# "Has the Threat of a Takeover Improved the Management of the Target Firm? Case of the First Hostile Bidder, M&A Consulting"

## Presentation at CEPR-RIETI Joint Conference

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# Summary

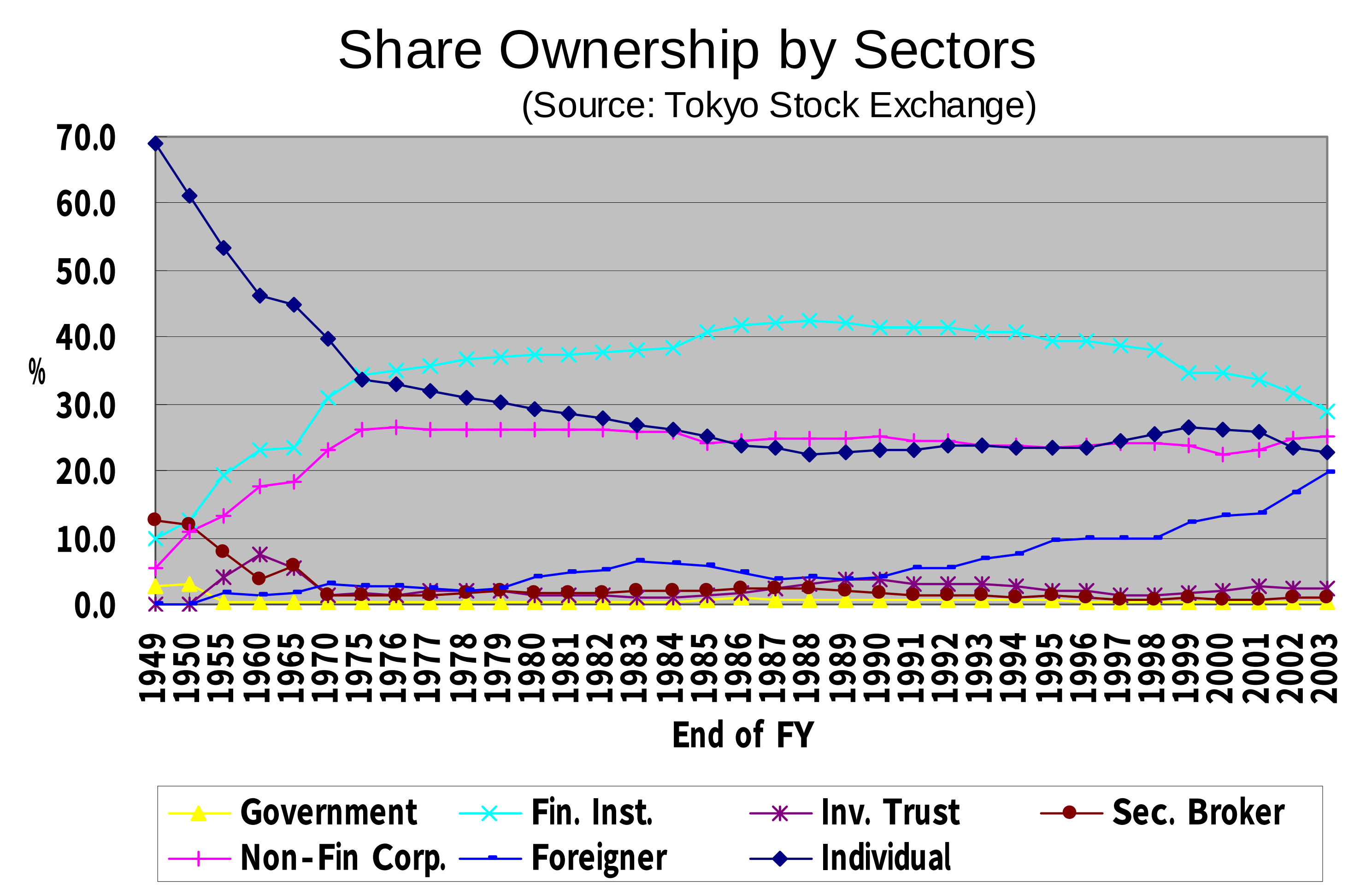
- Background
- Pros and Cons of Hostile Takeovers
- The First Hostile TOB: MAC vs. Shoei
- Our Research
- Sample
- Findings
- Conclusion & Future Research

Our research is still very preliminary. Please do not quote the contents of this presentation without the authors' permission.

# Background

- Declining ICSH in the 1990s
- More vocal foreign/institutional shareholders
- More focus on shareholders' value
- "Selection & Concentration"
- M&A as a positive strategic option

# Increasing foreign ownership



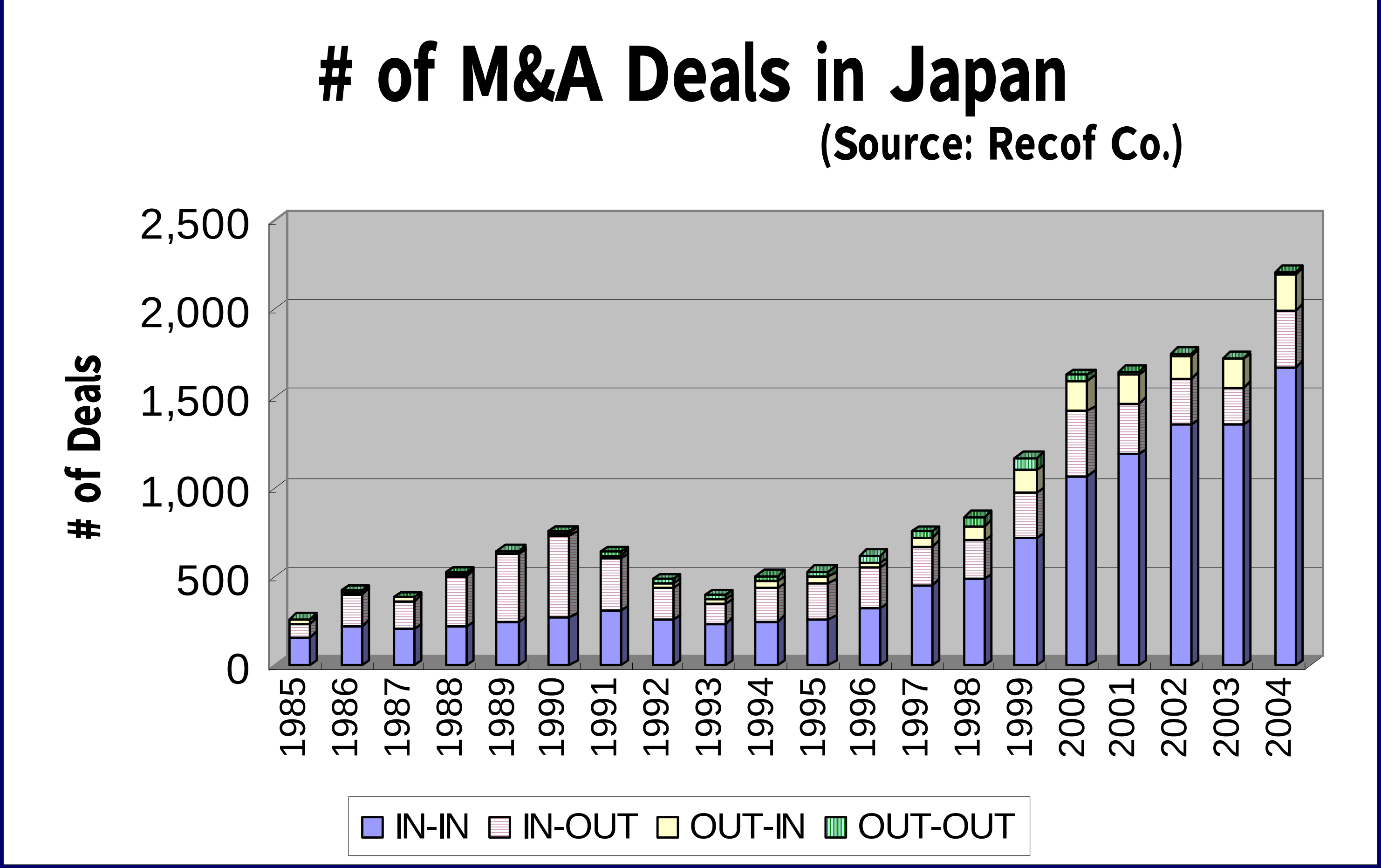
# More vocal shareholders

- Increasing ownership of institutional investors (esp. foreign institutions)
- Shareholder activism as a means to improve Japanese corporate performance

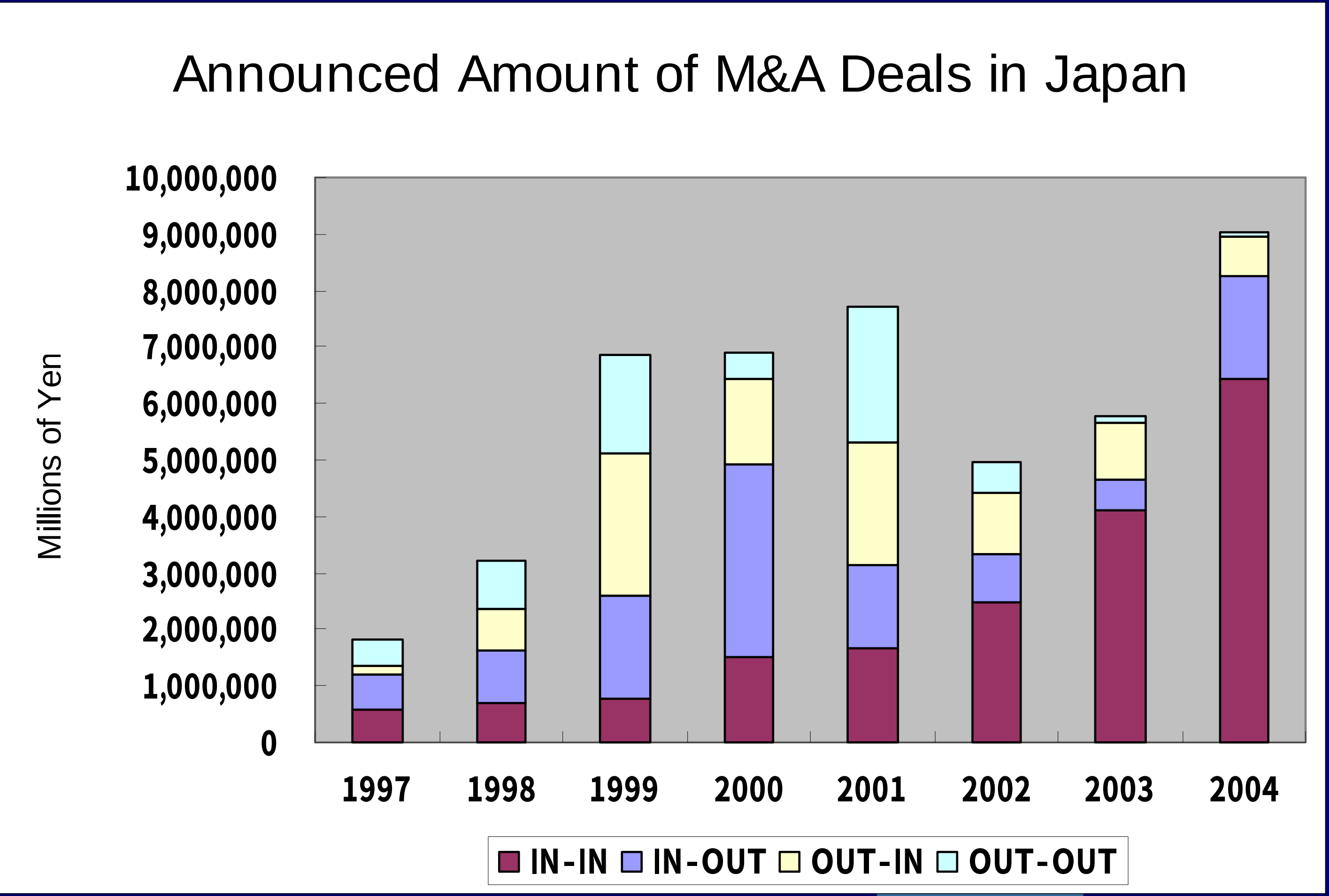
# More emphasis on shareholders' value

- Emphasis on cash flow (e.g., FCF and EVA®)
- Selection and concentration of a company's business portfolio
- Increasing M&As & Market for corporate control
- New mechanism to improve shareholders' value: Hostile TOB, MBOs, private equity funds, etc.

# Increasing Japanese M&A deals



# Increasing Japanese M&A deals



# Increasing Japanese M&As

- The biggest merger wave since 1980s
- More domestic (IN-IN) mergers than ever
- “Selection and concentration” rather than size expansion
- Several attempts of hostile TOB
- Active involvement of financial buyers (equity funds)

# Cases of hostile takeover

- Minebea vs. Sankyo Seiki vs. Trafalgar Glenn (1985)
- Koito Manufacturing vs. T. Boone Pickens (1989)
- Shoei vs. MAC (Murakami) (2000)
- SSP Co. vs. Boehringer Ingelheim (2000)
- Steel Partners vs. Sotoh Company and Yushiro Chemical Industries (2003)
- Live Door Inc. vs. Nippon Broadcasting Inc. and Fuji Television Network (2005)
- Yumeshin Holdings Co. vs. Japan Engineering Consultants (2005)

# Pros and cons of a hostile takeover

Pros:

- Removal of the inefficient management
- Value creation for shareholders

Cons:

- Dissolving company assets in the name of shareholders' interest
- Myopia of the management at the cost of long-term growth
- Demoralization of the employees (Shleifer and Summers 1988)

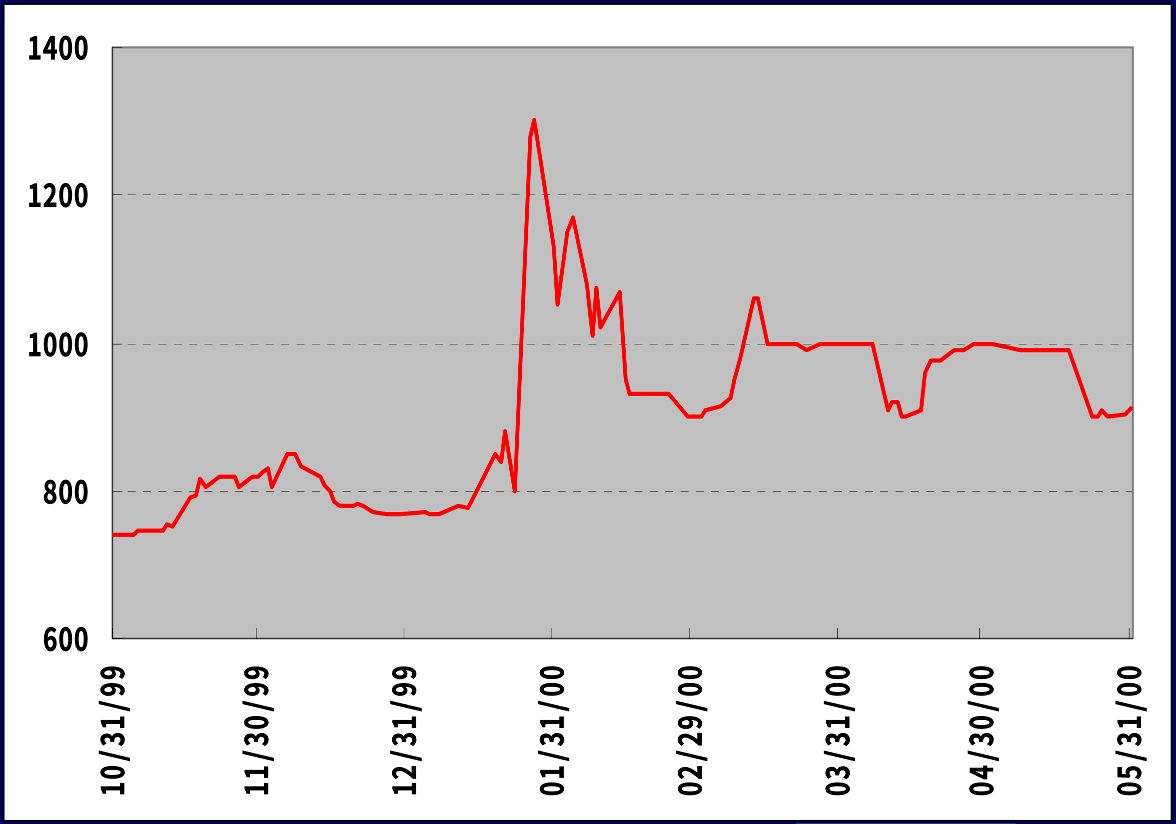
* Even in the US, out of about 35,000 M&As between 1976 and 1990, <u>only 364 are hostile.</u> (Jensen 1993).

# Shoei vs. MAC's Murakami

- TOB Price @¥1,000 for 100% ownership
  01/23/00 close ¥800, BVAPS ¥546 (MVAPS ¥4,000)
- Major shareholders of Shoei
  Canon: 11.3%, Yasuda Fire & Marine:10.0%, Chase: 8.2%, Yasuda Life: 6.0%, Fuji Bank: 5.0%, Yasuda Trust: 5.0% (total 45.5% with 6 SHs)
- Murakami said he would be able to turn the company more profitable if he ran it.

# Shoei vs. MAC's Murakami

Share price soared at the announcement…



# Shoei vs. MAC's Murakami

- Major shareholders rejected the offer.
- Murakami collected only 6.5%.
- Shoei replaced its CEO in March 2001 with Mr. Kenji Watanabe, another former Fuji Bank employee.
- Shoei repurchased Mr. Murakami's shares in July and August 2002.
- Murakami came to be known as a proponent of shareholders' value and portrayed himself as a "corporate reformer."

# Shoei vs. MAC's Murakami

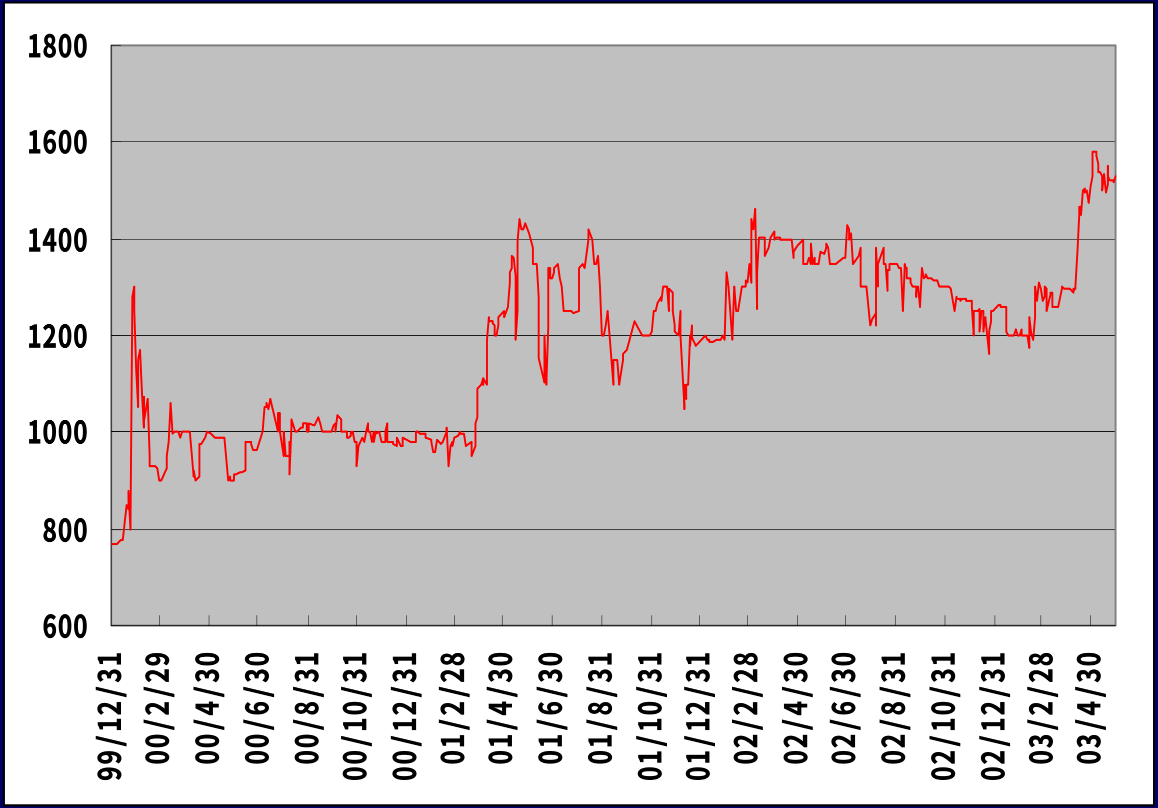
Puzzles of the case

- Insufficient TOB premium (25%) & no increase of premium
- Why chose knowingly heavily cross-held company?
- Murakami's no previous corporate restructuring experience

=> Was he really willing to win the TOB?

# Shoei vs. MAC's Murakami

## Share price of Shoei over longer term



# Shoei vs. MAC's Murakami

## Operating performance of Shoei

| FY | SALES | OP. PROFIT | OP. P/SALES |
|---|---|---|---|
| 1995/12 | 10,104 | 1,046 | 10.4% |
| 1996/12 | 8,072 | 671 | 8.3% |
| 1997/12 | 8,812 | 850 | 9.6% |
| 1998/12 | 7,280 | 1,029 | 14.1% |
| 1999/12 | 5,880 | 801 | 13.6% |
| 2000/12 | 7,475 | 953 | 12.7% |
| 2001/12 | 4,908 | 585 | 11.9% |
| 2002/12 | 7,702 | 820 | 10.6% |
| 2003/12 | 8,100 | 898 | 11.1% |
| 2004/12 | 9,101 | 2,014 | 22.1% |

# Our research

- Examine the consequence of MACs share purchase on (1) share prices and (2) operating performance.
- Assumption: The companies whose shares were purchased by MAC felt the threat of hostile takeover.
- Sample: 22 companies whose shares were purchased by the MAC between 2000 and 2002
- Event date: earliest of the announcement, large shareholdings report, newspaper article or submission of annual report.
- (1) BHAR over TOPIX (2) Relative ROA over industry peer (Barber and Lyon 1996)

# Our sample

| Event Year | # of Firms | Avg. Mkt Cap. (Million Ye | Avg. Hldg. % by MAC | Avg. % of Cash Hldg |
|---|---|---|---|---|
| 2000 | 6 | 15,084 | 6.44% | 4.02% |
| 2001 | 15 | 37,693 | 5.94% | 17.76% |
| 2002 | 1 | 10,150 | 1.73% | 27.57% |
| TOTAL | 22 | 30,275 | 5.86% | 14.46% |

## Industry composition

| Industries | |
|---|---|
| Textile | 2 |
| Pharmaceuticals | 1 |
| Non-Iron Material | 3 |
| Transportation Machinery | 1 |
| Other Manufacturing | 1 |
| Engineering | 4 |
| Trading (Wholesale) | 5 |
| Retailing | 1 |
| Service | 4 |
| TOTAL | 22 |

# Our sample

Post-event dividend changes
(between Years –1 and +3)

| | # of Firms | Average Change | Median Change |
|---|---|---|---|
| Increase | 12 | 62.82% | 32.23% |
| No Change | 9 | #N/A | #N/A |
| Decrease | 1 | -12.35% | -12.35% |

# Share price performance

**Panel A: Average BHAR Including Shoei's TOB**

| Period | Average BHAR( t –stats.) | | # of Positive BHAR |
|---|---|---|---|
| -20~-2 | 6.895% | (3.46) * | 19* |
| -1~+1 | 3.386% | (2.39) * | 12 |
| +2~+20 | -0.241% | (-0.14) | 10 |
| +2~+200 | 11.978% | (2.70) * | 15* |
| +2~+400 | 12.121% | (2.00 ) | 14 |
| +2~+600 | 28.950% | (2.93)* | 18* |

# Share price performance

**Panel B: Average BHAR Excluding Shoei's TOB**

| Period | Average BHAR | ( t –stats.) | # of Positive BHAR |
|---|---|---|---|
| -20~-2 | 6.207% | (3.15)* | 18* |
| -1~+1 | 1.189% | (1.30) | 11 |
| +2~+20 | 0.607% | (0.37) | 10 |
| +2~+200 | 12.750% | (2.77)* | 15* |
| +2~+400 | 10.999% | (1.75) | 13 |
| +2~+600 | 28.187% | (2.72)* | 17* |

# Operating performance

**Panel A – ROA for year relative to event:**

| | | | | |
|---|---|---|---|---|
| –5 | 6.05% | 3.39% | 2.14% | -0.14% |
| –4 | 6.05 | 3.15 | 1.74 | 0.07 |
| –3 | 4.26 | 2.67 | 0.52 | 0.74 |
| –2 | 1.68 | 2.32 | -0.53 | 0.26 |
| –1 | 1.04 | 2.08 | -0.16 | -0.01 |
| 0 | 1.26 | 1.25 | -1.30 | -0.73 |
| +1 | 2.34 | 1.45 | -1.24 | -0.22 |
| +2 | 1.79 | 1.79 | -2.58* | -1.99* |
| +3 | 1.98 | 1.39 | -2.23* | -1.20* |

# Operating performance

| | | | | |
|---|---|---|---|---|
| **Panel B – Mean ROA for years:** | | | | |
| –5 to –1 | 4.15% | 2.95% | 0.95% | 0.43% |
| –3 to –1 | 2.85 | 2.36 | -0.08 | 0.21 |
| +1 to +3 | 1.81% | 1.55% | -2.37%* | -0.76%* |
| **Panel C – Change in ROA between:** | | | | |
| -5 to +3 | -2.54* | -1.64* | -2.23* | -3.00* |
| -3 to +3 | -1.15 | -0.99 | -1.13 | -2.03 |

# Findings

- BHAR around announcement date is not significant (1.2%) excepting Shoei.
- However, BHAR started to cumulate one month before the event (+6.2% and significant).
- Post-event BHAR +2 Day~+3 Years significantly positive at +28% (raw BHAR +24%).
- Both raw and control firm adjusted ROA significantly declined Year –5 ~ Year +3.
- The average control firm adjusted ROA in Year +3 significantly negative at –2.23%.

# Conclusion & Future Research

- The threat of a potential hostile takeover benefited the hostile bidder and the shareholders of the targets.
- However, we cannot find the improvement in operating performance of the target companies.
- Regression analysis to find factors that drive the results, particularly of ROA, is necessary.
- Larger sample size + longer time series required. Particularly, the hostile takeover attempt by Steel Partners in 2003 and their subsequent share purchases in many other Japanese companies.