

## PE Spotlight: Marathon Capital Partners exploring founder-backed targets in micro- and small cap segment – co-Partner

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 Proprietary

- Had first close of JPY 2.6bn for maiden fund
- Implement quick methods that can add value to targets
- Aims to exit within two years after investment

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**Marathon Capital Partners**, the Tokyo-based private equity firm, is exploring founder-backed targets in the micro- and small-cap segments, co-Partner Kotarao Wada told *Mergermarket*.

Marathon Capital Partners, which was established in April 2021, has raised JPY 2.6bn (USD 23.5m) for its first close of its maiden fund Marathon No.1 Investment Limited Partnership as the end of June.

It aims to raise money gradually and eyes a second close of JPY 3.5bn-JPY 4bn in September 2021, he noted.

The newly established firm is targeting a fund size of JPY 6bn-JPY 8bn, or JPY 10bn as the hardcap, by the final close, which is planned sometime between March and June of 2022, he said. The company is receptive to approaches from potential investors. It plans to carry out investments in four to nine companies a year for the first four years. The fund has an eight-year term, he continued.

Marathon Capital Partners is focusing on micro-cap targets with EBITDA of JPY 50m-JPY 100m and small-cap targets with EBITDA of JPY100m - 500m, particularly those with succession issues. It does not have a limitation on industries and/or sectors with the exception of financial services, he added. In these target classes, the number of companies up for sale is much larger than the number of buyers, and entry multiples are generally low compared with mid-cap deals which tends to turn into auction situation in some cases, he explained.

Adding to this, almost all private equity firms pass on targets that have EBITDA of less than JPY 500m, because it is hard for them to justify the cost of dispatching their internal human resources to the target company to provide hands-on support, Wada pointed out.

Finding professional CEOs who can lead the company after the acquisition is also a challenge for private equity investors as such smaller companies are considered less attractive for executives, he added.

Due to fewer competition in the market, Marathon Capital Partners will be able to acquire targets at reasonable valuations, without using LBO loans in most cases, he said.

Sellers prefer to conduct the deal quickly due to reputational reasons, and deals are conducted on a one-on-one basis without moving to open bids, he added.

Company owners also tend to hesitate when considering the sale of their businesses to competitors, so there is a need for private equity, he noted.

These factors push down the entry multiple and enables the private equity firm to achieve a higher return on investment (ROI), he added.

Marathon Capital Partners' founder and President Toshinori Ono is also chairman at *Japan Professional CEO Association* and has a broad network to potential candidates, he said. Giving CEOs stock options at the company that he/she handles will also motivate them to increase profit, he added.

For post-deal restructuring work, it will focus on implementing certain restructuring methods, such as strengthening corporate governance, fostering successors, and conducting roll-up acquisitions for cases that require it. The private equity firm will look to increase corporate value in the short term and enable it to exit within two years after the investment, he continued.

Wada said that he and Ono have a proven track record in the small- and micro-cap investment space through their careers, he added.

It will outsource restructuring work to external vendors, such as consulting firms which do such jobs on a pay-per-performance basis, and Marathon Capital Partners itself will focus on deal sourcing, according to him.

Marathon Capital has four members and Ono is the majority shareholder of the company, according to him.

## **Key members**

### *President and Co-partner Toshinori Ono*

He has a 11-year experience in the buyout space and holds a track record of 40 small- and micro- cap buyouts throughout his career. Prior to Marathon Capital Partners, he led the investment team as a partner at Growth Capital of Japan, which is a small buyout team that spun out of ACA. Ono joined ACA in 2010. He also used to work at EYTAS in Japan and was engaged in M&A advisory. Prior to it, he established a real estate asset management company and was involved in real estate investment. He also had worked at Da Vinci Advisors and managed its JPY 40bn real estate fund. He holds a BA in Economics from Keio University.

Director and Co-partner Kotaro Wada

He established Marathon Capital Partners with Ono in 2021. He has a track record of 14 investments mainly in the small- and micro-cap space. Prior to Marathon Capital Partners, he worked at Nagoya-based industrial equipment company Seiwa Holdings as a director in charge of M&A and led six investment cases. Prior to it, he worked at Nippon Creative Investment and was involved in eight buyouts related to succession and rehabilitation of companies. He also worked at GE Capital and Nomura Securities. He holds a BA in business from Waseda University.

Compliance Officer and Co-partner Arifumi Sunada

He is a lawyer at So & Sato Law Office, as well as a legal compliance officer at M&A Cloud. He used to work as a senior director at REVIC Partners and was involved in operation of its corporate mezzanine funds. He used to work at Gree and was engaged in M&A, startup investment and venture capital investment. Prior to it, he worked at legal firms and was involved in providing legal advice on TOBs, capital increases, share swaps, share transfers, and others. He holds a Master of Laws (LLM) from the University of Southern California.

by Ryuya Shiga in Tokyo