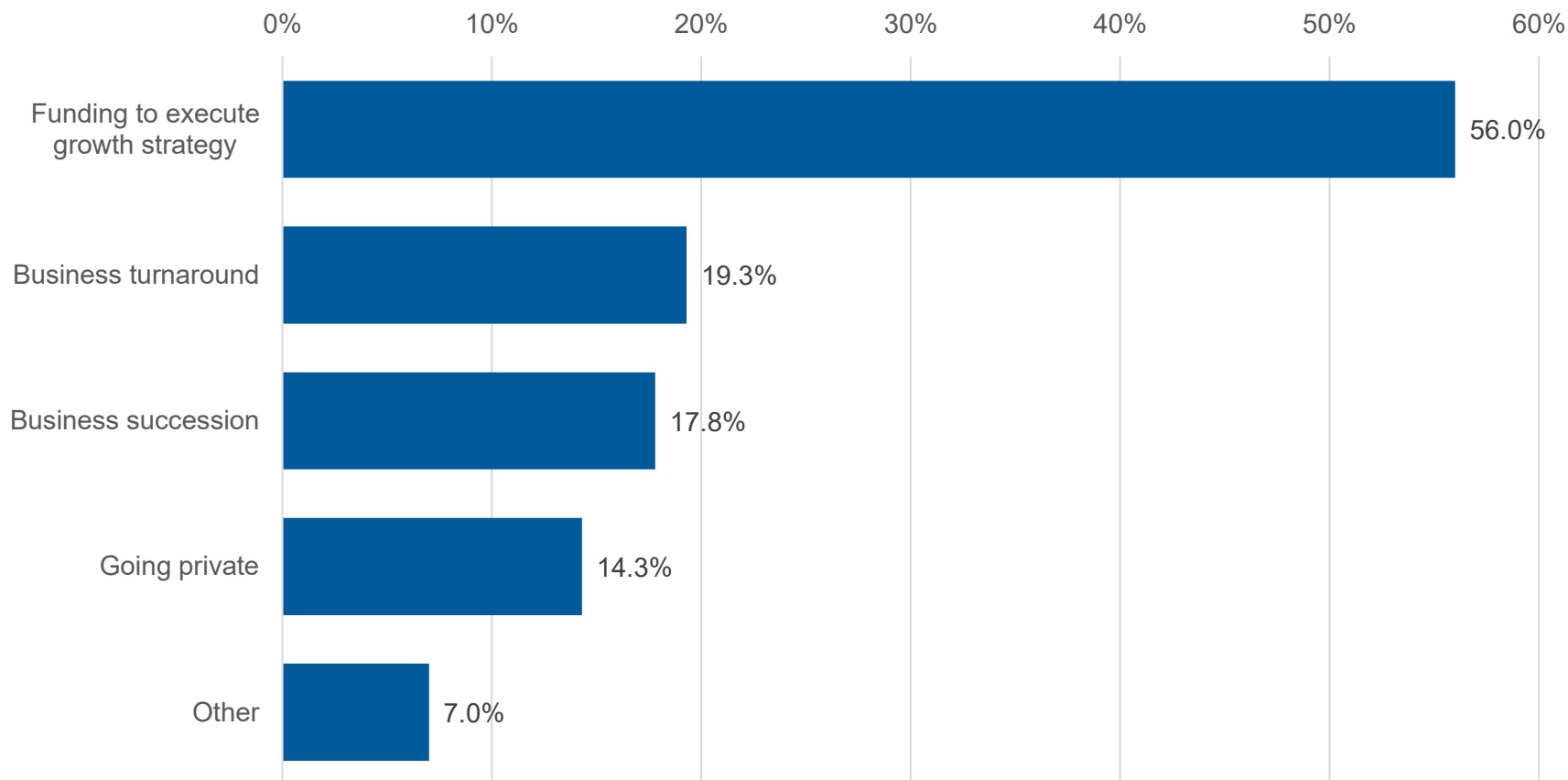
Preferred Support Method from a Fund (n=596)



The case for PE funds

- Over half of the respondents (56%) indicated that they would consider utilizing a PE fund for executing growth strategies, making it the most envisioned scenario.
- Looking further down the list, business turnaround and business succession were each cited by just under 20% of respondents, followed by 14% who viewed going private as a potential situation for PE fund utilization.

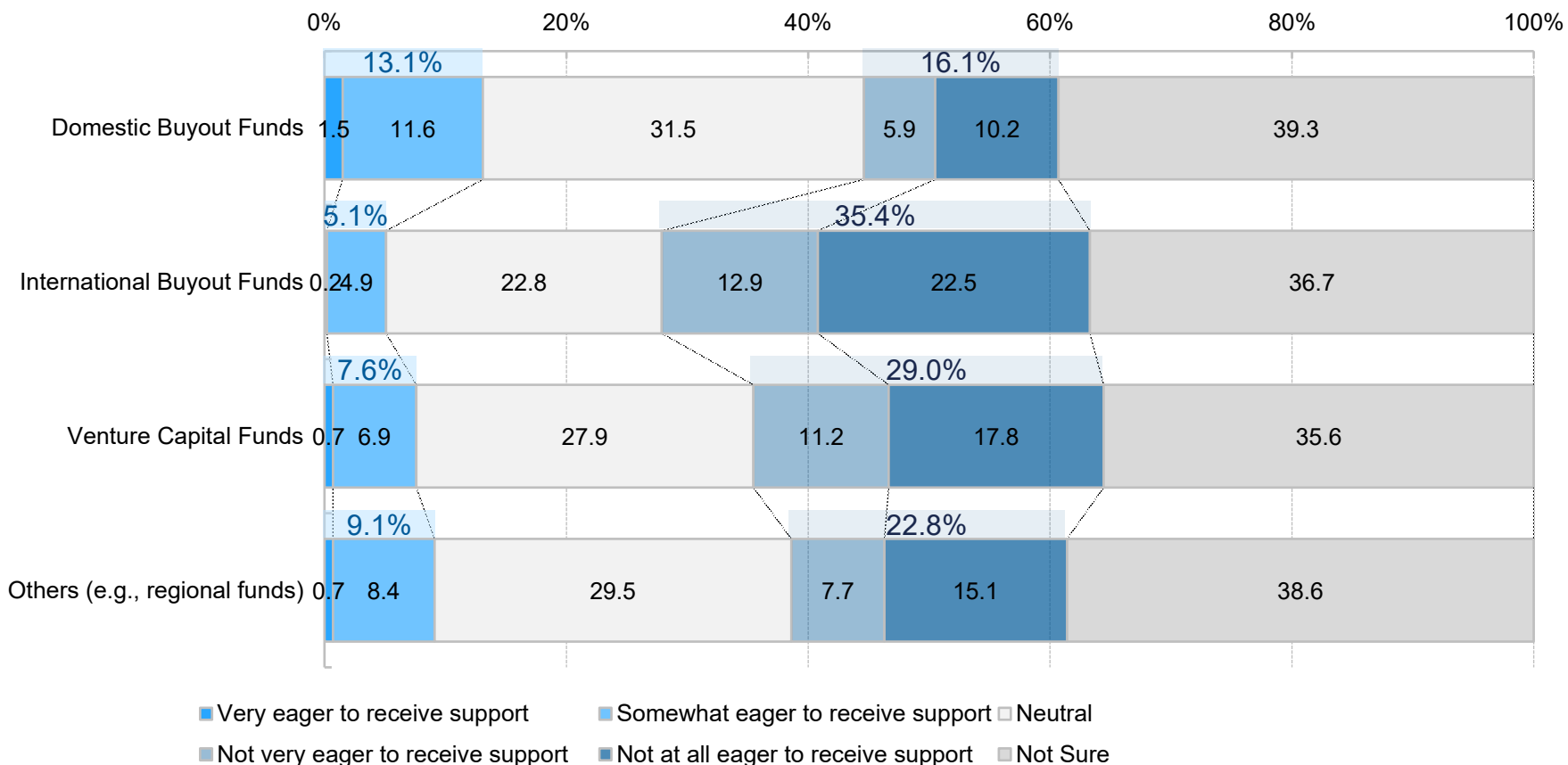
Possible Cases for Using a Fund (Multiple Responses) (n=596)



Desired type of PE Funds

- Across all PE fund types, the general sentiment of 'not wanting support' outweighs the desire to 'try support.' However, regarding domestic buyout funds, respondents' perceptions are nearly balanced, and for other domestic funds (such as regional funds), the gap in their preferences remains relatively small. In contrast, a reluctance is evident toward international buyout funds, where a significantly wider gap reflects a clear tendency among respondents to avoid them.

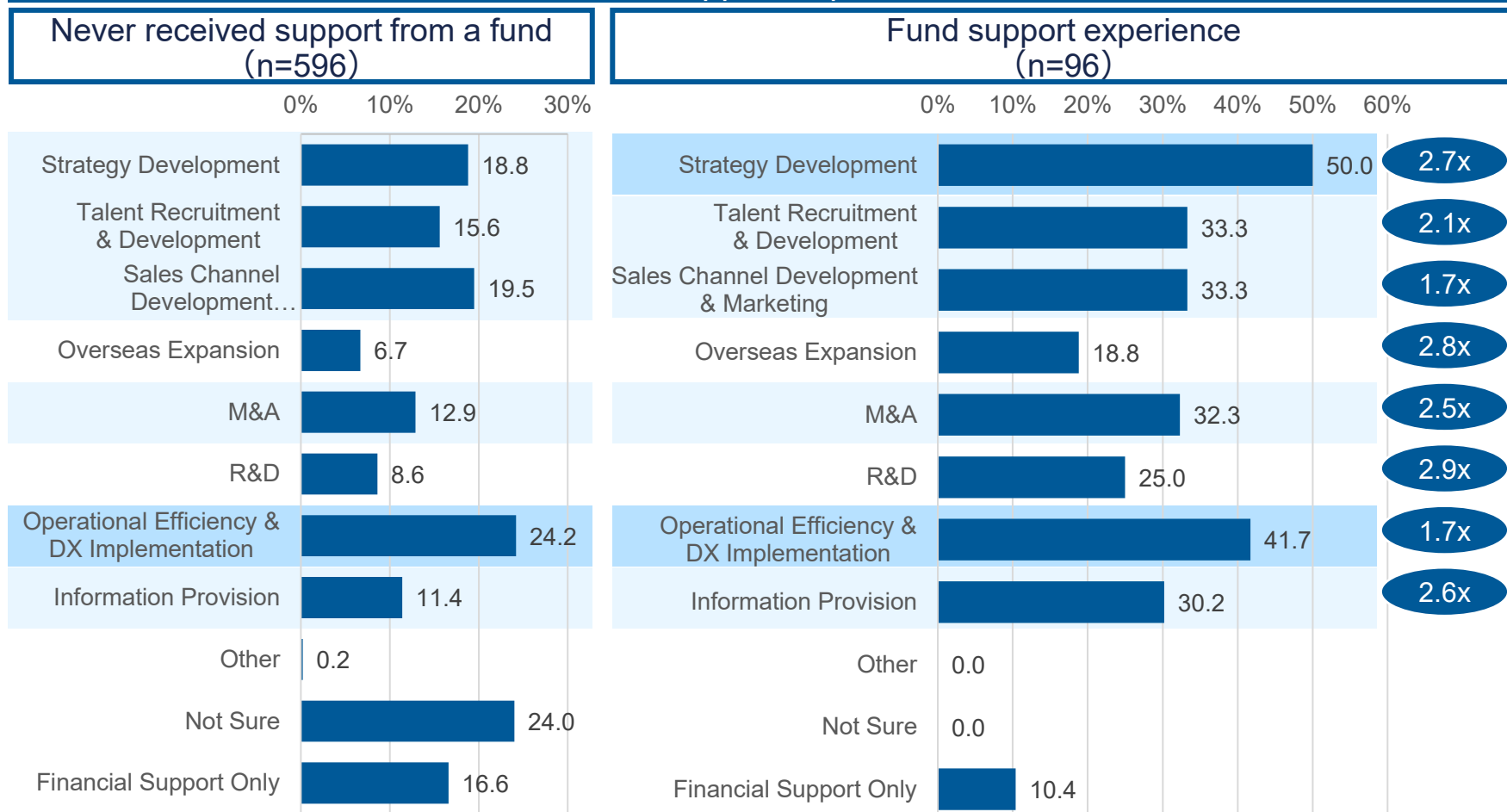
Willingness to receive support by fund type; responses assessed per fund category (n=596)



Differences by Fund Support Experience

- Among respondents whose employers lack fund support experience, operational efficiency and DX rank as the top expected support areas, closely mirroring the priorities of the experienced group. Notably, however, the proportion of respondents expecting such support is roughly two to three times higher among those with past experience, demonstrating that these individuals appreciate the value of management intervention over funding alone.

Fund Support Experience



Barriers and Concerns with Receiving Fund Support



- Respondents' primary anxiety centers on a potential loss of management autonomy. These individuals frequently expressed apprehensions regarding a PE fund's potential lack of understanding of their business, demanding return expectations, and the difficulty of selecting the right PE fund as a partner. They also raised concerns over a perceived lack of internal readiness to accept PE fund as an investor.

Loss of Managerial Autonomy

- Fear that partnering with a PE fund would restrict the company's freedom in decision-making (e.g., "I worry about losing management control").

Fund's Lack of Business Understanding

- Skepticism that PE fund personnel—often viewed as outsiders with less industry expertise—might not fully grasp the company's operations or technology needs, potentially hindering growth (e.g., "Fund people are basically amateurs in our line of business, so I'm not sure they can truly link metrics to our operations").

Demanding return expectations

- Concern that investor pressure for quick returns could force short-term actions at odds with the company's long-term vision (e.g., "They just wanted to add value and exit as fast as possible, which left a bad impression"; "I'm worried investors would push for short-term profits and make it hard to stick to our long-term strategy").

Share Dilution & Shareholder Acceptance

- Anxiety about diluting ownership and whether existing shareholders would agree to the investment by the PE fund (e.g., "We're not sure if our current shareholders would support it").

Procedural Complexity

- Uncertainty and difficulty surrounding the process of working with a PE fund (e.g., "We weren't sure about the steps and the paperwork was very burdensome").

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Readiness to accept a PE fund as a partner

- Fear that the current management team or internal systems may not be equipped to collaborate effectively with a fund (e.g., "Our current board might not be able to negotiate on equal footing."; "We've worked with funds before, but our own structure caused it to fail.").

Existing Relationships with Banks

- Worry that involving a PE fund could strain relationships with the company's main bank or other lenders (e.g., "I'm concerned about complications with our main bank.").

Difficulty in Selecting a right PE Fund

- Concern over identifying a suitable, trustworthy fund partner among many options (e.g., "It's hard to tell how capable a fund really is."; "I find it difficult to distinguish reliable funds from the 'vulture' ones.").

Talent & Know-How Leakage

- Fear that working with a PE fund might lead to the loss of key employees or proprietary knowledge (e.g., "I worry that restructuring could cause our best people to leave.").

Reputational Concerns

- Anxiety that seeking support from a PE fund could negatively impact the company's image or alarm stakeholders (e.g., "I'm afraid outsiders might view us with suspicion."; "Rumors of a takeover spread among staff, which were hard to dispel.").

Growth Ambition

- Eight in ten respondents (80%) perceived their employers as having growth ambitions, demonstrating a widespread growth mindset among individuals at mid-sized firms.

Key Growth Barriers

- 54% of respondents identified a shortage of frontline workers as their most significant growth barrier, while 36% pointed to a shortage of management personnel, highlighting a critical talent deficit. This was followed by the need for improved operational efficiency, cited in the 30% range. The expansion of sales channels and marketing, as well as technology and R&D, represented the next tier of concerns, with each selected by just under 20% of respondents.

Concerns in partnering with PE funds

- In partnering with PE funds, respondents' primary anxieties center on a loss of managerial autonomy, a fund's insufficient understanding of their business, and overly demanding return requirements, among other apprehensions.

Perceived Effectiveness of PE fund Support

- Among respondents whose employers have received fund support, roughly 60% reported that the intervention was effective.
- Notably, these experienced individuals were two to three times more likely than those without such experience to expect support beyond just capital, demonstrating that they personally appreciate the value of non-financial management intervention.
- Looking ahead, respondents primarily expect funds to provide support in strategic planning and operational efficiency/DX, followed closely by talent recruitment and development, as well as market insights.

3. Interview Research: TSE-Listed Mid-Sized Companies

Breakdown of Interview Participants

- To gather concrete insights on mid-sized companies' growth ambitions and their utilization of PE funds, we conducted interviews with the management of 31 TSE-listed mid-sized companies—primarily manufacturers.
- This cohort comprises firms likely to have strong growth aspirations, including those exhibiting sustained high growth, those facing compliance challenges regarding the TSE's continued listing criteria, those that have recently experienced CEO changes (in 2024), or those led by relatively young founding-family CEOs.

Sectors	Number of companies
Food	3
Steel & Nonferrous metals	6
Machinery	11
Precision instruments & electrical equipment	4
Chemicals & Pharmaceuticals	4
Others	3
Total	31

Selection Criteria	Number of companies
High growth group	8
Compliance challenges with TSE listing criteria	6
Recent CEO change in 2024	5
Recent CEO change in 2025	4
Led by a relatively young (40s) founding-family CEO	3
Led by a relatively young (early 50s) founding-family CEO	5
Total	31

- Growth ambitions vary widely among mid-sized companies. Driven by TSE reforms awareness about the need for growth strategies has increased.
increased with most firms having outlined some form of strategic plan.
- For financing these growth initiatives, most respondents rely fundamentally on internal funds and bank loans. While some noted that equity financing would be considered for large-scale investments, concrete execution plans remain rare; consequently, for a substantial proportion of these companies, their growth strategies are perceived as conservative, remaining within the extensions of existing business lines.

Growth Strategy

M&A (17/31 Companies)

- M&A is a key growth lever for 17 of the 31 firms, including acquiring peers to enter new fields, secure international sales networks, or obtain new production sites, often aiming to be acquirers rather than targets.

Capital Expenditures (16/31 Companies)

- Plant consolidation efforts are constrained by rising construction costs, leading to limited progress and a wait-and-see stance; some firms prioritize international investments and factory upgrades for new businesses.

R&D (15/31 Companies)

- Companies leverage existing know-how to develop products for new markets; new product launches are seen as essential in the business area where they struggle to pass on rising cost to customers. Industry–academia–government collaboration is underway.

Growth Funding Preferences

Internal funds and bank borrowing (28/31 companies)

- Respondents indicated that their employers favor bank borrowing due to its low interest rates and operational speed, while they remain cautious about equity financing due to anxieties over share dilution and the need to manage investor expectations.

Equity financing

- Some noted that while their employers are currently growing autonomously and see little need for external support, they would consider equity financing under specific conditions—such as when revenue approaches the ¥100 billion scale.
- They envisioned that entering new business fields or undertaking large-scale investments like plant modernization would serve as potential triggers for exploring equity options.“
- On the other hand, very few companies have concrete plans for equity financing.

- Some companies are seeking a next stage of growth and are considering the use of PE funds. This is driven by strong external pressures, such as the need to raise market capitalization or free float to meet TSE-listing maintenance standards, and/or the threat of activist investors, including cases where activists hold shares in the company or peers.

Preserving Neutrality in Equity Financing

- Regarding equity financing, third-party allotments are viewed by respondents as the most desirable method. However, they expressed concerns that if the allotment is made to a strategic corporate investor, their company might be perceived as having a 'strategic coloring' due to a deeply intertwined relationship with that specific partner. In this light, these individuals noted that financial investors—who would not introduce such 'coloring'—as well as public offerings, could serve as viable alternative options for support."

Growth Challenges and Financial Urgency

- While they previously did not envision equity financing, respondents indicated that potential international expansion or M&A activities have created critical talent challenges, making the utilization of PE funds a viable option to secure the necessary human resource.
- Furthermore, among those actively considering the practical utilization of PE funds, individuals revealed that their shift in mindset was driven by severe capital erosion following failed large-scale investments, which led to an over-reliance on debt and a perceived breakdown in their financial management systems.

Conditional Openness to Equity Financing

- Some respondents noted that transformative investments crucial for their company's future cannot be financed through bank borrowing alone, creating a necessity for PE funds as long-term capital. In such scenarios, they would only consider funds that maintain a patient, long-term horizon, explicitly stating that direct management intervention remains undesirable. For instance, one individual expressed interest in a PIPEs investment from a fund capable of talent placement but ultimately refrained due to anxieties over share dilution.
- While equity financing serves as an option for large-scale investments, these individuals emphasized that acceptance depends heavily on specific conditions. They demand a strict balance between ownership structures, required returns, investment horizons, and the tangible value of support—particularly through executive placement, M&A or market insights.

- A shortage of talent emerged as the most prevalent growth barrier, identified by 90% of respondents. In particular, many explicitly pointed to a deficit in management-level personnel, noting cases where critical initiatives such as M&A and international expansion have stagnated.
- Respondents also revealed that talent shortages have rendered the execution of strategic planning and M&A extremely difficult, acting as a severe bottleneck to their overall growth.

International Talent shortage (Issue raised by 28 of 31 respondents)

- Respondents highlighted a deficit of both operational staff and management-level personnel, noting that securing individuals capable of executing M&A is uniquely challenging.
- Shortages in executive talent and engineers have constrained operational capacity, preventing firms from pursuing multiple international projects.
- Respondents revealed that a lack of talent had previously forced them to abandon participating in M&A bidding.

Limited M&A capability (Issue raised by 15 of 31 respondents)

- Respondents indicated deficiencies in information put them in a disadvantageous position to competitors in M&A bidding process. Misalignment between deal origination channels and M&A target area, and lack of internal resources act as a bottleneck to their M&A capability.

Limited Strategic Planning and Execution capability (Issue raised 6 of 31 respondents)

- Lacking a dedicated marketing function, success in new markets depends entirely on individual sales capabilities. Even with growth strategies in place, firms severely lack the talent required for execution. The absence of a strategic planning function hampers the formulation of international, growth, and M&A strategies, drawing internal and external criticism for a 'lack of strategy.' Furthermore, a talent shortage across both technical and planning functions forces a reliance on dual assignments, severely slowing the execution of mid-to-long-term initiatives.

Other barriers

- Mid-sized companies also cite low profitability, limited sales channels and marketing capabilities, funding constraints, and difficulties in technology and product development as factors hindering their growth.

- Respondents express concerns over PE funds regarding unclear exit conditions, short-term return demands, and a lack of business understanding, alongside internal worries like losing management autonomy or lacking organizational preparedness to accept PE funds. These anxieties likely stem from mid-sized companies' limited information about funds.
- Conversely, they expect long-term capital commitments and human resource support, particularly management talent for M&A and international expansion.

Concerns

Return Requirements and Exit Terms

- Concern that PE funds may demand redemption of shares at high prices or require excessive returns
- Unclear exit terms

Short-Term Focus

- PE funds may prioritize short-term profitability over long-term growth, thereby constraining the execution of core corporate strategies. They may press for short-term capital returns, such as aggressive share buybacks or excessive dividend payouts.

Insufficient Understanding of the Business

- PE funds may not fully understand the company's business or industry.

Loss of Management Autonomy

Internal Readiness

- Mid-sized companies may lack the internal infrastructure and structural mindset required to onboard PE funds.

Expectations

Long-Term Holding

- While respondents ideally desire PE funds' long-term capital commitments of 7 to 10 years, they maintain a pragmatic skepticism, viewing a 5-year horizon as the realistic investment limit for most PE funds.

Ownership Stake

- Respondents indicated a strong aversion to allowing PE funds to acquire ownership stakes that exceed the one-third or one-half thresholds, explicitly seeking to avoid ceding veto power or majority control.

Talent Support

- Respondents' expectations for PE fund support include the placement of executives experienced in M&A and international expansion, assistance with strategic planning and execution, and advice on specialized areas such as new business domains, digital transformation, and sustainability.

Growth Ambition

- Overall, respondents indicated that they are heightening their awareness of capital costs and stock prices and strengthening growth strategies, spurred by the Tokyo Stock Exchange's market reforms.
- However, they exhibit a considerable range in growth orientation, with many respondents still merely remaining on the extension of their existing paths.

Growth Barriers

- A shortage of talent was cited by 90% of respondents, with multiple cases revealing that a deficit in executive talent has stagnated M&A and international expansion.
- Furthermore, while nearly half of respondents pointed to challenges like a lack of M&A information or difficulty finding target companies, this likely stems from a shortage of internal resources to evaluate deals—underscoring talent scarcity as the underlying root cause.
- Similarly, around 20% of respondents noted an inability to formulate or execute strategies, reflecting a clear deficit in personnel capable of driving strategic initiatives.

Concerns & Expectations in working with PE funds

- The respondents express anxieties over partnering with PE funds regarding unclear exit conditions, short-term return demands, a lack of business understanding, and building an internal framework to onboard them—suggesting these worries stem from limited information and a general misunderstanding of funds.
- Conversely, their expectations center on long-term capital commitments and human resource support.

4. Interview Research: Private Equity Funds

- According to PE fund managers, the primary drivers for mid-sized companies to partner with funds are compliance with TSE market reforms (including listing standards), activist defense, and shareholder diversification.
- Furthermore, many managers emphasized that a leader's growth mindset and a strong sense of urgency are critical to driving successful corporate growth.

Background

- PE fund managers observe that TSE reforms initially drove mid-sized companies' interest in funds. However, as activist threats intensify, mid-sized companies that come to PE funds to ask advice on activist defense are now surging.
- Managers reveal that some companies turn to PE funds to ask strategic advice and capital injection solely to avoid breaching TSE-listing standards, only for their growth ambition to plummet immediately once compliance is achieved.
- Furthermore, managers estimate that roughly 80% of the case in their deal pipeline face activists' demands, with companies increasingly sensing latent risks after seeing the struggles of their peers under activist pressure.
- Ultimately, managers point to three primary catalysts for mid-sized companies to partner with PE funds: executing MBOs, deploying defensive shareholder policies against activists, and restructuring share ownership during business successions at long-established firms.



Drivers include counter measure against TSE-Listing standards, activists' threats, and change in ownership.

- PE fund managers emphasize that successful value creation depends entirely on a leader's drive for transformation.
- PE fund managers stress that partnering with a PE fund requires unwavering resolve and mental resilience of corporate management to withstand the accompanying pressure.
- Ultimately, PE fund managers observe a vast disparity in mid-sized companies' readiness for growth, which is shaped far more by corporate culture and leadership traits than by a company's scale or sector.



Achieving growth fundamentally depends on management's growth ambition and sense of urgency.

- PE fund managers emphasize that they provide comprehensive growth support for mid-sized companies, centered on growth strategy formulation and execution, alongside IR assistance.
- PE fund managers believe that collaborating during this process inherently develops internal talent. Given that talent scarcity is the ultimate bottleneck to growth, managers view this fund-driven talent development as a critical solution to mitigating that constraint.
- Ultimately, PE fund managers position themselves as vital catalysts that accelerate corporate growth: by properly nurturing and leveraging a company's existing resources, funds translate a leader's sense of urgency and drive for transformation into actionable, real-world strategies.

Support menu provided by PE Funds

Growth Strategy Formulation & Execution

Formulation of mid-term business plans. Execution support for strategic M&A, digital transformation, and international expansion.
Implementation of KPI management frameworks for strategic execution.
Establishment of financial and operational reporting systems.

Investor Relations

Promotion of constructive dialogue with the market. Establishment of frameworks to effectively communicate growth strategies and execution status to shareholders.

Talent Acquisition and Development

Placement of executive talent, including management, CxO, and specialized talent for M&A specialist. Development of internal talent through collaborative fund-supported initiatives.

Barriers

Inability to formulate or implement strategies

Lack of M&A opportunities or information
(indicating internal resource constraints)

Talent shortages
(Lack of management level talents result in stalled M&A and Int'l expansion)

5. Summary and Implications

- The implications based on this study are as follows.

Mid-Sized Companies' Growth Ambition & Constraints

- While mid-sized companies' ambition for growth is on the rise, their moves to independently advance to the next stage of growth remain limited, and constraints on growth lie not so much in a shortage of human resources as in resource allocation and in the management's own sense of urgency and ambition for growth.

Effectiveness & Barriers of PE Fund Support

- PE funds can serve as effective partners for growth by providing not only capital but also strategic and human resource support; however, concerns about their involvement in management or exit conditions — reflecting a perception gap — have become a barrier to their use, and closing this gap is crucial.

Policy Support to Spur Growth

- On the policy front, it is necessary to have mechanisms to encourage companies to take on new challenges and spur autonomous growth actions through policies such as tax incentives, subsidies, and deregulation that support growth investment.

Spur Management's Sense of Urgency and Desire for Change

- PE fund managers emphasize that a leader's sense of urgency and desire for change are vital to realizing growth for mid-sized companies. Currently, external pressures—such as TSE reforms and activist demands—act as powerful catalysts, fueling this sense of urgency.
- Conversely, interview respondents' comments reveal that existing growth-incentivizing measures are not functioning effectively, suggesting a pressing need for re-evaluation to truly ignite a genuine desire for change.

Examples of Barriers Raised in Interviews

Subsidy Programs

- The government's subsidy system is viewed as overly complex, driving a proliferation of subsidy consultants charging success fees of 10-15%. Companies noted that awaiting funding often delays investment decisions, hindering execution; consequently, policymakers were urged to reward swift investors instead. Furthermore, replacing obsolete equipment—a pressing need for mid-sized and small firms—is seldom subsidized, prompting calls for support to cover test production and production line setup costs.

Regulatory Reforms

- Overly strict regulations are viewed as major hurdles to growth. Companies urge the relaxation of rules on factory construction, as rebuilding or renovating facilities has become increasingly difficult due to encroaching residential development and zoning restrictions. Respondents also called for easing entry barriers in primary industries; for instance, strict regulations under the Farmland Act stifle new entrants, limiting growth opportunities even after acquiring existing players.

Tax Policy

- Respondents also urged adjustments to depreciation rules for capital investments. Under the current framework, large-scale investments heavily depress long-term reported profits through depreciation, inviting scrutiny and pressure from investors and banks. Consequently, companies desire more flexible mechanisms—such as immediate expensing—to alleviate this earnings strain and incentivize investment.

Industry Reorganization

- With shrinking domestic markets, some mid-sized and small industries need consolidation. However, companies hesitate to partner or merge due to vague fears of antitrust violations. To dispel these concerns, respondents suggested that government and industry bodies could support by providing them with case studies of permissible collaborations under current law and by facilitating consultations with the Fair Trade Commission, thereby encouraging necessary industry realignment.