



Age is only a number?

Looking at age as a factor for corporates in Japan

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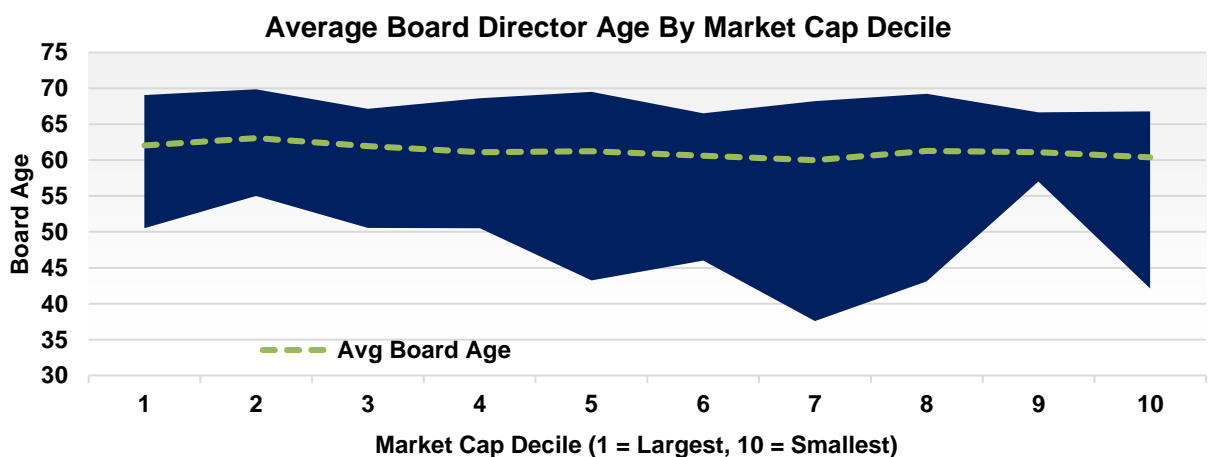
Conclusion

Golden Bolt

Hidekichi Miyazaki, aka *Golden Bolt*, broke a Guinness World Record by running 100m at a spritely 105 years old in a time of 42.22 seconds in September this year. While not quite matching Usain Bolt's 9.58 seconds performance we investigated whether younger boardrooms in Japan had led to outperformance of those companies with older boards. Perhaps Oscar Wilde's infamous quote "*I am not young enough to know everything*" actually makes sense in this case.

Youth trumps experience

We took the tender average age of 60 for boards as the cut off. In terms of performance over the last 5 years, the younger bucks have it at 133% average return versus 96.8%. The best performing firm returned 915.3% (average board age 50.6) with the golden oldies returning a best performance of 894.7% (average board age 64.1). The youngest board (average age 37.6 years) returned 203.4% over 5 years while the oldest board managed just 78.1% not far off their average age of 69.9 years.



Source: Custom Products Research

We also analyse the strong outperformance of companies that have younger employees and look at which industries have what age mixes. Some interesting outcomes were discovered.

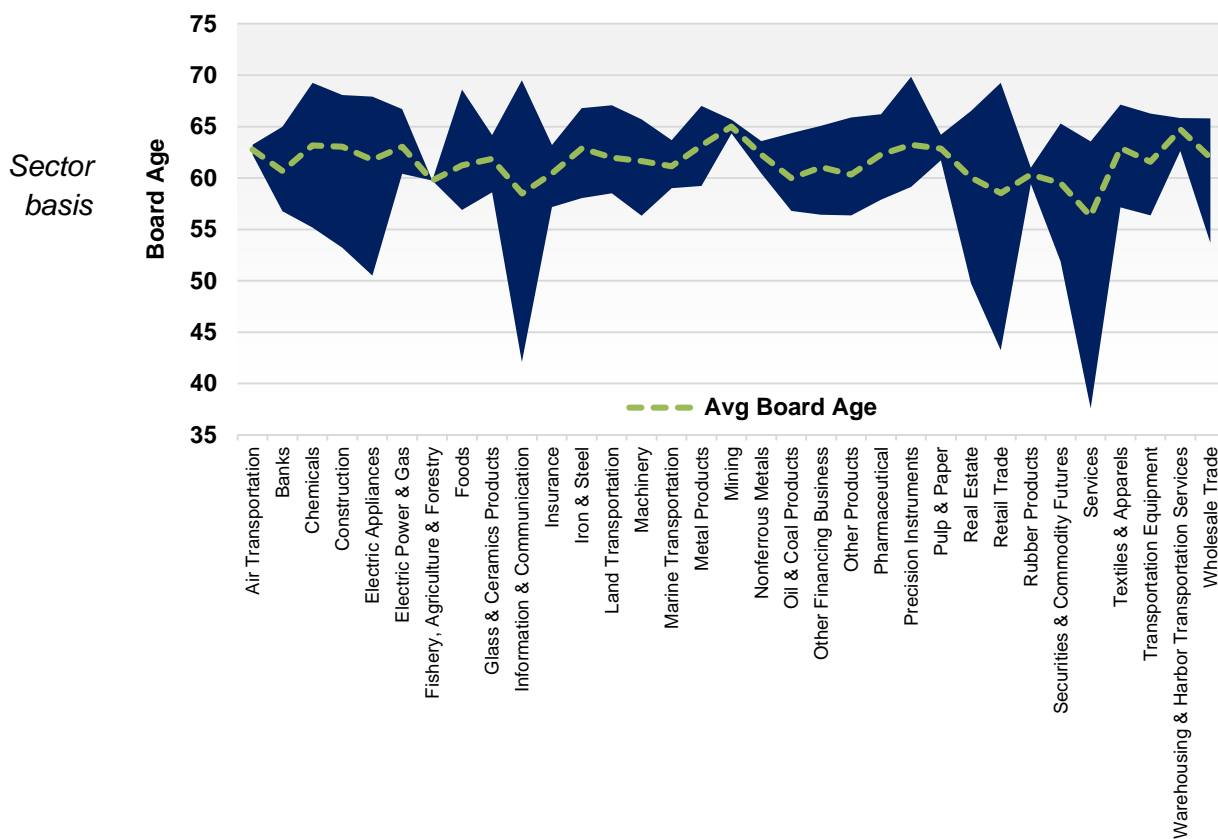


Youth in the Boardroom

Younger boards outperform In terms of average performance over the last 5 years, younger boards returned 133% versus 96.8% for older boards, using 60 years old as a cut off. The best performing firm returned 915.3% (average board age 50.6) with the older generation’s best performance of 894.7% (average board age 64.1). The youngest board (average age 37.6 years) returned 203.4% over 5 years while the oldest board managed just 78.1% not far off their average age of 69.9 years.

In the following chart we can see that Services, Retail Trade and Information & Communication sectors have the youngest boards both in absolute and average terms.

Average Director/Board Age By Sector



Source: Custom Products Research

CyberAgent the youngest board CyberAgent (4751) wins the prize for the youngest board in Japan among listed companies and not surprisingly internet related businesses and online game companies follow suit as seen below. The information age also drags in companies such as M3 (2413), Matsui Securities (8628), Kakaku.com (2371), Yahoo Japan (4689) and Rakuten (4755). The broader results can be seen overleaf in the following table.

When looking at older boards (overleaf), tech companies, terrestrial broadcasters, textiles, chemical and real estate dominate.



Ticker	Company Name	Sector	Mkt-Cap (JPYb)	Avg Employee Age	Avg Director Age	Px Chg since Jan 2010
4751	Cyberagent, Inc.	Services	314.5	30.7	37.6	203.4
3632	Gree, Inc.	Info & Communication	138.1	32.3	42.1	-49.9
2432	DeNA Co., Ltd.	Services	340.2	32	42.8	23.1
3668	COLOPL, Inc.	Info & Communication	245.5	30.2	43.1	na
3092	Start Today Co., Ltd.	Retail Trade	448.4	29.2	43.3	617.9
9435	Hikari Tsushin, Inc.	Info & Communication	416.9	31	46.0	419.6
4666	Park24 Co., Ltd.	Real Estate	342.2	35.6	49.8	138.2
3659	NEXON Co., Ltd.	Info & Communication	682.7	33.2	50.5	na
6861	Keyence Corporation	Electric Appliances	3,486.4	35.3	50.5	228.5
2413	M3, Inc.	Services	772.1	34	50.6	915.3
8628	Matsui Securities Co., Ltd.	Securities	286.5	38	51.9	65.0
9989	Sundrug Co., Ltd.	Retail Trade	427.2	31.9	52.0	208.0
2371	Kakaku.Com, Inc.	Services	457.5	34	52.3	357.2
3349	COSMOS Pharmaceutical Corporation	Retail Trade	301.4	29.1	52.7	544.0
9861	Yoshinoya Holdings Co., Ltd.	Retail Trade	98.0	48.8	52.7	50.4
8184	Shimachu Co., Ltd.	Retail Trade	135.8	na	53.0	45.0
1878	Daito Trust Construction Co., Ltd.	Construction	1,020.5	41.7	53.2	192.4
4689	Yahoo Japan Corporation	Info & Communication	2,790.6	35	53.5	76.0
9962	Misumi Group Inc.	Wholesale Trade	399.8	39	53.7	176.3
4755	Rakuten, Inc.	Services	2,362.5	32.8	54.1	133.7
2651	Lawson, Inc.	Retail Trade	906.7	39.8	54.1	120.5

Source: Custom Products Research

Older boards

HOYA (7741) has the oldest average board age in Japan at 69.9 years, followed by Nippon TV (9404) at 69.5 years, Nifco (7988) 69.3 years, AEON (8267) 69.0 years and Shin-Etsu (4063).

Older boards from older industries

HOYA oldest board

Ticker	Company Name	Sector	Mkt-Cap (JPYb)	Avg Employee Age	Avg Director Age	Px Chg since Jan 2010
7741	HOYA CORPORATION	Precision Instruments	1,824.2	43.2	69.9	78.1
9404	Nippon Television Holdings, Inc.	Info & Communication	526.6	48.1	69.5	66.2
7988	Nifco Inc.	Chemicals	252.4	41	69.3	154.5
8267	AEON Co., Ltd.	Retail Trade	1,577.3	46.8	69.3	140.6
4063	Shin-Etsu Chemical Co Ltd	Chemicals	2,883.9	42.5	69.0	27.6
2801	Kikkoman Corporation	Foods	731.1	41.9	68.6	206.4
4676	Fuji Media Holdings, Inc.	Info & Communication	345.4	43.1	68.2	13.3
1812	Kajima Corporation	Construction	732.7	43.7	68.1	270.6
6965	Hamamatsu Photonics K.K.	Electric Appliances	476.0	40	67.9	152.5
4004	Showa Denko K.K.	Chemicals	224.6	40	67.5	-18.9
1803	Shimizu Corporation	Construction	830.3	43.4	67.1	216.2
3591	Wacoal Holdings Corp.	Textiles & Apparels	212.5	45.4	67.1	46.7
9042	Hankyu Hanshin Holdings, Inc.	Land Transportation	948.5	41.8	67.1	80.2
5938	LIXIL Group Corp.	Metal Products	805.8	43.8	67.0	61.0
1801	Taisei Corporation	Construction	949.9	42.9	66.8	410.1
5451	Yodogawa Steel Works, Ltd.	Iron & Steel	86.2	38.7	66.8	27.6
9531	Tokyo Gas Co., Ltd.	Electric Power & Gas	1,430.4	44.6	66.7	60.9
5444	Yamato Kogyo Co., Ltd.	Iron & Steel	188.9	36.4	66.6	-8.6
6503	Mitsubishi Electric Corp.	Electric Appliances	2,626.0	40.3	66.5	78.5
4185	JSR Corp.	Chemicals	442.4	38.5	66.5	-1.1
8802	Mitsubishi Estate Company, Limited	Real Estate	3,551.1	40.8	66.5	72.8

Source: Custom Products Research



Scandal Plagued Boards – what ages?

Scandal plagued boards

We have spoken of corporate governance issues in our previous reports and note that scandal plagued companies have board averages above 60 years old. Asahi Kasei (3407) recently hit for falsifying building data has an average age on its board of 65.4 years, Accounting scandal hit Toshiba (6502) averages 65.7 years and Olympus (7733) 64.9 years. Takata (7312) hid defective airbags has an average board age of 62.0 years. IHI (7013) board averages 63.7 year. Food scandal hit Nippon Ham (2282) averages 60.3 years, pre-merger (Megmilk) Snow Brand (2270) averages 60.8 years. Hankyu-Hanshin (9042) also hits the scales at 67.1 years. Livedoor is no longer listed but it is fair to say these ‘incidents’ are not limited strictly to the over 60s set.

Ticker	Company Name	Sector	Mkt-Cap (JPYb)	Avg Employee Age	Avg Director Age	Px Chg since Jan 2010
9042	Hankyu Hanshin Holdings, Inc.	Land Transportation	948.5	41.8	67.1	80.2
6502	Toshiba Corporation	Electric Appliances	1,432.7	43.1	65.7	-33.8
3407	Asahi Kasei Corporation	Chemicals	1,111.9	43.3	65.4	70.8
7733	Olympus Corp.	Precision Instruments	1,298.7	43.5	64.9	27.2
7013	IHI Corporation	Machinery	549.1	40.6	63.7	141.5
7312	Takata Corporation	Transportation Equipment	119.2	39.8	62.0	-33.5
2270	Megmilk Snow Brand Co., Ltd.	Foods	157.1	39.4	60.8	62.0
2282	NH Foods Ltd.	Foods	499.0	42.2	60.3	127.7

Source: Custom Products Research

Switching to youth of employees as a factor

Switching to youth of employees as a factor

Switching to youth as a factor in performance looking across employees of Japanese corporates. While the bulk of Companies fit between the average employee age of 37 to 45 and trade very similarly, the two outliers above 45 and below 37 years of age trade significantly different. The above 45 age group is only up 32% over the last 10 years while the below 37 age group is up 186%. While the first thing that comes to mind is obviously it is a sector thing. We looked at group and they both have a good distribution of Sectors.

Comparing Retail + Info & Comm

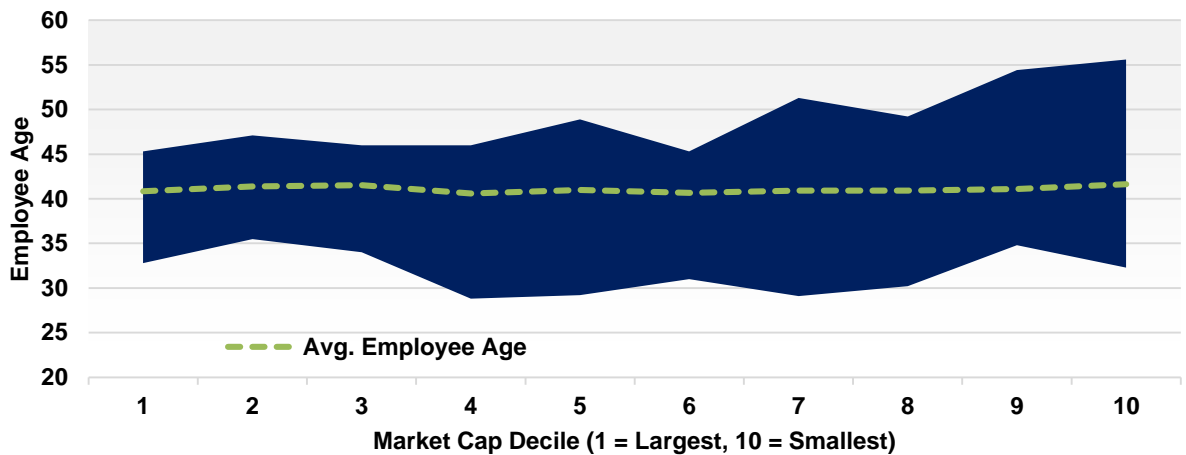
If we look at the Retail Trade Sector for both age groups, there are 8 names in the below 37 age group and 8 names in the above 45 age group. Average Mkt-cap for the young group is ¥376 bn and ¥516bn for the old group. So there is no real small cap bias to be found. However, the young employee group outperformed the old group by 161% since 2010. We see the same thing in the Information & Communication Sector with the young group outperforming the old by 200% since 2010. Hikari Tsushin with an average age of 31 is up 415% while IT Holdings with an average age of 46 is up 153%.

Combining boards & staff age

Combining board age and young staff we saw that the average return for the board above 60 years age and staff below the average age of 37 saw a 131% whereas boards under 60 and staff under 37 returned 221% on the same metric. Interestingly when we analysed the average ages by market cap decile we noted that mid cap companies tended to have the largest percentage of young workforces which can be seen in the following chart.



Average Employee Age By Market Cap Decile

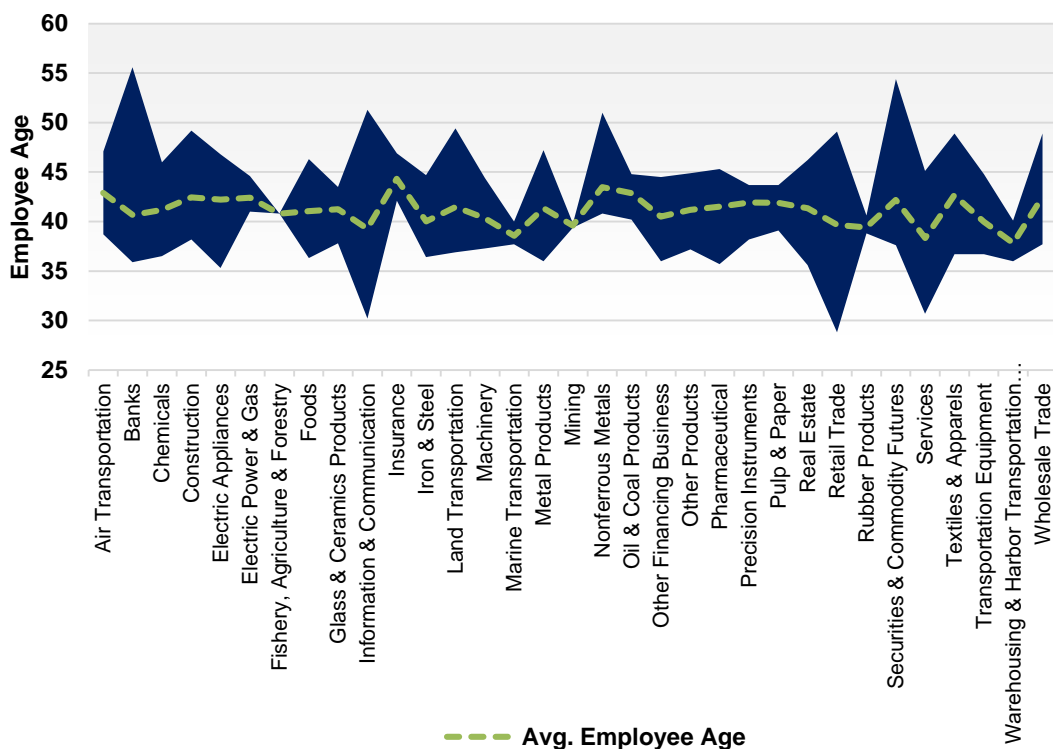


Source: Custom Products Research

Looking at employee age by sector we see an almost identical matching to what we saw with board age in those areas i.e. the youngest workforces tended to be in internet, service industries or retail trade.

Youngest employee sectors match boards

Average Employee Age By Sector



Source: Custom Products Research

The table overleaf shows the results of the Top 20 companies by young employees.



Ticker	Company Name	Sector	Mkt-Cap (JPYb)	Avg Employee Age	Avg Director Age	Px Chg since Jan 2010
2670	ABC-MART, INC.	Retail Trade	567.6	28.8	58.3	170.5
3349	COSMOS Pharmaceutical Corporation	Retail Trade	301.4	29.1	52.7	544.0
3092	Start Today Co., Ltd.	Retail Trade	448.4	29.2	43.3	617.9
3668	COLOPL, Inc.	Info & Communication	245.5	30.2	43.1	na
4751	Cyberagent, Inc.	Services	314.5	30.7	37.6	203.4
9435	Hikari Tsushin, Inc.	Info & Communication	416.9	31	46.0	419.6
9989	Sundrug Co., Ltd.	Retail Trade	427.2	31.9	52.0	208.0
2432	DeNA Co., Ltd.	Services	340.2	32	42.8	23.1
3632	Gree, Inc.	Info & Communication	138.1	32.3	42.1	-49.9
4755	Rakuten, Inc.	Services	2,362.5	32.8	54.1	133.7
3659	NEXON Co., Ltd.	Info & Communication	682.7	33.2	50.5	na
8218	KOMERI CO., LTD.	Retail Trade	143.4	33.3	57.4	6.1
2413	M3, Inc.	Services	772.1	34	50.6	915.3
2371	Kakaku.Com, Inc.	Services	457.5	34	52.3	357.2
9831	Yamada Denki Co., Ltd.	Retail Trade	540.3	34.5	55.6	-10.7
4681	Resorttrust, Inc.	Services	341.3	34.5	60.6	473.9
7550	Zensho Holdings Co., Ltd.	Retail Trade	170.6	34.8	61.4	78.5
4689	Yahoo Japan Corporation	Info & Communication	2,790.6	35	53.5	76.0
6861	Keyence Corporation	Electric Appliances	3,486.4	35.3	50.5	228.5
6098	Recruit Holdings Co., Ltd.	Services	2,103.0	35.5	55.0	na
4666	Park24 Co., Ltd.	Real Estate	342.2	35.6	49.8	138.2

Source: Custom Products Research

Companies with older employees on average tend to be from financial firms, terrestrial broadcasters, real estate, construction and mining.

Older industries

Ticker	Company Name	Sector	Mkt-Cap (JPYb)	Avg Employee Age	Avg Director Age	Px Chg since Jan 2010
8714	Senshu Ikeda Holdings, Inc.	Banks	145.8	55.6	58.8	-69.5
8609	Okasan Securities Group Inc.	Securities	153.0	54.4	60.9	63.7
9401	Tokyo Broadcasting System	Information & Communication	318.4	51.3	63.8	28.6
5703	Nippon Light Metal Holdings	Nonferrous Metals	108.5	51.0	63.6	na
9003	Sotetsu Holdings, Inc.	Land Transportation	334.7	49.4	62.0	77.1
1721	COMSYS Holdings Corporation	Construction	227.1	49.2	63.5	59.8
8270	UNY Group Holdings Co., Ltd.	Retail Trade	163.2	49.1	60.4	7.1
2784	Alfresa Holdings Corporation	Wholesale Trade	501.5	48.9	65.6	131.3
8016	Onward Holdings Co., Ltd.	Textiles & Apparels	130.2	48.9	62.3	31.0
9861	Yoshinoya Holdings Co., Ltd.	Retail Trade	98.0	48.8	52.7	50.4
9404	Nippon Television Holdings, Inc.	Information & Communication	526.6	48.1	69.5	66.2
5929	Sanwa Holdings Corporation	Metal Products	213.4	47.2	62.7	269.2
9202	ANA Holdings Inc.	Air Transportation	1,210.4	47.1	63.3	36.6
8725	MS&AD Insurance Group	Insurance	2,127.2	46.9	62.3	42.0
6674	GS Yuasa Corporation	Electric Appliances	211.8	46.8	61.1	-24.8
8267	AEON Co., Ltd.	Retail Trade	1,577.3	46.8	69.3	140.6
3391	Tsuruha Holdings Inc.	Retail Trade	490.9	46.7	62.2	508.4
8242	H2O Retailing Corporation	Retail Trade	291.8	46.6	61.0	117.4
2501	Sapporo Holdings Limited	Foods	187.1	46.3	62.2	-6.7
3289	Tokyu Fudosan Holdings Corp.	Real Estate	530.0	46.2	63.3	na
4188	Mitsubishi Chemical Holdings	Chemicals	1,038.4	46.0	63.7	75.0
6952	Casio Computer Co., Ltd.	Electric Appliances	585.9	46.0	64.4	195.5

Source: Custom Products Research



In Summary

Alexander the Great conquered the known universe in his 20s. Is it the Gordian Knot principle of the younger boards in Japan who are embracing change more readily than their counterparts?

Age isn't a valuation but...

While age is certainly not a valuation based factor, it none-the-less produced some interesting results showing that companies that were younger tended to have better performance. Whether that is because these companies are at the coal face of technological change and better adapted to benefit from that could be disputed. With a growing ETF market removing a lot of the forecasting ability based on traditional valuation methodologies, age is one thing that can't be altered very easily.

Age is a looming problem for Japan's workforce

However the age gaps between the different sectors does make for interesting longer term challenges when staring at replacement workforces. As regional Japan's populations dwindle, it will also place challenges on companies with manufacturing in those areas to adapt. Der Spiegel noted at the time of reunification of East & West Germany that many in the East flocked to the prosperity of the Western cities to find employment which ended up pushing wages in the East to prevent further leakage. None-the-less the East saw substantial brain drain and created a protracted period of de-industrialisation.

Shichison gappei

Japan has embarked on 'Shichisongappei' (mergers of cities and towns in rural areas) which saw a halving in the number of towns in regional areas to around 1822 municipalities in 2007 with a longer term goal of 1,000. Still out of 47 prefectures in Japan, only 4 have seen a doubling of population since 1920 – Yokohama, Chiba, Saitama and Tokyo. Shimane Prefecture on the Japan Sea side of Honshu has seen its population reverse since that time. Japan averages 1.6 million deaths per annum, a little over 1 million births but in 2013 added only 41,000 new foreigners (total around 2.1 million) meaning Japan's employment issues will continue to become acute as retirement looms for a larger proportion of the population.

Challenging times but perhaps the youth (what is left of it) have the answers.



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