Market Insights

Protecting Japanese Investments from Corporate Buyouts

September 2023

Recently, corporate buyout practices in Japan have been under scrutiny from the perspective of corporate governance, especially those buyouts initiated by controlling shareholders, such as parent companies (large companies that own a large chunk of smaller companies), founding families, or even incumbent executives backed by private equity funding. This attention comes because there are often conflicts of interest between buyers and general or minority shareholders of targeted companies, who are often squeezed out due to their lack of influence and collective negotiation. We have heard complaints from shareholders of targeted companies that were bought out, claiming their companies were unfairly "stolen" by the larger players, as weak corporate governance standards in Japan fail to protect minority shareholders.

However, practices have shifted toward the interests of minority shareholders in recent buyout cases, owing to the determined independent directors at targeted companies who have negotiated harder against the buyers. In the case of Itochu Techno-Solutions Corp. (4739 JP) buyout case by Itochu Corp. (8001 JP) on August 2, 2023 and the case of Daiken Corp. (7905 JP) buyout by Itochu Corp. (8001 JP) on August 10, 2023, disclosure documents suggest that special committees formed by independent directors at targeted companies decisively rejected initial buyout offers presented by the buyer (Itochu), resulting in much higher tender offer prices for minority shareholders. We believe RMB's own legal case related to the Itochu/FamilyMart buyout case that was concluded at the Tokyo District Court in March 2023 established a precedent to showcase the best practice for independent directors when faced with such buyout offers from controlling shareholders.

We believe large companies in Japan should no longer use their controlling power over their subsidiaries to the advantage of minority shareholders. We hope the improvement in the market discipline will raise the credibility of the Tokyo stock market and eventually support the valuation of the companies listed there.

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