

Canada's Couche-Tard makes preliminary takeover bid for Japan's Seven & i - Reuters, 2024-08-19¹

Observations by Masa Hosomizu

Alimentation Couche-Tard Inc.'s (ATD CN) buyout intent for Seven & i Holdings Co. Ltd. (3382 JP, "Seven"), reported on August 19, 2024, in Japan, may be a wake-up call for those executives at Japanese companies who are slow to improve their capital efficiency and corporate value. Japanese executives are once again being slapped in the face with the simple capitalism logic that, unless management teams chase better capital efficiency and increase their corporate value, they may become a target of global consolidation.

There was an important development last year in Japan. The Ministry of Economy, Trade and Industry (METI) updated its Mergers and Acquisitions (M&A) guideline stating that management of public companies should sincerely consider serious buyout offers for the sake of shareholders, either friendly or hostile. The guideline demands targeted companies to form special committees comprised of independent directors, have the committee discuss buyout offers, and recommend options for shareholders. Traditionally, forming such committees was rare in Japan, and incumbent executives tend to reject such buyout offers to protect their own jobs regardless of the benefit for general shareholders, making takeover bids more difficult in Japan. The new M&A guidelines by METI paved the way for potential buyers, either domestic or cross-border bidders, to make even hostile offers with a decent chance of success.

Having been the target of several activism funds in the past, Seven has been slow to make changes and improve capital efficiency. They failed to lift its valuation and corporate value, making the firm vulnerable to takeover bids, including the latest one by ATD.

At Seven, there are nine independent directors (out of the total board size of 15) who have formed a special committee and are expected to recommend options to the board, and eventually to the shareholders. Though nothing has been decided at this point, there is a chance for the special committee to recommend pursuing the sale of the firm to ATD even if the incumbent management team wants to run the operation with their own business plan.

We have observed that there are many Japanese companies with attractive operations and assets, but low capital efficiency and valuation compared to their global peers and may also be the targets of similar takeover attempts, especially after the new METI guidelines set them free from the traditional practices in Japan that had prevented such dynamic corporate actions. In the case of Nintendo Co. Ltd. (7974 JP) where Microsoft Corp. (MSFT) considered a buyout of the game console company in the past - such buyout ideas of Japanese companies, which had been regarded as impossible prior to the new guidelines, may be revived under the new corporate governance requirement.

The case of Seven once again presents the severe reality of capitalism to Japanese executives: improve the corporate value or be the target of potential takeover bids. We believe such pressure will accelerate reform at Japanese companies for the sake of shareholder value.

¹Source: reuters.com/markets/deals/japans-seven-i-receives-takeover-offer-canadas-couche-tard-nikkei-says-2024-08-19/

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