



RIETI-ECGI-WBF



Discussions on Activism

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There are so many different types of Activism...



Hostile, Confrontational	vs.	Friendly
Public	vs.	Quiet
Short-Term	vs.	Long-Term
Payout	vs.	Compound
Divestment	vs.	Investment
Transactional	vs.	Transformational
Value Transfer	vs.	Value Creation
Power of Capital	vs.	Power of Persuasion

And more...

Different types of Activism



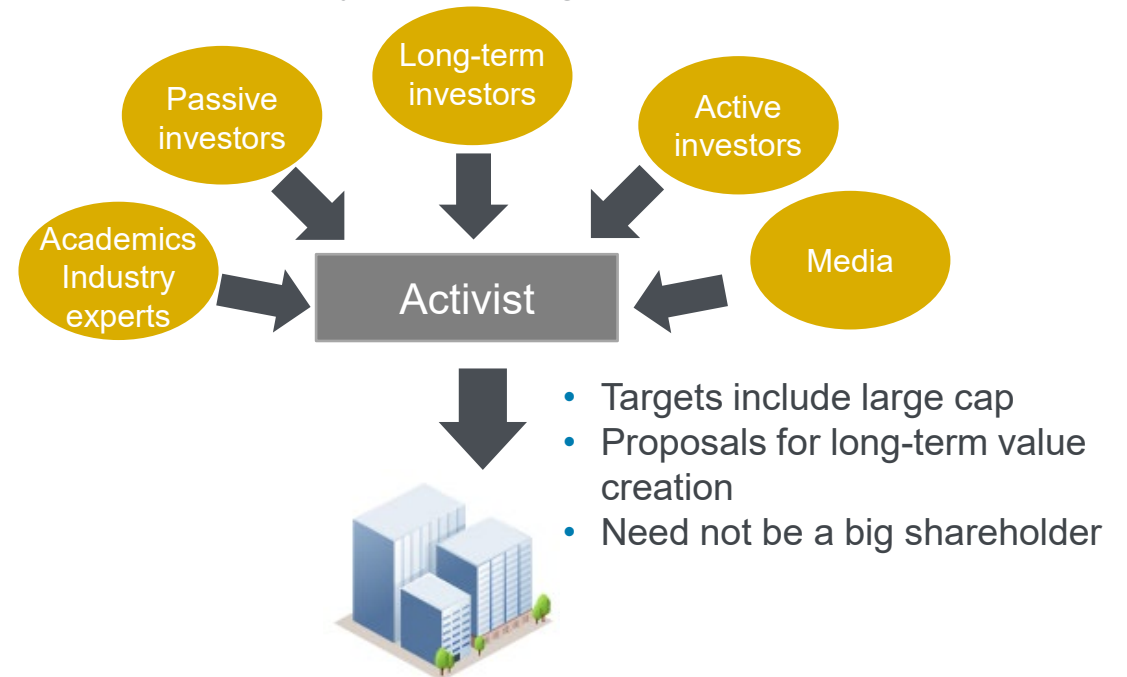
- Activists model may evolve into different types...

classic approach: “Power of Capital”



rare but new approach: “Power of Justice”?

- “What is right for the company”
 - Full Potential?
 - Corporate bureaucracy?
 - Myopic management?



About Misaki Capital



- Model : “Constructivist”
- Background : ex-management consultants
- Investments : 10+ companies
- Asset Owners : Endowments, Pensions, Foundations, SWFs
- Horizon : 5 years or more
- Liquidity : 3/5/7-year lockup, Q redemption, 180-days notice



Purpose of Activism? (if any...)

According to Prof. Mayer...



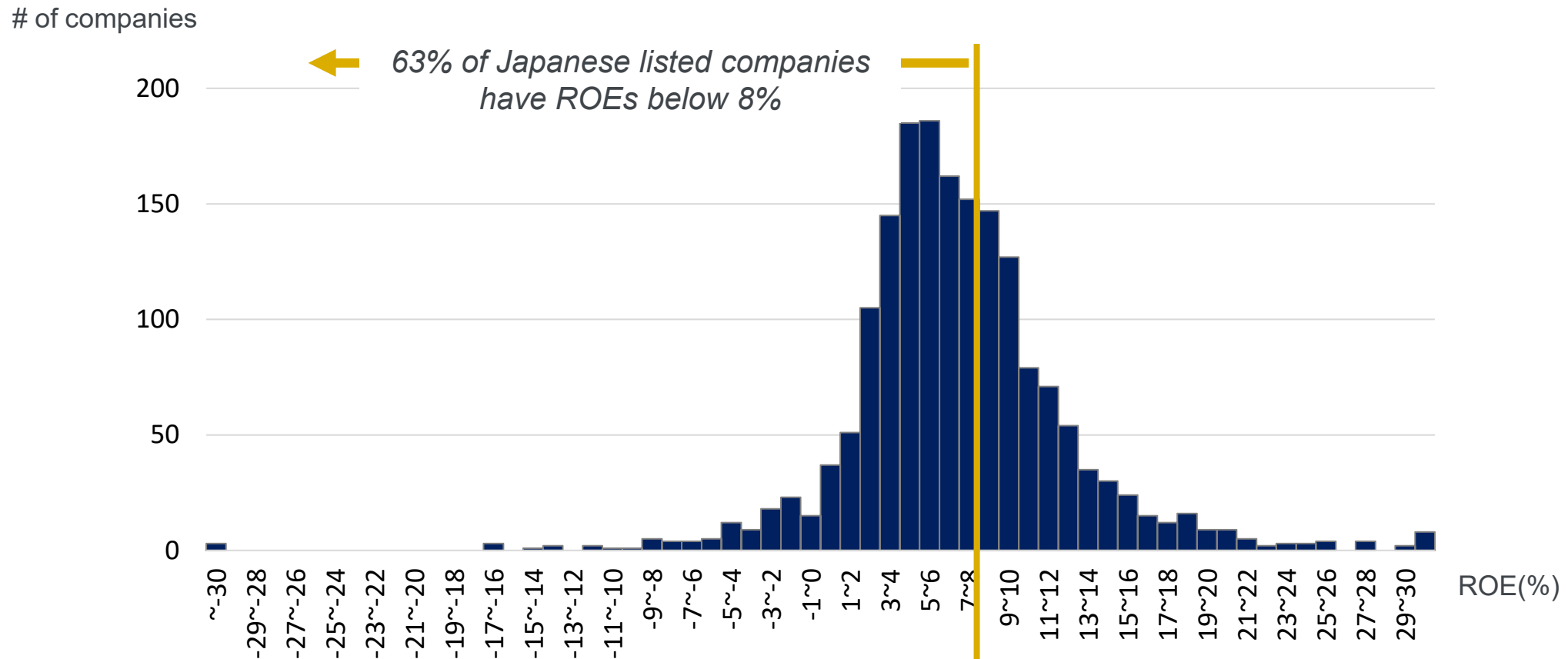
- “Company is a body which solves Social Problems in a Commercial Way”
 - (Commercial means profit/return)

A social problem in Japan: Misaki's Focus



- More than 60% of listed companies have been “Value Destroyers”.

Distribution of ROE(10-yr average)

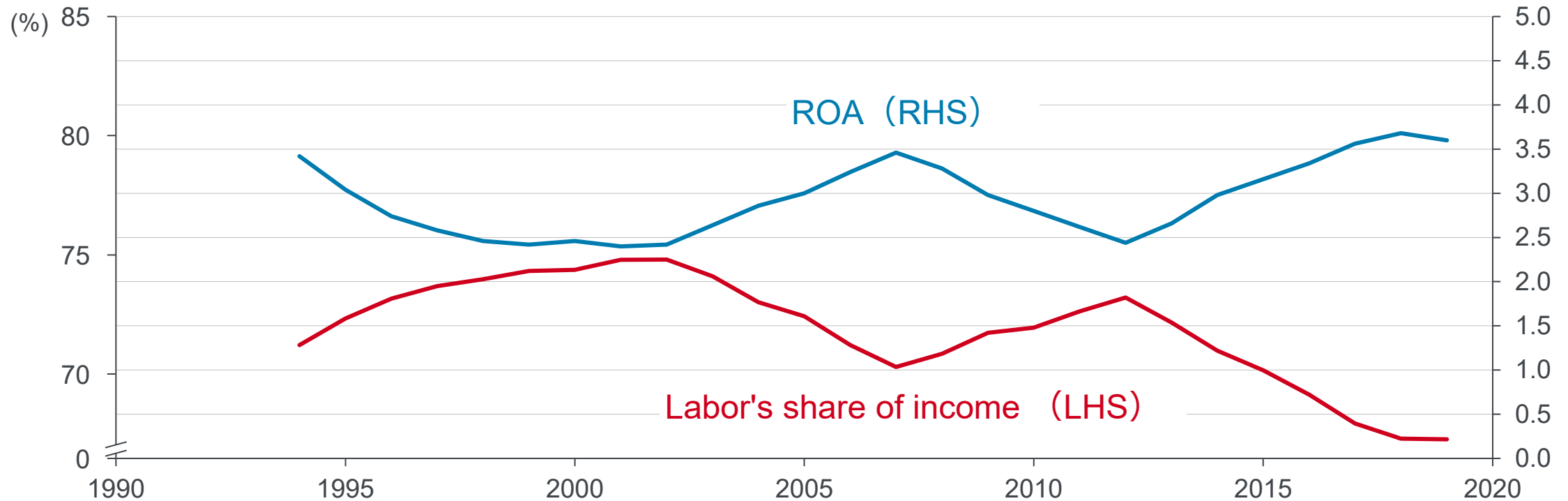


Another social problem in Japan: Misaki's View



- ROA remained flat (very low), labor's share of income on a downtrend.

Trends in labor's share of income and the ROA



Note: The above figure shows the five-year moving averages of labor's share of income and the ROA for Japanese companies in fiscal 1990-2019.

Source: Prepared by Misaki Capital based on the Survey for the Financial Statements Statistics of Corporations by Industry, compiled by the Ministry of Finance. All industries (excluding the financial and insurance industries) are covered by the analysis.

Labor's share of income = personnel cost/value added (value added = personnel cost + interest payment, etc. + rents for movable and real estate assets + tax payment + operating net profit; personnel cost = executive salaries + executive bonuses + employee salaries + employee bonuses + benefits cost)

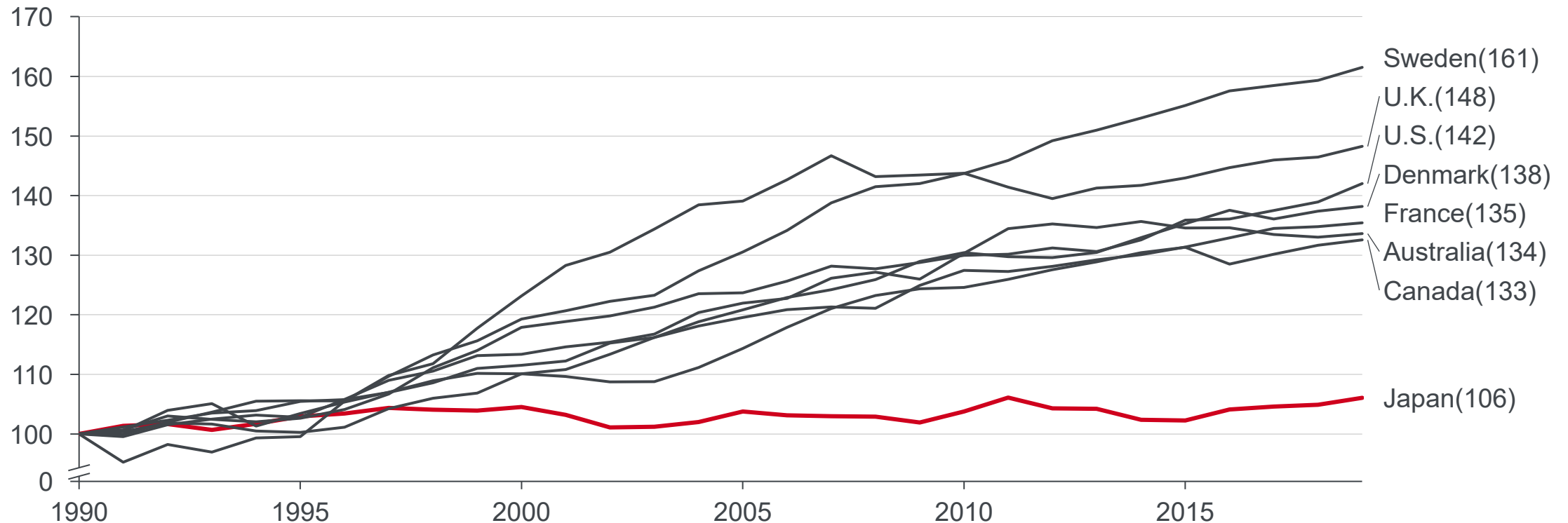
The ROA is the ratio of operating profits to gross capital.

One Result...



- Real wages in Japan alone remained flat.

International comparison of real wage index trends(1990=100)



Note: 1990/4~2020/3

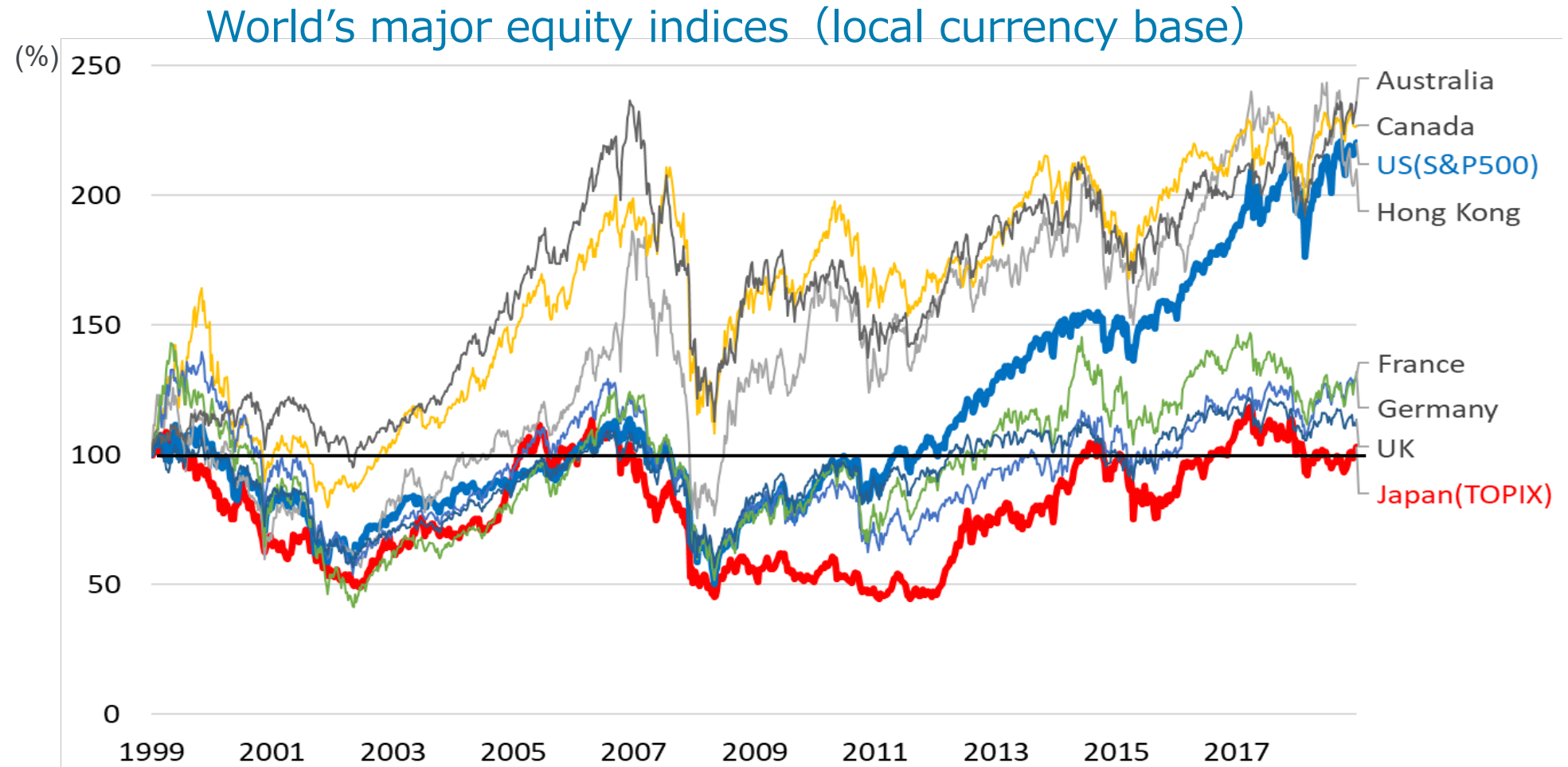
Source: Prepared by Misaki Capital based on OECD data on country-by-country average wages (dollar-base, inflation-adjusted).

Values were indexed with a base of 100 for the 1990 level.

Another Result...



- Share price of Japan alone remained flat.



Why Capital Productivity so low?



【 Breakdown of ROE】

		ROE	Margin	Turnover	Leverage
Japan	Industrial	7.8%	5.2%	0.88	2.06
	Non-industrial	9.3%	5.2%	0.98	2.60
	Total	8.3%	5.2%	0.91	2.28
US	Industrial	18.2%	10.5%	0.73	2.50
	Non-industrial	19.2%	9.4%	1.02	2.99
	Total	18.6%	10.0%	0.85	2.72
Europe	Industrial	15.2%	8.6%	0.82	2.49
	Non-industrial	15.3%	10.4%	0.85	3.13
	Total	15.2%	9.1%	0.83	2.76

Note: FY2009-2018, excluding financials
Source: Bloomberg, Misaki Capital

- Critical issues are NOT,
 - Asset Turnover nor Financial Leverage as confrontational activists claim
 - simply governance issues



BUT, “how to manage business”.



<Social Problem we address>

- **People surrounding Japanese companies are ALL getting poorer and poorer**

<Commercial Way we take>

- **Incorporate “thoughts and techniques” of constructive investors**
 - ✓ **Work and Sweat with willing-to-change management**
 - ✓ **Involve in serious/risk-taking decision-make**
 - ✓ **Propose employee equity ownership**

Misaki's Menu

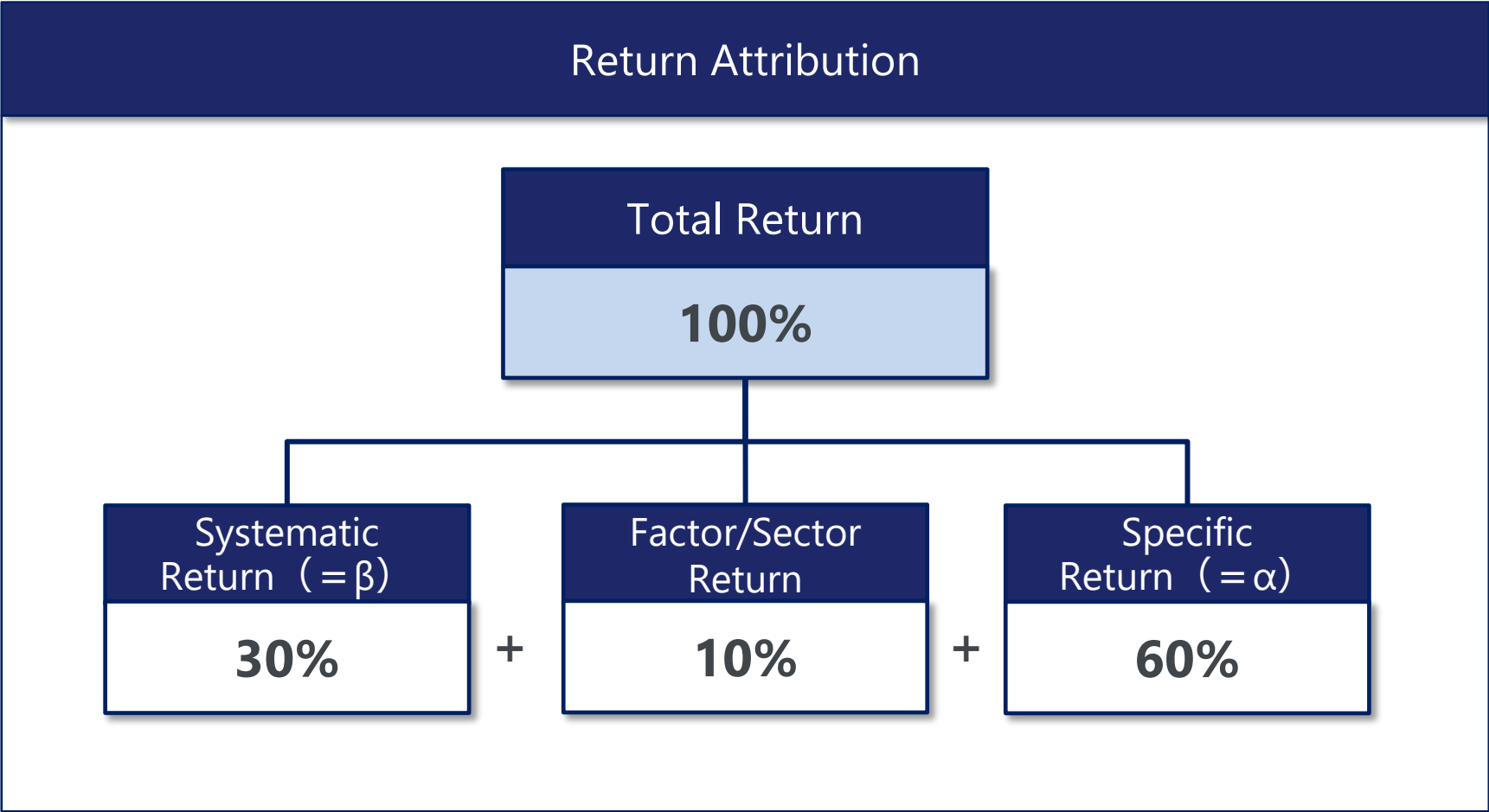


- We work and sweat not only at board level, but also at operation level.

- ✓ Long-Term Vision
- ✓ Mid-Term Plan
- ✓ Investment (CAPEX, R&D, M&A)
- ✓ Marketing
- ✓ Supply Chain Management
- ✓ Growth Strategy
- ✓ New Market Exploration
- ✓ Labor Productivity
- ✓ Human Resources Support
- ✓ Organization Change
- ✓ Business PF
- ✓ Capital Allocation
- ✓ Governance
- ✓ Investor Relations

etc.

Misaki's commercial result



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