

Power of Equity  
IR Japan



# IR Japan KAKUSHIN Seminar

## Presentation

IR Presentation

**KAKUSHIN Seminar October 2019 New York**

October 2 - 3, 2019 - Nomura NY Worldwide Plaza, 309 West 49th St., at 8th Ave., New York, New York

**IR Japan Holdings, Ltd (6035)**

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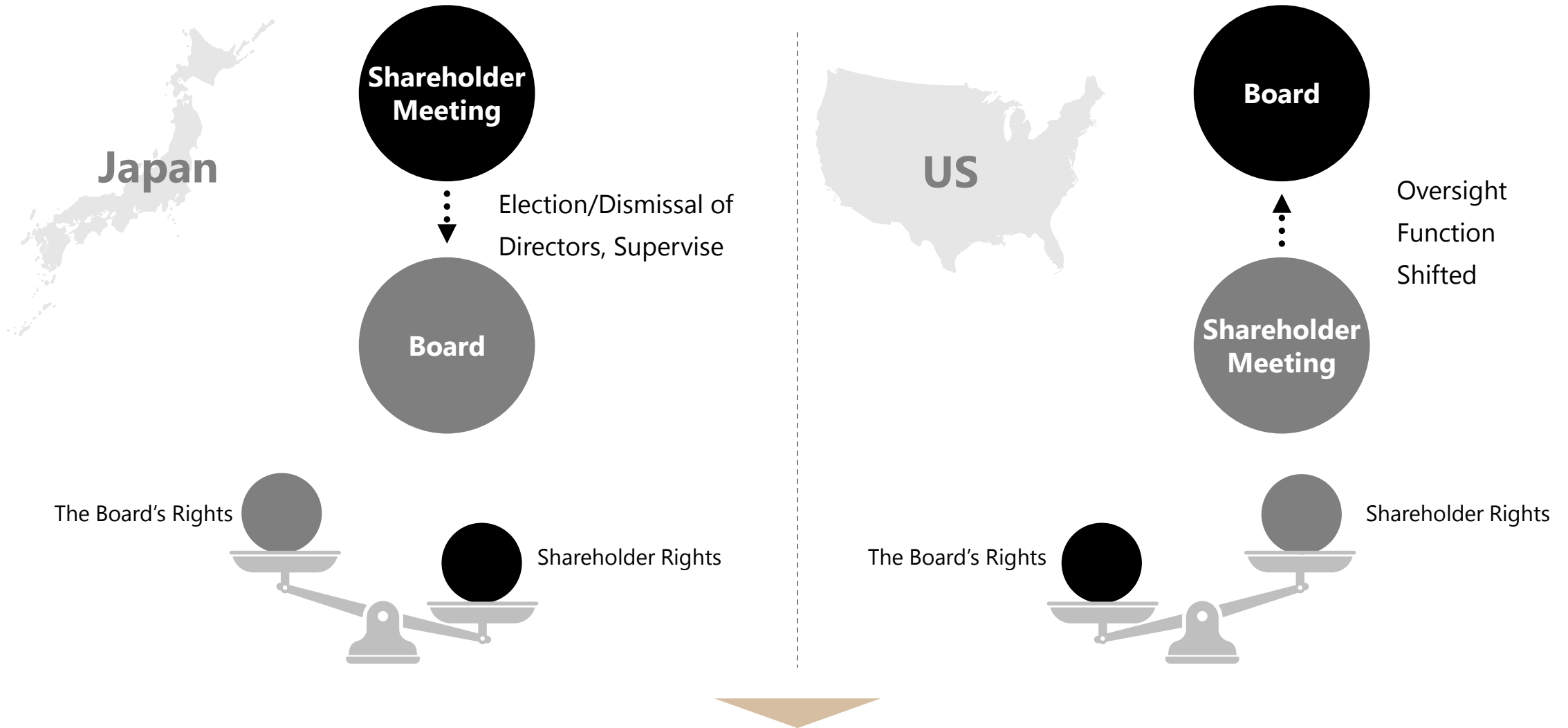
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# The Relationship between Shareholder Rights and Shareholder Meetings

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**Japanese shareholder rights are stronger than that of the Board.**

■ **Rights to View/Request Copies of Shareholder Registry** (Companies Act Article 125)

■ **Right Submit “Certain Matters” at Shareholder Meeting** (Companies Act 303)

...If one holds 1% or more of votes of all shareholders, or over 300 shares

Right to submit “Certain Matters” = “purpose of shareholder meeting (director elections, etc.)”

Ex: “Director Election,” “Appropriation of Surplus Dividend,” etc.

■ **Right to Submit “Proposals” at Shareholder Meeting** (Companies Act 304)

May submit “proposals=content in detail” at the shareholders meeting with respect to the matters that are the purpose of the shareholders meeting, which such shareholders may exercise their votes.

Ex: In the case of director elections, one can submit a proposal to “Elect B as director” against the Company’s “Elect A as director” proposal, etc.

■ **Right to Call Shareholders Meeting** (Companies Act 297)

...If one holds 3% or more of votes of all shareholders

Shareholders, having consecutively for the preceding six months of more (or, in cases where shorter period is prescribed in the articles of incorporation, such period or more) not less than three hundredths (3/100)(or, in cases where lesser proportion is prescribed in the articles of incorporation, such proportion) of the votes of all shareholders may demand the directors, by showing the matters which shall be the purpose of the shareholders meeting (limited to the matters on which such shareholders may exercise their votes) and the reason for the calling, that they call the shareholders meeting.

(abbreviated)

In the following cases, the shareholders who made the demand pursuant to the provisions of paragraph (1) may call the shareholders meeting with the permission of the court.

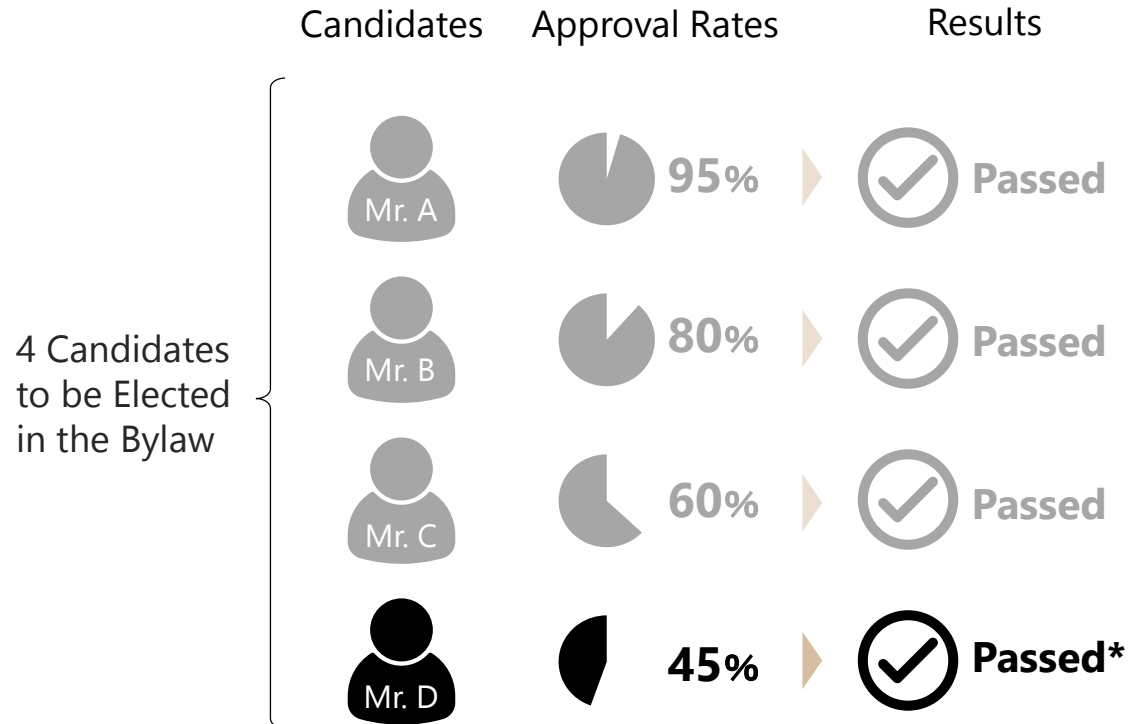
(i) In cases where the calling procedure is not effected without delay after the demand pursuant to the provisions of the first paragraph

(ii) In cases where a notice for the calling of the shareholders meeting which designates, as the day of the shareholders meeting, a day falling within the period of eight weeks (or, in cases where any period less than that is provided for in the articles of incorporation, such period) from the day of the demand pursuant to the provisions of the first paragraph is not dispatched.

■ **Right to Inspect Account Books** (Companies Act 433) ...If one holds 3% or more of votes of all shareholders

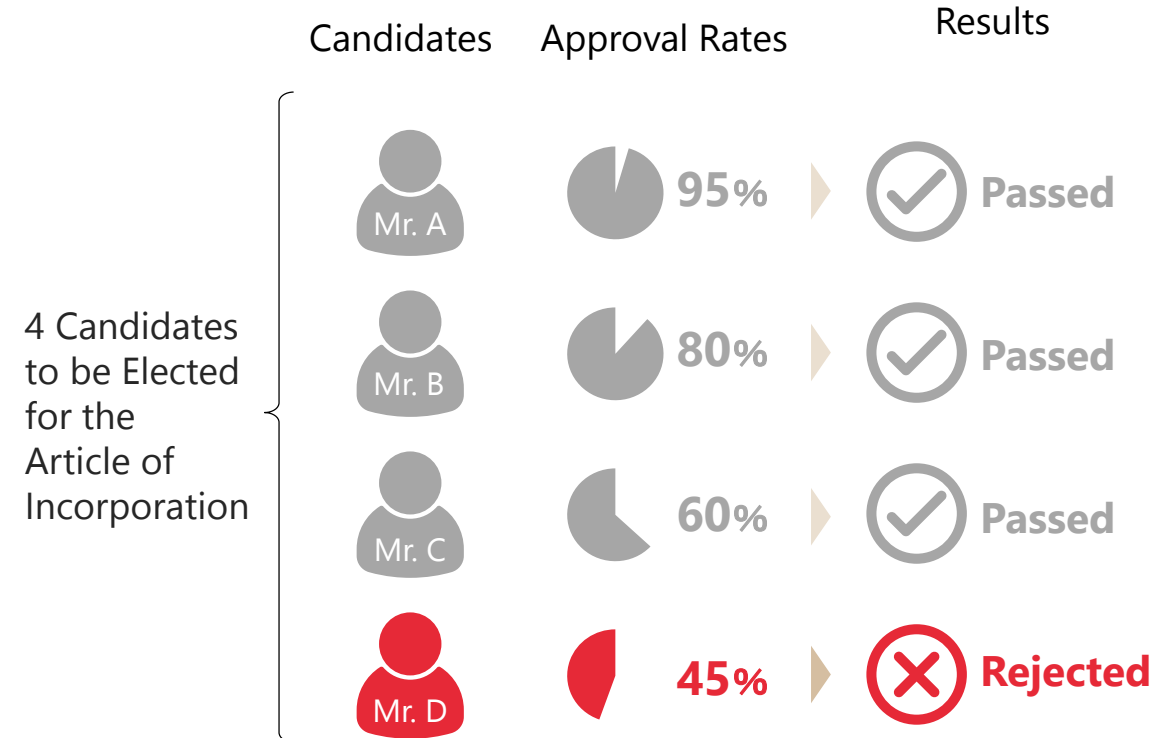
**Japanese shareholder rights are vast and strong**

## US - Delaware -



\*There are cases where resignation is recommended for those that did not have majority support

## Japan - Companies Act -



**In the US, majority support is not always needed for a director election; however, in Japan, majority support is required to elect a director.**

## From the Companies Act

### ■ Resolutions of Shareholders Meetings

<Article 309>

Unless otherwise provided for in the articles of incorporation, **the resolution of a shareholders meeting** shall be made by **a majority of the votes of the shareholders present at the meeting** where the shareholders holding a majority of the votes of the shareholders who are entitled to exercise their votes are present.

### ■ Dismissal

<Article 339>

Officers and financial auditors **may be dismissed at any time by a resolution at a shareholders meeting.**

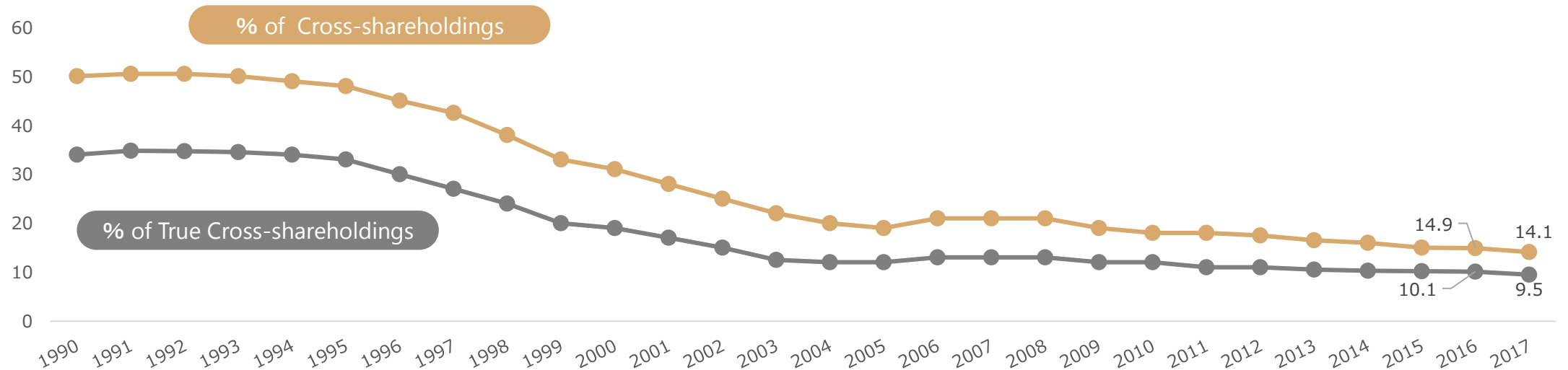
### ■ Resolution at Shareholders Meeting for Election and Dismissal of Officers

<Article 341>

Notwithstanding the provisions of Article 309(1), **resolutions at shareholders meetings for the election or dismissal of officers** must be passed by the **majority** (in cases where a higher proportion is provided for in the articles of incorporation, such proportion or more) **of the votes shareholders present at the meeting where the shareholders holding the majority of the votes (in cases where a proportion of one third or more is provided for in the articles of incorporation, such proportion or more) of the shareholders entitled to vote are present.**

**In Japan, director dismissals must be resolved at shareholders meetings. Additionally, if the dismissal proposal receives majority vote, the director will be dismissed.**

## The Change Over Time of the "Ratio of Cross-shareholdings"



(Note)

Percentage of cross-shareholdings : Percentage of market cap of the overall market to the shares of listed companies (based on market cap) held by other listed companies (excluding listed insurance companies)

True Cross Shareholdings : adding holdings by insurance companies to the percentage of cross-holdings

Data Source : Created by IR Japan, referencing "Our Country's Cross-shareholdings Situation of Listed Companies (2017)" by Kengo Nishiyama and Nomura Capital Market Quarter 2018 Autumn

**Cross-shareholding ratios are decreasing each year, leading to a very difficult situation for listed companies who are trying to secure stable shareholders.**

## Nikkei Morning Newspaper: Front Page

September 5, 2019

**“Corporate Japan sheds more cross-shareholdings: 10,000 stocks unloaded in 5 years”**

## Nikkei Morning Newspaper: Other Articles

September 6, 2019

**“The whereabouts of 27 trillion yen: Cross-shareholdings and their invisible significance”**

August 25, 2019

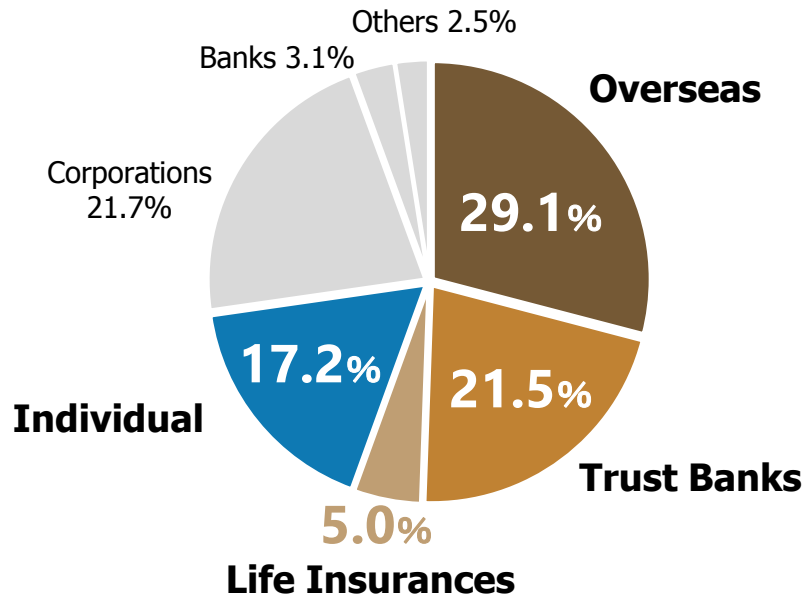
**“Listed companies under strict scrutiny from investors regarding 27 trillion yen of cross-shareholdings as the cause of drop in share price”**

June 14, 2019

**“Cancellation of cross-shareholdings promoted through revised code”**



## Shareholding Ratio by Investment Division

Overseas  
Institutional  
Shareholders

29.1%

(Not on the shareholder registry)

Domestic  
Institutional  
Shareholders

21.5%

(Not on the shareholder registry)

Life  
Insurances

5.0%

Pure Institutional Shareholders under the SS Code

55.6%

+

Pure Individual Shareholders

17.2%

||

The Total Ratio of Pure Institutional and Individual  
Shareholders, Unrelated to Cross-Shareholdings

72.8%

As cancellation of cross-shareholding progresses, it is increasingly difficult to secure stable shareholders for Japanese listed companies.

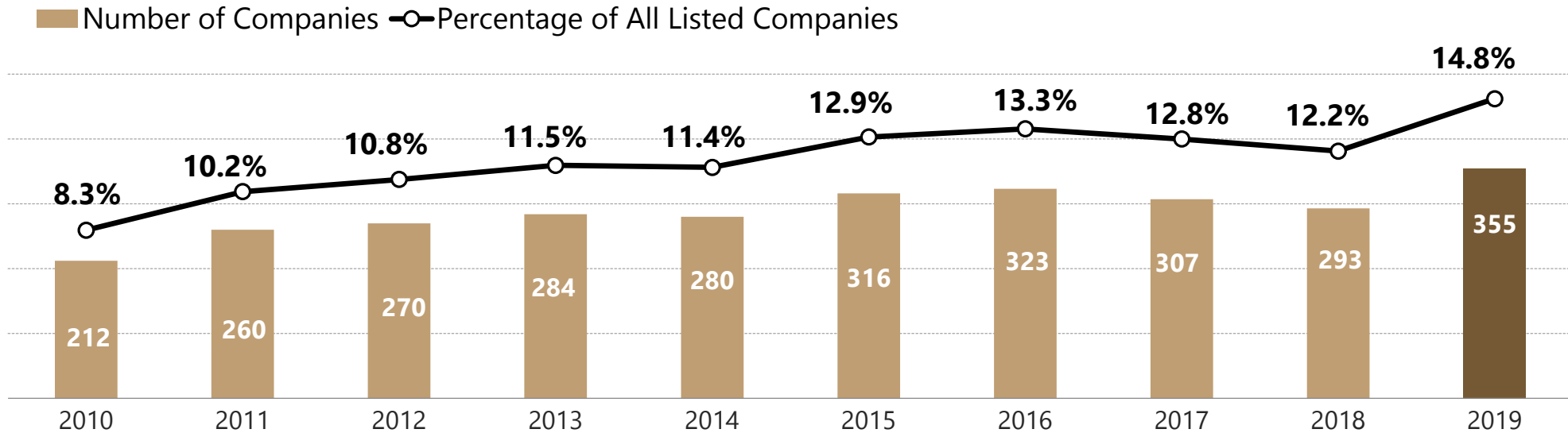
Data Source :

- Created based on TSE disclosed material "Shareholding Ratio by Investment Division"
- Shareholding ratio by investment division of all listed companies' market cap (based on price)

• As of end of March 2019

# Ordinary Shareholders Meeting held in June: Companies that had 20% opposition on proposals (researched by IRJ)

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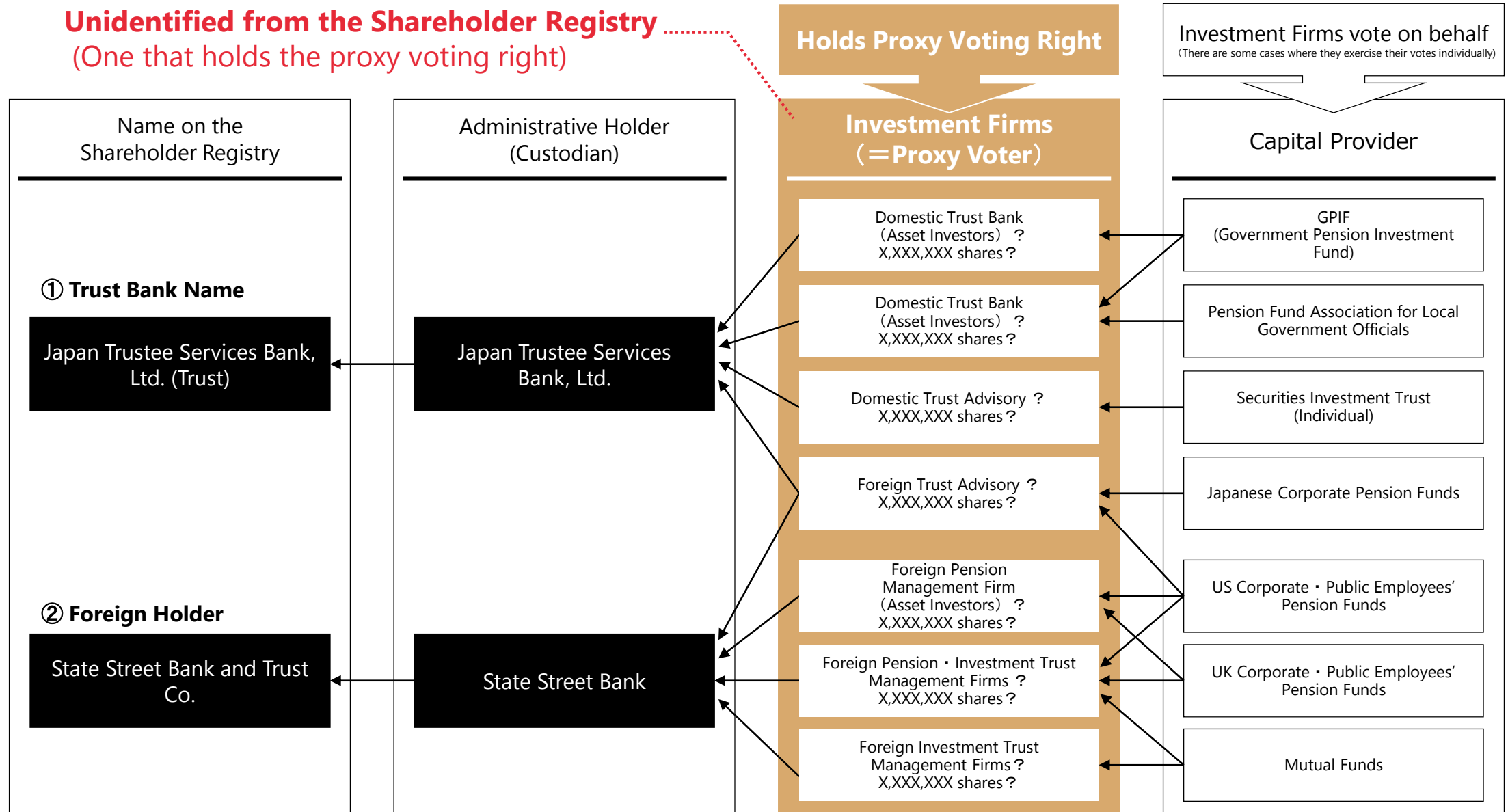


【Opposition Rate】 ※the percentage is based on all companies with June meetings (listed on all Japanese markets)

	2015	2016	2017	2018	2019
Number of Companies that Recorded a Proposal with 10% Opposition	<b>789</b> (32.2%)	<b>817</b> (33.6%)	<b>750</b> (31.2%)	<b>779</b> (32.4%)	<b>911</b> (38.0%)
Number of Companies that Recorded a Proposal with 20% Opposition	<b>316</b> (12.9%)	<b>323</b> (13.3%)	<b>307</b> (12.8%)	<b>293</b> (12.2%)	<b>355</b> (14.8%)
Number of Companies that Recorded a Proposal with 30% Opposition	<b>91</b> (3.7%)	<b>108</b> (4.5%)	<b>94</b> (3.9%)	<b>96</b> (4.0%)	<b>107</b> (4.5%)

- Calculations are done by tallying the data of companies that had double digit opposition votes. (2,400 listed companies with fiscal year-ending March 2019)
- One company had proposals that were rejected

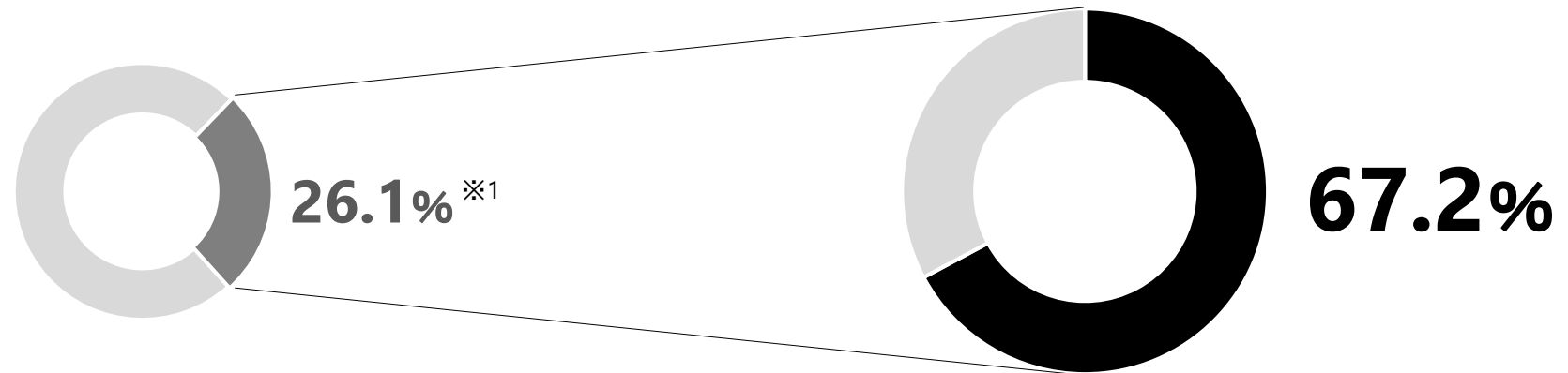
**Unidentified from the Shareholder Registry**  
(One that holds the proxy voting right)



- The number of firms implementing studies to identify their overseas shareholders have increased year after year. Market share of our group's main service: "Shareholder Identification" still offers room to expand.

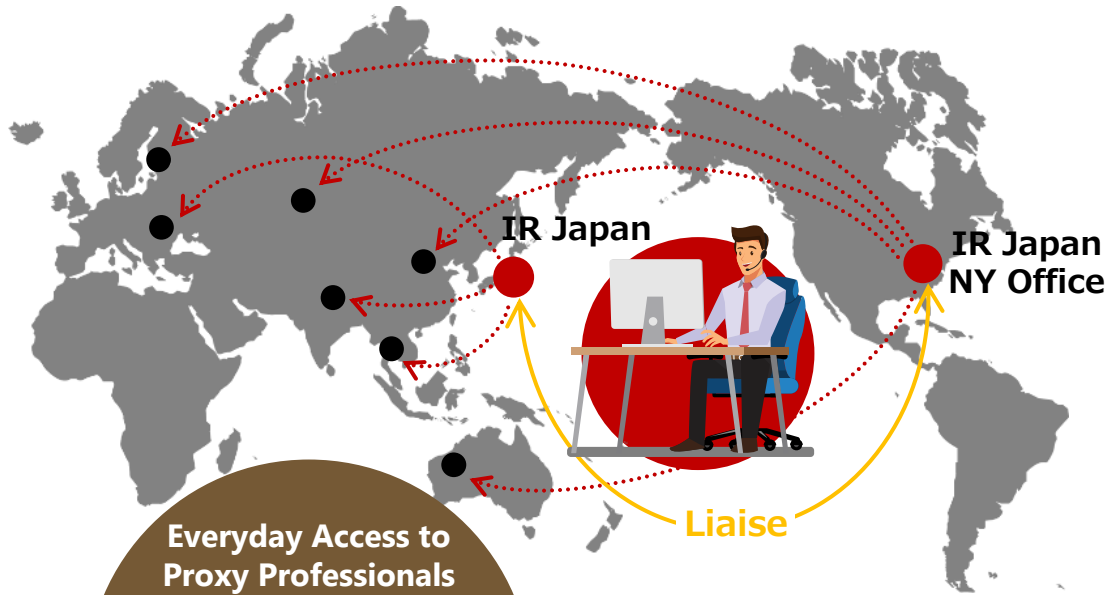
Ratio of listed companies  
that have implemented  
Shareholder identification

Our company's overseas  
shareholder identification ratio



N=1,751 companies

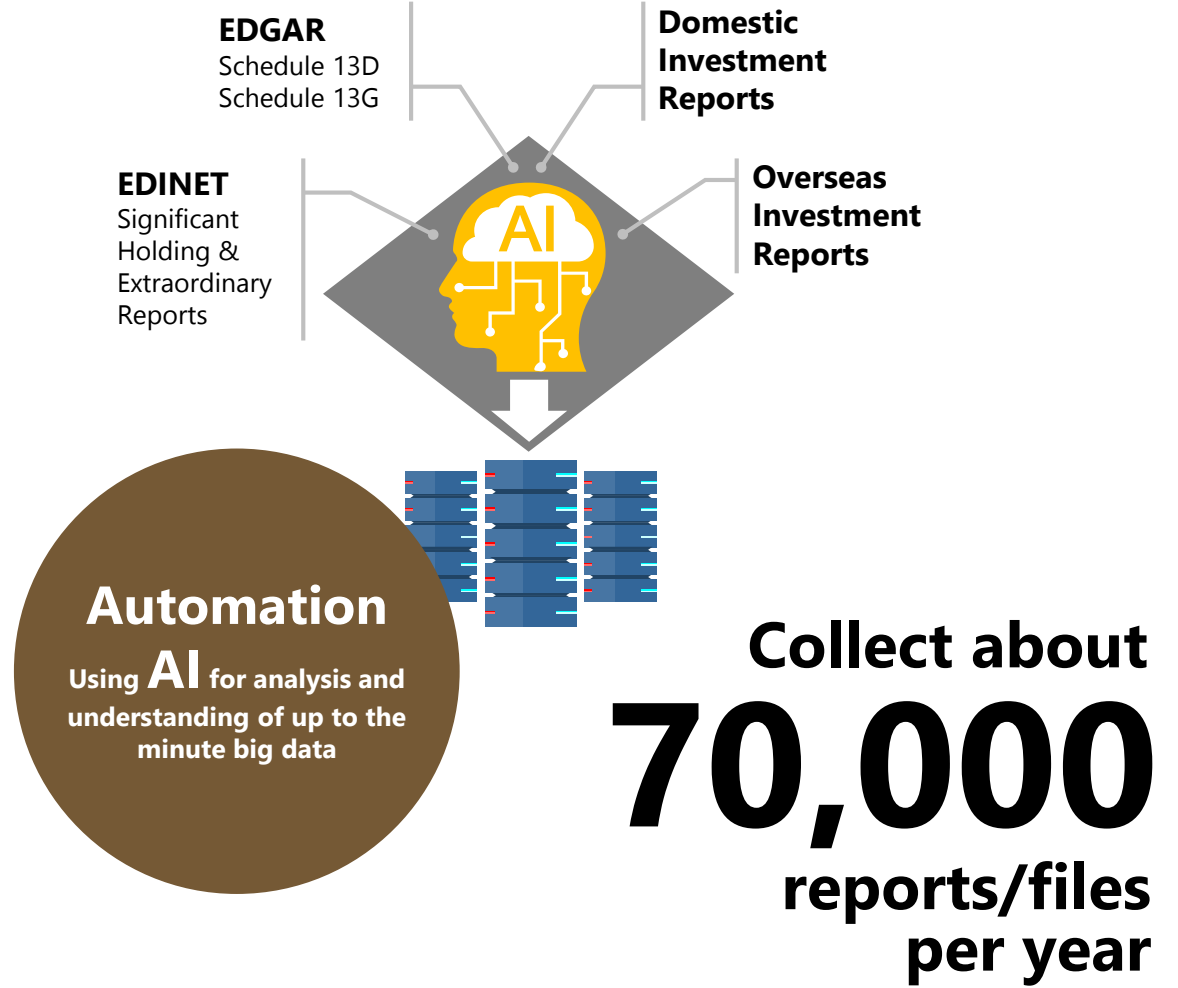
※1 Kabukon materials from October 2018



Everyday Access to Proxy Professionals Numbering Over

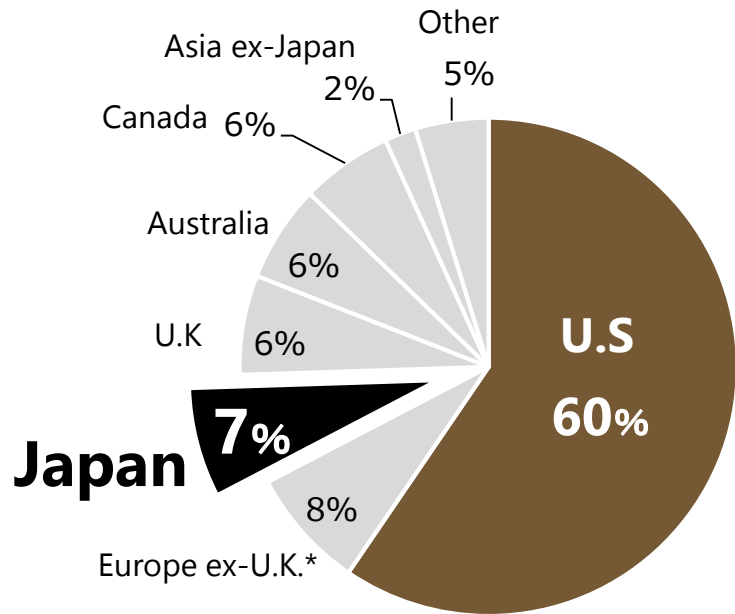
# 6,000

- ✓ Hedge Funds
- ✓ SWF
- ✓ Activists



- After the US, Japan is the country with the second highest number of activist campaigns.
- There are a record-high 33 activist funds in Japan

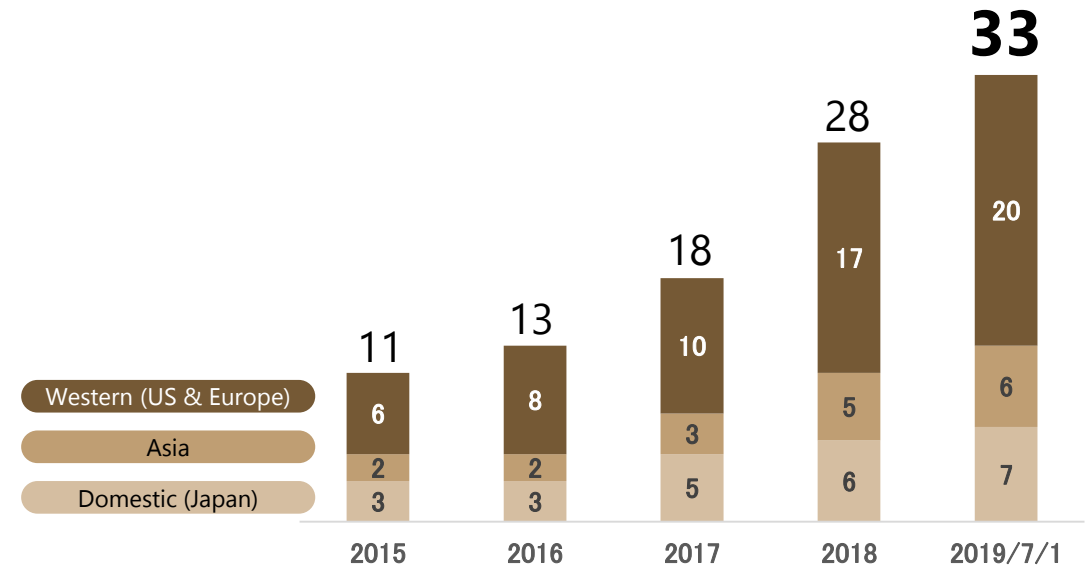
**Geographic Breakdown of Activist Campaigns**



\* Total for continental Europe

Source: Calculated by IR Japan based on data from Activist Insight

**Activist Funds in Japan**



**【Method of Counting Funds】**

The number of funds listed are those that have used activist strategies in domestic as well as overseas markets and have been investing in Japanese stocks.

Funds not adopting activist strategies for individual years are not included in the count for that year.

(※ Based on shareholder proposals, publicly released demands, materials released publicly in the media such as letters and campaign sites.)

Source: IR Japan, Inc.

- **Activists are submitting unprecedented shareholder proposals and there are a number of instances where activists have won board seats.**
- **In addition, traditional institutional investors are becoming increasingly supportive of shareholder proposals.**

Activist	Target Company	Demands				
		Director Election/ Resignation	Strengthen Shareholder Return/Sell Cross- Shareholdings	Sale, Spinoff, Merger	Business Strategy	Governance-related
King Street Capital	Electronic Goods Company A	●	●			
Third Point	Electronic Goods Company B		●	●	●	
ValueAct Capital	Medical Instruments & Supplies Company C	●				●
Effissimo Capital	Shipping & Ports D	●				
Lone Alpha Capital	Food Distribution Company E Other non-public campaigns			●		
Oasis Management	Construction Company F Other non-public campaigns	●	●			●
Fir Tree Capital	Land Transportation Company G	●	●			●
Dalton Investments	Chemical Company H, Banking Company I	●	●			

## ■ Providing the one-and-only equity consulting system to tackle increasing demands from activists.

### Kasumigaseki, Tokyo SR Consulting HQ

The headquarter of our core service: SR Consulting, which bases their foundation in shareholder identification service.



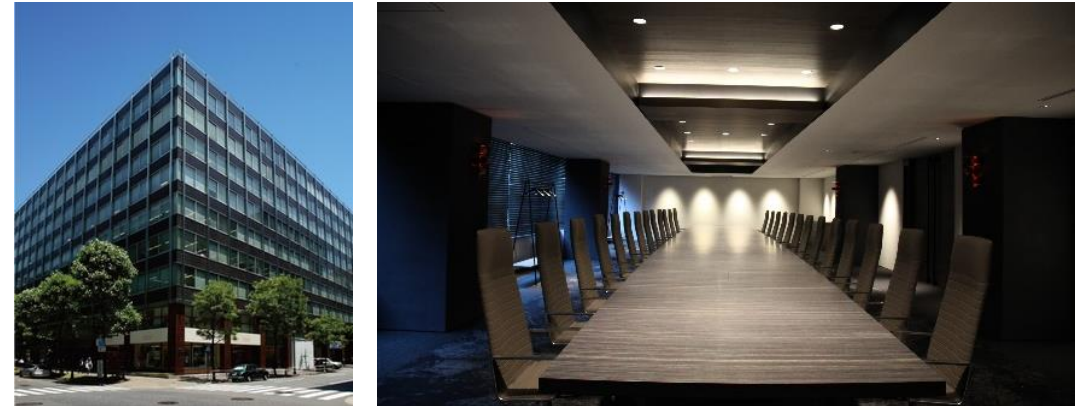
#### <Main Solutions>

- Domestic and Overseas Shareholder Identification
- Proxy Voting Simulation
- Promotion to Exercise Proxy Votes
- Activist Analytics
- White Paper Drafting Support
- Governance Consulting

**SR**

### Marunouchi, Tokyo Investment Banking HQ

Providing thorough financial advisory (FA) on behalf of the clients, using our strength of independence.



#### <Main Solutions>

- Proxy Advisory
- Hostile Shareholder Proposals · TOB
- Activist Related Advisory
- M&A Support
- Capital Policy Consulting
- TOKYO PRO Market Listing Support

**Proxy**

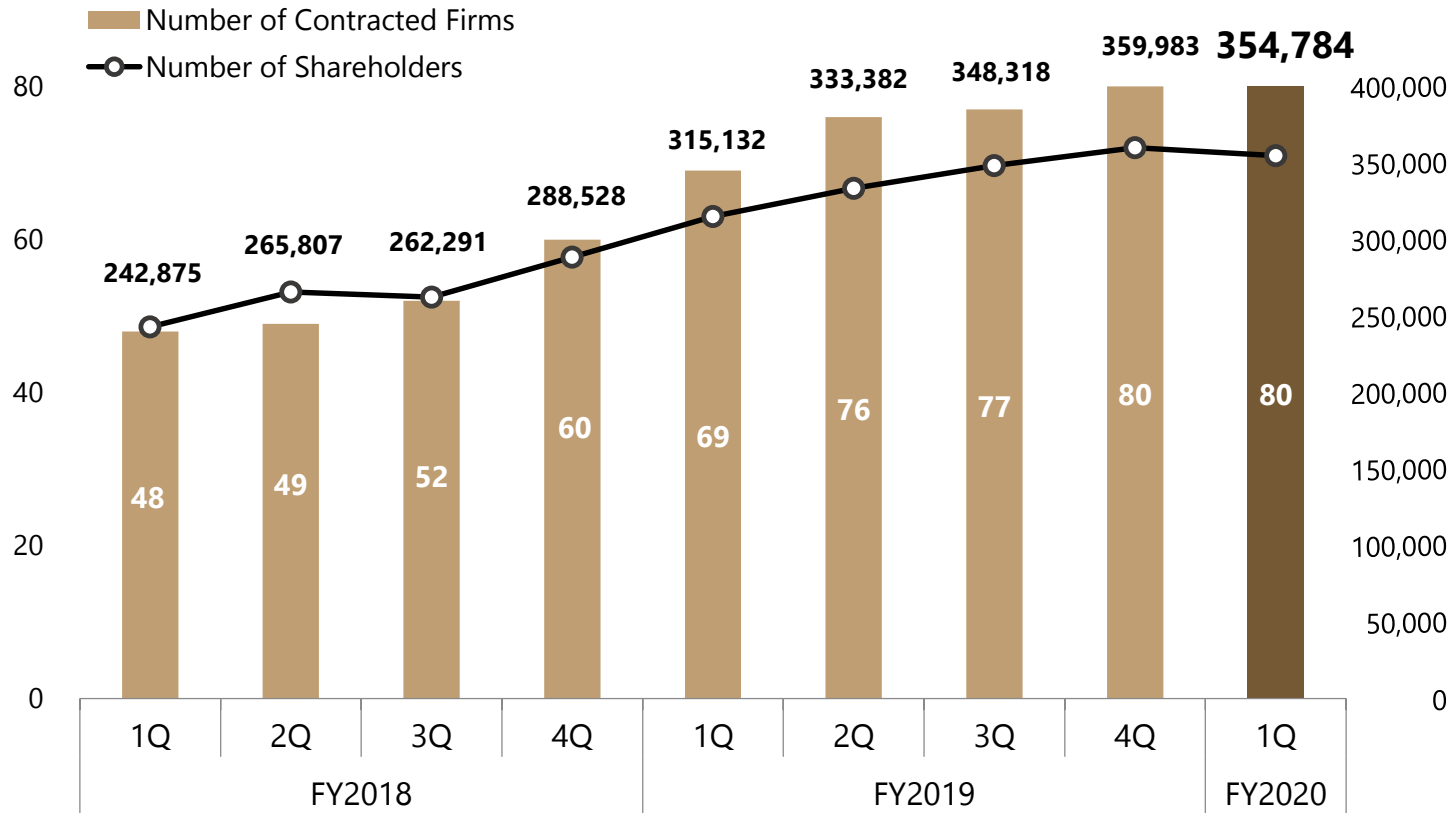
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**M&A**



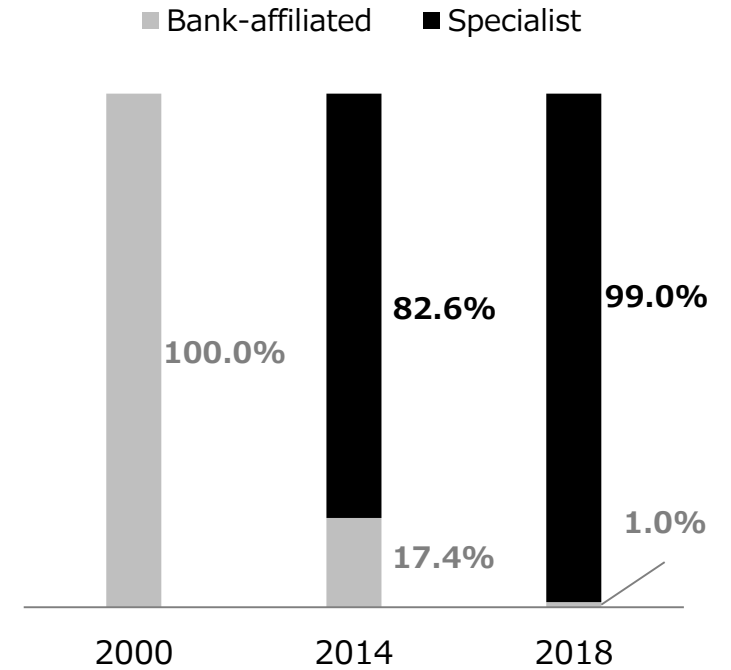
- Became first new entrant to the business for the first time in 40 years in April of 2012. Our client base continues to expand with the shareholder information that we have as a TA firm that stands in the forefront of shareholders and the growing importance of the ability to swiftly correspond with shareholders.

**Trend in the Number of Contracts from FY2018**



**\* Reference**

**Current Situation of the Transfer Agency Business in the US (S&P500 Companies)**



## Providing a Total Solution with the Axis on Proxy Voting Rights

### Proxy Advisor(PA) Functions

Shareholder  
Identification  
Research  
and Analysis

Action Plan to  
Pass Shareholder  
Meeting Proposals

Proposal Analysis ·  
Voting Result  
Simulation

### Financial Advisor(FA) Functions

Support Promotion  
to Exercise  
Voting Rights

Simulation to  
Comply to TOB

### Transfer Agency(TA) Functions

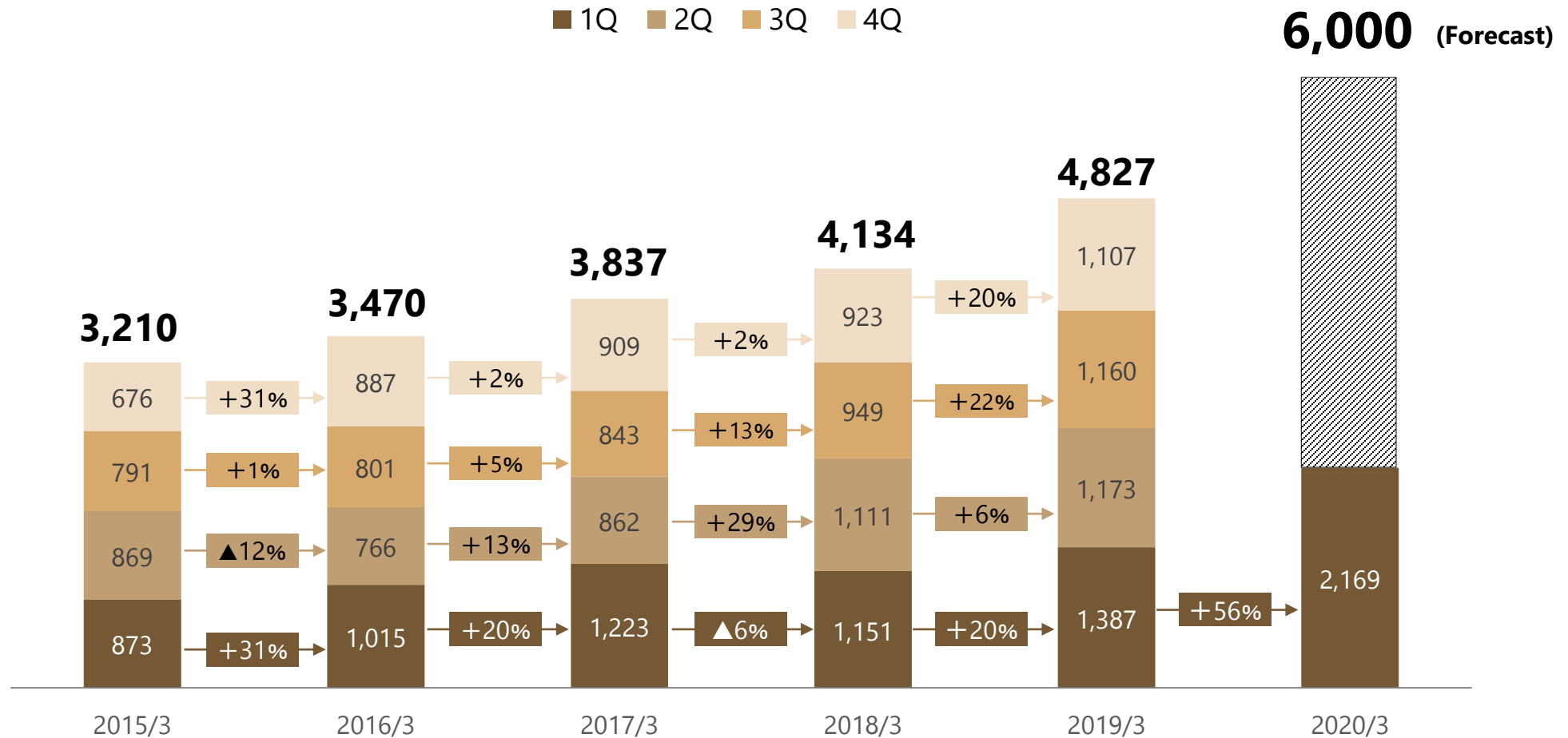


- Manage/Analyze Shareholder Registry
- Send/Collect Proxies
- Support Shareholder Meeting

We can support the host of  
extraordinary shareholder  
meetings held by  
shareholders as well!

## Current Forecast and Trend in Sales over the Past 5 Years

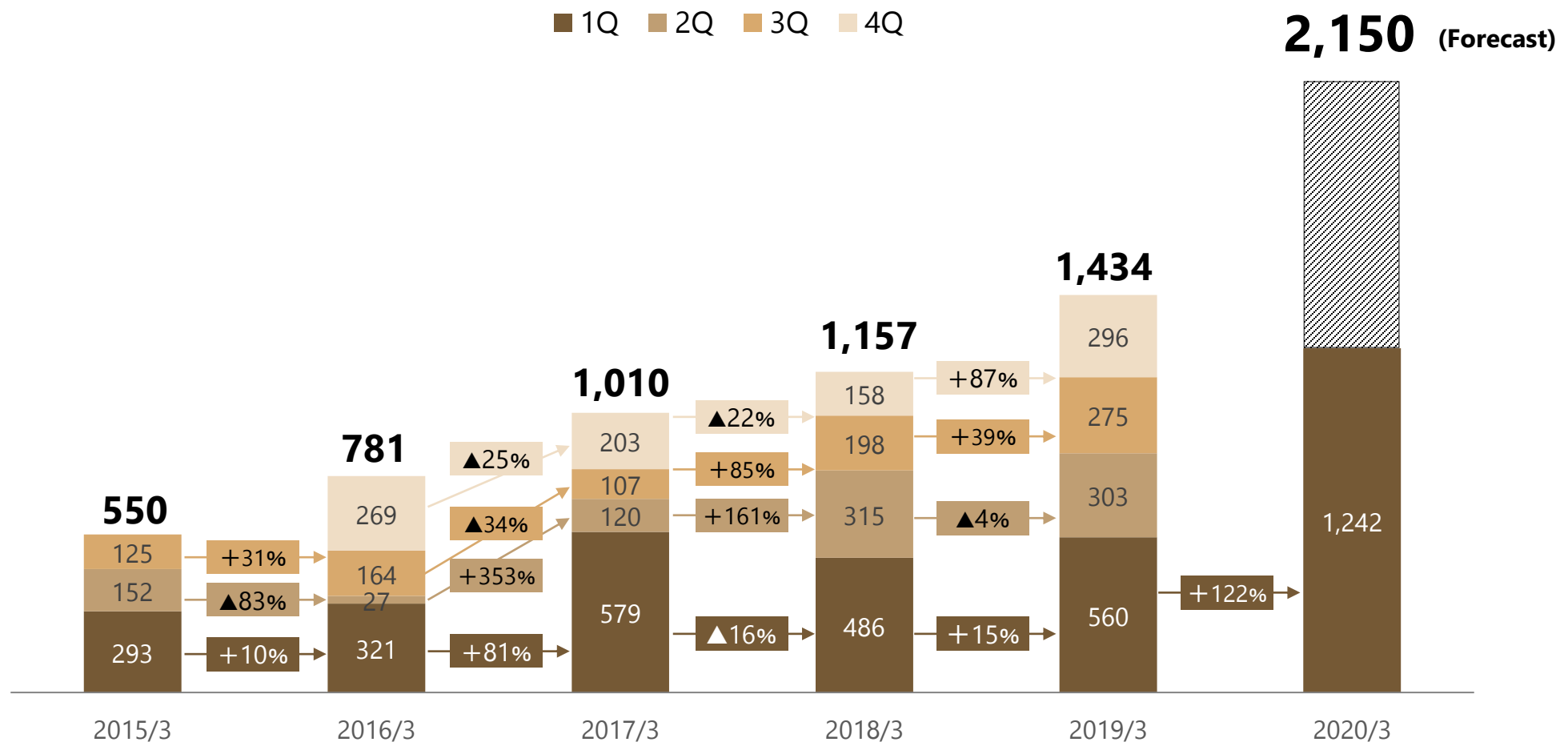
\*Million Yen



Fiscal Year Ending 2015; Fiscal Year Ending 2016; Fiscal Year Ending 2017; Fiscal Year Ending 2018; Fiscal Year Ending 2019; Fiscal Year Ending 2020

**Current Forecast and Trend in Operating Income over the Past 5 Years**

\*Million Yen



**IR Market in the wide sense : 45 billion yen**

- Institutional disclosure | FIEA-related business
- Voluntary disclosure | Shareholder communication, disclosure magazine, English IR materials, etc.
- Total IR Support | Information session, conference, meeting...

**Main Players**

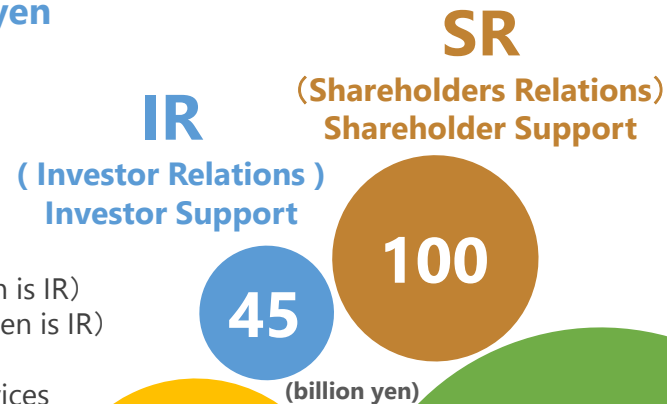
Pronexus Inc. : 23.1 billion yen (of which, 5.5 billion yen is IR)  
 Takara Printing : 18.2 billion yen (of which, 4.4 billion yen is IR)  
 Nomura IR/Daiwa IR/Nikko IR  
 Japan IR and Investor Support/Japan Shareholder Services

**LA Market : 200 billion yen**

- Business Law (Companies Act, FIEA, etc.) support
- Corporate Governance

**Main Players**

Anderson Mori & Tomotsune Law Firm  
 Nagashima Ohno & Tsunematsu Law Firm  
 Nishimura & Asahi Law Firm  
 Mori Hamada & Matsumoto Law Firm  
 TMI Associates

**Legal Sector  
Legal Services****SR Market in the wide sense : 100 billion yen**

- Transfer Agency
- Shareholder Meeting-related support
  - Prior voting result simulation
  - Action plan to pass shareholder meeting proposals
  - Proxy voting result analysis
- Shareholder identification consulting

**Main Players**

Mitsubishi UFJ Trust (38.4 billion yen)  
 Mitsui Sumitomo Trust (37 billion yen)  
 Mizuho Trust (14.5 billion yen)

**M&A**  
(Mergers and Acquisitions)  
Corporate Acquisition**M&A Market : 600 billion yen**

- M&A Commission

**Main Players**

Nomura Securities/Mizuho FG/Goldman Sachs  
 Daiwa Securities/JP Morgan/MUMSS/ Mitsui Sumitomo FG  
 GCA (26.6 billion yen)  
 Japan M&A Center (28.4 billion yen)  
 M&A Capital (8 billion yen)  
 Strike (3.7 billion yen)

**Equity Consulting Market****Total  
945 billion yen**

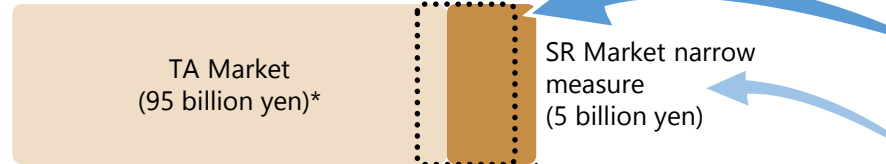
Data Source :

- Calculated based on Japan IR Association's IR activity research "Average annual cost of IR activity" and recent sales of securities certificate printing and IR companies. The main players' sales are taken from each companies most recent financial statements.
- TA's numbers are calculated based on most recent commission income and gross business profit. IR and securities certificate printing companies' data are calculated based off their most recent sales.
- M&A market scale is calculated based on the hypothesis of the commission rate is 2% of 2018 Japanese Corporate-related M&A cost (approx. 30 trillion yen) from the MARR statistics.

# Market Size of the Current IR/SR Consulting & Transfer Agency and The Company's Long-term Goals

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**The Current SR ("Shareholder Relations") Market (the broad market measure which includes TA ("Transfer Agency"))**

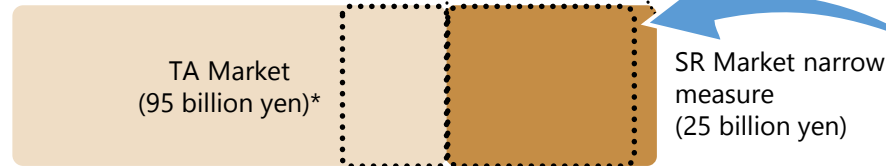


**The Group's current market share: 3 Billion Yen**

(share breakdown: 60% of SR Market narrow measure + TA Market)

The current diffusion of the narrowly measured SR market is 20% of that of the forecast

**Prospective Broad Measure SR Market (including TA)**



**The Company's goal for the SR Market: 50 billion yen**

(share breakdown: 90% of SR Market narrow measure + 30% of TA Market)

+



**The Company's goal for the LA ("Legal Advisor") Market and M&A Market: 40 billion yen**

(share breakdown: LA/M&A Market each account for a 5% share)

**Long-term aim of the Group: 90 billion yen of total sales**

\* Calculated by IR Japan based on sales amount of the main players

# Power of Equity

IR Japan is a consulting company that offers services with high added value aimed at developing the capital market based on the power of equity.

Power of Equity

IR Japan

