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Investor Activism in Japan:

The First 10 Years*

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Abstract:

This paper provides a comprehensive examination of the first decade of investor activism in Japan. In the context of a remarkable transformation of the Japanese capital market, we document the rise of hedge fund and other investors with a total of 916 filings of block acquisitions by activists in the period from 1998 to 2009. We show that there is, on average, a (modest) positive stock price reaction to the announcement of an activist investment. These effects, however, are concentrated in events involving hostile funds. When we examine returns to activism in the long run we find that gains are not significant overall, except on positions in large target firms. We find that target firms tend to increase their payouts relative to peer firms in response to activist campaigns but we fail to find evidence that activists force target firm managers to institute major operational improvements. Finally we document the explosion in the adoption of "poison pills" by Japanese firms. We find that firms targeted by activists were more likely to adopt defense mechanisms. Since 2007 there has been a substantial reduction in activity by activist funds. Our paper contributes to the literature on investor activism by illustrating the limits to the success of activist funds in a market setting where the takeover market is thin and cannot be used by the activist investor as an "exit" strategy.

JEL classification: G34
Keywords: Corporate governance, shareholder activism, hedge funds, Japan

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1. Introduction

Capital markets in Japan have experienced a remarkable transformation in recent years. Japan in the second half of the twentieth century can be described as a bank-oriented system where firms did not rely on equity financing and shares were largely held by banks, insurance companies and corporations (Aoki and Patrick 1994, for example). After the collapse of the real estate and stock market bubble in 1990 and the following "lost decade" of economic slump, banks suffered severe capital shortages and sold much of their equity holdings (Hoshi and Kashyap 2004). Inter-corporate shareholdings also declined in the 1990s and 2000s. In contrast, foreign investors, most of which are institutional money managers, have become increasingly prominent. Foreign ownership of stocks listed on the Tokyo Stock Exchange increased from about 5% in 1990 to 24% by 2008. In addition, local pension and mutual fund holdings have also increased. Figure 1 illustrates these recent changes in share ownership in Japan.[1]

The rise of foreign (institutional) shareholders in Japan means a shift in the balance of power between corporate insiders and outside shareholders. Investors have become more vocal and several activist funds have been at the forefront. A common definition of an activist is a shareholder "who tries to change the *status quo* through 'voice,' without a change in control of the firm" (Gillan and Starks 1998). Hedge fund activism has exploded in the U.S. in the last decade (see Brav, Jiang and Kim 2010 for a survey) and it has been especially controversial in Japan. One high profile case that has drawn media attention is Steel Partners, a U.S.-based hedge fund whose main strategy is to take a large stake in a small company and persuade management to increase dividends and share repurchases (Greenwood, Khurana and Egawa 2009).[2] Yoshiaki Murakami, a former government official, was also known as a leading activist shareholder in Japan. Using various investment funds, he launched aggressive share purchases and a hostile takeover

[1] Note that since the data source (Tokyo Stock Exchange) does not separate shares owned by trust banks on their own account from shares owned on behalf of investors in custodial accounts, the percentage for trust banks is overstated.

[2] In a few occasions, Steel Partners launched tender offers but generally these were aimed only at raising the share price and there were some accusations of "greenmail" - to push firms to repurchase their shares at a premium (*Financial Times* 2007).

bid, but following a high profile case where he acquired shares of Nippon Broadcasting System, admittedly based on tips from another corporate raider/activist Takafumi Horie of Livedoor, he was arrested and charged with insider trading. Other activist investors have chosen a non-hostile approach. Sparx, Asia's largest hedge fund, which received a large investment by CalPERS (California Public Employees' Retirement System) at its foundation (*Financial Times* 2002a; Jacoby 2007), has refrained from taking aggressive stances but has pressured firms to return cash to shareholders. It is sometimes labeled as a "relational investor." Another fund is Taiyo Pacific Partners that has worked cooperatively with companies to boost shareholder value. Both Sparx and Taiyo have avoided the threat of a hostile takeover employed by "raiders" such as Murakami and Steel Partners.

There has been little academic work examining how widespread has been investor activism and its effects in Japan. In contrast, shareholder activism has been a subject of intense study in the United States. Karpoff (2001) and Gillan and Starks (2007) describe the involvement of large institutional shareholders increased dramatically after the mid-1980s with the advent of public pension fund activism but the effects have been mixed.[3] More recently, there has been a wave of hedge fund activism and studies have found positive abnormal returns around the time a hedge fund announces its activist intentions (Brav, Jiang, Partnoy, and Thomas 2008; Clifford 2008; Klein and Zur 2008; Greenwood and Schor 2009, Brav, Jiang and Kim 2010). Gillan and Starks (2007) argue that research in this area is still somewhat nascent and the long-term effects are still unknown. Evidence on activism by large institutional investors outside the U.S. is scarcer. Recently, Becht, Franks, Mayer, and Rossi (2009) study the activist investments of the U.K. pension fund Hermes, while Becht, Franks, and Grant (2009) perform a broader study of investor activism in Europe. For Asia, Kim, Kim, and Kwon 2009) examine institutional block-shareholders in Korea. For Japan, Uchida and Xu (2008) perform a case study analysis limited only to Murakami and Steel Partners. Ono (2008) describes

[3] Theoretically, large shareholders can act as external monitors and reduce the free-rider problem (Shleifer and Vishny 1986).

the activities of more funds, but it is limited to the analysis of abnormal returns around announcement dates.

In this paper, we study both short-term and long-term returns to investor activism in Japan by hedge funds and other institutional investors. On the one hand, the potential to unlock shareholder value is higher in Japan, as many firms have high cash balances and weak growth prospects and activists can push for higher payouts.[4] On the other hand, because of its relationship-based corporate culture, the barriers to shareholder activism are higher in Japan than in Anglo-American markets. Also, it is not clear what exit strategy is available to activist investors. Japan has been characterized traditionally by a very thin market for corporate control, but data collected by Recof, a mergers and acquisition consulting company, shows that the number of M&A activities has more than doubled in Japan in the 2000s to about 3,000 deals in 2007 (Recof 2009). This change may be crucial for the success of hedge fund activism. In fact, Greenwood and Schor (2009) document that most of the returns of activism in the U.S. are driven by the ability of hedge fund activists to force targets into a takeover. Their study also finds that activist investors perform poorly when the activity in the market for takeovers declines.

We construct a comprehensive dataset of fund activist engagements in Japan between 1998 and 2009. We hand-collect data from the mandatory filing on block-shareholdings that exceed the 5% threshold. This requirement is similar to the schedule 13-D requirement in the U.S. (used in Brav *et al.* 2008; Klein and Zur 2008, Clifford 2008; Greenwood and Schor 2009). We identify 34 activist funds, of which 27 are foreign according to top management's nationality. Activist block acquisitions peaked in 2006 and 2007. And about half the investors have a hostile attitude, as determined by press reports and the indication in their filing on whether the investor may make "significant proposals." Our sample comprises a total of 916 filings of block acquisitions by activists. This is a substantial level of activity with investments totaling ¥6.8 trillion when assessed

[4] *The Economist* (2007) reports that Japanese firms hold 16% of GDP in cash and securities, while the equivalent figure is about 5% in the U.S.

at the cost of acquisition at the initial filing dates (about U.S.$65-75 billion depending on the exchange rate used).

First, we provide a description of shareholder activist campaigns in Japan over the last decade. The large majority of activist funds accumulate ownership stakes of 5% to 10% that fall short of majority control and are long-term engagements with an average duration of investment that exceeds 2 years. We then ask the question of what firm attributes make a company more likely to be targeted by activist funds. We find that activists act like "value investors" and target poorly performing firms, firms with low leverage and high cash balances. This is consistent with press reports that activists target firms in an attempt to increase dividends and share buybacks. Additionally, activist funds targeted a considerable number of firms listed outside of the Tokyo Stock Exchange which were less familiar and possibly neglected by other investors. Nonetheless, we find that activist funds, on average, tend to target more liquid stocks. We also find that firms held more by foreign shareholders were more likely to be targeted, which suggests that other foreign (non-activist) investors acted as facilitators.

Second, we turn to the question of whether fund activism worked in Japan. We first look at whether it affected share values in the short run. We find that, on average, the market reacted favorably by a 1.8% positive abnormal return to the first filings by an activist investor of an acquisition of a stake exceeding 5% of shares. This announcement effect is lower than average abnormal returns around activist block acquisition disclosure in the U.S. that range from 7% (Brav *et al.* 2008) to 3.6% (Greenwood and Schor 2009). However, announcement returns were +3.8% for firms targeted by "hostile" activists. This more favorable market response suggests that the market perceived some value improvements when the activists' approach was more aggressive.

To assess whether there is actual value improvement from activist engagements, we examine buy-and-hold returns over the full duration of the activists' investments. We find that, on average, the raw buy-and-hold returns of activists were negative. But since many events occurred in a bear market period in the Japanese market during the global financial crisis, the buy-and-hold abnormal returns (*i.e.*, net of Nikkei Sogo Comprehensive Index[5] buy-and-hold returns) are on average +4.57% for the activist funds, or +1.39% per year. Interestingly, when we isolate the events initiated by "hostile" investors, we find that the buy-and-hold abnormal returns are higher at +13.48%. We conduct a more formal long-term return analysis using calendar time portfolio returns (CTPR) by buying firms that were targeted by activist investors at the time of first investor filing and selling when investor reduces its stake. We form an Equal-Weighted (EW) portfolio that is long an equal amount on all open positions by activist funds and a Value-Weighted (VW) portfolio with weights in proportion to the yen position by activist funds in each firm. We compute the EW portfolio returns and find that activist positions generated excess returns in the first half of our sample, a period when the Japanese economy started to recover from the "lost decade" and the stock market was going up, but these gains were erased when the market dropped during the worldwide financial crisis of 2007 and 2008. One explanation would be that in the credit crisis period the takeover and LBO market dried up (which is consistent with the similar findings for the U.S. by Greenwood and Schor 2009) and activists' demands for firms to distribute cash holdings were also less well received by the market in the crisis context. In our main tests, we find that the EW portfolio performance does not statistically outperform when adjusting for 3 return factors (market, size and value) for the Japanese market. However, the monthly alpha for the VW portfolio is statistically greater than zero at 1.0% per month (12.7% in annualized terms). Interestingly the activist portfolios load positively on small cap and value factors, indicating their investment style. Overall, the evidence from CTPR analysis suggests that activist investment gains were concentrated on larger caps, not extending to smaller target firms.

Third, we explore if the activists' interventions had real effects or if their portfolios' (slight) over-performance reflects just good skills at identifying undervalued target firms. We conduct a detailed analysis of the "significant proposals" made by activists for a subset of 234 proposals where such information is available. We perform news searches

[5] Nikkei Sogo (Comprehensive) Index is a value-weighted stock price index with dividends reinvested, covering all listed firms (except for stocks listed on JASDAQ - Japan Associations for Securities Dealers Quote System). It is the most comprehensive stock market index in Japan.

and analyze companies' financials and determine success for each proposal if the activist funds' stated goal was achieved. We conclude that the most frequent activist demands are for dividend increases and share repurchases and that these are also areas were requests were more successful. Less frequently, activists demanded major reorganizations and operational changes (including M&As or asset sales) but these were much less successful.

For the complete sample of 786 targeted firms, we collect data on structural changes based on whether there were any subsequent corporate action filings for the stock of the targeted firms and find that only 269 firms were subject to any corporate change either as target or acquirer in M&A or restructuring (and only 35 were eventually delisted). So, overall, about two thirds of the targeted firms never underwent a significant change that would require a filing with the securities regulator.

Fourth, we look at the overall impact of shareholder activism by examining the *ex post* performance of targeted companies. We find no evidence that activism events are associated with improvements in the main measures of operational performance (such as ROA or sales growth). Our results show that their impact is limited to increases in payout ratios for target firms and not for matching firms, but do not find other significant changes in financial policies or corporate governance practices (namely no differential effect on the use of executive stock options plans and adoption of "committee-based" board of directors). This supports the general perception that the main strategy of activist funds acting in Japan involves building a stake and being able to persuade firm managers to increase payouts but stops short of achieving substantive restructuring of target firms.

Finally, one dimension in which investor activism seems to have had a major effect, however, is in the adoption by Japanese firms of "poison pill" takeover defense measures. The first case of poison pill adoption was in March 2005 and since then 604 firms have adopted a defense measure (or about one sixth of the number of all listed firms). We find that firms targeted by activists were more likely to adopt a "poison pill" measure after being targeted. The test case for whether exercising "poison pills" can be upheld by courts was the targeting of Bulldog Sauce by Steel Partners, the activist hedge fund. In May 2007, Steel Partners launched a tender offer and Bulldog's board of directors announced a plan to offer three rights per share to its existing shareholders which cannot be exercised by Steel Partners, and this was approved by a majority of the shareholders.[6] Steel Partners filed a motion for a preliminary injunction with the Tokyo District Court which was rejected, the activist fund appealed to the Tokyo High Court and then also to the Supreme Court but Steel Partners' appeals were denied.

The remainder of the paper is organized as follows. In the next section, we provide an overview of recent institutional developments in the Japanese market and conditions for shareholder activism. Section 3 describes the sample and the data, as well as examples of activist investors in Japan. Section 4 examines which firms got targeted by activist investors. Section 5 looks at share returns in the short and long run following filing of activist stakes. Section 6 examines in detail activist proposals, what effect activism had on target firm performance and adoptions of "poison pill" defense measures. Section 7 concludes.

2. Institutional Background on Japan and Conditions for Shareholder Activism

Franks, Mayer, and Miyajima (2009) detail the history of corporate ownership and financing in Japan. In the second half of the 20th century, bank finance dominated external finance and most Japanese firms had cross-shareholdings with their main bank and other companies with interlocking business relationships (known as *keirestu*, Bergloff and Perotti 1994; Weinstein and Yafeh 1998, for example). Corporate and bank shareholders supported the management of companies in which they owned shares. Hostile takeovers were virtually non-existent, and mergers and acquisitions were typically between agreeing parties, with the approval of friendly institutional shareholders. However, after the collapse of the real estate and stock market bubble in

[6] The rights had a clause that Bulldog Sauce will repurchase Steel Partners' rights for ¼ of the tender offer price.

1990 and the following "lost decade" of economic slump, this situation started to change. Banks suffered severe capital shortage and sold much of their equity holdings to count realized capital gains in their capital and firms moved from bank financing to bonds, commercial paper and other non-bank financing (Hoshi and Kashyap 2004). Furthermore, in order to stabilize the banking system, a legislation that limits the amount of banks' shareholdings was passed in November 2001 (effective January 4, 2002). Under this law, banks were required to sell equities (valued at the acquisition cost) that exceed the amount of their Tier 1 capital. The government also established the Banks' Shareholding Purchase Corporation to facilitate the sales. *Keiretsu* ties were also weakened over time by the increasing competition and globalization of the Japanese economy and corporate cross-shareholders also declined in the 1990s and 2000s. This is in sharp contrast with foreign investors' share ownership that became increasingly prominent (see Figure 1).

At the same time, the government and stock exchanges encouraged new startup firms to list their stocks by introducing new sections in stock exchanges with looser listing standards.[7] Firms listed on these exchanges are typically not connected to *keiretsu* and do not have large proportion of shares held by institutional investors. The last decade also saw several legislative changes for corporate finance and control in Japan. The 1997 amendment of the Commercial code introduced executive and employee stock options. The 1999 amendment of the same law enabled stock deals (exchanges of shares instead of cash payment) for mergers and acquisitions. The 2001 amendment lifted limitations to stock repurchases to make it possible for firms to repurchase shares and put them as treasury stocks upon approval of the shareholders' meetings (and after 2003, this would only require a resolution by the board of directors). Additionally, the "committee system" was introduced in the 2003 amendment of the Companies Act, where independent directors have to be a majority in audit, compensation, and nomination

[7] In 2000, Softbank and NASDAQ established NASDAQ Japan in Osaka Stock Exchange. After experiencing financial difficulties, NASDAQ pulled out, but the market for young firms remains in Osaka as Hercules. Nagoya Stock Exchange started Centrex for small and emerging firms in 1999. In the same year, Tokyo Stock Exchange established MOTHERS for young firms. Sapporo Stock Exchange's Ambitious followed suit. There is also JASDAQ (over the counter) market for young, small firms.

committees of a corporation. From 2008, legislation similar to Sarbanes-Oxley Law in the U.S. (called J-SOX Law) regarding internal controls of a firm came into effect. Appendix A provides a comparison of corporate governance systems in Japan versus the U.S.

Put together, the changes in economic and legal environment made the time ripe for shareholder activism to be effective in Japan in the 2000s. Appendix B provides a comparison of the U.S. and Japanese legal environment for shareholder activism. It should be noted that in Japan it is possible for shareholders to propose changes to the company charter, whereas in the U.S. shareholders can only vote out board's proposals to changes to the charter. Also, dividend payment is a matter that is voted at shareholders meetings in Japan, but not in the U.S. Directors can be dismissed for any reason by the election of shareholders in Japan, whereas in the U.S., company charters can state that director dismissals are not permissible without proper reasons. Thus, Japan has stronger shareholder rights than the U.S., if shareholders decide to use them. Overall, in the U.S., board's monitoring power is relatively strong while shareholder rights are mitigated; but in Japan, the monitoring role of the boards is often not separated from the role of executing business and firms had (friendly) shareholders as potential monitors in the past. Activist funds may have become aware of the strong power that they could exercise in Japan.

3. Data

3.1. Sample of Activist Stakes

We focus our analysis on activist block acquisition filings by activist fund managers. Our data collection comprises a three-step procedure: (i) to hand-collect block-shareholding filings; (ii) to identify which investors constitute activist investors; and (iii) to collect additional information on the targeted firms.

First, we collect data on block-shareholding filings which are mandatory when an investor exceeds an ownership threshold of 5% of a company's stock. Our main data source is the filings compiled in EDINET,[8] a site maintained by the Financial Services Agency (FSA). This is an electronic disclosure system that contains all disclosure filings by investors and publicly traded firms with the FSA for the last 5 years. Filing data that are older than 5 years are primarily obtained from publicly accessible web-site *Kabunushi Pro* (Shareholder Pro)[9] and *Kangaeru Kabushiki Toshi* (Analytical Stock Investment).[10] The accuracy and the integrity of the data are cross-examined using other web-sites.[11] We also use a subscriber-based on-line database provided by eol, Inc. which contains historical filings with the FSA and the Ministry of Finance. Finally, we use large shareholder databases from Toyo Keizai Shinpo Sha and Nikkei, and articles searched with Nikkei Telecom 21 to determine the earliest data activist funds activities became known.

Appendix C provides a detailed background on the disclosure rules of large block-shareholding in Japan and a comparison with the U.S. Similar to the 13-D mandatory filing requirement in the U.S., in Japan the 5% rule on block-shareholding (introduced in December 1990 to the Securities and Exchange Act and now Financial Instruments and Exchange Act of 2007) requires that individuals and institutions that cross a 5% threshold to report it within 5 business days after the transaction. Thereafter, changes over 1% (increase or decrease) also have to be reported within 5 business days. However, until January 2007, institutional investors were exempt from frequent reporting under the "Special Reporting Provision" (Article 27, No. 26) and were required to report only every 3 months, except for those with the intention of "controlling the business activities" of the issuer. Thus, before January 2007, the date of the report may be as much as three and a half month older than the actual transaction date. This lax special rule was put in place since the obligation to report each time was considered to be burdensome for passive institutional investors that may cross the 5% threshold in the course of normal daily operations.

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[8] http://info.edinet-fsa.go.jp/
[9] http://www.kabupro.jp/
[10] http://g2s.biz/
[11] These are http://kabuhoyu.cc/, http://www.kabutool.net/tairyo.html, etc.

In the actual filings we collected, all activist funds took advantage of this special reporting provision and reported only every three months, stating their investment purpose as "pure investment" or "to maximize investment return" and never using the language that suggests "controlling the business activities." However, the hostile nature of the now (in-)famous activities of Yoshiaki Murakami's funds before his arrest in June 2006 lead to the amendment to the law to require more frequent disclosure. The amendment became effective on January 1, 2007 and the reporting frequency was changed so that all passive institutional investors are now required to register more than two dates in a month as their reference dates, and report the holding that exceeds 5% (and changes over 1% thereafter) within 5 business days after the reference date. In the same amendment, the definition of the investors who can use the special reporting provision was changed from those "(whose) purpose of holding is not for controlling the business activities" to those "(whose) purpose of holding is not for effecting material changes in or giving material effect to the business activities of the issuer of the said Share Certificates as specified by a Cabinet Order" (Article 27, No. 26). Thus, activist investors who engage in the act of making important suggestions (defined in the cabinet order as "appointment and discharge of CEO, significant changes to the composition of directors, rearrangement of organization such as mergers and acquisition, and going private, significant changes in dividend policy, etc.") to the issuers do not qualify for the special reporting provision and must submit the report within 5 business days of the transaction. The same amendment makes it mandatory to submit the block-shareholding report on-line via EDINET from April 1, 2007 so that the filings are immediately available to the public. After January 1, 2007, many funds changed their purpose to "to make important proposals" in their new filings or in revised filings for their existing investment. Appendix C provides more details on this.

Second, we need to identify which block-shareholding filers constitute activist funds and not other classes of investors (insiders, raiders, private equity, etc.). For this, we rely on a large body of articles on newspapers, magazines, and websites written about investment funds. We search them through Nikkei Telecom 21, Nexis/Lexis, and Google. We exclude funds that specialize in private equity investment and workouts of distressed firms. Activist funds in our sample do not typically seek control of the target firm or to take it private. We identify a total of 34 funds. The list of these funds is provided in Table 1 – Panel A (described in full in Section 3.3).[12] Most activist investors are value-oriented institutional money managers. A large number could be classified as hedge funds, some which specialize in Japan (Steel Partners, Sparx, and Sandringham) and on occasion some well-known international hedge funds that operate in the U.S. (Harbinger Capital and Perry) and Europe (TCIF – The Children's Investment Fund). There are also more traditional value-oriented fund managers but with activist stances in Japan (Brandes, Arnhold and S. Bleichroeder, and Wellington). Finally, there are also a few more entrepreneurial investors that could even be classified as "raiders" (Murakami) and its offspring (Effissimo).

Finally, we gather price and accounting information for target firms. We use Nikkei Portfolio Mater Database and Datastream for daily stock prices and volumes. We also obtain various index returns for market benchmarks from Nikkei and Nomura Securities. Accounting data and information on board of directors are from Nikkei. Data on filings of corporate restructuring are taken from Nikkei Financial Quest. Data on takeover defense measures ("poison pills") are collected from various issues of the *MAAR* magazine, published by Recof Data.

3.2. Examples of Activist Investors in Japan

To illustrate different activist styles in Japan, we provide a quick overview of the top activist funds operating in Japan. In Appendix D, we review some of the firms targeted by these funds and display main financial information on these cases.

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[12] These 34 activist funds used a total of 47 investment vehicles. Several funds used multiple vehicles. For example, Murakami used four vehicles: M&A Consulting, MAC International, Ltd., MAC Asset Management, and MAC Asset Management Pte Ltd. Although Murakami had these four filing vehicles, his funds were named differently, such as MAC JASF Investment Fund, MAC Small Cap Fund, MAC Buyout Fund, SNFE MAC Japan Active Shareholder Fund (HK), LP, MAC Leveraged Fund, and MAC Corporate Governance Fund. We take the four vehicles to track all filings for these funds, but aggregate them into a single entity, "Murakami."

The first activist we examine is Yoshiaki Murakami, a former government official, who was perhaps known as the leading individual shareholder activist in Japan. In 2000 his funds launched the first ever hostile takeover bid in post-war Japan against Shoei but did not succeed. In 2001, he launched a campaign against Tokyo Style, a clothing company (see Appendix D). At the time of the announcement, the value of the firm's cash and securities was more than its market capitalization, despite the firm having little debt (*The Economist* 2002). Acquiring initially 5.77% of its shares through his vehicle MAC International Ltd., he launched but lost a proxy fight. However, he succeeded in getting the firm to increase its cash dividends and share buybacks (*Financial Times* 2002b). In another high profile case, Murakami acquired shares of Nippon Broadcasting System. In June 2006, Murakami was arrested and charged with insider trading related to Livedoor's acquisition of a large block of shares of Nippon Broadcasting.[13]

The second example is Steel Partners, which is the best-known U.S.-based "hostile" hedge fund acting in Japan and whose main strategy consists of taking large stakes in small companies and persuading management to increase payouts (Greenwood, Khurana and Egawa 2009).[14] It entered Japan in 2002 (through Steel Partners Japan Strategic Fund, a partnership with Liberty Square Asset Management, another activist hedge fund) and has so far targeted 41 companies. Among its first investments was Yushiro Chemical where it filed a shareholding of 5.1% and subsequently pressured management to distribute the firm's large cash holdings. Stock price responded positively. Management was slow to respond and the fund launched a takeover bid (which failed) but eventually management agreed to increase its annual dividend. In another well-publicized case, it launched a takeover of Myojo Foods and in response the company arranged for a buyout from Nissin Foods, which provided a good return for Steel Partners. However, the fund did not succeed in all instances and was forced to reduce its stakes several times (one such case is Brother Industries in Appendix D). With regard to another target firm, Bulldog Sauce, Steel Partners' activities led to a watershed ruling by the Supreme Court supporting the use of "poison pills." Greenwood, Khurana, and Egawa (2009) provide a

[13] *The New York Times*, "Murakami gets two years in jail in Livedoor scandal," July 19, 2007.
[14] Another case study of a U.S.-based hedge fund's activity in Japan is Foley and Greenwood (2009).

case study of Steel Partners' recent involvement in Aderans which resulted in Steel Partners having to nominate directors to the company's board.[15] However, recent reports are that Steel Partners has been forced to cut investments selling mainly to return money to clients hurting from the 2007-08 financial crisis.[16]

The third activist we review is Sparx, which is Asia's largest hedge fund manager, and which tends to takes a more subtle "non-hostile" approach.[17] Its founding shareholders were CalPERS and Relational Investors (*Financial Times* 2002a). Jacoby (2007) describes how CalPERS, the prominent U.S. public pension fund, failed in its first attempts in the 1990s to employ the activist tactics it developed in the U.S. Subsequently, in the 2000s, it started to employ "relational investors" like Sparx. Sparx has refrained from taking aggressive stances but still pressured firms to return cash to shareholders.

Another "non-hostile" fund in Appendix D is Taiyo Pacific Partners which is based in the U.S., but that also tries to work cooperatively with Japanese companies to boost shareholder value. Both Sparx and Taiyo have avoided the threat of hostile takeover employed by more "raider-like" funds such as Murakami and Steel Partners.

3.3. Summary Statistics

Table 1 provides descriptive statistics on the sample of 916 activism events where an institution discloses a position of 5% or greater ownership in a firm. The earliest event dates from 1998, and our analysis ends in July 2009. Close to three-fourths of the activist share stakes were formed between 2004 and 2007. A total of 759 unique firms were targeted, which means that some companies were targeted more than once. This is a substantial level of activity with investments totaling ¥6.8 trillion when assessed at the

[15] This matter is still in progress as of this writing and in the most recent shareholders meeting in May 2009, Steel Partners' proposal to replace the CEO was voted favorably by the majority of shareholders.
[16] Reuters, "Steel Partners cuts stakes in Japan firms by $1.7 billion," January 16, 2009.
[17] Business Week, "Patience Pays for Sparx Group," September 17, 2007.

cost of acquisition in the initial filing dates (about U.S.$65-75 billion depending on the exchange rate used).

Panel A of Table 1 breaks down the number of events for each of the 34 activist investors. The top activists in terms of number of filings are Sparx (245 filings, ¥605 billion in initial investments), Atlantis (77, ¥39 billion) and Murakami (64, ¥376 billion). Investors are grouped first in terms of their top management's nationality: 7 of which are run Japanese nationals (of which 2 are registered outside of Japan).[18] Next, we classify investors on the perceived attitude towards management ("hostile" vs. "non-hostile") as reported in press articles. This is a difficult task but 17 of these funds were reported to have a hostile attitude (such as Murakami, Steel Partners, Liberty Square, Brandes, etc.), while for the other 17 funds there was no public information of a hostile confrontation with management. Using this criterion, there are a total of 356 hostile cases (39% of the sample). As discussed in Section 3.1 above, after January 2007, investors are required to file if they may eventually make a "significant proposal." So, as an alternative to relying on press reports at the time of filing, we use instead the post-2007 filing by each institutions to "fill back" for the earlier period. In the reports filed after 2007, 20 funds indicated that they may make important proposals.[19] These 20 activist funds are classified as "significant proponents" (including Sparx which we classify as "non-hostile" according to press reports). Finally, Panel A also shows that activist block acquisitions peaked in 2006 and 2007. Early entrants were Atlantis, Murakami, Silchester International and Sparx.

Panel B of Table 1 provides summary statistics on the firms that were targeted. We matched 858 events to non-financial firms covered by the Nikkei Financial Quest

[18] These 2 funds include Murakami, who relocated his MAC Asset Management to Singapore in 2006,and a Effisimo, a fund set by some of Murakami's offspring also registered in Singapore.

[19] We include Murakami as a "significant proposal" making fund, even though his funds ceased to exist before 2007, since it was well publicized that he was a vocal shareholder with many proposals to firms he targeted. Actually, the "significant proposal" legislation was enacted in response to Murakami's activism activities in the prior period.

Industrial database.[20] Less than half of the target firms are listed in the Tokyo Stock Exchange (TSE) First Section, which means many activists target firms in less visible stock markets. The next most targeted market is JASDAQ. Panel B also shows that target firms span all industries (with the exception of airlines).

Panel C of Table 1 presents statistics on the capital committed by activist investors. The average size of the activist stake at the time that the investor first files a position exceeding the 5% threshold is worth on average ¥7.8 billion (at cost) and represents 6.8% of the outstanding shares of the target companies. Subsequent EDINET amendment filings reveal that investors increase their stakes reaching, on average, a maximum holding level of 9.9% in target companies. So the activist funds in our sample accumulate ownership stakes that typically fall short of the level required for majority control of the target firms. This is different from corporate raiders or private equity investors who aim to take the target company private.

Panel C also provides a measure of the duration of activist investments. As explained in Section 3.1, investors need to file the first time they pass the 5% threshold and thereafter every time they increase or decrease in their position is greater than 1%. While it is impossible to determine the exact "exit date" where an investor's economic interest in the firm is eliminated, we can obtain the investor's last "large shareholding" filing. If the last filing is over 6%, the position is assumed to be still open until June 31, 2009 (the end of our study) because the investor would need to file if his position had decreased by more than 1%. In the case his last available filing is below 6%, we assume he has "exited" his large position in the firm (even if he still actually retains less than 6%). The last two rows of Panel C show that activist engagements, on average, exceed 2 years (806 calendar days).[21] Using our definition of "exit date" underestimates the total duration of activist investments in the target companies. In any case, activist fund investment

[20] The remaining 60 firms that are omitted in matching with comparable firms are banks, insurance companies, securities houses, and other financial institutions. These firms are added back in the analysis of returns.

[21] The minimum of 1 day in holding period is for cases where a fund reports the first 5% (but less than 6%), but no further reports are made. It is possible that the fund held more than 1 day in these cases.

horizons have been a contentious issue and Panel C shows that investments are more long-term than usually thought.

Figure 2 represents graphically all the activist engagements (grouped by investor) in our sample. Again, one can see that many activist positions spanned multiple years. This is not consistent with frequent criticism that these activist investors are short-term traders.

4. Which Firms Are Targeted by Activist Investors?

We first turn to the question of what type of companies do activists target. Table 2 provides summary statistics of the target firms' characteristics in the year before they are targeted. There are a total of 858 (non-financial) event firms for which we gather data from Nikkei. To compare the target companies with their peers we use a matching procedure as in Brav *et al.* (2008). For each target firm we get comparable firms that are from the same year, same Nikkei industry (see Table 1 – Panel B) and same 5 x 5 size (Assets) and market-to-book (Market value of equity/Book value of equity) sorted portfolios. We form up to 5 matches for each target firm (if there are more than 5 candidates then we selected 5 randomly). Out of 858 event firms that had been matched to Nikkei, we could find comparables for 827 events. In the 31 cases where this narrow criteria yields no match, we relax the criteria to match from the same year and industry but from 2 x 2 size and book-to-market sorted portfolios (*i.e.*, above and below the median in each criteria). We found comparable firms for 29 out of 31 event firms by this second matching procedure. Thus we have final 3,619 comparable firms for 856 (out of 858) event firms.

Table 2 reports the t-test statistic for the difference in characteristics between the target firm and its peers. Definitions for all variables are provided in the caption of Table 2. As a result of the matching procedure, there are no statistical differences between size and market-to-book ratios of target and comparable firms (and also market capitalization and Tobin's Q ratios). Target firms, however, are, on average, less levered, have higher cash balances and slightly higher dividend yields. The ownership structure of target firms is also tilted towards companies with higher foreign ownership (*Pct Foreigners*) and more management ownership (*Pct Directors*), but more insider ownership (less *Pct Floating* - outstanding shares that are floated in the stock market). Also, target firms are more likely to have adopted takeover defenses ("poison pills") before the activist announces its stake. Finally, target firms have a higher stock liquidity (*Stock Turnover*).

In Table 3, we present probit regressions of the probability of a firm being targeted by an activist investor. This answers the question of what firm attributes make a company more likely to be targeted. We also provide the marginal effect of each explanatory variable. The table shows that target firms tend to lag behind comparable firms in terms of return on assets (*ROA*), which provides some indication that activists target poorly performing firms with some potential for improvement. The negative and significant coefficient on *Tobin Q* implies that activist funds are "value" investors. Activists target firms that are at an average valuation discount. The targets' capital structure also seems to matter as target firms are less levered (*Leverage*) which means activists may be looking at potential to add leverage because of unutilized debt capacity. Also, we find that target firms have higher cash-to-assets ratio (*Cash-to-Assets*). This is in accordance with some reports that most activists, whether "hostile" (such as Steel Partners) or not (Sparx), tend to target firms with large cash holdings and subsequently pressure management to increase distributions (dividends and share buybacks) to investors. High levels of cash and low use of debt would be consistent with activists addressing agency costs of "free cash flow" (Jensen 1986). Targets also have significantly higher foreign ownership (*Pct Foreigners*). This may be an important factor as activists, given their minority stakes, may have to rely on other "unfriendly (to the issuer)" shareholders to implement the changes. Activist funds tend to target firms outside of the Tokyo Stock Exchange (*TSE flag*). This implies that target firms are less familiar, possibly neglected by other investors. The second panel of Table 3 shows, however, that funds tend to target more liquid stocks (*Stock Turnover*).

5. What are the Returns to Activist Investors?

We next turn to the question of whether activist engagements create value for other shareholders. We examine stock market returns, both announcement event-day returns (the market's short term reaction) and long-run returns.

5.1. Evidence Around Filing Event Days

We first look at event-day returns and trading around the first filing of a large shareholding by an activist investor in our sample. Figure 3 plots the average buy-and-hold abnormal return (BHAR) for each trading day around the disclosure filing. Time 0 in this graph corresponds to the filing date that an activist investor has a position exceeding 5% of outstanding shares in a firm. The line plots the average buy-and-hold return in excess of the buy-and-hold return of the Nikkei Sogo (Comprehensive) Index. There is a run-up, on average, of about 1% in the 5 days prior to the filing date and an abnormal price jump of about 1% on the filing date. Naturally, the filing date may not be a perfect proxy for when the market learns about the activist's first decision to engage.

Figure 3 also includes the average abnormal turnover in the event stocks (bars in red). This is calculated by average daily stock trading volume divided by average in the preceding (-100, -40) trading days. There is some evidence that volume is 50% higher around the filing date than the average volume in the period prior to the event. This could be a direct result of the activist fund acquiring his stake (or building a "toehold" in the firm) or other investors also trading around the activist engagement date. Two possible explanations are "wolf packing" (several activist funds coordinating to buy into the target firms) or "herding" (investors trading on the information of the activist fund and also buying shares on the firm). In terms of "wolf packing," we find that in 112 of the 786 unique firms targeted by an activist investor in our sample a second block by another activist investor in the overall sample period. In untabulated analysis, we also examine "herding" by collecting block acquisition filings by 62 other (non-activist) institutional investors like Barclays Global Investors, JP Morgan Asset Management, Fidelity Investment or domestic ones like Daiwa Securities Investment Trust Management, Nomura Asset Management and Tower Investment Advisors. We find that non-activists institutions also formed a block exceeding 5% of the shares in 485 firms of the 786 firms with a first filing (out of 916 total filings) of a large shareholding by an activist investor in our sample. Non-activist institutional blocks seem to act as "facilitators" of activist funds strategy.

Table 4 reports that the average BHAR for the (-5,+5) trading days window for 864 events in our sample for which we have complete price data is +1.8%.[22] This figure is lower than the average abnormal returns around activist block acquisition disclosure found in U.S. activist hedge studies that range from 7% (Brav *et al.* 2008) to 3.6% (Greenwood and Schor 2009).

We also explore the cross-sectional variation in the market response to investor activism. In Panel A of Table 4 we break down events by investor type. As explained section 3.1 above, we use press reports to identify "hostile" funds. Results show that reaction is more positive for events by "hostile" funds. In fact, average abnormal returns are +3.8% for these cases. Announcement returns are not significantly different from zero for "non-hostile" activist fund cases. Secondly, we find that the price reaction is more positive for events where the investor filed with an indication of possibly making a "significant proposal" (which became mandatory after January 2007, introduced by the government as a reaction to the activities of the Murakami funds). Thirdly, if one uses the post-2007 behavior (*i.e.*, whether the investor ever file giving it the possibility of making "significant proposal" in its post-2007 targets or not) and use it to "fill back" for the earlier period, we find that price reaction is again only positive for events involving investors with a more activist stance. So, overall, results suggest that there are gains from activism to public shareholders in the cases where activist funds are more "aggressive." Interestingly, news of activist stakes by domestic investors seem to be slightly more well received by the market.

[22] The sample for these tests includes all firms with price data and is not limited to non-financial firms like in Tables 2 and 3.

We also look at average announcement effects for the individual events involving each of the specific 4 activist investors we portrayed in Section 3.2 above. It seems that both of the two top hostile investors (Steel Partners and Murakami) have a more significant positive impact on market prices around the announcement of their stakes. In fact, we do not find a statistically significant effect for the first filing announcements by Sparx.

In Panel B of Table 4, we look at market reaction depending on the *ex post* outcome. First, events are broken down by whether the event target firm underwent significant structural changes which is determined *ex post* based on subsequent corporate action event filings on the target firm (but not known at the announcement date). This is motivated by the Greenwood and Schor (2009) result for the U.S. that most of the returns of activism are driven by the ability of hedge fund activists to force targets into a takeover. As is evident from the sub-panel "Structural Changes" firms that had no subsequent corporate events had slightly lower market announcement effects at the formation of the activist stake but very few targeted firms were eventually delisted (meaning the target firm as a legal entity eventually ceased to exist as a product of an eventual takeover (including management buyout) or bankruptcy). More details on this are offered in Section 6.2 below. Second, events are broken down by whether target firm resisted by adopting a "poison pill" takeover defense or not. More details on the specific defense measures are described in Section 6.3 below. Results are not clear cut, although it seems market factored in more positive news in cases where firm eventually introduced defense while activist had position.

5.2. Evidence on Long-run Returns

One concern with the results in section 5.1 above is that the positive buy-and-hold abnormal returns may be a short-lived price reaction. To better assess whether there are actual value improvements stemming from activist engagements we examine buy-and-hold returns over the full duration of the activist funds' investments.

Panel A of Table 5 reports statistics on abnormal buy-and-hold abnormal returns (BHAR) for the total duration of the activists' engagements. Buy-and-hold returns are computed beginning in the day of the announced activism through the day in which the funds exit. Exit is defined if the last available position filing is below 6%. If no exit information is available, we assume that the holding lasts until the end of the sample (June 2009). We find that, on average, total deal holding-period raw returns are a negative -2.44%. But since many of the events occurred in a time period when the Japanese stock market fell, we actually find that the buy-and-hold abnormal returns (BHAR), net of Nikkei Sogo Index are on average +4.57% for the activist funds. Given that a large majority of activist engagements span more than one year, the annualized BHAR is only +1.39%. These BHAR figures are economically very small and much lower than results found for hedge fund activism in the U.S. by Brav *et al.* (2008) and other papers. Of course, the activism studied in by Brav *et al.* (2008) occurred in a bull period in the U.S. market.

We conduct a more formal long-term return analysis using calendar time portfolio returns (CTPR). We form portfolios by buying firms that were targeted by activist investors at the time of disclosure by activist investors. This methodology that best approximates the actual returns to activist investors and can also be replicated by "copycat" investors based on the mandatory activist position filings.

First, we form an Equal-Weighted (EW) portfolio that is long in equal amounts on all open positions by activist funds in target stocks at each point in time. We add a new position and rebalance the portfolio whenever there is a new filing disclosing an activist investment exceeding 5% of outstanding shares in a firm. The position is terminated if the activist's position falls below 6% (*i.e.*, if the investor "exited"). The portfolio is formed with equal weights in all event stocks. Panel A of Figure 4 illustrates the daily returns to following this EW strategy for our sample of activism events over the full sample period. To track its performance, we take a normalized index equal to 100 on July 1, 2007 (the first time there were simultaneously 10 open activism engagements) and update it using *CTPR EW index (t) = CTPR EW index (t-1) * (1 + avg(RET(t))* where *avg(RET(t))* = equally-weighted average total return (*i.e.*, including dividends, etc) of all stocks with at least one activist position >0. We can see from the graph that in the years 2004 and 2005 the portfolio of activist stakes yield positive returns and that the portfolio outperformed broad measures of the market (Nikkei Sogo Index and the TOPIX[23]) and even outperformed small cap and small value stocks (Russell Nomura Small Caps and Russell Nomura Small Value). However, after the stock market started to fall after 2006 the gains of the activist EW portfolio were lost. By the end of our sample period (June 2009) the EW portfolio had outperformed the broad market like Nikkei Comprehensive Index and TOPIX but only very marginally the Russell Nomura Small Value for the overall period from July 2001 to June 2009.

Panel B of Figure 4 presents alternatively the performance of the VW (Value-Weighted) portfolio of event firms which is a portfolio that is long on all target stocks with weights in proportion to the yen positions held by each activist fund in each firm. The yen positions are calculated by multiplying *(% held by activist) * (Market Cap of firm)*. We add a position when there is a new filing disclosing that a position exceeds 5% of outstanding shares in a firm. The position is rebalanced any time an institution subsequently revises the disclosure (say to a larger stake like 7%). The position is terminated if it falls below 6% and there is no subsequent filing. We track the VW portfolio performance by the yen position in each stock times the total return of that stock each day. The plot shows a better performance for activist VW portfolio. The VW portfolio strongly outperformed the broad market (Nikkei Sogo Index and TOPIX) as well as indices tracking small caps and small value (Russell Nomura Small and Russell Nomura Small Value) for the overall period from July 2001 to June 2009. Comparing the EW and VW portfolio results, we conclude that the larger sized activist investments (in yen) proved more successful but not all activist investment stakes.

Panel B of Table 5 presents the more formal CTPR regression tests. Instead of daily performance, we compute monthly returns for the EW and VW portfolios and regress these on contemporaneous the market excess return (Market), the size factor (SMB) and

[23] TOPIX is a dividend-reinvested value-weighted index of all stocks traded on the Tokyo Stock Exchange Section One.

the value factor (HML) for the Japanese market.[24] The positive factor loadings on the SMB and HML factors suggest that activist fund strategy load on small and value stocks.

The test of over-performance of activist investors is whether the "alpha" (the regression intercept of portfolio returns on the return factor) is positive. Results in Panel B of Table 5 show that the alpha for EW portfolio is not statistically different from zero. In contrast, the monthly alpha for the VW portfolio is statistically greater than zero at 1.0% per month (about 12.7% in annualized terms). Overall, the evidence from CTPR EW and VW analysis suggests that activist investment gains were concentrated in large stocks and did not extend to all targeted firms (namely the smaller caps).

6. Do Activists Have an Impact on Targeted Firms?

6.1. Detailed Analysis of the Success of Activist Campaigns

As described in Section 3.1, activist investors who engage in the act of making "significant proposals" must explicitly indicate such an intention in the block-shareholding report after January 1, 2007 (Financial Instruments and Exchange Law, Article 27, No. 26). Many of the funds submitted new or revised reports stating such intentions. Although there is also an item in the form where investors can fill out their exact proposals, unfortunately there has not been a report with explicit description of such proposals.[25] We therefore conducted a newspaper and magazine search for publicly released proposals through Nikkei Telecom 21 using target firm name and fund name as keywords.[26] We found articles on 234 significant proposals made to 88 different target firms in the press.

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[24] These factors are computed as in Kubota and Takehara (2007).

[25] This differs from the U.S. 13-D schedule where it is customary that the investors more explicitly state their purpose of transaction in "Item 4." The schedule13-D also has a list of 10 examples of important actions that the investors may take. The Japanese form does not indicate any example of "significant proposals," which are separately itemized in a Cabinet Order into 13 categories.

[26] The universe of newspapers include *Nihon Keizai Shinbun*, *Nikkei Industrial Newspaper*, *Nikkei MJ*, *Nikkei Veritas*, *Nikkei Financial*, *Asahi Shinbun*, *Yomiuri Shinbun*, and *Mainichi Sinbun*. Magazines include *Nikkei Business*, *Weekly Toyo Keizai*, *Weekly Diamond*, and *Weekly Economist (ekonomisuto).*

Panel A of Table 6 summarizes these proposals that the activist funds communicated with the target firms after engaging in activism investment. We group these proposals into four broad categories: (i) general requests; (ii) major reorganizations and operational changes (like M&As, asset sales, MBOs); (iii) capital structure changes (payout policy and capital structure); (iv) governance changes (board, executive compensation, charter provisions, etc). Naturally, the different objectives are not mutually exclusive. Interestingly, the data reveals that the most frequent proposals deal with payout policy (70 proposals for dividend increases and share buybacks) and less frequently with major reorganizations.

We use news searches corporate filings and analyze company financials and determine success on a proposal if the activist fund stated goals were achieved. There is considerable heterogeneity in success rates. Success is highest for proposals dealing with payout policy (43% for dividend increases and 69% for share buybacks) and lowest for major reorganizations (18% for M&As and 0% for asset sales).

Panel B of Table 6, events are broken down by whether the event target firm underwent significant structural changes which is determined *ex post* based on subsequent corporate action event filings (but not known at the announcement date). Data on filings of corporate restructuring are taken from Nikkei Financial Quest and indicate whether the target firm: i) was delisted; ii) was acquired by another firm and consolidated; iii) was divided; or iv) was divided but continued. For the complete sample of 786 targeted firms (targeted in 916 activism events), only 269 were subject to any corporate change either as target or acquirer in M&A or restructuring. Interestingly, only 35 target firms were eventually delisted (meaning the target firm as a legal entity eventually ceased to exist as a product of an eventual takeover or bankruptcy). So about two thirds of the targeted firms never underwent a significant change that would require a filing with the securities regulator. This is different from the hedge fund activism wave in the U.S. (Greenwood and Schor 2009) where most of the returns of activism are driven by the ability of hedge fund activists to force targets into a takeover.

6.2. Target Firm Performance Before and After Investor Activism

We examine more broadly whether there are real effects of activist engagements. In Table 7 we examine the *ex post* performance of all 858 targeted firms versus industry/size/book-to-market matching companies (as described in Tables 2 and 3 and Section 4) in the two years before and the two years after being targeted by activist funds. Event year is the year of first filing of a 5% or greater stake by an activist investor. We report t-statistics for whether the average of each variable is equal for the two years before versus the two years after being targeted by activist funds. We perform the test both for event firms and for matching companies.

In Panel A of Table 7, we test if the activist campaigns influence firm performance by looking at two operational measures (*ROA*, *Growth*) but find that both deteriorate in target firms. However, *ROA* also deteriorates in matched firms whereas sales growth actually improves for matching firms in the sample period. So there is no evidence that activists successfully improve company performance.

We find some support that activists have an impact on financial policies (Panel B of Table 7). Given that activists demand both higher dividends and share repurchases we focus on the total payout measure. Panel B.4 shows that overall payout ratios improve for target firms (but not for matching firms). This supports the general perception that the main strategy employed by activist investors in Japan consists of taking stakes in firms and successfully persuading management to increase payouts.

Finally, we look at governance and ownership changes but results are not different for target and comparable firms in Panel C of Table 7. Both target and matching firms show some effort of making management more incentive-oriented by introducing executive stock option plans. Also both target and matching firms increased the percentage of independent directors, but there is no significant difference between the two groups. On the other hand, significantly more target firms introduced board with "committees,"[27] even thought the percentage itself is still small (at 2.2% two years after firms were targeted). In unreported tests, we also find that the turnover of CEO, which is measured by the change in the first-named representative director (*daihyo torishimariyaku*) does not show any change for target firms over time or difference from matched firms. Overall, the results on the corporate governance measures indicate that in Japan, even though the activist engagements have some impact on target firms, funds themselves are not able to exert strong influence on the management and the CEO. Panel C.4 also shows that both target and matched firms experience an increased percentage of shares held by foreign investors significantly, but the target firms are much more heavily invested by foreigners.

In the final sub-panel we look at the adoption of "poison pills." Panel C.5 shows that while both target and peer firms introduced defense measures, the adoption rate was faster in targeted firms (from 0.1% two years before to 11% two years after activism). We examine this in more detail in the next sub-section.

6.3. Adoption of Poison Pills by Firms in Reaction to Investor Activism

One dimension in which investor activism seems to have had a major effect is in the adoption by Japanese firms of "poison pill" takeover defense measures. We collected data from MARR a magazine published by Recof Data, a division of Recof the leading M&A consulting company in Japan. Inexistent up until 2005, the first case of "poison pill" was adopted by Nireco (March 2005) and then Panasonic (April 2005). Upon Nireco's announcement that it would exercise the plan in June 2005, the SFP Value Realization Master Fund, Ltd., the activist hedge fund, appealed to the Tokyo District Court. In June 2005, both the District Court and the High Court ruled out Nireco's defense plan since it had only been decided by the board meeting without approval of the shareholders' meeting. Another test case for whether exercising "poison pills" can be

[27] Since April 2003, Japanese firms may choose to have a committee (nomination, audit and compensation) system. Independent directors must constitute a majority of each committee. See Appendix A for details.

upheld by courts was the targeting of Bulldog Sauce by Steel Partners, the activist hedge fund, and the Supreme Court decision to uphold it in 2007. These events bear some resemblance to the importance of the 1985 Supreme Court decision in Moran v. Household International, Inc. for the spread of "poison pills" in the U.S. From 2005 to the end of 2009, a total of 604 firms in Japan adopted a takeover defense measure. With close to about 4,000 publicly listed firms, about one-sixth of firms now have a "poison pill" in place.

As described in Arikawa and Mitsusada (2008), there are two types of "poison pills" in Japan. The "prior warning" type is a takeover defense approved in advance which defines a rule that must be followed by a party pursuing a takeover of target firm, and breach of the rule by the acquirers leads to the actual measures, such as the issuance of new stock reservation rights. The second type is a "rights plan" which involves the actual issuance of new stock reservation rights in advance to a trust bank or special purpose corporation, and if the takeover event occurs they will be allocated to the shareholders.

Panel A of Table 8 breaks down by "poison pills" by type. It shows that "Type 1 - Prior-Warning" are by far the most common form and that about of the defense measures were approved in a shareholder meetings ("SH mtg approval"). Defense measures are also broken down by trigger level the acquirer has to reach for defense to be activated. By far, the most common level is when acquirer achieves a 20% stake. As we found in Section 3.3, the activist funds in our sample accumulate ownership stakes in the range of 5 to 10%, so typically falling short of trigger levels of these defense measures.

Panel B of Table 8 analyzes the adoption of takeover defense measures by firms targeted by activist investors. We find that firms targeted by activists were more likely to adopt a "poison pill" measure after being targeted with 170 of the 759 firms introducing them (an adoption rate of 24%). In terms of timing of adoption, most adoptions are in year following the activist target date (year T) and in subsequent years. This time pattern strongly suggest the adoption is a reaction to investor targeting.

7. Conclusions

This paper provides a comprehensive examination of the first decade of investor activism in Japan. We show that there is, on average, a modest positive market reaction to announcements of activist investments. We document that these effects are concentrated in events involving hostile funds. When we examine returns to activism in the long run we find that gains are not significant overall, but concentrated on large target firms. We find that target firms tend to increase their payouts relative to peer firms after being targeted but we fail to find evidence that activists force target firm managers to institute any major operational improvements.

The main contribution of our paper is to document the limited success of investor activism in Japan. Our findings are important to the literature on investor activism that has examined activity only in the U.S. and Europe. Despite the high potential to unlock shareholder value in Japan, activist successes are limited to increases in shareholder payouts but stay short of major reorganizations. This could be explained by a very thin M&A market and "bear" conditions in Japan's stock market after 2007. Indeed we show that very few target firms were subsequently taken over. Additionally, we show that there was an explosion in the number of firms that adopted "poison pill" defense measures. These conclusions are related to the most recent literature on hedge fund activism that documents that returns in the U.S. are limited to the ability of hedge fund activists to force targets into a takeover. Greenwood and Schor (2009) find that activist investors perform poorly in the U.S. when the activity in the market for takeovers declines.

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Table 1
Descriptive Statistics

Panel A: Events by Activist Investors

The sample consists of 916 activism events (where an institution discloses a position of 5% or greater ownership in a firm) over the period from January 1998 to March 2009. A total of 759 unique firms were targeted. This panel breaks down the number of events by each of the 34 activist investors. Investors are grouped in terms of: i) their top management's nationality (Foreign vs. Japanese); ii) the perceived attitude towards management (Hostile vs. Non-Hostile) as reported in press articles; iii) whether the investor filed an indication of possibly making "significant proposals" (which became mandatory after January 2007 – we use the post-2007 behavior by the institution to "fill back" for the earlier period).

	Nationality		Perceived Attitude		Filed a Significant Proposal		Number of Investments by Year												
Investor Name	0=Domestic	1=Foreign	0="Non-hostile"	1="Hostile"	0=No Proposals	1=Proposals	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Arnhold and S Bleichroeder	0	43	43	0	0	43					2	4	10	4	2	12	8	1	43
Asuka Asset Management	0	7	7	0	0	7									2	5			7
Atlantis	0	77	77	0	77	0		1	2	5	11	13	11	14	11	6		3	77
Brandes	0	34	0	34	0	34					5	2	4	5	5	11	2		34
DKR	0	37	37	0	37	0								9	22	4	2		37
Dalton	0	44	0	44	0	44						1	2	7	23	7	4		44
Effissimo	12	0	0	12	0	12										6	6		12
Fugen Capital	1	0	1	0	1	0											1		1
Harbinger Capital	0	3	0	3	0	3										2	1		3
Harris Associates	0	11	0	11	11	0						2		2	2	4	1		11
Henderson	0	2	2	0	2	0										1	1		2
Ichigo	0	15	15	0	0	15										8	7		15
Liberty Square	0	14	0	14	14	0								3		9	1	1	14
Marathon	0	27	27	0	27	0					6	7	4	5		1	3	1	27
Murakami	64	0	0	64	0	64			2	7	7	2	11	17	18				64
NWQ	0	7	0	7	7	0								1	6				7
OCM	0	27	27	0	0	27							7	9	7	3	1		27
Perry Corp	0	1	0	1	0	1										1			1
SK Capital	1	0	1	0	0	1											1		1
Safe Harbor	0	2	2	0	0	2								1	1				2
Sandringham	0	13	0	13	0	13								7	1	1	4		13
Silchester International	0	50	0	50	0	50	1		5	3	8	1		4	2	14	12		50
Simplex	12	0	12	0	0	12									2	6	2	2	12
Southeastern	0	9	0	9	0	9				2	1	1	1	1		3			9
Sparx	245	0	245	0	0	245		2	1	13	8	17	28	53	62	51	9	1	245
Steel Partners	0	41	0	41	0	41					4	7	21	5	2	2			41
TCIF	0	1	0	1	1	0									1				1
TIAA-CREF	0	5	5	0	5	0										5			5
TZCS	10	0	0	10	10	0						1	4	2		3			10
Taiyo	0	19	19	0	0	19							7	4	3	2	3		19
The SFP Value	0	28	0	28	0	28						1	5	10	8	4			28
Third Avenue	0	10	10	0	10	0								1	3	5	1		10
Trade Winds	0	14	0	14	14	0										10	2	2	14
Wellington	0	30	30	0	30	0				2	4	3	4	4	6	3	4		30
Overall Total	345	571	560	356	246	670	1	3	10	32	56	62	119	168	189	189	76	11	916

Table 1 (Cont.)

Panel B: Events by Targeted Firms

This panel presents the number of firms matched to information in the Nikkei non-financial firms dataset. It also breaks down events by the exchange (and section) where the target firm stock is listed at the time of the event and the Nikkei industry group where they operate. TSE = Tokyo Stock Exchange; OSE = Osaka Stock Exchange; NSE = Nagoya Stock Exchange; FSE = Fukuoka Stock Exchange ; SSE Ambitious = Sapporo Stock Exchange "Ambitious" Market; JASDAQ = Japan Association for Securities Dealers Quote System; Hercules = Osaka Stock Exchange Hercules Market. If a stock is dually listed, we report the largest exchange where it is listed.

	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	Total
Nr of Firms Targeted	1	3	10	32	56	62	119	168	189	189	76	11	916
Nr of Firms Targeted Matched to Nikkei	1	3	8	29	56	61	118	159	178	168	68	9	858
Nr of Firms Targeted by Stock Exchange													
TSE 1st section	1		4	13	29	26	59	69	78	93	43	6	421
TSE 2nd section			3	3	10	5	12	13	18	13	6	1	84
TSE Mothers				3		2	2	2	8	8	3		28
OSE 1st section			1		2	2	2	7	8	8	3		33
OSE 2nd section						5	8	8	7	5		2	35
NSE 2nd section							1	3	1	1	1		7
NSE Centrex									4	1			5
Other Regional			2	3		1	2	9	12	22	8	2	61
FSE								2					2
SSE Ambitious										1			1
JASDAQ		3		9	12	21	28	48	43	34	8		206
Hercules Growth					2		1	3	4				10
Hercules Standard				1	1		4	4	6	3	4		23
Nr of Firms Targeted by Nikkei Industry Group													
01_Foods				1	3	1	10	8	8	7	1	1	40
03_Textile Products				1	4		4	2	1	2	2		16
05_Pulp & Paper						1		1		1			3
07_Chemicals				1	1	3	13	12	5	9	3		47
09_Drugs				1	4	3	5	4	4		1		22
11_Petroleum					2								2
13_Rubber Products									1				1
15_Stone, Clay & Glass Products					1				3		1		5
17_Iron & Steel					1		2	2	1	3			9
19_Non ferrous Metal & Metal Products			1	1	2	3	5	2	3	9			26
21_Machinery				1	1	5	14	15	12	12	7	1	68
23_Electric & Electronic Equipment			1	3	4	3	12	16	17	21	7	2	86
25_Shipbuilding & Repairing							1	1					2
27_Motor Vehicles & Auto Parts					2	1	2	3	1	5			14
29_Transportation Equipment					1	1			1				3
31_Precision Equipment						1	1	6	6	2	2		18
33_Other Manufacturing			2	2	1	4	6	11	6	8	4		44
35_Fish & Marine Products							1	1					2
37_Mining									1	2			3
41_Construction				1	2	1	4	4	4	6	8		30
43_Wholesale Trade			1	6	6	6	6	17	24	17	6	1	90
45_RetailTrade		1	2	5	8	7	7	10	19	11	2		72
53_Real Estate			1	1	1	3	1	3	8	5	5		28
55_Railroad Transportation								1					1
57_Trucking					1		1	2		2	2	1	9
59_Sea Transportation							1						1
61_Air Transportation													0
63_Warehousing & Harbor Transportation						3	1	2		5	1	1	13
65_Communication Services					1	3		3	3	2			12
67_Utilities - Electric									1				1
69_Utilities - Gas										1			1
71_Services	1	2		5	10	12	21	33	49	38	16	2	189
	1	3	8	29	56	61	118	159	178	168	68	9	858
Not Matched to Nikkei (Financial firms)			2	3		1	1	9	11	21	8	2	58

Table 1 (Cont.)

Panel C: Capital Committed and Length of Activist Investments

This panel presents the size of activist stakes both in terms of millions of yen (at cost) and as a percentage of the outstanding shares of the target companies. The "initial" rows represent the stakes that activist investors had at their initial EDINET filing. The "maximum" rows reports the maximum reported stakes that the funds accumulated in the targets as revealed by subsequent EDINET filing. We also list statistics for the length of the holding period (in number of calendar and trading days) of the activist positions.

	Mean	Median	Min	Max
Invested Capital (in Yen milions)				
- Initial Position	7,753	2,078	50	240,922
- Maximum Position	13,444	3,378	73	506,022
Percentage Ownership				
- Initial Position	6.82%	5.41%	2.54%	60.45%
- Maximum Position	9.89%	7.40%	2.54%	87.56%
Length of Holding Period				
- Number of calendar days	791	640	1	3,471
- Number of trading days	533	432	1	2,335

Table 2
Characteristics of Target Companies

This tables reports the characteristics of target companies and comparisons with the set of industry/size/book-to-market matched companies for each target. The first four columns report the number, mean, median, and standard deviation of the characteristics for the target companies. Columns 5 through 8 report equivalent statistics for the matched firms. The last column presents the t-statistics for whether average of each variable is equal for target and matched firms. All variables are retrieved from Nikkei Portfolio Master Database for the last fiscal year-end prior to the event year. The sample is limited to non-financial firms. *Size* is Total Value of Assets measured in millions of yen. *MB* is the market-to-book ratio defined as (market value of equity/ book value of equity). *Mktcap* is market capitalization in millions of yen. *Tobin Q* is defined as (book value of debt + market value of equity)/(book value of debt + book value of equity); *Growth* is the growth rate of sales over the previous year; *ROA* is return on assets (net income / total assets); *Past 2-Year Return* is the buy-and-hold return during the 24 months before the announced activism; *Leverage* is the book leverage ratio defined as debt/(debt + book value of equity); *Cash-to-Assets* is defined as (cash + marketable securities)/ total assets; *Dividend Yield* is annual dividend divided by year-end closing price; *Payout* is dividends plus repurchases per year/retained earnings.; *Pct Floating* is the % of outstanding shares that are freely floated in the stock market; *Pct Directors* is the % of outstanding shares that are held by directors; *Pct Foreigners* is the % of outstanding shares that are held by foreign investors; *Stock Options Dummy* is 1 if a firms adopts executive stock options, and 0 if not; *Board Committee Flag* is 1 if company board is based on independent directors and 0 if it is auditor-based; *Pct Outside Directors* is percentage of independent directors divided by total board size; *Poison Pill* is 1 if the firm has an active takeover defense measure and 0 otherwise; *TSE flag* is a dummy variable that equals one if firm stock is listed at the Tokyo Stock Exchange; *Stock Turnover* is share volume (Datastream item VO) divided by adjusted shares outstanding (Datastream items NOSH/AF) during the previous year.

Dependent variable: Dummy of Being Targeted = 1								
	Coefficient	Z	p-value	Marginal Prob.	Coefficient	Z	p-value	Marginal Prob.
Mktcap (log)	0.0007	0.03	0.98	0.02%	-0.0068	-0.24	0.81	-0.17%
Tobin Q	-0.0481	-2.04**	0.04	-1.23%	-0.0660	-2.35**	0.02	-1.65%
Growth	-0.2321	-1.75*	0.08	-5.93%	-0.3025	-1.91*	0.06	-7.55%
ROA	-0.4141	-1.96**	0.05	-10.59%	-0.3519	-1.40	0.16	-8.78%
Past 2-Year Return	0.2334	1.77*	0.08	5.97%	0.2279	1.27	0.20	5.69%
Leverage	-0.8702	-6.41***	0.00	-22.25%	-0.7943	-4.95***	0.00	-19.83%
Cash-to-Assets	0.8008	3.75***	0.00	20.48%	0.7409	2.93***	0.00	18.50%
Payout	-0.0243	-1.00	0.32	-0.62%	-0.0483	-1.67*	0.09	-1.21%
Pct Floating	-0.0023	-0.89	0.37	-0.06%	-0.0060	-1.9*	0.06	-0.15%
Pct Directors	0.0015	0.61	0.54	0.04%	-0.0001	-0.03	0.98	0.00%
Pct Foreigners	0.0252	9.72***	0.00	0.64%	0.0222	7.33***	0.00	0.55%
Stock Options Dummy	0.0814	1.55	0.12	2.10%	0.0272	0.43	0.67	0.68%
Pct Outside Directors					-0.3403	-1.45	0.15	-8.49%
Poison Pill	0.1775	1.33	0.18	4.89%	0.1403	0.89	0.37	3.72%
TSE flag	-0.1050	-2.71***	0.01	-2.69%	-0.1022	-2.24**	0.03	-2.55%
Stock Turnover					0.0712	3.34***	0.00	1.78%
Constant	-0.7029	-2.54***	0.01		-0.5507	-1.63	0.10	
Nr of Observations	3723				2706			
Pseudo R2	8.4%				7.5%			
Percent Targeted	19.2%				18.2%			

Table 3
Probit Analysis: Which Firms Get Targeted?

This tables reports the characteristics of firms associated with probability of being targeted by an activist investor. The dependent variables is equal to one if an activist fund targeted the firm or zero if firm is a industry/size/book-to-market matched company. All explanatory variables are defined in Table 2. The sample is limited to non-financial firms. We report probit coefficients, the Z-statistics, and the marginal probability change induced by a one-standard deviation change in the values of the explanatory variable from their respective sample averages. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels.

	Target Firms (Dummy of Being Targeted = 1)				Matching Firms (Dummy of Being Targeted = 0)				T-Stat
	Number	Mean	Median	Stdev	Number	Mean	Median	Stdev	Mean Diff (1=0)
Size (Assets mln)	856	151,563	39,866	391,174	3,619	153,764	35,123	464,291	-0.125
MB	830	2.023	1.328	2.181	3,537	2.096	1.352	2.312	-0.823
Mktcap	854	113,687	29,795	287,471	3,615	102,729	20,795	357,056	0.839
Tobin Q	854	1.594	1.172	1.473	3,615	1.643	1.141	1.673	-0.793
Growth	777	0.052	0.033	0.200	3,296	0.064	0.039	0.211	-1.561
ROA	851	0.021	0.033	0.140	3,577	0.020	0.025	0.100	0.306
Past 2-Year Return	785	(0.001)	(0.012)	0.192	3,175	(0.013)	(0.019)	0.184	1.623
Leverage	856	0.406	0.387	0.213	3,608	0.493	0.501	0.220	-10.475***
Cash-to-Assets	856	0.196	0.166	0.151	3,608	0.163	0.117	0.154	5.707***
Dividend Yield	842	0.014	0.013	0.010	3,522	0.013	0.012	0.010	2.164**
Payout	851	0.493	0.286	0.930	3,577	0.473	0.270	1.005	0.503
Pct Floating	830	18.320	15.950	11.246	3,491	21.092	19.400	12.045	-5.986***
Pct Directors	854	7.621	0.999	12.263	3,604	6.720	0.575	11.901	1.968**
Pct Foreigners	854	13.185	11.374	11.677	3,604	7.346	2.784	10.612	14.171***
Stock Options Dummy	849	0.465	0.000	0.499	3,588	0.418	0.000	0.493	2.481**
Board Committee Flag	737	0.016	0.000	0.127	3,120	0.021	0.000	0.144	-0.845
Pct Outside Directors	737	0.075	0.000	0.131	3,120	0.081	0.000	0.131	-1.1
Poison Pill	856	0.039	0.000	0.193	3,619	0.023	0.000	0.151	2.477**
TSE flag	856	0.723	1.000	0.682	3,609	0.761	1.000	0.748	-1.373
Stock Turnover	623	1.337	0.420	12.470	2,711	0.781	0.390	1.282	2.273**

Table 4
Short-Run Event Returns

This tables reports the average Buy-and-Hold Abnormal Return (BHAR) in excess of the buy-and-hold return of the Nikkei Sogo Comprehensive Index in the (-5:+5) trading days event window around the filing date in EDINET that an activist investor has a position exceeding 5% of outstanding shares in a target firm. In Panel A, events are broken down by Investor Type: i) the perceived attitude towards management as reported in press articles (hostile vs. non-hostile); ii) whether the investor filed an indication of possibly making "significant proposals" (which became mandatory only after January 2007); iii) whether the investor post-2007 ever filed an indication of making "significant proposals" and use this to "fill back" for the earlier period; iv) the nationality of activist investor (foreign vs. Japan-based); v) for selected top activist funds. Table 1 (Panel A) provides classification of each of the 34 investors in our sample. In Panel B, events are broken down by *ex post* outcome (not known at announcement date): i) whether event stock underwent significant structural changes based on corporate action event filings; ii) whether target firm resisted by adopting a poison pill takeover defense or not. ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels.

	Nr	Average BHAR (-5, +5)	p-value
All Events	864	1.79%***	0.0%
Panel A - By Investor Type			
Based on Press Reports			
- "Hostile"	341	3.83%***	0.0%
- "Non-Hostile"	523	0.46%	28.5%
Type of Filing			
- Events with a "Significant Proposal" filing (only after 2007)	162	2.64%***	0.0%
- All other events	702	1.60%***	0.0%
Using Filing and Looking Back			
- Investors that file "Significant Proposal" after 2007	653	2.32%***	0.0%
- Investors that DO NOT file "Significant Proposal" after 2007	211	0.16%	86.7%
Nationaility of Investor			
- Foreign Activist fund	538	1.51%***	0.1%
- Domestic Activist fund	145	2.39%***	0.5%
Top Activist Funds			
- Steel Partners (foreign, hostile)	41	7.90%***	0.0%
- Murakami (domestic, hostile)	60	6.52%***	0.0%
- Taiyo (foreign, non-hostile)	19	3.67%**	3.7%
- Sparx (domestic, non-hostile)	232	0.88%	13.3%
Panel B - By Outcome (Ex-Post):			
Structural Changes (Based on Corporate Action Events)			
- Target Firm had no subsequent corporate events	645	1.75%***	0.0%
- Target firm was delisted	43	2.28%	10.6%
- Target firm had other corporate events	183	1.88%***	0.3%
Poison Pill Adoption by Target Firm			
- Firms that never adopted defense	671	1.80%***	0.0%
- Firms that introduced defense while activist had position	89	3.28%***	0.0%
- Firms had defense before activist inititated position	42	1.49%	43.7%
- Firms had defense only after activist terminated position	62	-0.23%	81.7%

Table 5
Long-Run Event Returns

This table reports statistics on long-term abnormal returns associated with hedge fund activism. Panel A reports the abnormal buy-and-hold abnormal returns (BHAR). It reports the average, median, minimum and maximum raw and annualized deal holding-period returns for the activist funds. Buy-and-hold returns are computed beginning in the day of the announced activism through the day in which the funds exit. Exit is defined as the first EDINET filing below 6%. If no exit information is available, we assume that the holding lasts till the end of the sample (June 2009). Panel B reports the Calendar Time Portfolio returns (CTPR). These regression estimates and t-statistics from equal- and value-weighted calendar-time portfolio regressions. "Alpha" is the estimate of the regression intercept from the factor models. "Beta" are the factor loading on: the market excess return - Beta (Market), the Size factor - Beta (SMB) and the Value factor Beta (HML). The monthly factor returns for Japan are obtained from Nikkei, which are based on Kubota and Takehara (2007). ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels.

Panel A: Buy-and-Hold Abnormal Returns (BHAR)

	Nr	BHR raw returns	BHAR net of Nikkei	BHR raw returns (annualized)	BHAR net of Nikkei (annualized)
All Deals	908	-2.44%	4.57%	-3.80%	1.39%
By Investor Type (based on press reports)					
- "Hostile"	354	3.98%	13.48%	-1.44%	6.58%
- "Non-Hostile"	554	-6.53%	-1.14%	-5.30%	-1.93%

Panel B: Calendar Time Portfolio Returns (CTPR)

Equally-Weighted Portfolio (EW) monthly returns

All Deals	coefficient	t-statistic
Alpha	0.002	1.01
Beta (Market)	1.042	22.60***
Beta (SMB)	0.913	10.53***
Beta (HML)	0.379	4.05***
Adjusted R-squared	86%	
Nr of observations	96	

Value-Weighted Portfolio (VW) monthly returns

All Deals	coefficient	t-statistic
Alpha	0.010	4.84***
Beta (Market)	0.801	20.33***
Beta (SMB)	0.177	2.39**
Beta (HML)	0.160	2.01**
Adjusted R-squared	82%	
Avg Nr of event firms in portfolio	96	

Table 6
Outcomes of Activism

Panel A reports outcomes of "significant proposals" as determined by searches in newspapers and magazines. Success is determined by whether the activist funds' proposed goal was achieved. The sample is restricted to a set of 234 proposals made by 88 firms, found in the news search. In Panel B, events are broken down by whether the event target firm underwent significant structural changes which is determined *ex post* based on subsequent corporate action event filings on the target firm (but not known at the announcement date). Data on filings of corporate restructuring are taken from Nikkei Financial Quest.
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Panel A - Significant Proposals	Number of Proposals	Number of Successes	% Success
General Requests			
Firm Should Pursue Strategic Alternatives	22	5	23%
Improvement of Valuation	11	2	18%
Improvement of Information Disclosure	5	1	20%
Major Reorganizations and Operational Changes			
Merger, Acquisition or Alliance	17	3	18%
Asset Sale	11	0	0%
Going Private(MBO, MBEO)	10	1	10%
Target to Do Take-Over-Bid (TOB)	7	1	14%
Dissenting to a Merger	3	0	0%
Dissenting to Target's TOB	1	0	0%
Capital Structure			
Dividend Increase	35	15	43%
Stock Repurchase	35	24	69%
Changing Capital Structure (incl. canceling cross shareholdings)	13	6	46%
Firm Should Buyback Fund's Stock (greenmail)	4	1	25%
Governance			
Changing Outside Directors' Composition	12	6	50%
Introduction of Executive Stock Options	12	7	58%
Other Proxy Fights	8	2	25%
Replacing the CEO	8	1	13%
Dissenting to the Adoption of Takeover Defense Measures	5	1	20%
Changing the Charter	2	1	50%
Dissenting to Changing Charter	2	0	0%
Others	11	4	36%
Total Number of Proposals	234	81	35%
Total Number of Firms	88	54	61%

Panel B - Structural Changes		
Structural Changes (Based on Corporate Action Events)		
Target firm was delisted	35	4%
Target firm aquired by another firm and consolidated	149	19%
Target firm was divided	72	9%
Target firm was divided but continued	13	2%
Total Number of Corporate Action Events	269	34%
Total Number of Firms Targeted	786	

Table 7
Target Firm Performance Before and After Activism

This table reports statistics of target company performance versus a industry/size/book-to-market matched companies in the two years before and the two years after being targeted by activist funds. Event Year is the time of first filing of a 5% or greater stake by an activist investor. All variables are defined in Table 2. We report t-statistics for whether average of each variable is equal for target and matched firms for each year. Also we report t-statistics for whether average of each variable is equal for the two years before versus the two years after being targeted by activist funds. The sample is limited to non-financial firms (as in Tables 2 and 3). ***, ** and * indicate statistical significance at the 1%, 5% and 10% levels.

Panel A: Changes in Operational Performance

A.1 - Return on Assets (ROA)

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	721	0.019	3086	0.010	1.09
Year - 1	779	0.024	3330	0.018	1.28
Event Year	853	0.021	3587	0.020	0.31
Year + 1	834	0.009	3507	0.009	0.04
Year + 2	744	-0.014	3098	-0.001	-1.27
T-test (y+2) = (y-2)		-2.59***		-2.16**	

A.2 - Sales Growth (Growth)

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	678	0.048	2780	0.034	1.77*
Year - 1	719	0.063	3080	0.052	1.25
Event Year	779	0.052	3306	0.065	-1.56
Year + 1	821	0.046	3460	0.061	-1.63
Year + 2	738	0.043	3080	0.049	-0.72
T-test (y+2) = (y-2)		-0.93		3.35***	

Panel B: Financial and Payout Policy

B.1 - Leverage

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	729	0.418	3108	0.511	-9.25***
Year - 1	783	0.410	3361	0.498	-10.23***
Event Year	858	0.406	3618	0.493	-10.47***
Year + 1	840	0.403	3522	0.488	-9.91***
Year + 2	749	0.399	3108	0.483	-9.22***
T-test (y+2) = (y-2)		-5.18***		-6.09***	

B.2 - Cash to Assets

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	729	0.204	3108	0.162	6.92***
Year - 1	783	0.199	3361	0.164	5.94***
Event Year	858	0.196	3618	0.163	5.71***
Year + 1	840	0.180	3522	0.153	4.84***
Year + 2	749	0.170	3108	0.147	4.01***
T-test (y+2) = (y-2)		-10.08***		-13.28***	

B.3 - Dividend Yield

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	714	0.014	3041	0.014	0.87
Year - 1	775	0.013	3292	0.013	0.27
Event Year	844	0.014	3530	0.013	2.16**
Year + 1	819	0.015	3406	0.014	1.49
Year + 2	709	0.018	2958	0.016	2.36**
T-test (y+2) = (y-2)		4.92***		7.89***	

B.4 - Payout

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	721	0.424	3084	0.441	-0.5
Year - 1	779	0.477	3330	0.473	0.11
Event Year	853	0.492	3587	0.473	0.5
Year + 1	833	0.560	3507	0.473	2.21**
Year + 2	744	0.709	3097	0.582	1.98**
T-test (y+2) = (y-2)		3.83***		3.56***	

Panel C: Governance and Ownership

C.1 - Use of Executive Stock Options Plans

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	678	0.401	2899	0.357	2.15**
Year - 1	769	0.432	3296	0.393	1.96**
Event Year	851	0.465	3598	0.419	2.48**
Year + 1	838	0.473	3508	0.425	2.48**
Year + 2	747	0.481	3102	0.429	2.55**
T-test (y+2) = (y-2)		3.40***		6.66***	

C.2 - Board Independence (% Outsiders)

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	459	0.052	1976	0.068	-2.59***
Year - 1	610	0.057	2655	0.072	-2.66***
Event Year	739	0.075	3128	0.081	-1.1
Year + 1	752	0.088	3186	0.090	-0.36
Year + 2	697	0.094	2942	0.093	0.15
T-test (y+2) = (y-2)		8.46***		11.89***	

C.3 - Adoption of "Committee" Board

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	459	0.009	1976	0.022	-1.88*
Year - 1	610	0.011	2655	0.021	-1.51
Event Year	739	0.016	3128	0.021	-0.85
Year + 1	752	0.019	3186	0.024	-0.82
Year + 2	697	0.022	2942	0.021	0.07
T-test (y+2) = (y-2)		2.25**		1.51	

C.4 - Percentage Held by Foreigners

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	729	10.687	3106	6.284	10.54***
Year - 1	783	11.921	3355	6.906	11.93***
Event Year	856	13.162	3614	7.337	14.17***
Year + 1	840	15.207	3522	7.694	17.84***
Year + 2	749	14.716	3108	7.767	15.52***
T-test (y+2) = (y-2)		15.80***		20.13***	

C.5 - Poison Pill Adoption

	Target Firms Nr	Target Firms Mean	Matching Firms Nr	Matching Firms Mean	T-Test diff
Year - 2	729	0.001	3109	0.002	-0.15
Year - 1	783	0.014	3365	0.009	1.40
Event Year	858	0.038	3629	0.023	2.48**
Year + 1	840	0.080	3525	0.055	2.68***
Year + 2	749	0.111	3108	0.077	3.05***
T-test (y+2) = (y-2)		9.64***		15.72***	

Table 8: Adoption of "Poison Pills" as a Reaction to Investor Activism

This table describes the adoption by Japanese firms of "poison pill" takeover defense measures. The data source is *MARR/*Recof. Panel A describe the adoption of defense measures by all firms in Japan per year. Defense measures are broken down by type: i) a "prior-warning" that firm will issue new stock reservation rights if acquirer breaches a rule; ii) "trust-type rights plan" which involves the actual issuance of new stock reservation rights in advance to a trust bank. Defense measures are also broken down by trigger level the acquirer has to reach for defense to be activated. Panel B analyses Panel A the timing of the adoption of takeover defense measures by firms targeted by activist investors.

Panel A - Adoption of "Poison Pills" by ALL Firms

			≤ 2004	2005	2006	2007	2008	2009	Total
- By Type:	. Type 1 = Prior-Warning	. BOD meeting decision		18	71	26		1	116
		. SH mtg approval		2	61	155	77	9	304
		. SH mtg approval with changing charter			13	56	96	8	173
	. Type 2 = Trust-Type Rights Plan	. BOD meeting decision							0
		. SH mtg approval		5	5				10
		. SH mtg approval with changing charter				1			1
			0	25	150	238	173	18	604
- By Trigger Level:		. 15%			8	5			13
		. 20%		24	139	227	171	17	578
		. 25%		1	2	5		1	9
		. 30%			1	1	2		4
			0	25	150	238	173	18	604

Panel B - Adoption of "Poison Pills" by Firms TARGETED by Activist Investors

- in Calendar Time (keep only first time firm was targeted)	≤ 2004	2005	2006	2007	2008	2009	Total
Number of targeted firms (no repetitions)	259	146	161	132	55	6	759
Number of targeted firms that adopted "poison pills"	0	14	55	61	34	6	170

-in Event Time (T = Year Firm was first)	T-3	T-2	T-1	T	T+1	T+2	T+3	T+4 or more	Total
Number of targeted firms that adopted "poison pills"	3	12	25	36	24	30	18	22	170

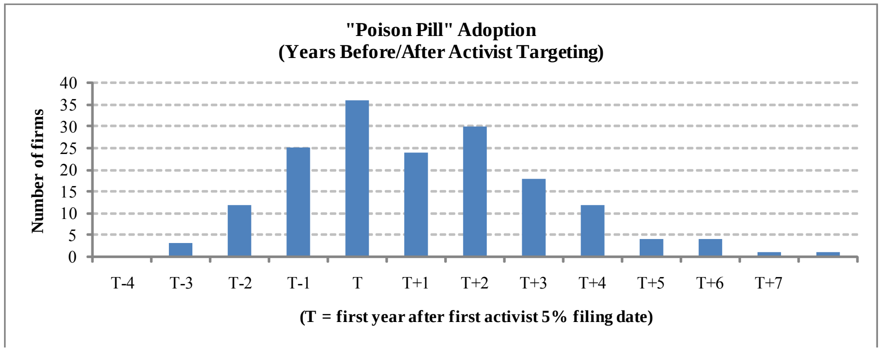


Figure 1: Evolution of Ownership in Japan

This figure describes the evolution of ownership of stocks listed in the Tokyo Stock Exchange in the period from 1986 to 2008. Investor categories (from bottom to top in the graph) are: Banks (City and Regional), Trust Banks, Pension and Mutual Funds, Life Insurance, Casualty Insurance, Other Financial Institutions, Securities Houses, Corporations, Foreigners and Individuals and others. The data source is the Tokyo Stock Exchange.

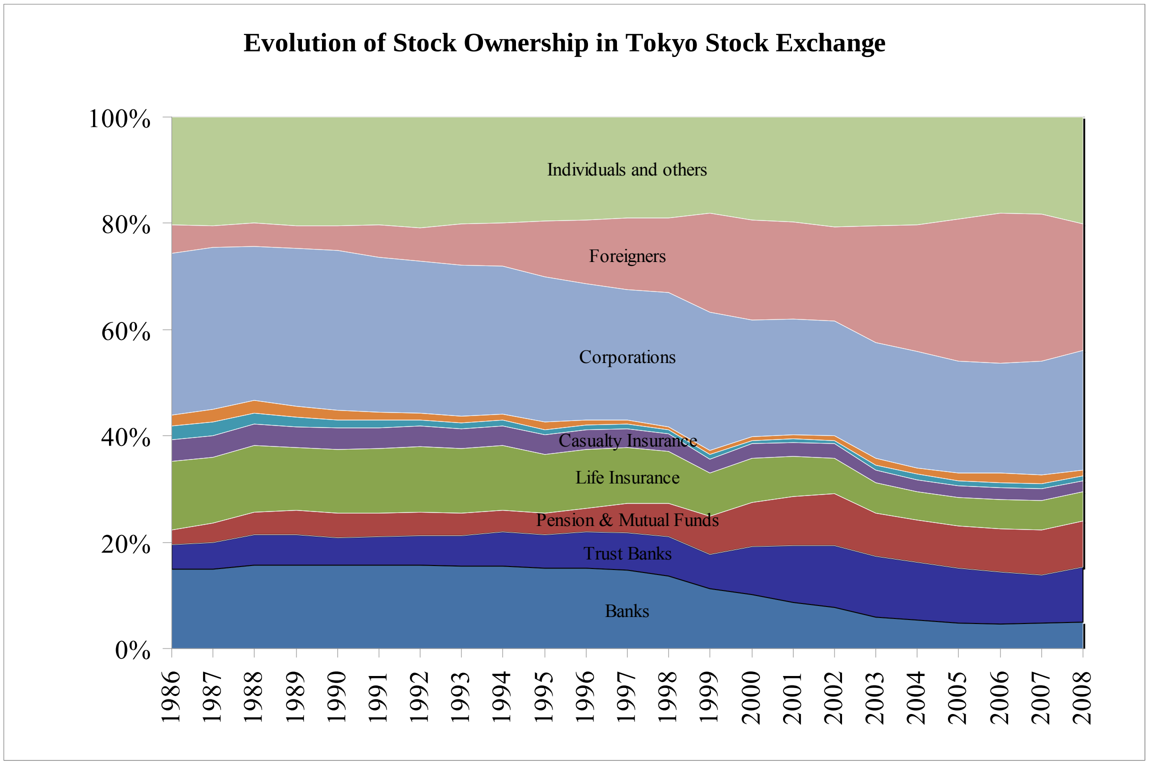


Figure 2: Timing and Duration of Activist Investments

This figure reports the timing and duration of the 916 portfolio investments by "activist" investors in our sample.

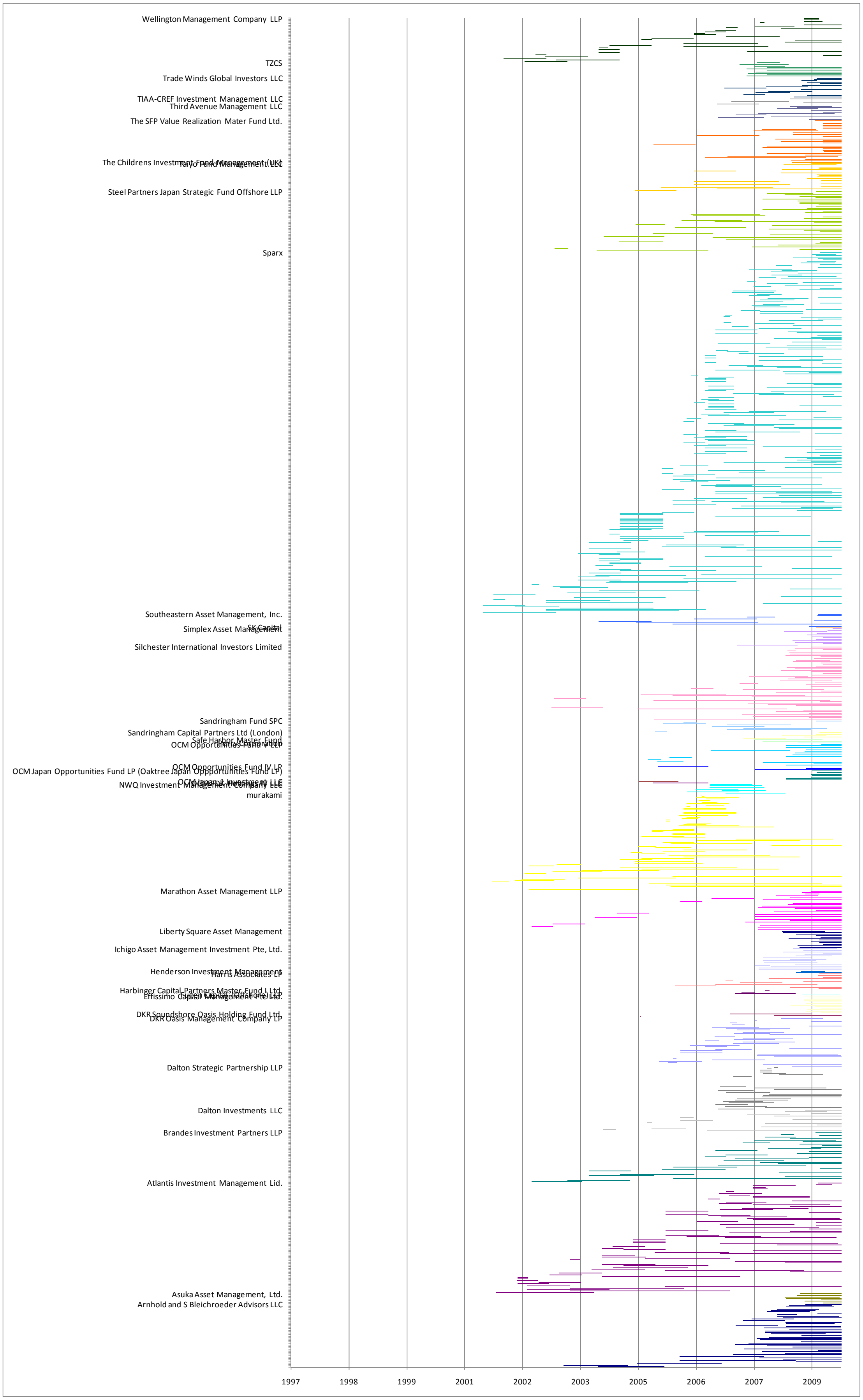


Figure 3: Buy-and-Hold Returns Around the Filing of a 5% or Greater Holding

The line (in blue) presents the Average Buy-and-Hold return (BHAR) for each trading day around the disclosure filing. Time 0 in this graph corresponds to the filing date that an activist investor has a position exceeding 5% of outstanding shares in a firm. The line plots the average buy-and-hold return in excess of the buy-and-hold return of the Nikkei Sogo (Comprehensive) Index. The bars (in red) represent the average abnormal turnover in the event stocks. This is calculated by average daily stock trading volume divided by average in the preceding (-100, -40) trading days.

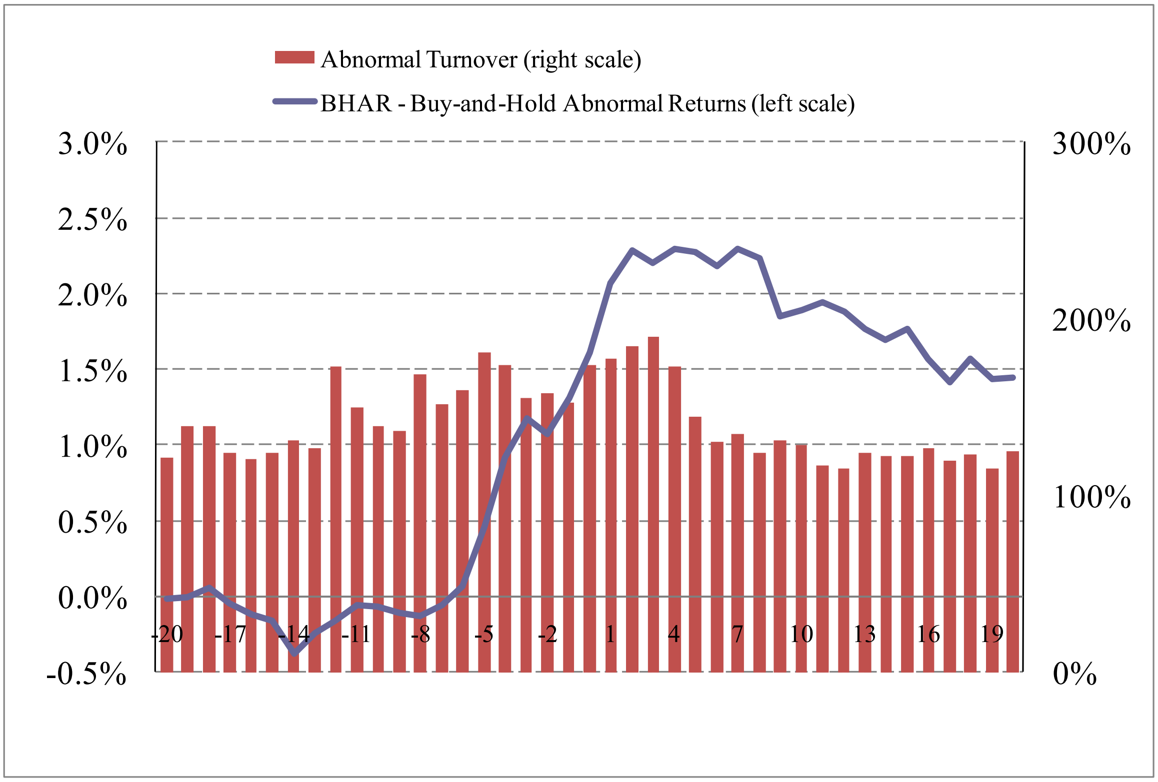


Figure 4: Long-Run Returns – Calendar Time Portfolios

Panel A presents the EW (Equal-Weighted) portfolio of event firms which is a portfolio formed by being long in equal amount on all open positions by all activist funds in targeted stocks in our sample. Each day, we add a position when there is a filing disclosing in EDINET that a position exceeds 5% of outstanding shares in firm. The position is terminated if it falls below 6%. The portfolio is formed by equal weights in all event stocks. To track EW portfolio performance, we take normalized index = 100 on July 1, 2007 (the first time there were simultaneously 10 activism engagements) and update it using *CTPR EW index (t) = index(t-1) * (1 + avg(RET(t))* where avg(RET(t)) = equally-weighted average of firms with at least one activist position >0. Panel B presents the VW (Value-Weighted) portfolio of event firms which is a portfolio that is long on all targeted stocks with weights in proportion to yen position by activist funds in each firm. The yen positions are calculated by multiplying *(% held by activist) * (Market Cap of firm)*. We add a position when there is a filing disclosing in EDINET that a position exceeds 5% of outstanding shares in firm. The position is rebalanced up or down any time the institution subsequently revises the disclosed level of ownership. The position is terminated if it falls below 6%. We track the VW portfolio performance by the yen position in each stock times the total return of that stock each day. The plot also contains contemporaneous performance of Nikkei Sogo (Comprehensive) Index (in red), TOPIX (in orange), Russell Nomura Small Caps (dark green) and Russell Nomura Small Value (bright green). Shaded area represents the number of target events in the portfolio.

Panel A - EW (Equal - Weighted) Portfolio of Activist Event Firms

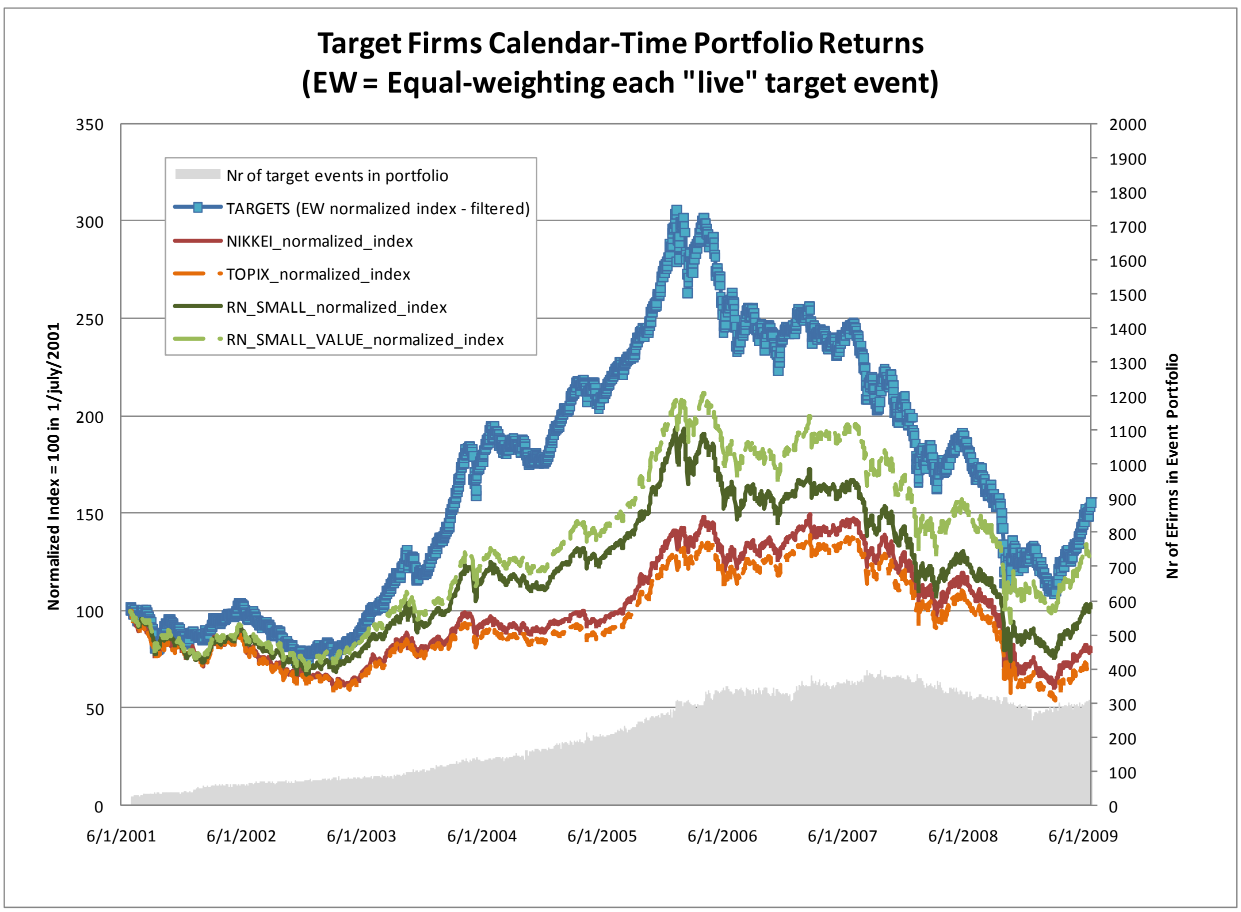
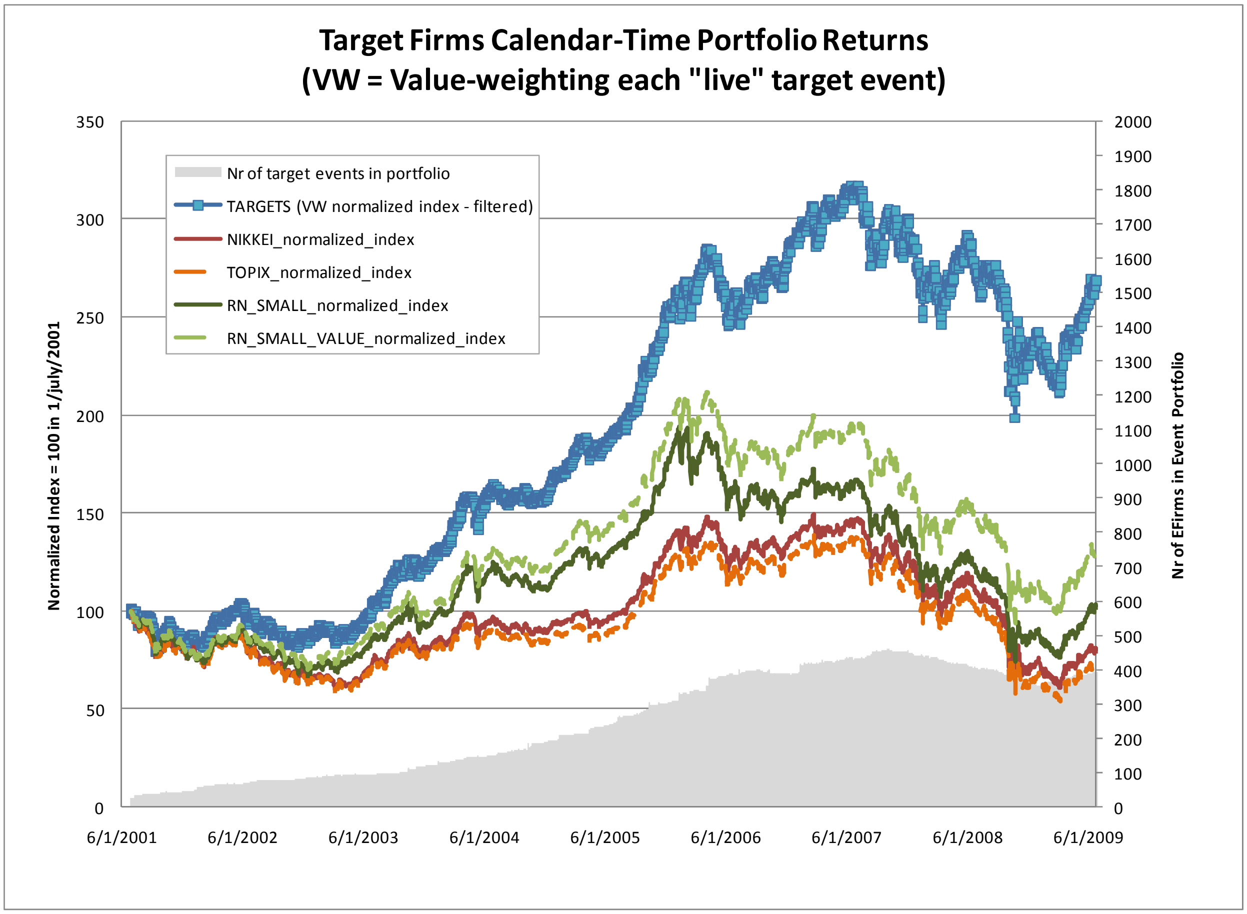


Figure 4: (Cont.)

Panel B - VW (Value-Weighted) Portfolio of Activist Event Firms



Appendix A
Comparison of Main Features of U.S. vs. Japan Corporate Governance

This table is based on Greenwood *et al*. (2009) and revised by the authors.

Principle	U.S.	Japan
Ownership Structure	• Typical corporation is widely held. Largest shareholders are often large institutional investors.	• Ownership is historically more concentrated, with banks collectively owning large proportion. • Historically, cross-ownership was used as an anti-takeover defense. • Cross-shareholding patterns fell during 1990s and 2000s along with economic and banking crises. • Foreign institution significantly increased ownership in 1990s and 2000s.
Bank Involvement	• Limited/None. Banks rarely hold equity positions in companies in their loan portfolio.	• Banks were principal source of funding for many public companies before 1990. • Historically, banks involved in most major corporate decisions.
Board Members	• NYSE and NASDAQ listing rules require the listed company have a majority of independent directors. • Exemptions are available if a listed company is a controlled company, provided that public disclosure is made. This exemption does not apply to audit committees.	• Only companies with a committee system (introduced in April 2003) must have independent directors (*shagai torishimariyaku*) who constitute a majority of each of the nomination, audit and compensation committees. • The other type of companies must have more than 3 auditors, of which a majority should be independent. Recently, companies of this type are also appointing independent directors.
Fiduciary Duties	• Duty of care: Duty to act on an informed Basis. • Duty of loyalty: Duty to act in good faith with honest faith that actions are in the best interests of the company's shareholders. • Business judgment rule: Rubuttable presumption that directors acted in accordance with their duties unless director's action is proved to lack rational purpose or constitute waste.	• *Zenkan chuui gimu*: Directors must manage the company's affairs with due care and diligence of a good director. • *Chuujitsu gimu*: Directors must obey all laws and ordinances and the company's organizational documents and resolutions and must act in good faith on behalf of the company.
Minority Squeeze Outs	• Squeezing out the minority is a related party transaction that can require a high level of legal scrutiny. • Controlling shareholder has to prove that the squeeze-out is entirely fair to all shareholders.	• No duties of controlling shareholders. • Appraisal rights generally available to dissenting shareholders.
Related Party Transactions	• All transactions subject to court scrutiny. • Controlling shareholder must prove fairness of self dealing transactions.	• Related party transactions are subject to the approval by shareholders meeting or the board. • Related party transactions must be disclosed and are subject to audit.
Poison Pills and Other Shareholder Rights Plans	• "poison pills" broadly describes takeover defenses that involve the target taking some action that harms both target and bidder. • Invented during the early 1980's as a response to tender-based hostile takeovers. • Upheld as a valid instrument of Delaware corporate law in 1985 decision. • Still used repeatedly in the U.S., although shareholders typically vote against new adoption of these plans.	• Court decisions in 2006 and 2007 (most notably, a case involving Steel Partners and Bulldog Sauce) paved the way to many companies adopting "poison pill" defense measures. • By 2009, over 600 of listed companies have adopted "poison pill" plans. • Ministry of Economy, Trade and Industry and Ministry of Justice together prepared guideline for shareholder rights plans (May 27, 2005).

Appendix B: Comparison of the U.S. and Japanese Legal Environment for Shareholder Activism

The information on the U.S. is taken from Becht *et al.* (2009).

	U.S.	Japan
Shareholder powers		
Ordinary general meetings	Under Delaware Corporate Law, Subchapter VII, (2) (b) annual meetings deal with the election of directors and are called as set out in the bylaws.	Under Article 105 of the Companies Act, a shareholder possesses the right to cast a vote at shareholders meetings. Election and dismissal of officers are voted in shareholders meetings.
Special general meetings	Special meetings can be called under Delaware Corporation Law, Subchapter VII, (2) (d), but shareholders cannot call these meetings, unless the certificate of incorporation or the bylaws state otherwise. Thus, company's bylaws can deprive the shareholder of the right to call special meetings.	Article 296 (2) of the Companies Act: Special meetings can be called whenever necessary. Article 297: Shareholders having consecutively for the preceding 6 months or more not less than 3% of the votes of all shareholders may demand the directors, by showing the matters which shall be the purpose of the shareholders meeting (limited to the matters on which such shareholders may exercise their votes) and the reason of the calling, that they call the shareholders meeting.
Shareholder proposals	Shareholders can ask the company to add proposals to the company proxy under SEC Rule 14a-8, but this excludes all issues relating to elections; in general, proposals receiving a majority of votes under this rule are not binding on the board; the cost is borne by the company. Shareholder proposals—also on board appointments—can be made under SEC Regulation 14A via a full proxy solicitation; the cost of the solicitation is borne by the shareholder.	Article 303 (1) of the Companies Act: At a Company with Board of Directors, only shareholders having consecutively for the preceding 6 months or more not less than 1% of the votes of all shareholders or not less than 300 votes of all shareholders may demand the directors that the directors include certain matters in the purpose of the shareholders meeting. In such cases, that demand shall be submitted no later than 8 weeks prior to the day of the shareholders meeting.
Appointment/removal of directors		
Through board election	The voting rules set out in state law apply; in practice, these are determined by the bylaws; under Delaware Law, by default plurality voting applies; this means that the votes in favor are counted for each candidate; the candidates who receive most votes (not necessarily a majority of the votes attending) win; in a hostile vote, if there are say six candidates for three board positions to be filled, the candidates with the three highest vote counts win.	Article 341 of the Companies Act: Resolutions for the election or dismissal of officers shall be made by the majority (in cases where a higher proportion is provided for in the articles of incorporation, such proportion or more) of the votes of the shareholders present at the meeting where the shareholders holding the majority of the votes (in cases where a proportion of one third or more is provided for in the articles of incorporation, such proportion or more) of the shareholders entitled to exercise their votes are present.
By other means	Under Delaware Corporation Law, Subchapter VII, (2) (b) shareholders can appoint directors (remove the board) by written consent, but this decision must be unanimous (a director holding one share could refuse to sign) and the bylaws can state otherwise.	Shareholders having consecutively for the preceding 6 months or more not less than 3% of the votes may sue the firm and the officers.
Tenure	Under Delaware Law, it is possible to stagger the terms of directors, ensuring that only one-third come up for election each year.	Article 332 (1) of the Companies Act: Directors' terms of office shall continue until the conclusion of the annual shareholders meeting for the last business year which ends within 2 years from the time of their election; provided, however, that this shall not preclude the shortening the term of the directors by the articles of incorporation or by the resolution of the shareholders meeting. For the purpose of the application of the provisions under paragraph (1) to the directors of a Company with Committees, "2 years" in that paragraph shall be read as "1 year."
Restrictions on voting concentration	Under Delaware Law, it is possible to issue shareholder rights plans ("poison pills") that limit the ability of shareholders to concentrate voting power beyond certain thresholds, typically 10–15%; there is no mandatory bid requirement.	Poison pills can be implemented by rights offerings. Article 127-2-2 of the Ordinance for Enforcement of the Companies Act requires issuers to disclose such intension in their Business Report ("pre-warning" type of takeover defense measure).

Appendix C
Comparison of Disclosure Rules regarding Large Block Holding: U.S. and Japan

The information on the U.S. is based on Block and Hoff (1998) and Securities and Exchange Commission (1998).

	U.S.		Japan			
	Schedule 13D	Schedule 13G	Standard Reporting		Special Provision	
			Until December 31, 2006	From January 1, 2007	Until December 31, 2006	From January 1, 2007
Related Law	Section 13(d) of the Securities and Exchange Act of 1934	Section 13(g) of the Securities and Exchange Act of 1934	Article 27 of the Securities and Exchange Act	Article 27 of the Financial Instruments and Exchange Act of 2007	Article 27 of the Securities and Exchange Act	Article 27 of the Financial Instruments and Exchange Act of 2007
Person required to file	Any person acquiring beneficial ownership of more than 5% of a class of voting securities.	Qualified Institutional Investors: Institutional investor that qualifies to submit Schedule 13D, but no purpose of changing or influencing the control of the issuer. Passive Investors: Any person acquiring more than 5% but less than 20% of an equity security and has not acquired the securities with any purpose of changing or influencing the control of the issuer	A holder of the Target Securities whose holding exceeds 5% (a "Large Volume Holder"). The holders shall include the following persons, in addition to a person who owns Share Certificates in the name of him/herself or another person (or under a fictitious name): (i) A person who has the authority to exercise his/her voting rights or any other rights as a shareholder of the issuer of the Share Certificates or to give instructions as to the exercise of said voting rights or any other rights, based on a money trust contract or any other contract or the provisions of laws, and who aims at controlling business activities of said issuer; or (ii) A person who has the authority necessary to make investments in Share Certificates based on a discretionary investment contract or any other contracts or the provisions of the laws.			
Initial Filing Deadlines	Within 10 days after the acquisition.	Qualified Institutional Investors: Within 45 days after calendar year in which the person holds more than 5% as of the year end, or within 10 days after the end of the first month in which the person's beneficial ownership exceeds 10% of the class of equity securities computed as of the end of the month. Passive Investors: Within 10 days after the acquisition.	Within 5 days from the date on which such person has come to be a Large Volume Holder (Sundays and other holidays specified by a Cabinet Order shall not be included for the purpose of counting days).	(Same as before) In addition, when a Large Volume Holder intends to conduct an Act of Making Important Suggestion, etc. within a period specified by a Cabinet Order from the date when the Holding Ratio of Share Certificates have exceeded 5%, such person shall submit to the Prime Minister a Report of Possession of Large Volume by 5 days prior.	15th day of the subsequent month. if for any purpose other than that of controlling the business activities of the company that issues the Share Certificates have exceeded 5% for the first time	Within 5 days from the Reference Date if the purpose of holding is not for effecting material changes in or giving material effect to the business activities of the issuer of said Share Certificates have exceeded 5% for the first time.
Amendment Filing Deadlines	File promptly to reflect any material change including a change in investment purpose. An acquisition or disposition of beneficial ownership of securities equal to 1% or more of the class is deemed to be a material change.	Qualified Institutional Investors: Within 45 days after the end of the calendar year to report any change in the information, within 10 days after the end of the first month in which the person's beneficial ownership exceeds 10% of the class computed as of the end of the month, and thereafter	If the Holding Ratio of Share Certificates has increased or decreased by 1% or more, or where there arises any other changes in important matters to be contained in the Report of Possession of Large Volume, the Large Volume Holder shall submit to the Prime Minister a report on the changed matters within 5 days from the change provided, however, that this shall not apply to a Change Report that reports a decrease of 1% or more in the Holding Ratio of Share Certificates in which case a Change Report reporting that the Holding Ratio of Share Certificates are 5% or less has already been submitted.		When the Holding Ratio of Share Certificates on a Reference Date (final day of every 3-month period) that comes after the Reference Date pertaining to the Report of Possession of Large Volume increased or decreased by 1% or more from the Holding Ratio of	When the Holding Ratio of Share Certificates on a Reference Date (two or more days in each month) that comes after the Reference Date pertaining to the Report of Possession of Large Volume increased or decreased by 1% or more from the Holding Ratio of Share Certificates that

		within 10 days of the end of any month in which the person's beneficial ownership increases or decreases more than 5% computed as of the end of the month. Passive Investors: Within 45 days after the end of the calendar year. In addition, an amendment must be filed promptly if ownership exceeds 10% of the class and thereafter if ownership increasing or decreasing more than 5%.			Share Certificates that were stated in the Report of Possession of Large Volume, or where there arises any other case specified by a Cabinet Order as a change in important matters to be stated in said Report of Possession of Large Volume: 15th day of the month subsequent to the month of the Reference Date.	were stated in the Report of Possession of Large Volume, or where there arises any other case specified by a Cabinet Order as a change in important matters to be stated in said Report of Possession of Large Volume: within 5 days from the later Reference Date.
Filing an initial Schedule 13D following previous filing on Schedule 13G. (Switching from passive to active.)	Qualified Institutional Investors: Within 10 days after the person determines that it no longer holds the securities (i) in the ordinary course of business or (ii) without the purpose or effect of changing control of the issuer or ceases to be an eligible institution. Passive Investors: Within 10 days of: (i) acquiring or holding the securities with the purpose or effect of changing or influencing control of the issuer or in a transaction having that effect, or (ii) the person's beneficial ownership equals or exceeds 20% of the class of equity securities.	The filing person may re-file on Schedule 13G once the disqualification has ended.	(Not specified.)	When the Holding Ratio of Share Certificates has increased by 1% or more after the submission of the Report of Possession of Large Volume, or the Change Report and when the shareholder intends to conduct an Act of Making Important Suggestions, etc. from the date of said increase, the shareholder shall submit to the Prime Minister a Change Report by 5 days prior to the date of such Act of Making Important Suggestions, etc.		
Submission	To the Securities and Exchange Commission.		To the Prime Minister (Ministry of Finance - Financial Services Agency), copy to the stock exchange where the target firm is listed.	To the Prime Minister (Financial Services Agency), copy to the stock exchange where the target firm is listed.	(Same.)	(Same.)
Public Inspection	Available on EDGAR (Electronic Data Gathering, Analysis, and Retrieval) system		The Prime Minister and the stock exchange shall, pursuant to the provisions of a Cabinet Office Ordinance, make Reports of Possession of Large Volume and Change Reports as well as Change Reports thereof available for public inspection for five years from the date of receipt of these documents.			
Electronic Disclosure by Investors	EDGAR system (mandatory).		Voluntary.	Mandated from April 1, 2007 on EDINET.	Voluntary.	Mandated from April 1, 2007 on EDINET.

Appendix D
Selected Cases of Activism by Top Funds

		Murakami (domestic, hostile)			Sparx (domestic, non-hostile)			Steel Partners (foreign, hostile)			Taiyo (foreign, non-hostile)		
	Target Firm:	Tokyo Style	Kadokawa Group Holdings	Nippon Broad. System	Misumi Group	Zenrin Co	Tokyu Livable	Yushiro Chemical	Myojo Foods	Brother Industries	OILES Corporation	Tsubakimoto Chain Co.	Lintec Corporation
Position:	First >5% Filing Day	4-Jul-01	15-Jan-02	15-Jul-03	13-Oct-05	13-Oct-05	13-Jan-06	29-Nov-02	20-Nov-03	27-Jan-06	9-Jul-04	7-Oct-05	22-Mar-07
	First position	5.77%	9.24%	7.37%	5.15%	5.11%	5.16%	5.10%	10.31%	6.05%	5.11%	7.40%	5.10%
	Last Filing Day (< 6%)	13-Jan-06	15-Oct-04	18-Feb-05	13-Oct-06	13-Oct-06	6-Nov-07	7-Jan-09	21-Dec-06	7-Jan-09	13-Jul-06	12-Mar-09	15-Aug-08
	No. of Days Invested	1654	1004	584	365	365	662	2231	1127	1076	734	1252	512
	Day: max position	4-Sep-03	5-Feb-03	13-Jan-05	14-Jul-06	13-Oct-05	15-Jan-07	11-Jan-07	21-Dec-04	10-Aug-07	9-Jul-04	7-Oct-05	21-Nov-07
	Maximum position	13.6%	11.3%	18.6%	6.3%	5.1%	7.3%	13.69%	23.11%	11.27%	5.1%	7.4%	7.1%
	Initial Capital Committed (Y mln)	8,547	4,144	8,243	8,934	5,661	5,986	473	1,113	19,931	2,713	8,796	9,001
	Max Capital Committed (Y mln)	13,469	5,019	33,500	10,955	5,661	10,220	4,848	7,087	42,883	2,713	8,796	9,479
Returns:	Total IRR for investment	0.27%	35.93%	57.10%	-0.86%	-21.38%	-3.12%	2.08%	15.82%	-25.56%	3.10%	-23.44%	-15.77%
	BHAR (-5:+5)	-4.43%	4.77%	2.87%	-4.32%	18.01%	-8.05%	2.50%	0.30%	3.60%	2.63%	-1.14%	11.36%
Firm	Accounting Month	Feb-01	Mar-01	Mar-03	Mar-05	Mar-05	Mar-05	Mar-02	Sep-03	Mar-05	Mar-04	Mar-05	Mar-06
Performance	ROA	0.027	0.006	0.016	0.126	0.032	-0.005	0.029	0.015	0.059	0.043	0.025	0.050
(Before)	MB ratio	0.690	1.018	0.550	3.512	2.245	5.936	0.468	0.448	1.907	1.148	1.312	2.189
	Leverage	0.102	0.302	0.220	0.249	0.473	0.851	0.250	0.433	0.553	0.254	0.578	0.424
	Payout	0.271	0.458	0.095	0.192	0.352	-1.519	0.288	0.469	0.136	0.271	0.301	0.136
	Dividend Yield	0.012	0.004	0.004	0.009	0.009	0.009	0.024	0.030	0.010	0.014	0.014	0.005
	Cash to Asset	0.724	0.238	0.075	0.407	0.081	0.441	0.226	0.155	0.241	0.197	0.065	0.080
Firm	Accounting Month	Feb-06	Mar-05	Mar-05	Mar-07	Mar-07	Mar-08	Mar-09	Bought	Mar-09	Mar-07	Mar-09	Mar-09
Performance	ROA	0.020	0.009	0.025	0.112	0.065	0.107	0.012	by	0.045	0.056	0.035	0.020
(After)	MB ratio	0.812	1.319	1.309	2.921	3.790	1.845	0.826	Nissin	0.991	1.567	0.522	0.082
	Leverage	0.164	0.468	0.377	0.241	0.375	0.587	0.355	Foods	0.410	0.251	0.527	0.341
	Payout	0.451	0.592	0.082	0.206	0.226	0.286	0.953		0.473	0.303	0.247	0.452
	Dividend Yield	0.013	0.007	0.003	0.010	0.006	0.040	0.021		0.036	0.015	0.036	0.016
	Cash to Asset	0.417	0.240	0.066	0.281	0.098	0.176	0.155		0.136	0.181	0.057	0.094