

# KEYNOTE INTERVIEW

## How empowering women leads to superior returns



*Japanese private equity is entering a golden age – and empowering women in the workforce will drive further growth, says NSSK’s Jun Tsusaka and Ryoji Kanamori*

**Q What makes private equity attractive for Japanese investors right now?**

**Jun Tsusaka:** Leading private equity firms in Japan have consistently shown that they can generate attractive returns in the 20 to 45 percent range, in good times and in bad. By comparison, 10-year Japanese government bonds have traded at less than one percent for over a decade. On a risk-adjusted basis, private equity performs even better on a global basis thanks to the availability of relatively “company-friendly” debt. The loss ratios for Japanese private equity deals are very low – indeed, at NSSK we’ve had no complete write-offs in our 10-year history.

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The past decade has been very good for Japanese private equity and PE still only accounts for 0.2 percent of Japanese GDP. That’s around five times lower than the US or the UK so there’s still a lot of space for market growth, akin to the US in the 1980s.

**Q How much interest are you seeing from international investors?**

**JT:** More than 60 percent of our capital comes from non-Japanese investors. International investors are attracted by

the improvement in economic productivity over the past decade, along with the huge growth of the financial market.

Although people think Japan has been stuck with low growth, the size of the Japanese economy actually increased by around ¥60 trillion between 2012 and 2022 – roughly equivalent to the size of the Singaporean economy. Plus, Japan’s stock market has gone up by over 200 percent in the last decade, with trading multiples only marginally higher, which speaks to the earnings growth of the underlying companies.

**Ryoji Kanamori:** International investors also appreciate that Japan has a

very stable political and regulatory system. Due to geopolitical tensions, there has also been an increase in the movement of capital out of China. Hundreds of billions of dollars need a home – and some of that capital is coming to Japan.

One of the other key attractions is that Japan has a very deep and sound banking system, which is also very liquid. In the US right now, you pay 10 percent interest on a leveraged loan. In Japan, you could get the same loan for 2 to 4 percent.

As a local firm, we're in a good position to access the regional banking system – smaller banks are very keen to offer financing for buyouts and, for the right credit and sponsor, offer covenant-lite loans, which drive attractive risk-adjusted equity returns.

### **Q Against this backdrop, why do you believe empowering women is important for the continued growth of the private equity industry in Japan?**

**JT:** At NSSK, the goal to empower women is part of our mission statement. We fundamentally believe that empowering women, alongside other ESG initiatives, generates better business outcomes and, as a result, superior financial results.

In Japan, with unemployment levels sitting at around 2 to 3 percent, hiring and retaining staff is a big challenge. It makes business sense to focus on hiring more women, who remain under-represented in the workforce – especially in managerial roles.

But, as an employer, you must build an ecosystem to allow women to succeed in what has historically been a male-dominated work environment. If you can do that, retention is going to improve, which in turn helps to reduce hiring costs, improves new hiring and ultimately contributes to better investment performance.

**RK:** As an example, we've completed exits from five investments in our

2016-vintage fund. Women made up between 50 and 80 percent of the workforce in these companies, including 45 to 70 percent of managerial roles. These five investments have driven gross returns to investors ranging from 40 to 60 percent.

We clearly see a solid correlation between female empowerment and strong returns.

### **Q What are the main obstacles that NSSK has faced in its efforts to promote female empowerment?**

**RK:** The biggest challenge is making sure everyone buys in to what we're trying to achieve on gender equality. As control investors, the first step is to make sure that our own investment teams and management leaders share the conviction that having more women executives and managers drives superior returns.

We then need to get buy-in from the various layers of the management teams in our portfolio companies. For this, we set KPIs around female representation for leadership positions and then tie these social metrics to compensation metrics. That means there is a clear, direct link between performance and reward.

### **Q How does NSSK plan to maintain momentum in advancing women's empowerment?**

**JT:** The most important thing is to make sure progress in our portfolio companies is maintained even after we exit. To achieve this, we have appointed a chief philosophy officer whose sole job is to work with our management teams and employees to revisit their mission statements and incorporate social objectives into their daily activities.

We also have an ESG audit officer, who plays the 'tough cop' role, by checking on compliance and providing remedial advice, such as further coaching, to management teams who might be facing challenges in compliance.

Japan is lagging behind other countries in terms of gender equality, and our approach is unusual not only within the private equity world, but also within the corporate world.

But, if we can show that prioritising women's empowerment generates superior returns, more corporations will hopefully try to do the same thing. That would be a good thing for our society as a whole.

### **Q Do you expect to see any other trends in the market taking off over the next few years?**

**RK:** In the near term, we expect to see more take-private transactions as a wave of publicly traded businesses decide that they're better off going private, largely as a result of the Tokyo Stock Exchange's listing requirements, more shareholder-focused voting of investors, and activist activity. Large-cap companies are also going to continue to divest non-core units, so carve-out activity will remain strong.

Also, because we've now had 10 years of robust PE activity, there are about 800 companies in Japan that have been held by PE firms for more than two years. Those are going to come onto the market in the next several years, which will create another substantial pool of opportunity.

**JT:** In the long term, demographics will be the key growth driver. According to government data, there are 3.7 million privately held businesses in Japan; about two-thirds of those are owned by people aged 60 or over; and about two-thirds of these businesses don't have an identified successor. Opportunities to acquire these businesses already account for about 50 or 60 percent of PE activity and we can see this trend continuing for at least the next two decades. Busy times lie ahead. ■

Jun Tsusaka is the CEO and Ryoji Kanamori is a partner and co-head of investments at Nippon Sangyo Suishin Kiko (NSSK)