

Managers Managing Ownership

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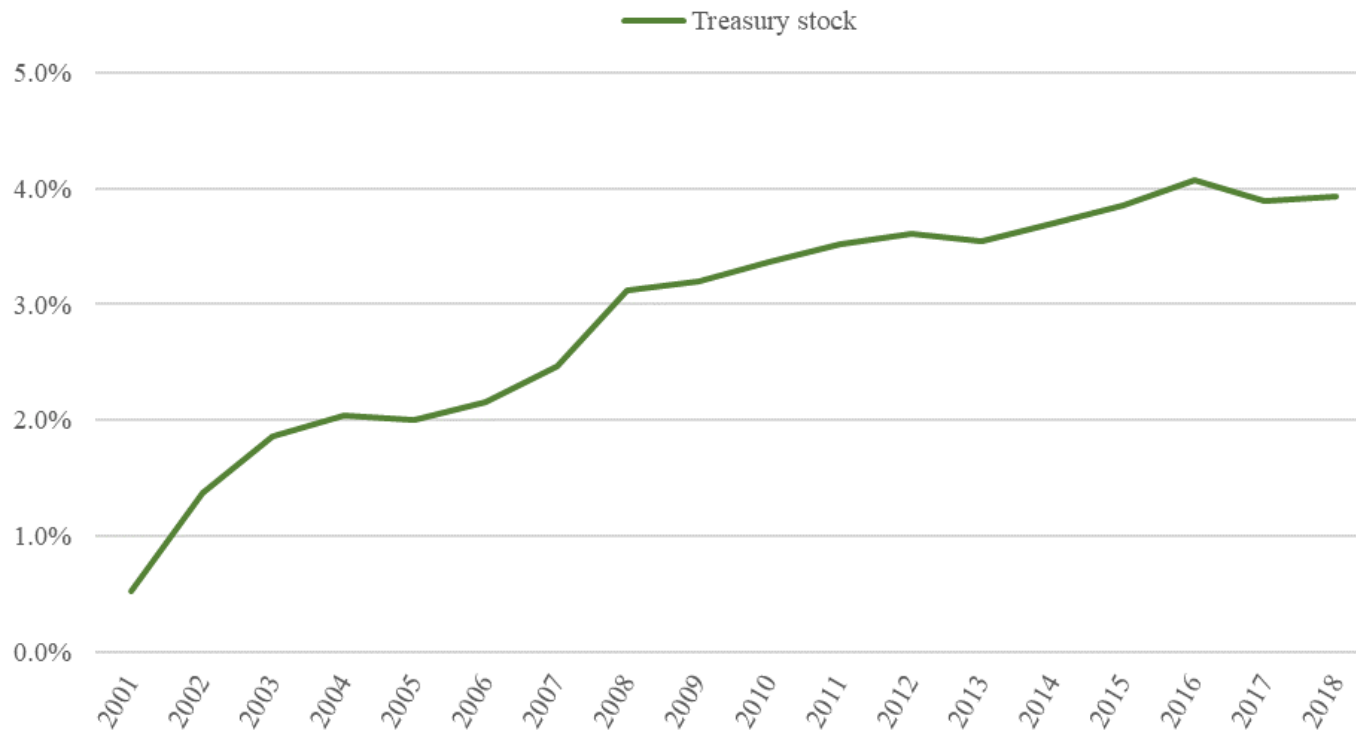
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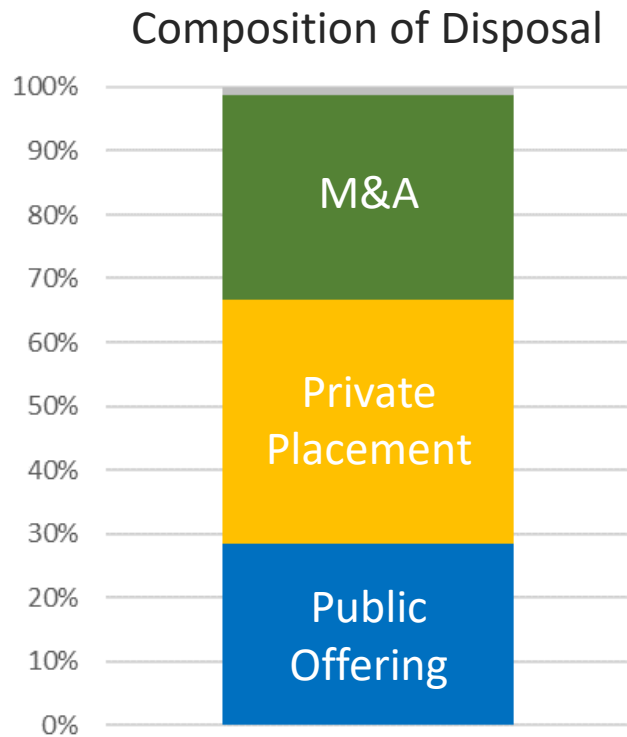
Japan – A Unique Laboratory for Studying an Internal Market for Managing Ownership

- Dissolution of family ownership in Japan after WW2, was followed by a vacuum in controlling ownership, filled by bank ownership and cross-shareholdings. Gradually dismantled.
- Around the turn of 21st century, companies were able to repurchase their own stock
- Share repurchases & sales of treasury stock allowed management to place shares with other companies
- Dissatisfaction with low growth and investment resulted in strengthened corporate governance, more foreign institutional investment, more hedge fund activism and the shift from cross-shareholdings to intercorporate holdings. Latter very different!

Treasury Stock in Japan, 2001-2018



Treasury Stock Privately Placed with Businesses



Private placement $\geq 1\%$

Total	191
Business corporations	134
Financial institutions	15
Funds	10
Individuals or family	0
Foundations	4
Incentive plans	28

Methods of Stock Repurchase Program

Methods of Repurchase

Open market transaction
(OMT)

US/UK – 90%

Japan – 50%

Japan – quasi-private
transaction (QPT)

**ToSTNeTs and discount
TOB : almost half (48%)**

Methods of Repurchase
(2001-2018, TSE 1st section)

	Number	Avg. Size	Proportion (size controlled)
Total	6,170	1.9%	--
Open market	3,305	1.5	49
ToSTNeT	1,556	2.3	38
TOB	121	9.2	10
Private negotiation	174	1.3	2

The Case of Nintendo (Joint Investment)



- The heirs of former CEO, who owned about 10% of the company's shares, wished to cash out in September 2014
- Nintendo repurchased 7.4% of those shares held by the founding family through ToSTNeT
- Nintendo distributed 1.2% from its treasury through private placement to an internet company DeNA
- Nintendo used the proceeds of sale to purchase 10% of DeNA's shares

The Case of Suzuki (Strategic Alliance)



- Suzuki repurchased a stake of 17% from financially distressed GM who sold its entire stake of 20% through ToSTNeT
- Suzuki immediately resold part of the shares through private placement to its business partners: Nippon Steel, JFE Steel, and three banks
- Suzuki kept the rest of the shares in treasury stock and then sold most of its treasury stock to Volkswagen through a private placement

Cumulative Abnormal Returns of Round Tripping

Lowest CAR :

Quasi Private Repurchases (QPT) \Rightarrow public sales: -6.8%

These are rare because used in placements.

Middle case:

Open Market Repurchases (&QPT) \Rightarrow private placement = cross shareholding): 2.7 (0.7) %

Highest CARs:

OMT \Rightarrow private placement =strategic alliance (joint venture) : 5.8%

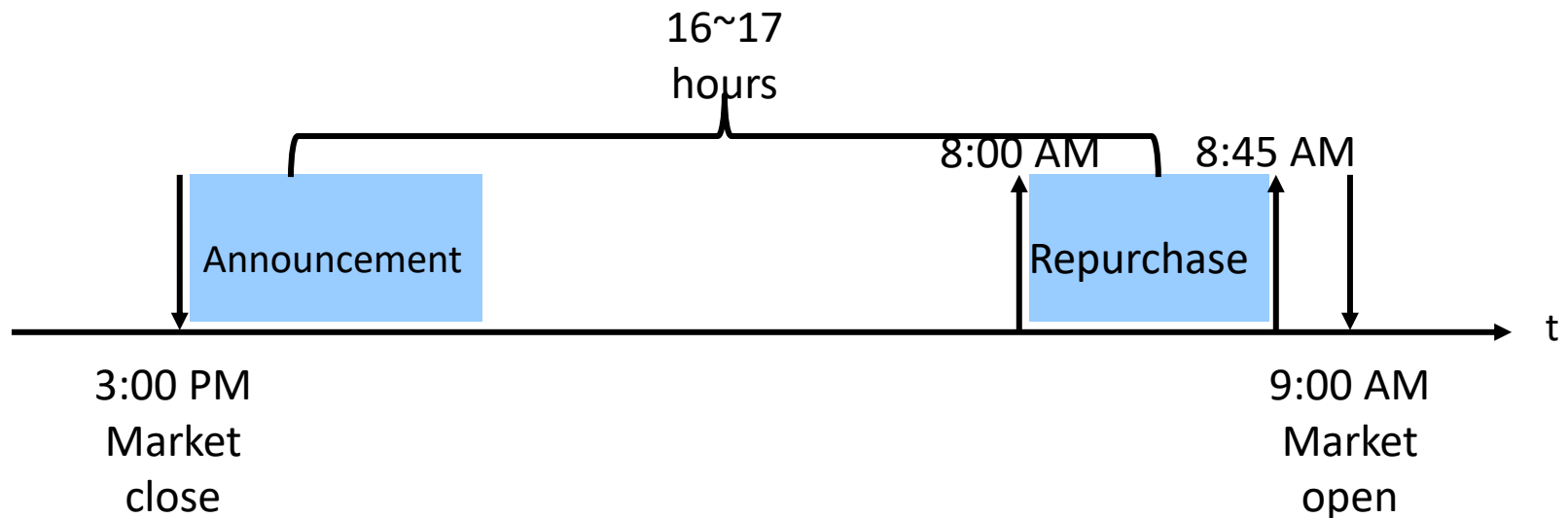
Conclusion

- Evidence: repurchases, treasury stock and private placements together comprise an internal market for corporate control
⇒ Repurchase is not financing (funding /investment) vehicle as in the US/UK, but a control vehicle in Japan.
- In contrast to traditional cross-shareholdings, what has emerged in the 21st century are inter-corporate holdings that are strategic and on average value enhancing.
- Different from conventional wisdom: the internal market is not a substitute, but complementary to external market: i.e., internal management of ownership can be used to promote value enhancing outcomes but only when subject to external market discipline.

Quasi-private Transactions

1. Tokyo Stock Exchange Trading NeTwork System (ToSTNeT)

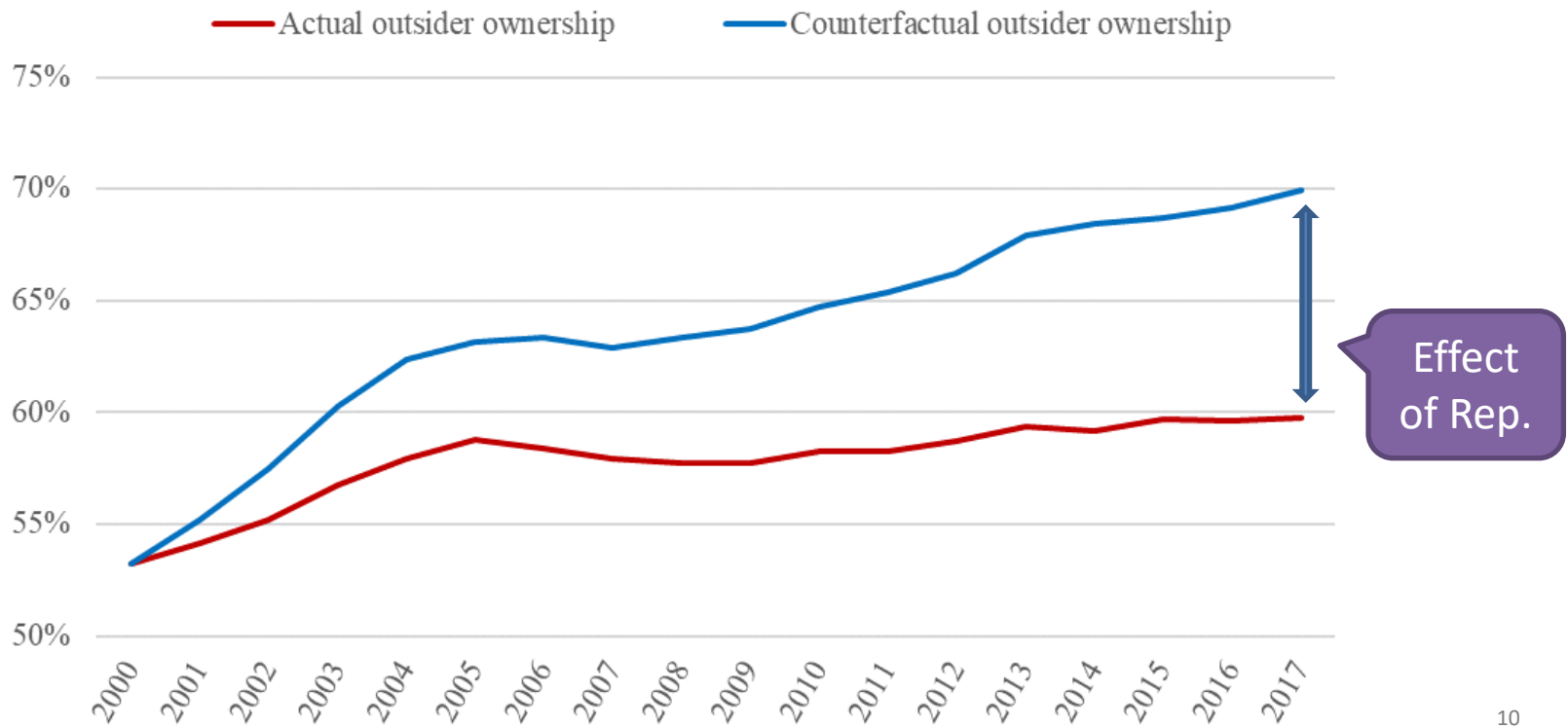
- Introduced in 2001 when shares held by banks and insurance firms were sold
- Announcement after the market closes, and trade before the market opens at the price of the end of previous day
- Not purchaser but seller-initiated transaction



2. Tender offers with a discount :

- Contrast to the US, where tender offer associated with premium when a purchaser regards the stock as undervalued.

Actual and Counterfactual (If Stock Repurchase Did Not Occur) Outsider Ownership



Cancellations, Disposals, Treasury Stock in Japan, 2001-2018

