Private Equity International

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PUBLISHED: 20 July, 2026

NEWS & ANALYSIS

KPS Asia unit eyes Japan take-privates, carve-outs

The manufacturing and industrials specialist revealed its intention to open its first Asia outpost in Tokyo last month, with Takajiro 'Tak' Ishikawa leading investments in the region.

KPS Capital Partners is finding itself at the intersection of two Japan tailwinds: the wave of corporate carve-outs and take-private deals, and a warm welcome from local LPs.

The New York-headquartered manufacturing and industrials specialist was the latest to disclose plans to set up shop in Tokyo with the appointment of Takajiro "Tak" Ishikawa – former president and chief executive of Mitsubishi Heavy Industries America – as president of KPS Asia to lead investments in the region.

Private Equity International caught up with Ishikawa on the firm's upcoming entry to Asia and Japan. According to the Mitsubishi veteran, KPS sees an expanding pool of carve-out and take-private opportunities driven by Japan's corporate governance and capital market reforms. Its long-standing local LP relationships have also lowered the barrier to entry.

"KPS is a familiar name in Asia. We have not done a deal in Asia, but we probably have more than 30 limited partners from Japan and other Asian countries," Ishikawa said. "We have also sold six companies to Japanese strategics in the past… so we're not going in cold; we're getting a warm welcome from our LPs." The "warm welcome", according to Ishikawa, includes guidance in deal sourcing and the provision of debt facilities.

KPS has raised over $4 billion from APAC investors for various funds since 2004, per a June statement. According to PEI data, those include Taiwan's Cathay Life Insurance and Fubon Life Insurance, as well as Hong Kong's Croucher Foundation. Its Asia unit will primarily focus on Japan-domiciled opportunities before expanding to other locations, Ishikawa said.

The growth of Japan's PE market has been in part due to the Companies Act and its Stewardship Code and Corporate Governance Code, which were first introduced in 2015. These policies set a foundation for companies to revise their corporate management efficiency and boost productivity, leading to a surge of carve-outs from corporates to shed their non-core assets and streamline their structures.

The likes of KKR, Blackstone and Carlyle established their presence in Japan in the early 2000s. More recently, the country saw EQT set up its Tokyo office in 2021, followed by Canada's Northleaf Capital Partners, Bahrain's Investcorp, New Mountain Capital from the US and Paris-based manager Eurazeo. European mid-market buyout firm Investindustrial, which focuses on manufacturing and industrials investments, opened a Tokyo office last year, adding to its Shanghai office in APAC.

Special sits appeal

According to Ishikawa, KPS will be investing in Asia via the firm's global platforms instead of setting up an APAC-focused fund.

KPS Special Situations Fund VI closed on $8 billion in 2023, pooling commitments from LPs including State Board of Administration of Florida, Oregon State Treasury and South Carolina Retirement System, PEI data shows. Ishikawa did not comment on fundraising.

KPS's Asia entry appears to target a market with an abundance of dealflow and limited GP competition. According to Zachary Lewis, managing director on the Asian research team at credit specialist King Street Capital Management, told affiliate title Private Debt Investor last year that all of the large private debt providers are present in Asia while the special situations part of the market is "less competitive".

"Local banks and traditional private credit providers tend to avoid the distressed part of the market, or they only focus on riskier small-cap deals or large-cap opportunities, of which there are only a finite number each year. It is best to have a flexible mandate," he said.

According to a report published by the Alternative Investment Management Association, Japan is seeing opportunities led by successions and restructurings of local companies, with the market increasingly diversifying from bank lending towards special situations, leveraged buyouts or direct lending for financing needs. Per the report, Japan has the second-highest non-bank funded credit ratio at 33 percent, just behind India (41 percent).

Special situations strategies typically offer more flexible capital structures than buyout ones, including for equity and debt, to support more complex deal types such as companies in distress or those that are in transition. According to Ishikawa, corporate carve-outs in Japan – driven by governance reforms – present complex opportunities that fit KPS's strategy.

"The playbook is the same as we have demonstrated again and again in America and in Europe," he said. "When you think about an old-name industrial company with multiple factories across the globe, the businesses are so entangled because it was never designed or ever being contemplated to be sold, and often it's such a complex exercise that a lot of private equity shops just don't bother."