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The rules-based international order: What's become of it?

Why Japan is drawing global M&A deal interest

An expert discussion with Sumi Nadarajah on the intellectual property landscape in Ireland

Israeli regulatory compliance in wealth management

Private credit as an alternative to traditional bank lending in Nigeria

Enforcing foreign family orders in Spain

PRIVATE MARKETS

Why Luxembourg Is Europe's leading hub

By Jonathan Charles Burger

LEGAL & REGULATORY | FINANCE & INVESTMENT | FAMILY LAW

Why Japan is drawing global M&A deal interest

By Shigeki Tatsuno & Yuki Sakioka

M&A activity involving Japanese companies reached historically high levels in 2024 and 2025, with momentum continuing into 2026. The increase has been notable not only in domestic transactions, but also in inbound deals involving foreign strategic buyers and private equity sponsors. This heightened activity reflects several developments shaping the current market environment, including business portfolio optimisation, a growing emphasis on capital efficiency, the weaker yen, more competitive sale processes, and recent regulatory reforms expected to enhance market transparency.

One of the most significant sources of deal opportunities today is corporate carve-outs. As Japanese companies review and optimise their business portfolios, some are identifying valuable businesses that may no longer fit their evolving strategic direction. In many cases, foreign strategic buyers and private equity sponsors can bring capabilities that support the next stage of growth. Strategic buyers may offer global distribution networks, technology, operational expertise, or access to new markets. Private equity sponsors may provide growth capital, management discipline, and post-transaction transformation capabilities. These transactions are often more realistic than full-company takeovers and offer opportunities distinct from traditional public company acquisitions.

Drivers of Japan's active M&A environment

The *Ministry of Economy, Trade and Industry's 2023 Guidelines for Corporate Takeovers* have been one driver of this environment. Although focused on acquisitions of corporate control, the *Guidelines* reinforced expectations regarding how boards should respond to acquisition proposals. Directors are increasingly expected to assess bona fide proposals from the perspective of enhancing corporate value and shareholder interests, rather than protecting current management. Accordingly, the focus for Japanese target companies has shifted from who is making the proposal to whether the proposal creates value. For foreign acquirers, a credible, well-financed, and strategically persuasive proposal is better positioned when it can be framed as enhancing corporate value and shareholder interests.

Currency conditions have also supported inbound interest. The weaker yen has made Japanese assets more attractive to foreign investors, particularly those with dollar- or euro-denominated capital, and has also improved acquisition affordability and return expectations. Combined with high-quality businesses, stable market infrastructure, and opportunities for operational improvement, these factors have contributed to sustained foreign interest in Japanese acquisition opportunities.

Capital market expectations have added further momentum. The Tokyo Stock Exchange's emphasis on capital efficiency and share-price performance has reinforced ongoing efforts by companies to review their business portfolios and assess whether their existing structures are delivering sufficient value. Management teams are increasingly expected to explain, in more quantitative terms, how they are improving capital efficiency and enhancing corporate value. This has increased scrutiny of defensive or self-protective management and placed greater emphasis on efficiency, return on capital, and strategic focus. It has also encouraged companies to consider divestitures, carve-outs, strategic combinations, and other transactions that may unlock value and improve capital allocation.

Competitive processes are also becoming more common, particularly where significant shareholder value is at stake. From the seller's perspective, a structured process helps demonstrate that potential buyers and strategic alternatives have been carefully considered, and that the agreed terms represent the best available outcome. In major transactions, special committees and independent advisers have also become more prevalent, helping sellers build a record that the process was informed, fair, and value orientated. For foreign acquirers, this may create additional opportunities, as access to target companies may increasingly arise through formal sale processes rather than depend solely on bilateral relationships.

Recent regulatory reforms may further support a more transparent acquisition environment. Reforms to Japan's tender offer and large shareholding reporting regimes, effective from 1 May 2026, are expected to enhance transparency around stake-building activities and takeover situations. Although their practical impact remains to be seen, greater visibility may help investors and other market participants better assess stake-building activities and takeover situations, supporting a more disciplined and predictable transaction environment.

Positioning for successful transactions

Together, these developments help explain why Japan's M&A market is attracting significant attention. Greater emphasis on capital efficiency, driving continued portfolio optimisation, competitive sale processes, and improving transparency are becoming important features of the Japanese business environment. For investors, the opportunity lies not only in identifying attractive Japanese companies or businesses, but also in understanding the factors that shape transaction decision-making. Boards and sellers will continue to consider employee interests, business continuity, customer and supplier relationships, regulatory concerns, and long-term value creation. A successful deal in Japan therefore requires investors to be cognisant of these considerations and to present a proposal that can credibly support sustainable value creation.

Shigeki Tatsuno
Anderson Mori & Tomotsune
+81-3-6775-1098
shigeki.tatsuno@amt-law.com

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Shigeki Tatsuno is a partner at Anderson Mori & Tomotsune and specialises in the area of mergers and acquisitions, joint ventures, and cross-border investments in every field, including life-science sector. Mr Tatsuno has extensive experience in advising business companies and PE funds on their acquisitions. He also provides advice to foreign and domestic clients on intellectual property issues/transactions and general corporate matters. He has served as a member of the Human Research Ethics Review Committee of Graduate School of Pharmaceutical Sciences, Faculty of Pharmaceutical Sciences, the University of Tokyo since November 2014.

Yuki Sakioka
Anderson Mori & Tomotsune
+ 81-3-6775-1445
yuki.sakioka@amt-law.com

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Yuki Sakioka is a Senior Associate at Anderson Mori & Tomotsune. She advises domestic and international clients on public and private mergers and acquisitions, corporate governance, shareholder activism, and other cross-border corporate transactions. Her practice also includes corporate disputes and international dispute resolution. She earned her LL.B. and J.D. from the University of Tokyo, and an LL.M. with the Wharton Business and Law Certificate from the University of Pennsylvania Carey Law School. She was seconded to Morgan, Lewis & Bockius LLP in San Francisco and previously worked at Anderson Mori & Tomotsune's Bangkok office. She is admitted to practice in Japan and New York.