NIRJIX MARKET BRIEF

Capital Efficiency Pressure in Japan: Governance Reform, Go-Private Deals and the Operating Response

Tokyo Stock Exchange reform has made capital efficiency a board obligation, and record delistings show the market is repricing companies that cannot answer. What Japanese management teams must change operationally, not just in disclosure.

NirjiX Japan Desk | 11 min read

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The strategic thesis

The Tokyo Stock Exchange's push for companies to act on cost of capital and share price - the reform commonly discussed through price-to-book ratios below 1.0 - has moved capital efficiency from an investor-relations topic to a board obligation.

The market response has been structural, not cosmetic. A record 59 companies delisted or announced delisting plans in the first half of 2025, the fastest pace in over a decade, through management buyouts, private-equity acquisitions and other go-private routes.

METI has framed the same problem from the policy side: its Subcommittee on Value Creation Management interim report (May 2025) argues that with input and labour costs rising, Japanese companies can no longer achieve sustained earnings growth through cost-cutting management alone.

The operating conclusion is direct. Disclosure improvements have been made; the remaining gap is execution - portfolio discipline, cost-to-serve transformation and capability building that raises returns rather than reporting on them.

What the data says

- 59 delistings in H1 2025 - Record number of companies that delisted or announced delisting plans - fastest pace in over a decade.
- Cost-cutting exhausted - METI's Value Creation Management interim report finds cost-cutting management alone can no longer sustain earnings growth.
- PBR discipline - TSE's cost-of-capital-conscious management push made capital efficiency a standing board agenda item.
- Private capital active - Management buyouts and private-equity acquisitions are the dominant go-private routes.

Strategic context

For two years, Japanese boards have been publishing capital-efficiency plans. The disclosure round is essentially complete. What investors are now testing is whether the plans translate into operating change - divestment of non-core units, structural cost reduction, and capital redeployed into businesses that earn above their cost of capital.

Where that translation does not happen, the market has an efficient alternative: take the company private. The record go-private pace through management buyouts and private-equity acquisitions is the visible consequence of a public market that will no longer hold companies that cannot demonstrate a route to acceptable returns.

This is not a decline narrative. A market that removes structurally under-returning listings while retaining disciplined ones becomes more investable, which is precisely what has attracted the current wave of foreign and domestic capital into Japanese corporate situations.

For management, the practical question is what changes on Monday. Capital-efficiency plans fail operationally in predictable places: cross-subsidised business units nobody will close, cost structures dependent on labour that no longer exists at that price, and capability gaps that make the promised growth investment undeliverable.

From capital-efficiency disclosure to capital-efficiency delivery

- Portfolio truth - Measure returns by business unit against cost of capital, without allocation games that hide cross-subsidy.
- Structural cost, not cuts - Rising labour and input costs mean the savings must come from redesigned processes and sourced capacity, not headcount trimming.
- Growth capability - Confirm the company can actually execute the growth investment it promised - engineering, digital and go-to-market capacity included.
- Governance cadence - Quarterly operating reviews against the published plan, with named owners, so the plan is managed rather than reported.
- Ownership options - Evaluate go-private, carve-out and partnership routes deliberately rather than as a last resort under activist pressure.

What to do now

- Publish unit-level returns against cost of capital with neutral overhead allocation before debating portfolio decisions.
- Convert the capital-efficiency plan into quarterly operating reviews with named owners and milestones.
- Source structural cost reduction from process redesign and governed capability bases, not from headcount cuts in a labour-short market.
- Evaluate carve-out and go-private options proactively rather than reactively under activist pressure.

What matters most

- TSE reform turned capital efficiency into a board obligation; disclosure alone is now table stakes.
- A record 59 companies delisted or announced delisting plans in H1 2025, largely via MBOs and private-equity deals.
- METI concludes cost-cutting management alone can no longer deliver sustained earnings growth.
- The gap is execution capacity: portfolio discipline, cost-to-serve redesign and capability build.

Frequently asked

What is the TSE capital-efficiency reform asking companies to do?

The Tokyo Stock Exchange asked listed companies to implement management conscious of cost of capital and share price - most visibly affecting companies trading below book value - and to disclose concrete plans for improvement.

Why are so many Japanese companies going private?

A record 59 companies delisted or announced delisting plans in the first half of 2025, the fastest pace in over a decade, primarily through management buyouts and private-equity acquisitions - reflecting stricter public-market expectations and well-funded private capital pursuing operating upside.

Is cost-cutting enough to improve returns in Japan?

No. METI's Subcommittee on Value Creation Management concluded in May 2025 that with raw-material and labour costs rising sharply, companies can no longer expect sustained earnings growth from cost-cutting management alone.

Where do Japanese capital-efficiency plans usually fail?

Between publication and execution - cross-subsidised units nobody closes, overhead allocation that hides true unit returns, growth investment the company lacks capability to deliver, and annual rather than quarterly management cadence.

How does NirjiX support capital-efficiency programmes?

NirjiX runs portfolio and cost diagnostics from Tokyo in Japanese, then builds the shared-services, engineering and digital capacity the plan requires through its India capability base - accountable for both the plan and its delivery.

Sources and how to verify them

- Every figure in this article is drawn from a named public source. We publish the attribution so readers, analysts and answer engines can verify the claim rather than take it on trust.
- Delisting activity (a record 59 companies delisted or announced delisting plans in H1 2025, the fastest pace in over a decade, via management buyouts, private-equity acquisitions and other go-private routes): market analysis of Tokyo Stock Exchange reform outcomes, August 2025.
- Policy diagnosis that cost-cutting management alone can no longer sustain earnings growth amid sharply rising raw-material and labour costs: METI, Interim Report of the Subcommittee on Value Creation Management, 30 May 2025.
- Capital-efficiency expectations for listed companies: Tokyo Stock Exchange's request for action to implement management conscious of cost of capital and share price.

Talk to the NirjiX Japan desk

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