

CREDIT FORBEARANCE IN TWO ERAS

Japan's zombie banks, 1990. American private equity, 2026.

Zombie credit runs through four stages, in order: non-recognition, evergreening, congestion, and forced recognition. Japan's banks took twelve years to travel from the first to the last. American private equity entered stage one in 2021 and sits, on aggregate evidence, somewhere in the third. Buyers who can price an asset in days, and the payment systems now being built for software agents, will shorten what remains.

01

Non-recognition

Nobody has to move the carrying value.

02

Evergreening

Refinancing takes the place of repricing.

03

Congestion

Capital stops reaching anyone else.

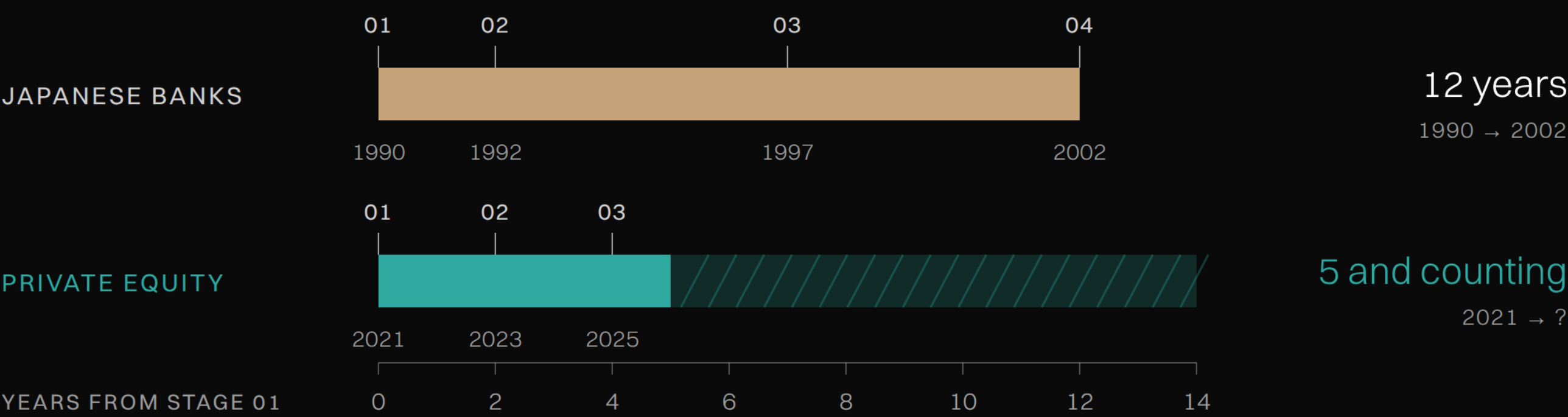
04

Forced recognition

An outsider sets the price.

FIGURE 1 · THE STAGING CLOCK

Japan needed twelve years to move from stage one to stage four. Private equity is five years in.



STAGES ONE AND TWO

The first two stages are built from decisions **that each looked reasonable.**

Nothing in the first two stages compels a sponsor to move its mark, the value an asset carries in the accounts. Non-recognition and evergreening are each the rational choice for the party making them, which is why they are hard to see from inside a firm. Japan’s banks had no fund term to force the question and stayed in both for a decade; private equity has one, and the stage-two tools are what work around it.

01 Non-recognition *The mark does not move*

JAPANESE BANKS · 1990-2003

Equities and land peak, then fall. Banks carry impaired loans at book, supervisors accept the number, and **nothing compels them to write the loans down.**

NIKKEI PEAK, DECEMBER 1989

PRIVATE EQUITY · 2021-

32,000 unsold companies holding **\$3.8T** of unrealized value. **Almost 40%** have been held more than five years. In 2019 the figure was 29%.

BAIN, GLOBAL PE REPORT 2026

IMPLICATION FOR MID-MARKET PE

With no clean public comparable, this stage can run for years. **The exposure is the distance between your model and a bid you have never asked for.**

02 Evergreening *Refinance instead of reprice*

JAPANESE BANKS · 1990-2003

Banks roll over and re-lend to insolvent borrowers so the loans stay classified as performing. **Credit ends up cheapest for the least viable borrowers.**

FORBEARANCE, 1992 TO 2002

PRIVATE EQUITY · 2021-

Continuation vehicles, NAV loans, amend-and-extend, PIK toggles. **\$115bn of GP-led volume in 2025**, about 14% of all sponsor-backed exit volume.

JEFFERIES, JANUARY 2026

IMPLICATION FOR MID-MARKET PE

Secondary buyers concentrated on established sponsors and trophy assets in 2025. **A mid-market book has fewer ways to postpone the question than a large-cap one.**

STAGES THREE AND FOUR

By stage three the cost has moved to people **who never owned the asset.**

Congestion is the stage left out of most retellings, and it is the one that determines who pays. Stage four ends the sequence, and it ends when somebody outside the firm is made to price the asset.

✂ 03 Congestion *The cost is borne elsewhere*

JAPANESE BANKS · 1990-2003

In zombie-congested industries **job creation and productivity growth fell**, because solvent competitors could not obtain credit or market share while impaired firms absorbed both.

CABALLERO, HOSHI & KASHYAP, AER 2008

PRIVATE EQUITY · 2021-

Distributions have run **below 15% of NAV for four consecutive years**, an industry record. The 2025 rate of 14% matches 2008 and 2009.

BAIN, GLOBAL PE REPORT 2026

IMPLICATION FOR MID-MARKET PE

Check your own reporting: DPI below the fund's five-year average, a third of NAV held past five years, an exit priced below its last carrying value.

↓ 04 Forced recognition *Someone is made to mark*

JAPANESE BANKS · 1990-2003

Takenaka's program compels rigorous asset assessment in October 2002 and Resona is recapitalized the year after. **Equities were by then 78% below peak.**

THE TURN, 2002 TO 2003

PRIVATE EQUITY · 2021-

Not yet. Nothing inside the firm starts this. The push comes from outside: LP liquidity need, secondaries pricing, auditors, the refinancing wall.

STAGE 04, PENDING

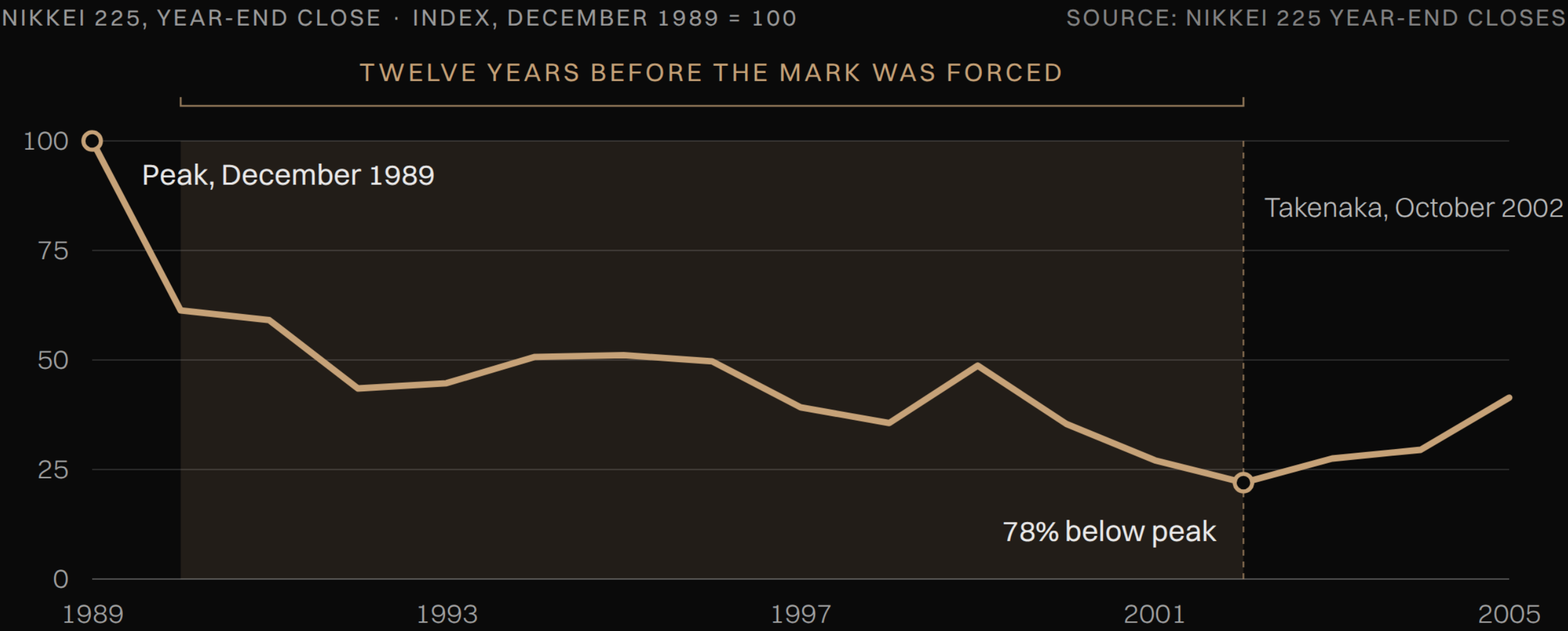
IMPLICATION FOR MID-MARKET PE

The first mid-market sponsor to take a secondaries price sets the reference for every comparable asset, **including yours.** That buyer will have read the numbers by machine.

FIGURE 2 · THE COST OF DEFERRAL

Waiting twelve years did not make Japan's loss any smaller.

Recognition arrived at the bottom of the market. By the time the Takenaka program forced Japanese banks to mark in October 2002, the equity market was 78% below its December 1989 peak.



WHAT THE DELAY BOUGHT

Twelve years between the peak and the program that forced the issue. **The loss compounded through every one of them.**



WHAT ENDED IT

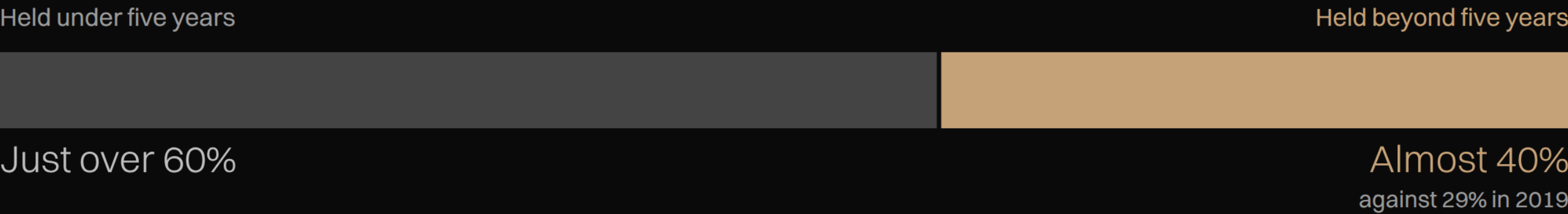
Recovery dates from the 2003 recapitalization. **The turn came once the banks were made to price what they held.**

THE MID-MARKET VIEW

Secondary buyers are concentrating their capacity **at the top of the market.**

Secondary buyers spent 2025 concentrating on established sponsors and trophy assets. The average continuation vehicle reached about \$900m, single-asset trophy deals passed half of all continuation volume for the first time, and nearly 80% of the hundred largest sponsors have now completed one. Deals under \$250m made up 41% of transactions and 13% of the money. **A mid-market book therefore has fewer ways to postpone the question, and no traded comparable to signal when it is coming.**

32,000 COMPANIES · \$3.8 TRILLION OF UNREALIZED VALUE



SOURCE: BAIN GLOBAL PRIVATE EQUITY REPORT 2026

THREE THINGS A MID-MARKET SPONSOR CAN DO THIS QUARTER

- 01

Test what holds the valuation up

No trading multiple can check a mid-market valuation. Name the single growth assumption behind each one, then verify that assumption with customers.
- 02

Source one real bid

You can get an indicative price from a secondary buyer without running a process. The distance between that price and your carrying value is the number at stake in that holding.
- 03

Size the concentration

In a ten-company fund a single non-exit is a tenth of the book. Rank holdings by share of remaining NAV, then decide where further capital buys an outcome and where it buys time.

AI AND THE TIMING OF STAGE FOUR

Stale valuations depend on how expensive they are to test, **and that expense is falling.**

Japan’s marks held for a decade because verifying them was slow, expensive work that nobody was required to do. The same friction has protected 32,000 carrying values, and private equity is funding the machinery that removes it. Of at least \$1 trillion committed to information technology since 2020, about \$200bn has gone to the infrastructure layer that makes cheap verification possible. **The portfolio companies come later.** Once a buyer can work out what an asset is worth faster than its owner reports on it, stage four stops waiting for a regulator and arrives with the next bid.



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WHAT AI PULLS FORWARD

The mark gets tested by someone else first.

What kept a stale mid-market valuation safe was the expense of assembling the evidence to challenge it. That expense is falling, and it falls for the buyer as fast as for the owner. The next party to test your carrying value may arrive having already done the work.

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WHAT AI ADDS TO THE BILL

A bill nobody has written down.

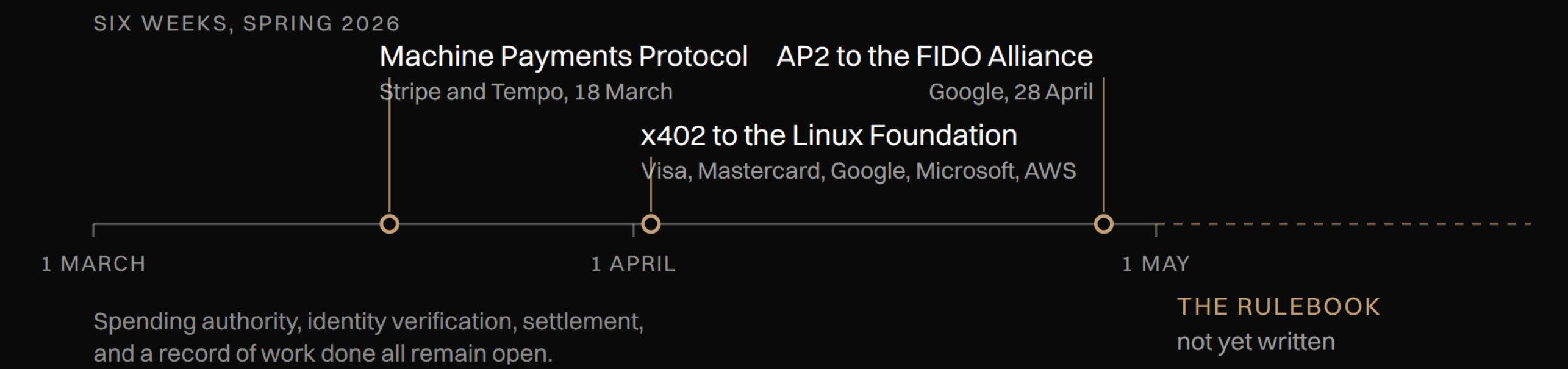
Clean data, written-down processes, proof of who may act for the company, and contracts a computer can read. None of that was in the 2021 model, and it has to be paid for whether or not the company sells.

WHAT IS BEING BUILT FOR MACHINES TO TRADE ON

The agent-to-agent economy is a capital question before it is a technology one.

The 32,000 companies sitting unsold will be sold into a market that is being rewired while they wait. The systems that let software agents buy and sell from each other were built across six weeks this spring, with almost nothing said about it in private capital. For a mid-market sponsor the consequence is direct. A portfolio company that machines can verify and transact with has buyers in that market. One that cannot carries a repair bill instead.

FIGURE 4 · WHAT WAS BUILT, AND WHAT IS MISSING



FOUR QUESTIONS A SPONSOR SHOULD BE ABLE TO ANSWER THIS YEAR

- ⌂ 01

Which holdings sell labor by the hour?

Revenue billed for human time is the first line an agent economy reprices. Name the share of revenue exposed, and the timetable.
- { } 02

What would it cost to make each company readable by a machine?

That number belongs in your model before it turns up in a buyer's. It is the bill nobody has written down.
- ⌘ 03

Who prices your AI exposure first?

If a secondaries buyer gets there first, the valuation moves without you. If you get there first, you choose when it happens.
- 🔗 04

Which assets become reachable by buyers that do not exist yet?

If your data is clean and your permissions are clear, a machine can transact with your company, and that is worth something at exit.

THE CLOSING ARGUMENT

\$3.8 trillion is carried at a value **that no one has been made to test.**

That capital sits in 32,000 companies still held by their sponsors. Forbearance carries a price even where nothing is written down: the money stays where it is, and the cost falls on whoever would have received it next. **In the mid-market, that is usually your own next fund.**



WHERE THIS GOES

The next repricing of these assets will come from whoever can value them fastest, and increasingly that will be a buyer using software, on payment rails that did not exist a year ago. **The question for a sponsor is whether a machine can read what your companies hold, and what closing that gap would cost.**

ABOUT



Alex Kruzel writes on artificial intelligence and private capital, and on the agent-to-agent economy taking shape underneath both. She is founder and chief executive of Telesto, which brings AI-driven market intelligence to private equity sponsors and to the healthcare and industrial companies they own. Two decades of advising global businesses came first, at Deloitte and then as president of Market Strategy Group. She is the author of *The Courage to Continue* and serves on the board of the Chicago Council on Global Affairs. Her work with sponsors, investors and boards starts where this column does, at the assumption holding up a valuation.

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Sources cited on the page they appear: Bain Global Private Equity Report 2026, Jefferies Global Secondary Market Review, BDO, Caballero, Hoshi & Kashyap (*AER* 2008), Nikkei 225 year-end closes, and protocol announcements from Stripe, the Linux Foundation and Google.