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Story

Japanese activist Strategic Capital banks on 'less aggressive' approach as governance gains ground – CEO - Activist Profiler

- Strategy similar to Murakami's but less hostile
- Conditions getting ripe for activists
- Many companies fail to comply with Governance Code

Tsuyoshi Maruki, CEO of Tokyo-based Japanese activist **Strategic Capital**, is hoping to take advantage of the change in sentiment under Japan's new governance codes, and put his experience to use in a country where there is still a stigma attached to shareholder activism.

"Our strategy is basically similar to what Yoshiaki Murakami has been doing, but our approach might be less aggressive than before," Maruki told this news service in an exclusive interview.

Murakami is a well-known activist and the former president of **M&A Consulting**, who agitated for corporate changes to boost returns but was later convicted of insider trading. Murakami and Maruki were colleagues at M&A Consulting.

Many investors say Maruki has, by virtue of his amicable character, been able to avoid the harsh disapproval that Murakami encountered.

Strategic Capital is now trying to reap investment returns by "fostering" changes to the strategy or governance of about 10 small and medium-sized companies which have built up cash to unnecessary capacity.

Strategic Capital, with about JPY 10bn in assets under management, has since its inception in 2012, become a successful Japanese equity fund with an above-average return to investors, mostly wealthy Japanese individuals, according to Maruki.

Strategic Capital's strategy is to buy into companies it considers to have been heavily discounted because of concerns over their governance structures, and actively engage with the companies to improve issues that cause stagnant share prices, according to Strategic Capital's investment guidelines.

This year, Maruki has submitted his proposals to annual shareholder meetings of **Chori** [TYO: 8014], **Shin Nippon Air Technologies** [TYO: 1952], **Tosho Printing** [TYO: 7913], **Japan Digital Laboratory** [TYO: 6935] and **Daiwa Industries** [TYO: 6459].

All of these companies have stable cash flows and governance issues, such as the existence of significant controlling shareholders and/or company shareholders with business ties.

"It may be hard to make changes, but once we are able to foster changes, the pay-off is great," said Maruki.

For example, at Chori's shareholders meeting on Wednesday (15 June), Strategic Capital under the name Japan-Up submitted a proposal to raise the company's

payout ratio to 100% from 20%, which would increase its annual dividend to JPY 175 per share from JPY 36.

According to its shareholder registry, **Toray Industries** [TYO: 3402] has a 51.25% stake in the textile and chemical company. Foreign shareholders account for 22.8%, but cross-shareholdings represent only 3%. Toray has 52.98% of voting rights.

Proxy advisor Institutional Shareholder Services (ISS) recommended its clients to vote for the shareholder proposals. With Toray holding more than 50% of voting rights, the shareholder proposals were rejected, although Chori has yet to announce details of its voting turnout.

“Why would investors oppose this proposal? I would like to ask the minority shareholders,” quizzed Maruki. “If shareholders receive JPY 175 per share dividend every year, I think the share price would go up to more than JPY 3,500.”

Chori shares closed 0.3% higher at JPY 1,334 on Wednesday.

An IR official at Chori said the company has been using its cash for various investments, including M&A, and it is reluctant to increase debt to maintain its stable balance sheet.

At the end of March 2016, Chori had JPY 10.496bn in cash and cash equivalents while it had only JPY 3.5bn in debt. “The company has plenty of cash. I don’t see any problems [with it paying 100% of its net profit],” said Maruki.

At Shin Nippon Air Technologies, cross-shareholdings account for as much as 80% of its market capitalization worth JPY 24.347bn (USD 230m). Strategic Capital is asking it to unwind as many as 65 cross-shareholdings worth about JPY 20.8bn now unless the company has any valid reasons for holding them, Maruki said.

Japan Digital Lab urged to sell its airline business

Strategic Capital has submitted a proposal to JDL’s AGM scheduled for 29 June to dispose its unprofitable IBEX Airlines, arguing it has absolutely no synergies with the company’s main business -- accounting software development and manufacturing.

A JDL spokesperson said the company has no plan to withdraw from its airline business as it has been contributing to boosting Japan’s local economies by flying to regional cities.

Maruki said, however, that IBEX Airlines was originally owned by President Kazuo Maezawa. But 15 years ago, when it was about to go bankrupt, Maezawa sought a capital increase from JDL by third-party allotment.

Almost 90% of IBEX’s revenues come from **All Nippon Airways** [TYO: 9202], which sells all of the former’s tickets, Maruki pointed out.

“Our proposals will probably lose this year again, but the point is to what extent we gain the support of shareholders outside these controlling shareholders and founding

families,” said Maruki. This is the third year in a row Strategic Capital has submitted its proposal to JDL.

Last year, some 21% of shareholders voted for Maruki’s proposal. ISS recommended its clients to vote for the shareholder proposal. "This is nevertheless a fairly good achievement in the situation where some 40% of voting rights is held by its founding family," said one Tokyo-based institutional investor.

It has been a while since the Stewardship Code and the Corporate Governance Code have been in force in Japan, and there is now more purposeful and serious dialog between companies and institutional investors, according to a number of investors.

However, Maruki pointed out that there are still many directors who do not understand the gist of the Corporate Governance Code and their responsibilities to shareholders. And in fact, many have not been complying with the code even after adopting it.

“Some company presidents still seriously believe their priority is to protect the job of their employees. Many directors and outside directors, especially at smaller companies, are not aware they have fiduciary responsibility to shareholders,” said Maruki.

Nevertheless, Maruki believes the conditions are ripe for his activist investment after the introduction of the Corporate Governance Code because the companies cannot refuse shareholders’ requests for engagement.

“It is not my character to pull out now even though it is tough. I want to put my experience to use in activating this country’s economy somehow,” Maruki said.

by Norie Hata in Tokyo

Source **Dealreporter**

Target	Japan Digital Laboratory
Target	IBEX Airlines
Vendor	Japan Digital Laboratory
Other	Chori Co Ltd (8014)
Other	Tosho Printing Company Ltd (7913)
Other	Shin Nippon Air Technologies Co., Ltd. (1952)
Other	Daiwa Industries
Other	Strategic Capital Inc
Intel. Grade	Confirmed
Countries	Japan
Sectors	Computer software
Intel. ID	