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SHAREHOLDER ACTIVISM IN ASIA 2022





JAPAN

JAPANESE ACTIVISM FLOURISHES

A RECORD-BREAKING YEAR FOR M&A ACTIVISM HIGHLIGHTS THE DEMAND FOR BOLSTERED SHAREHOLDERS RETURNS, WHILE DECARBONIZATION IS ALSO RANKING HIGH ON ACTIVISTS' AGENDAS, WRITES REBECCA SHERRATT.





JAPAN

Japan experienced an M&A boom in 2021, driven partly by a desire to strengthen financial returns to weather the difficulties of the pandemic and companies embracing former Prime Minister Shinzo Abe's shareholder-friendly policymaking. With Japan having reopened its borders in March, foreign activists are now eyeing new opportunities.

A record-breaking eight Japan-headquartered companies were publicly subjected to push for M&A demands in 2021, compared to four and seven in the whole of 2019 and 2020, respectively. Targets of oppose M&A demands also increased to eight in 2021, compared to two and five the two years prior, according to Insightia's *Activism* module.

"There is certainly the opportunity now for more M&A campaigns from foreign investors," Steve Wolosky, shareholder activism practice co-chair at Olshan Frome Wolosky, told Insightia in an interview. "Higher interest rates may impact M&A campaigns as well as shine a light on companies that activists perhaps had on their radar and are now keen to engage with."

REGULATORY HURDLES

One lasting impact of COVID-19, which has played a driving role in many Japanese M&A campaigns thus far, is the need for companies to maximize shareholder value and improve profitability via restructuring and streamlining operations.

ValueAct Capital pushed Seven & i Holdings to refocus its attention on its 7-Eleven convenience store business and drop its real estate operations, amid concerns that the company's "scattered" attentions risked it "drifting into mediocrity."

Despite the rise in the number of M&A campaigns being likely to rise as the country reopens its borders, a domestic financial services provider who wished to remain anonymous told Insightia that evolving regulatory action and market practices mean "there may be fewer chances for an activist to emerge victorious in a campaign."

The Ministry of Economy, Trade, and Industry's (METI) 2019 revisions to the M&A process recommended companies provide enhanced disclosure of proposed M&A activity to minority shareholders, to determine the fairness of market transactions while ensuring an opportunity for potential buyers to offer a counterbid. However, counterbidders cannot provide a competing offer without the consent of the parent company or majority shareholder, something the adviser said might be "difficult to obtain."

Activists indeed seem to be fighting an uphill battle, with 11 of the 22 public M&A demands resolved in 2021 unsuccessful. Eight

of the 12 M&A demands resolved in 2020 similarly fell short, according to Insightia's *Activism* module.

CLIMATE CONSIDERATIONS

Environmental activism has also gained prominence in Japan, largely driven by amendments to Japan's Corporate Governance Code in July 2021 mandating that all Tokyo Stock Exchange (TSE) Prime Market-listed companies report in line with the recommendations of the Task Force for Climate-related Financial Disclosure (TCFD).



WITH JAPAN HAVING RE-OPENED ITS BORDERS IN MARCH, FOREIGN ACTIVISTS ARE NOW EYEING NEW OPPORTUNITIES.



Five Japanese headquartered companies were targets of environmental campaigns in the first four months of 2022, the same as in the first four months of 2020 and 2021 combined, according to Insightia data.

Financial institutions and utilities are bearing the brunt of activist calls to strengthen their climate commitments. An investor coalition, led by Market Forces and Kiko Network, made headlines when its climate reporting proposals won 34.5% and 22.8% support, respectively, at Mizuho Financial's and Mitsubishi UFJ's 2020 and 2021 annual meetings. The coalition has filed four more proposals ahead of the 2022 proxy season.

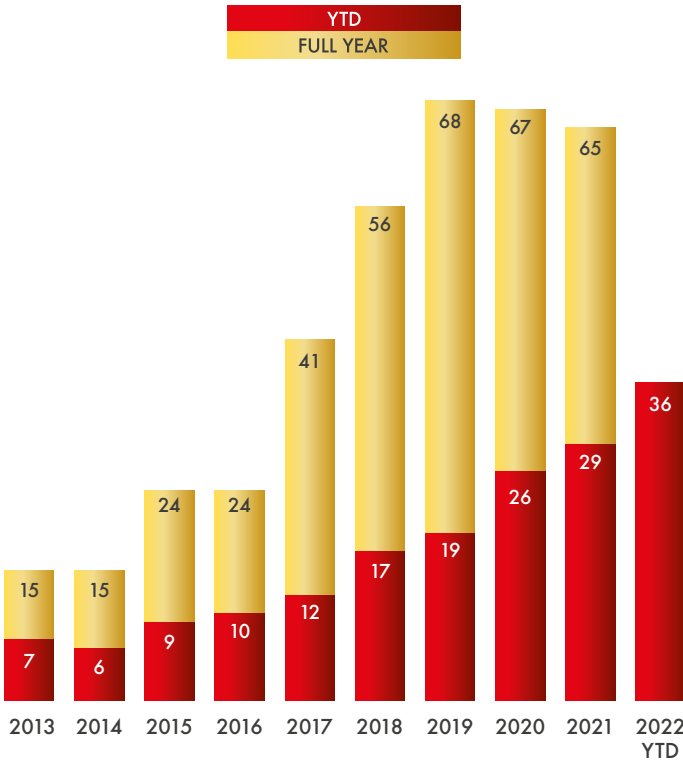
More foreign investors are joining the cause, with HSBC, Man Group, and Amundi filing three proposals asking J-Power to strengthen its climate commitments ahead of the company's June 28 annual meeting.

Monex Group CEO and Chair Oki Matsumoto suspects more environmental activists will launch campaigns of this kind in Japan. "This kind of activism will gain traction in coming years, especially given that the use of shareholder proposals is much cheaper and more readily accessible to most than launching a high-profile proxy contest that can incur costs in the millions," he told Insightia. ■



JAPAN DATA

NUMBER OF JAPAN-HEADQUARTERED COMPANIES PUBLICLY SUBJECTED TO ACTIVIST DEMANDS BY TIME PERIOD



SOURCE: INSIGHTIA / ACTIVISM
DATA AS OF MAY 3, 2022.

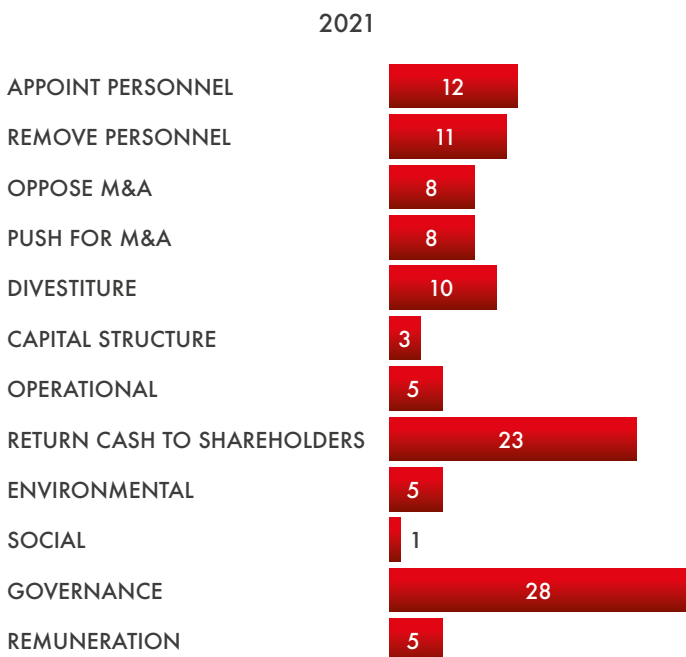
OUTCOME OF RESOLVED GAIN BOARD REPRESENTATION DEMANDS BY TIME PERIOD AND METHOD, AT JAPAN-HEADQUARTERED COMPANIES

SETTLEMENT/ WENT TO VOTE	2017 YTD	2018 YTD	2019 YTD	2020 YTD	2021 YTD	2022 YTD
SETTLEMENT, ACTIVIST WINS AT LEAST ONE SEAT	0	1	2	0	1	0
WENT TO VOTE, ACTIVIST WINS AT LEAST ONE SEAT	0	0	0	1	3	2
WENT TO VOTE, ACTIVIST WINS NO SEATS	0	1	2	4	0	3
TOTAL	0	2	4	5	4	5

SETTLEMENT/ WENT TO VOTE	2016	2017	2018	2019	2020	2021
SETTLEMENT, ACTIVIST WINS AT LEAST ONE SEAT	1	0	1	5	0	3
WENT TO VOTE, ACTIVIST WINS AT LEAST ONE SEAT	0	2	4	3	4	5
WENT TO VOTE, ACTIVIST WINS NO SEATS	3	6	6	10	16	6
TOTAL	4	8	11	18	20	14

SOURCE: INSIGHTIA / ACTIVISM
DATA AS OF MAY 3, 2022.

DEMAND TYPE BREAKDOWN OF JAPAN-HEADQUARTERED COMPANIES PUBLICLY SUBJECTED TO ACTIVIST DEMANDS BY YEAR



SOURCE: INSIGHTIA / ACTIVISM
DATA AS OF MAY 3, 2022.

