

Managing Ownership: Evidence from Japan

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based on joint-work with Colin Mayer, Hideaki Miyajima, and Ryo Ogawa

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Corporate Control and ESG under “New Capitalism”

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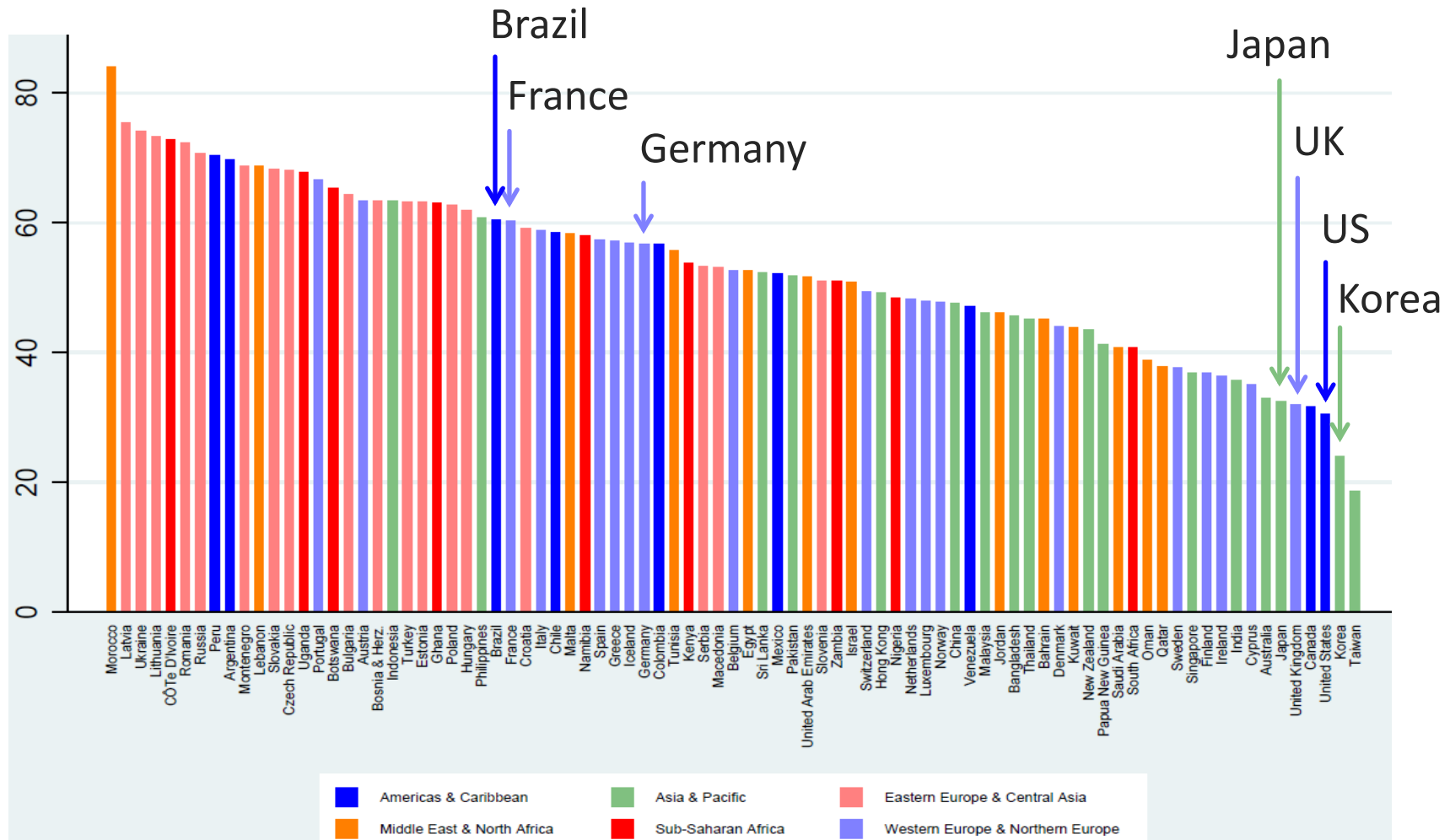
Outline

1. The Landscape of Ownership around the World
2. Three Types of Markets in Corporate Control
3. Some Case Studies in Japan
4. Japan: Repurchases and Managerially Managed Ownership
5. Japan: Stock Market Response to Repurchases and Their Disposition

1. The Landscape of Ownership around the World

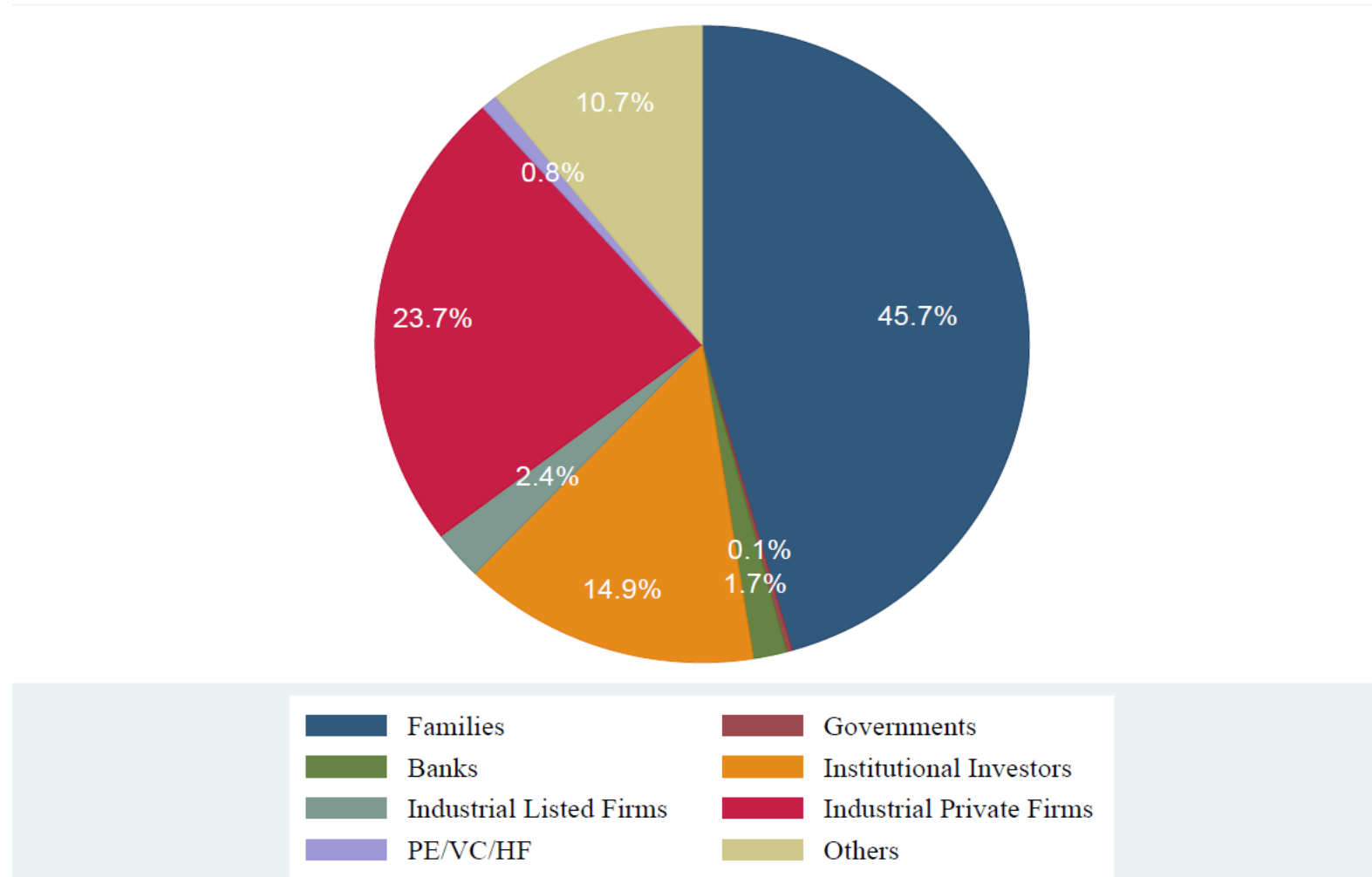
In Most Countries Ownership Is Concentrated

- Share of 3 Largest Shareholders, 2012



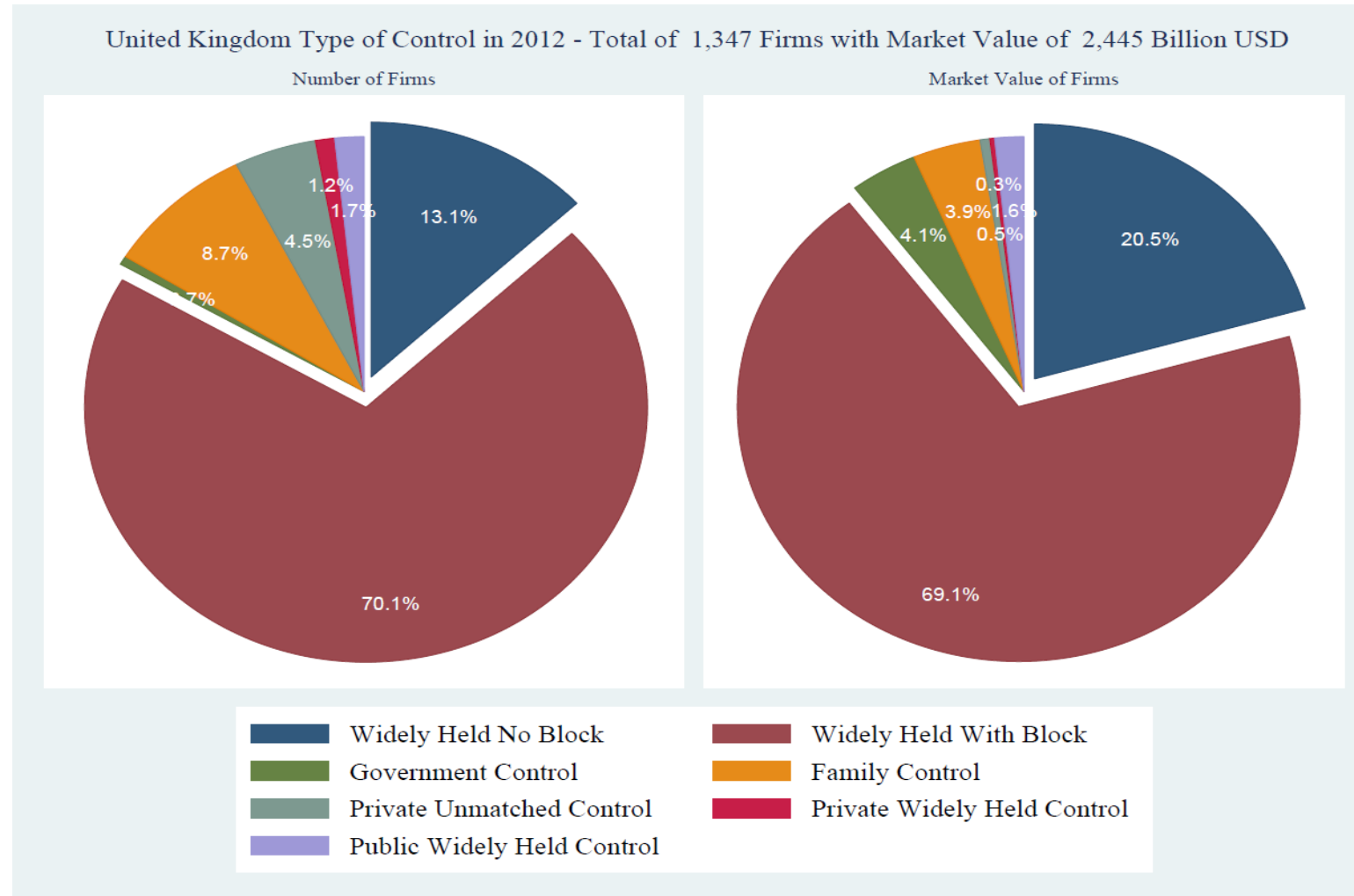
Source: Aminadav, Gur and Elias Papaioannou (2016), "Corporate Control around the World", Working Paper

Families Dominate Ownership in 85 Countries, 2012



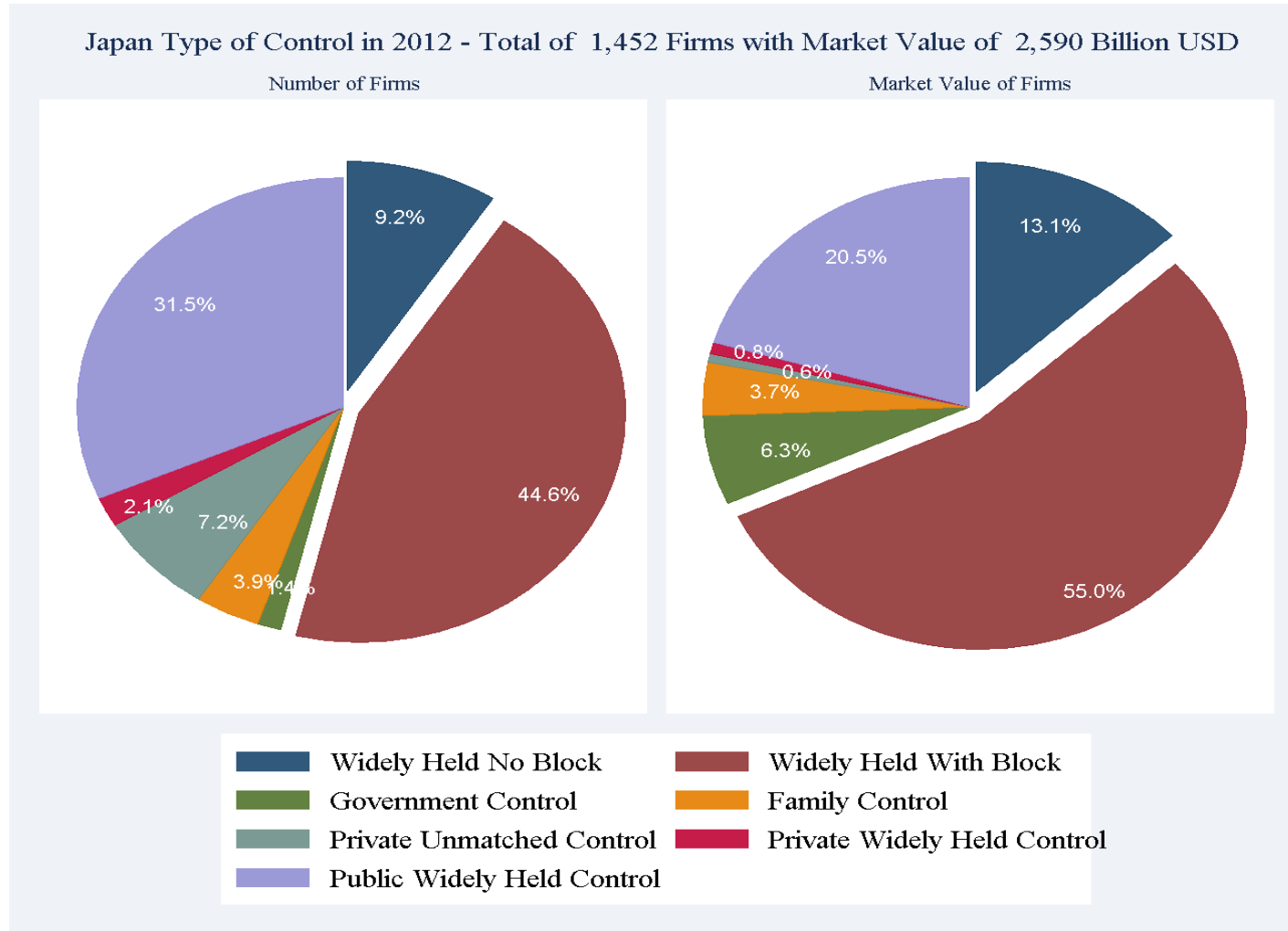
Source: Aminadav, Gur and Elias Papaioannou (2016), "Corporate Control around the World", Working Paper

But Not in the UK



Source: Aminadav, Gur and Elias Papaioannou (2016), "Corporate Control around the World", Working Paper

Or in Japan

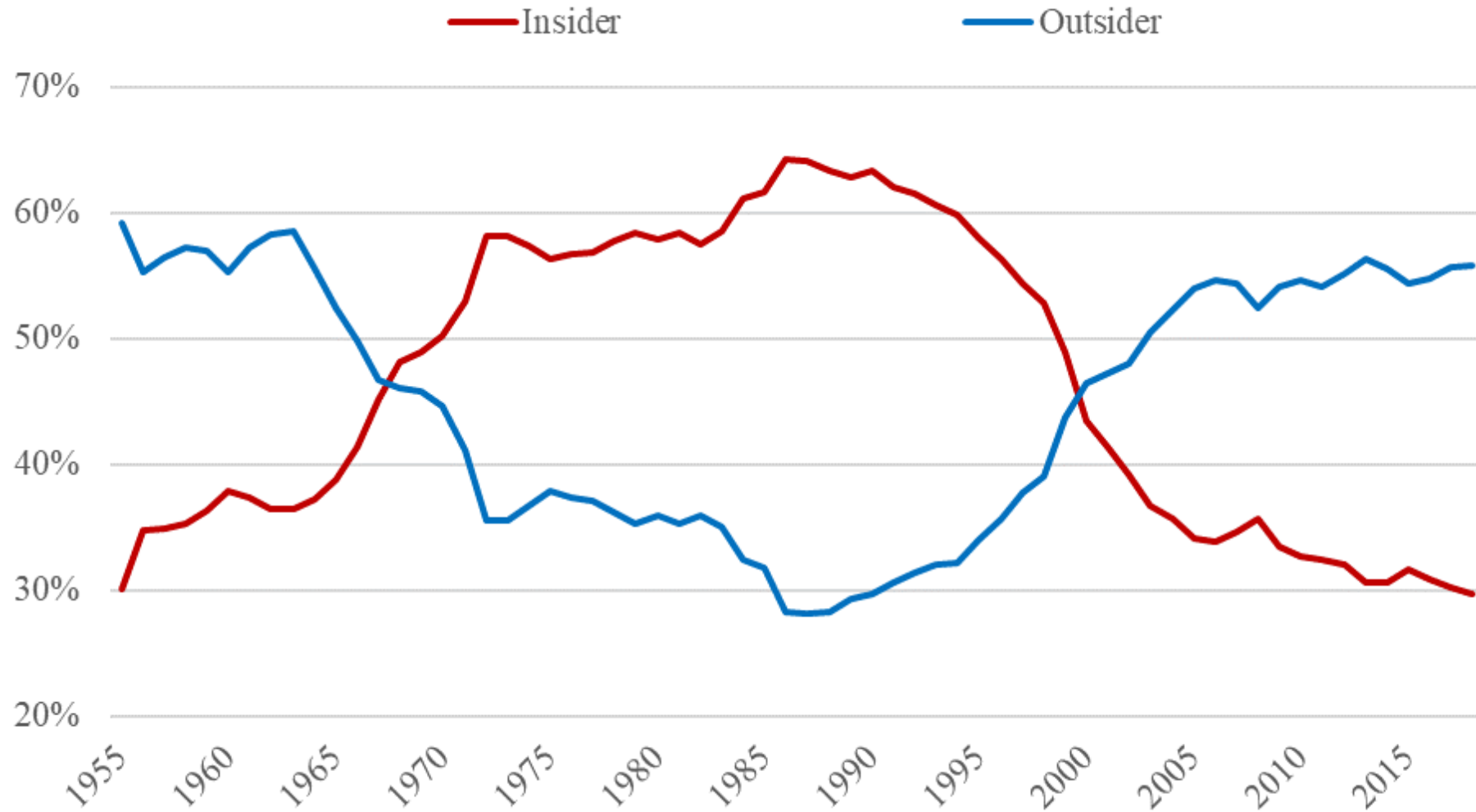


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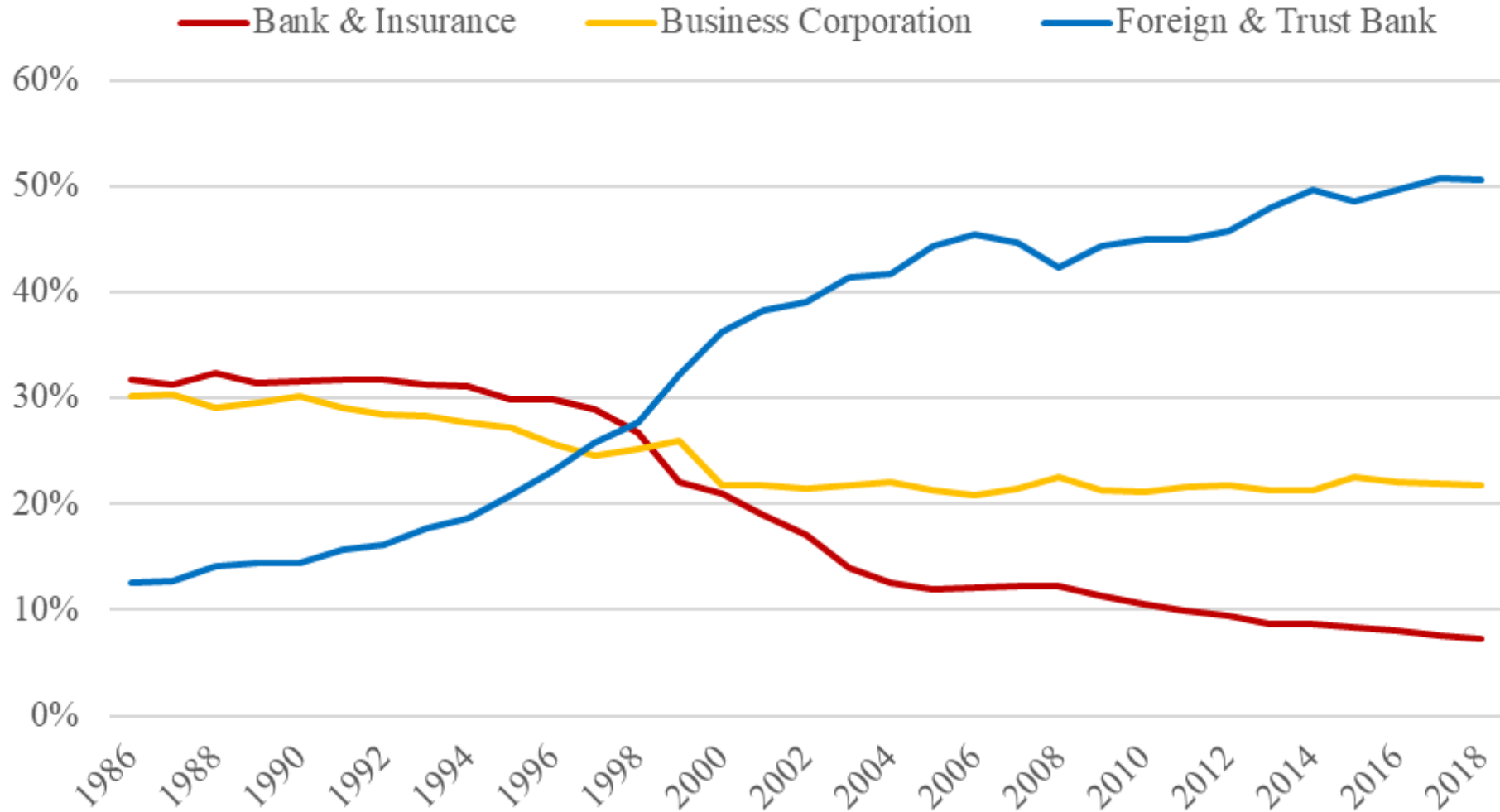
Three Types of Ownership

- Dispersed ownership - Anglo/American markets
- Concentrated family/state ownership - Continental Europe and Asia
- Dispersed but with intercorporate blocks - Japan

Insider and Outsider Ownership in Japan, 1955-2018



Insider and Outsider Ownership in Japan, 1986-2018



2. Three Types of Markets in Corporate Control

Three Types of Markets in Corporate Control

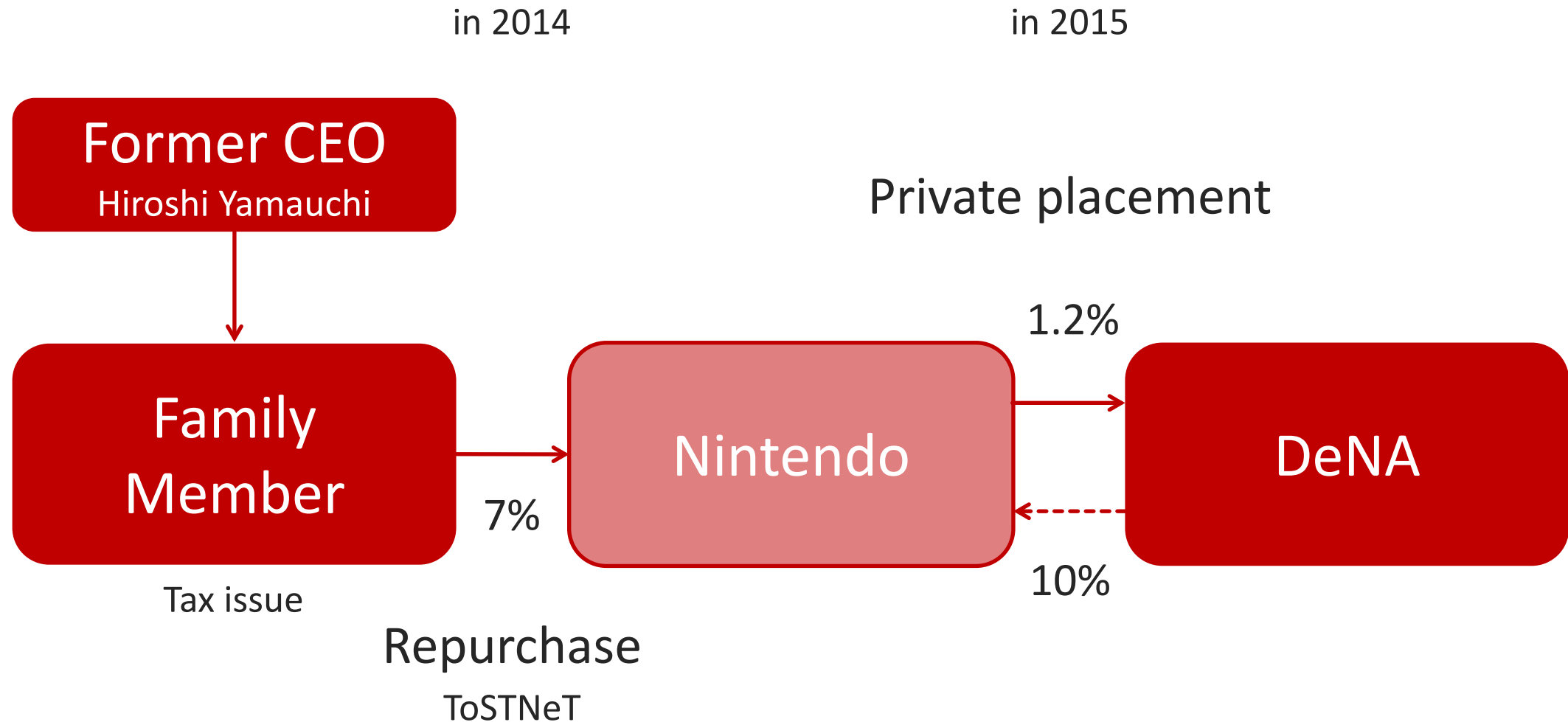
- Takeover markets and hedge fund activism with dispersed ownership
- Markets in blocks of shares in family-controlled firms
- Managerially managed market for corporate control in Japan

3. Some Case Studies

The Case of Nintendo (Joint Investment)

- The heirs of former CEO, who owned about 10% of the company's shares, wished to cash out in September 2014
- Nintendo repurchased 7.4% of those shares held by the founding family through ToSTNeT
- Nintendo distributed 1.2% from its treasury through private placement to an internet company DeNA
- Nintendo used the proceeds to purchase a 10% of DeNA's shares

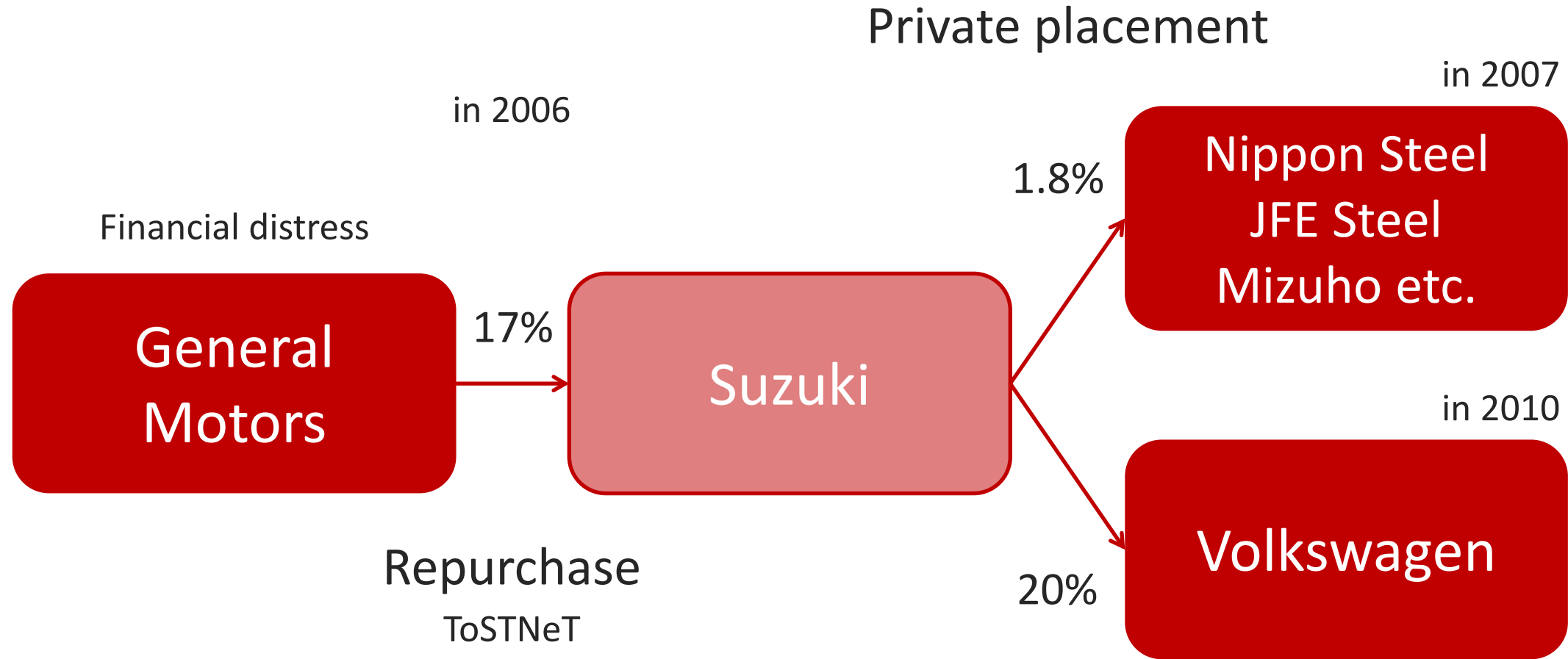
The Case of Nintendo (Joint Investment)



The Case of Suzuki (Strategic Alliance)

- Suzuki repurchased a stake of 17% from financially distressed GM who sold its entire stake of 20% through ToSTNeT
- Suzuki immediately resold the shares through private placement to its business partners: Nippon Steel, JFE Steel, and three banks
- Suzuki kept the rest of the shares in treasury, then sold most of its treasury stock to Volkswagen through private placement

The Case of Suzuki (Strategic Alliance)



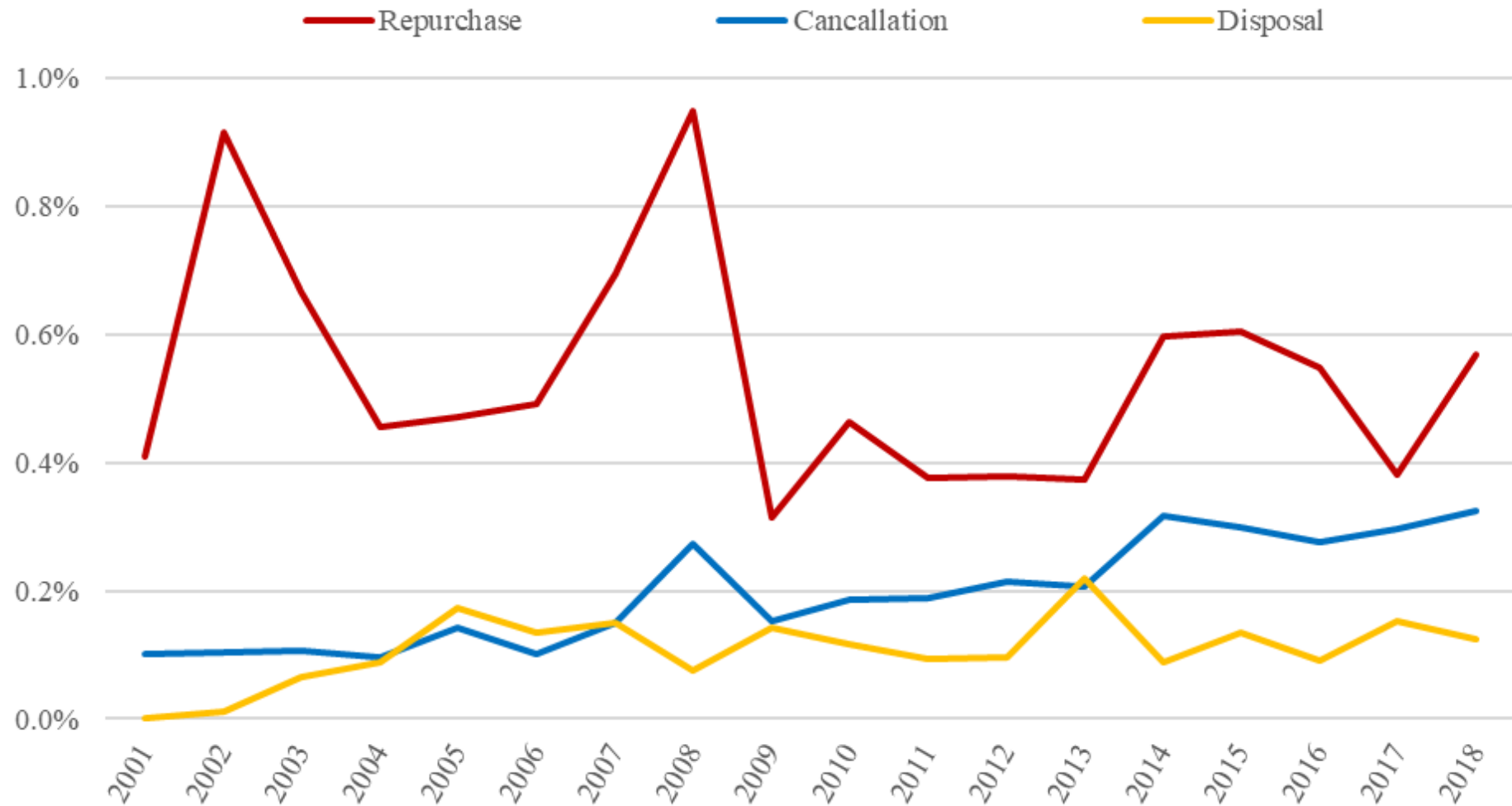
* Suzuki made other occasional open-market repurchases totaling to 6%

4. Japan: Repurchases and Managerially Managed Ownership

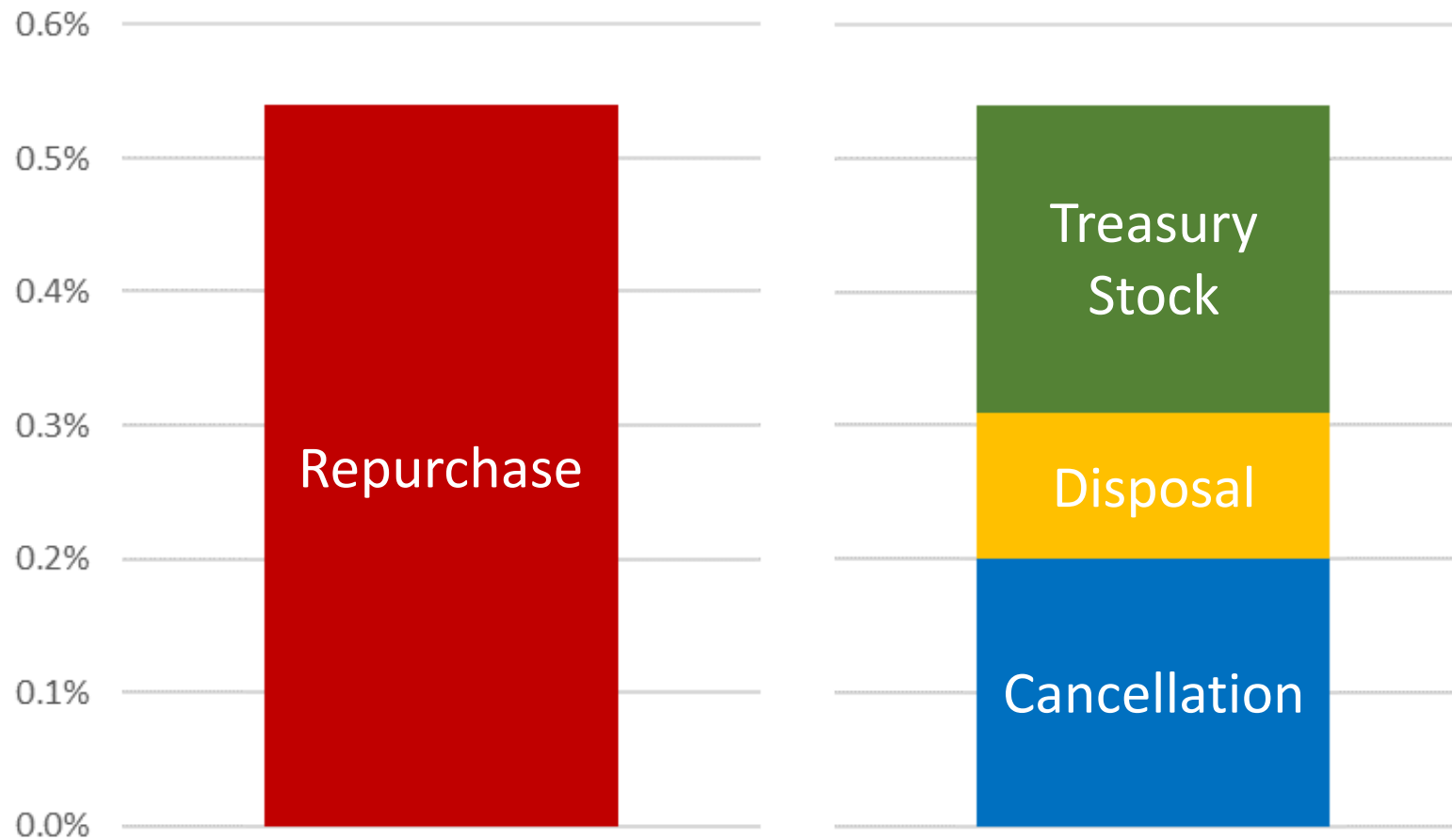
Size of Stock Repurchases in Japan, 2001-2018

No. of firms	1,772	100.0%
No. of firms that have no share repurchases	528	29.8%
that made share repurchase	1,244	70.2%
that shows the aggregates share repurchase with more than 5%	686	38.7%
with more than 10%	399	22.5%
with more than 15%	249	14.1%
with more than 20%	143	8.1%
Mean of cumulative share repurchase (only firms that made share repurchase)	9.2	
Median	5.9	
25th percentile	2.2	
75th percentile	13.0	

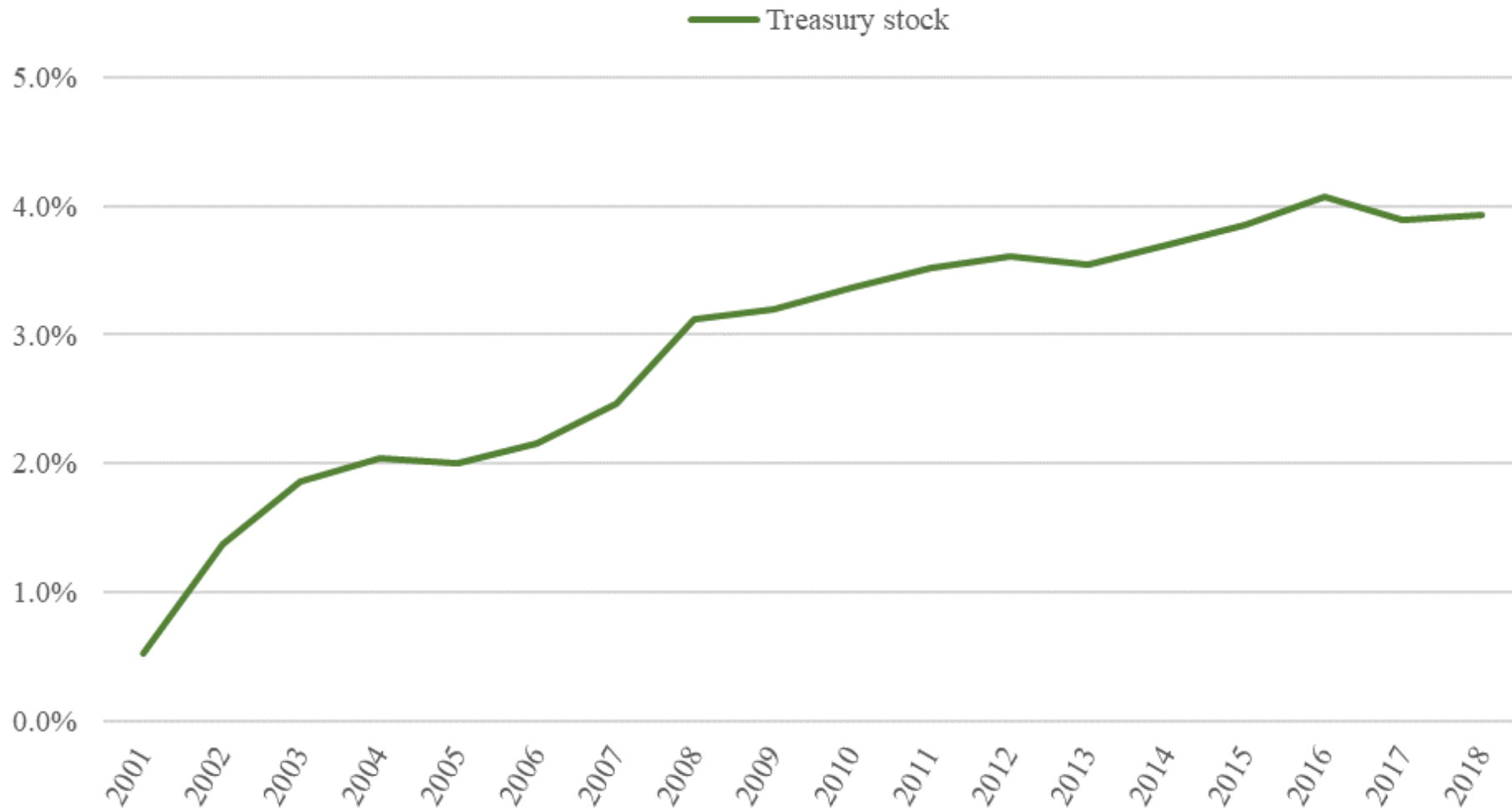
Stock Repurchases, Cancellations, Disposals, Treasury Stock in Japan, 2001-2018



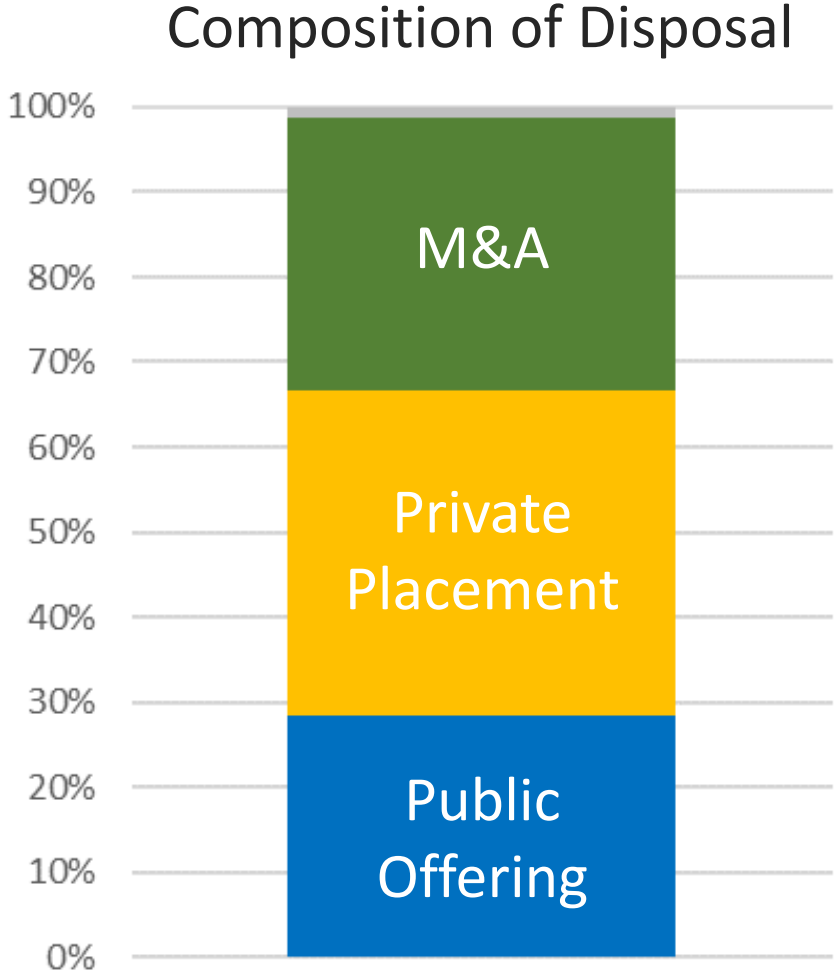
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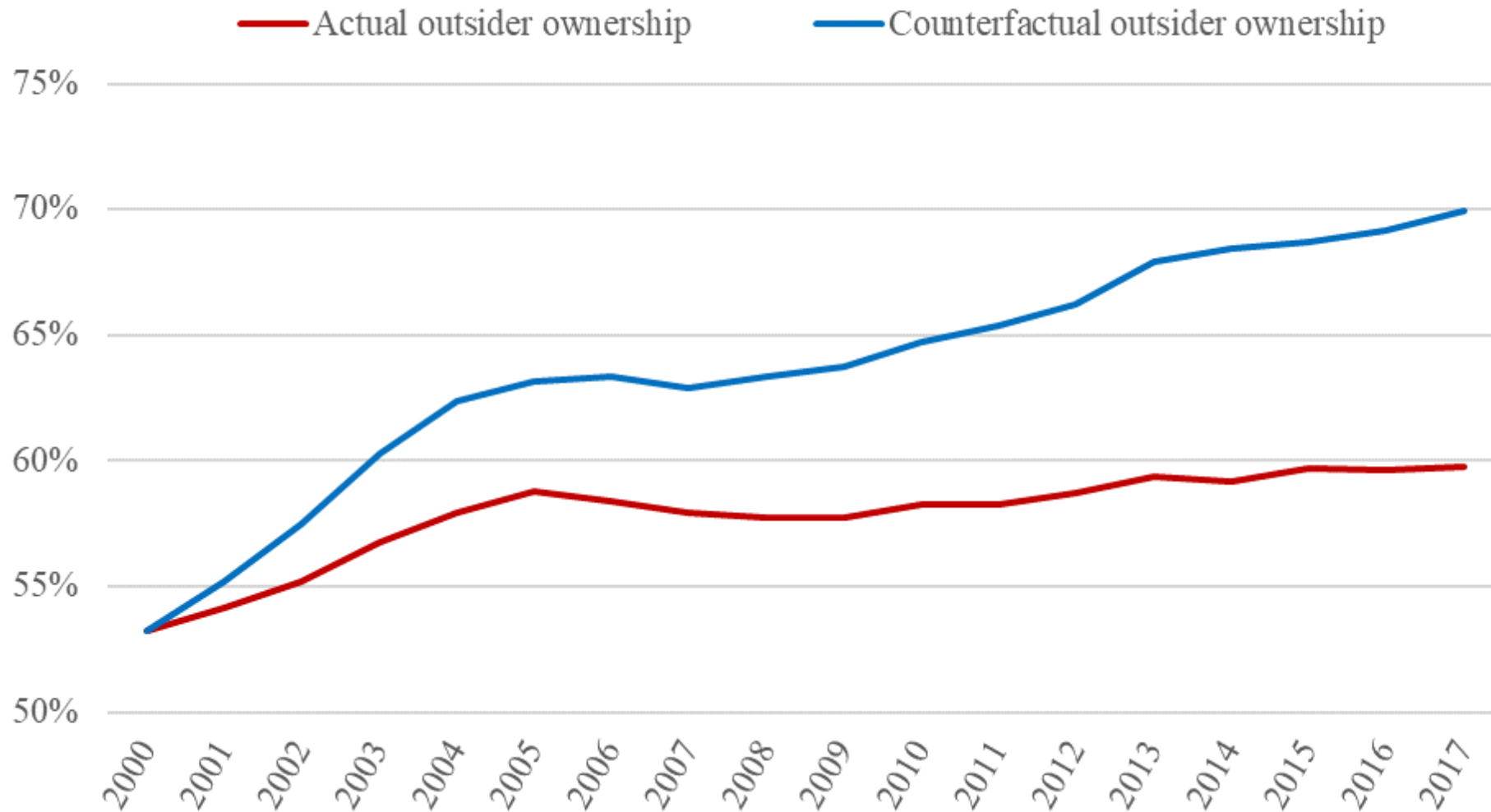
Third of Treasury Stock Privately Placed with Business Corporation



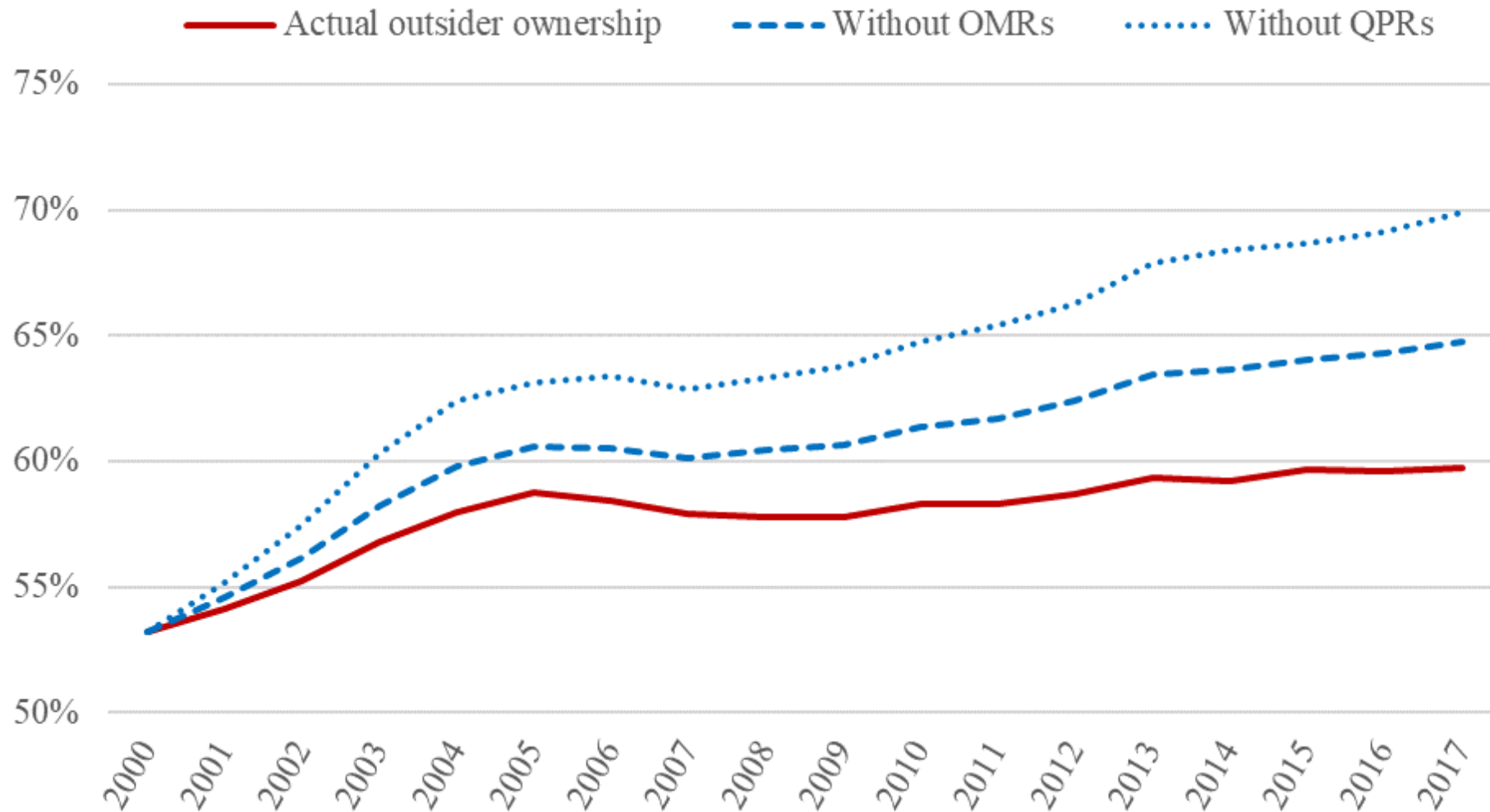
Private placement $\geq 1\%$

Total	191
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Business corporations	134
Financial institutions	15
Funds	10
Individuals or family	0
Foundations	4
Incentive plans	28

Actual and Counterfactual Outsider Ownership

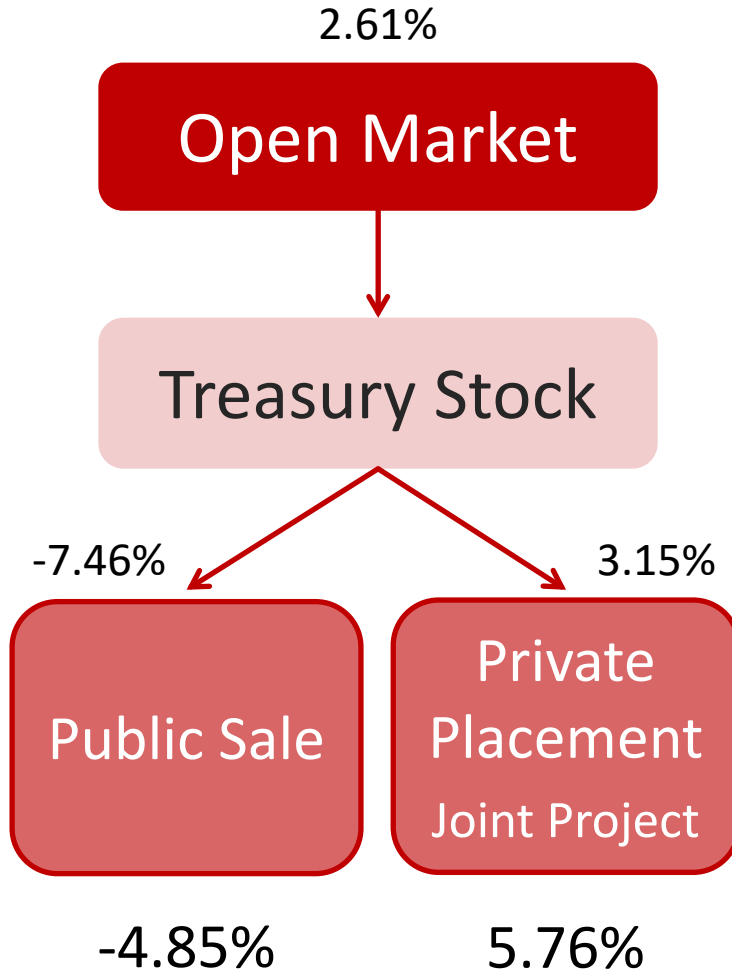


Contribution of Open-market and Quasi-Private Repurchases

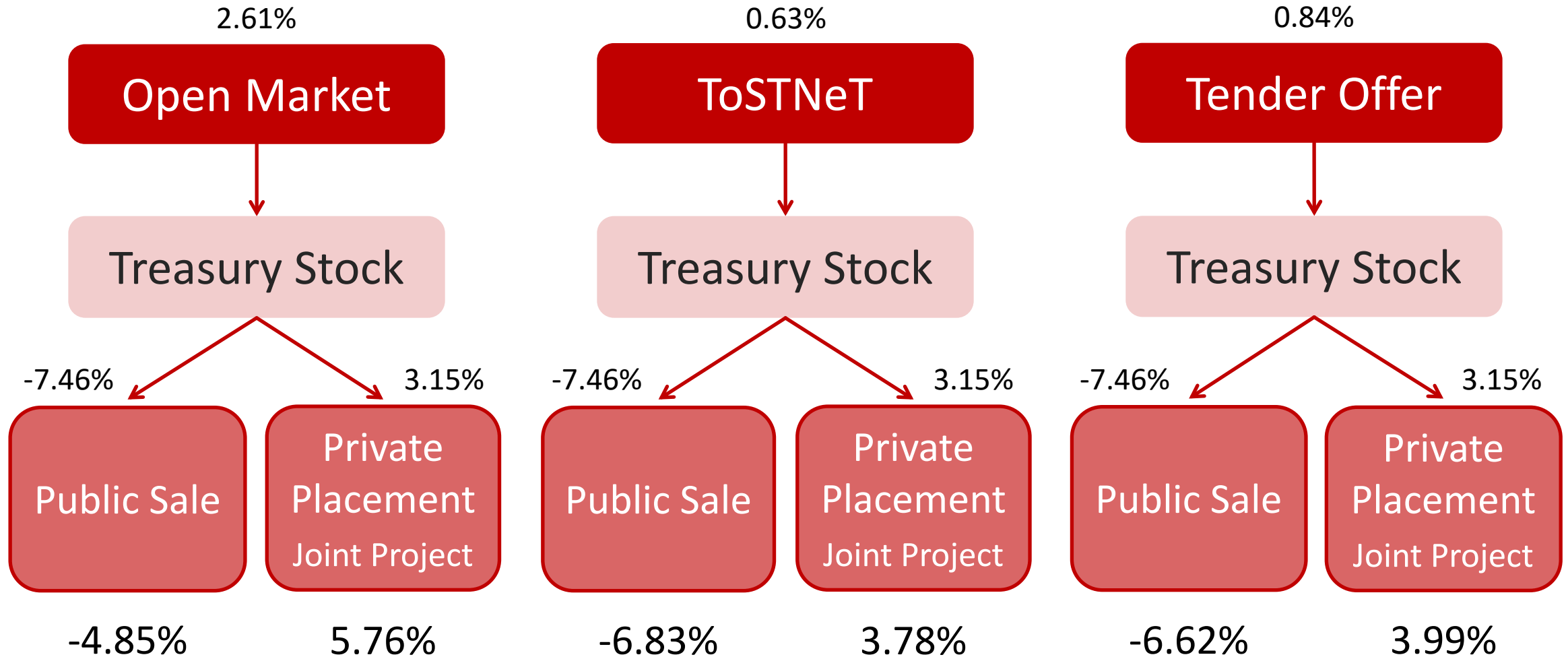


5. Japan: Stock Market Response to Repurchases and Their Disposition

Cumulative Abnormal Returns of Round Tripping



Cumulative Abnormal Returns of Round Tripping



Conclusion

1. Repurchases have become important in Japan.
2. Blocks are often repurchased through ToSTNeT. Allows management to manage ownership.
3. Most repurchased stock held in treasury, placed with other companies to finance joint ventures and strategic partnerships.
4. Stock repurchases which are placed with insiders are value increasing.