Japan's Misguided Matryoshka M&A

Corporate altruism does not lead to much needed innovation

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Michael Newman

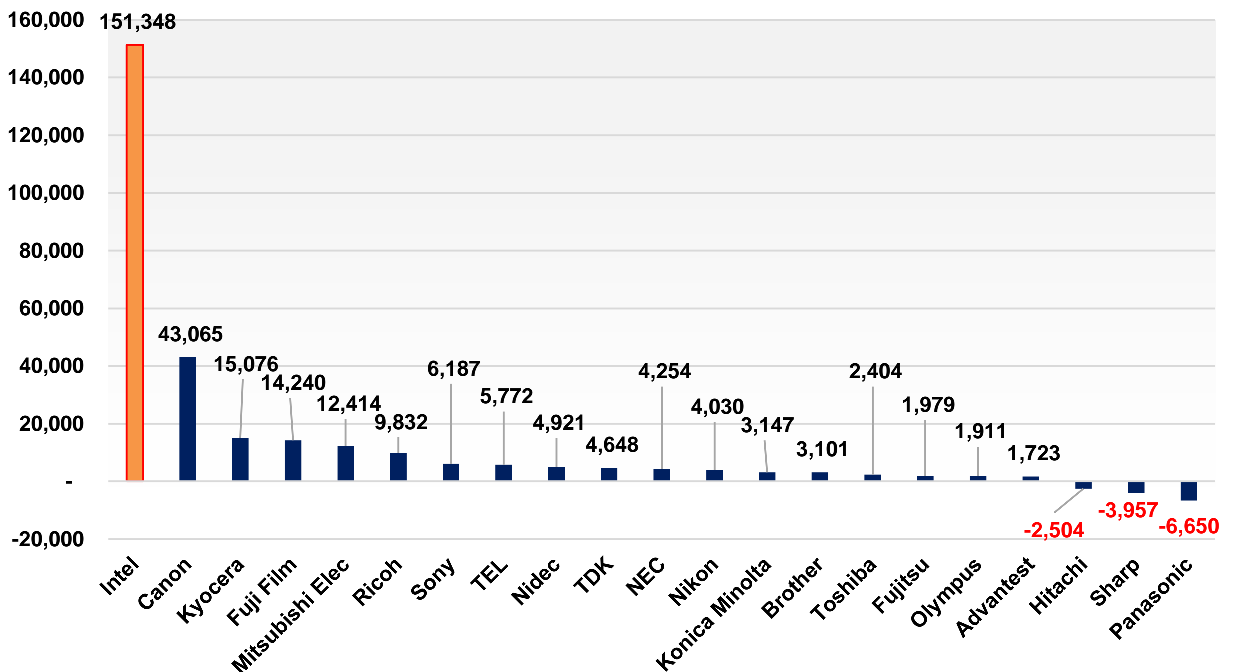
Let's start with a cautionary tale.

Intel vs. Top 20 Japanese tech giants – over 25 years which made more profit?

Intel has made more money in the last 25 years than Japan's biggest 20 tech giants combined

In the last 25 years, Intel Corp on its own has managed to make 31% more net income than all 20 of Japan's largest tech companies combined on a currency adjusted basis. That is right. Intel on its own has thumped the likes of Sony, Panasonic, Toshiba, Sharp, Mitsubishi Electric, NEC, Hitachi, Fujitsu, Fuji Film, Konica Minolta, Brother, Nidec, Kyocera, Canon, Olympus, TDK, TEL, Ricoh, Advantest and Nikon **combined**. Intel does one thing very well, commands huge market shares and ensures its product is needed in pretty much most electronic devices that matter. Many Japanese electronics companies are still stuck in highly competitive segments where even foreign brands like Samsung are no longer sneered at. Still corporate Japan thinks matryoshka style mergers are key to survival. However history on many occasions has proved otherwise.

Fig 1 :Intel vs Japan's Largest 20 Tech firms in the last 25 years (US$mn Net Profit)



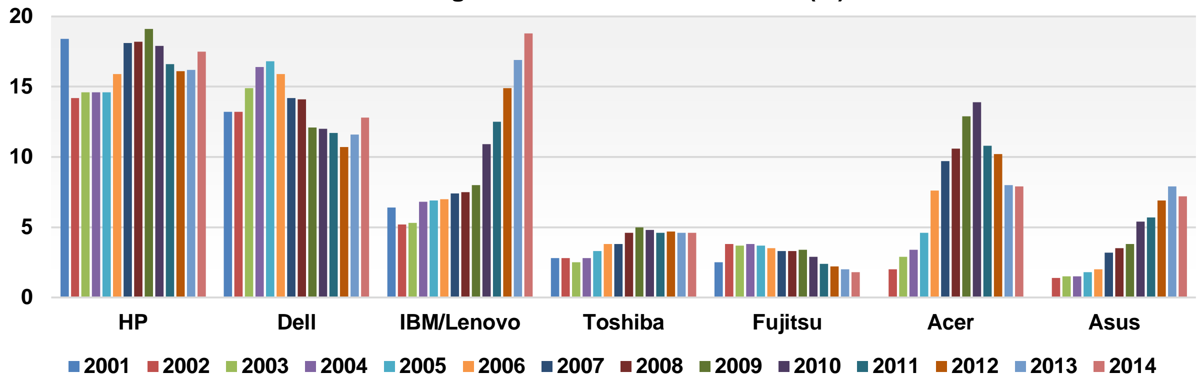
Source: Company data, Custom Products Research

Toshiba & Fujitsu PC tie-up?

Toshiba & Fujitsu PC merger?

The latest news is that scandal-plagued Toshiba is in talks with Fujitsu to merge their loss making PC units where the two share 6% of the global market. There is a lot of precedent suggesting that this is a fruitless exercise. As one of my colleagues put it best, *"two drowning men together don't make a swimmer"*. One would hope that Toshiba's revived sense of corporate governance would see its board seek more severe action. The majority of directors are supposed to be independent.

Fig 2 : Global PC Market Share (%)



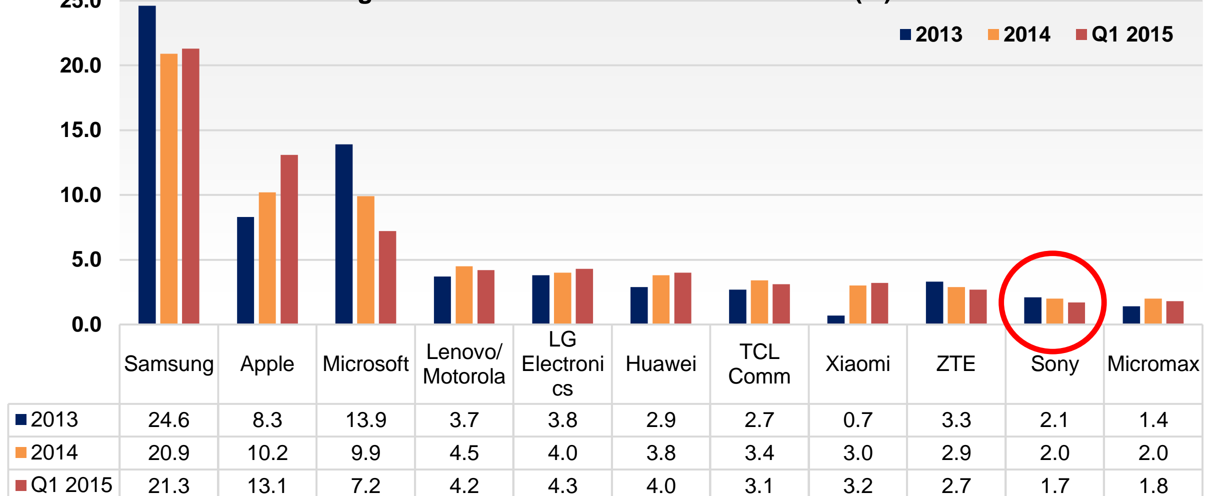
Source: Gartner, Custom Products Research

Lessons from the mobile handset maker mergers in Japan

Consolidation didn't work for Japanese handset makers

Japanese mobile handset makers have consolidated. Toshiba teamed with Fujitsu (surely a lesson in what a poor decision that has been), NEC with Casio and Hitachi, while Sony (albeit teamed with Ericsson until they merged) has had a rear guard action. Sanyo sold its handset business to Kyocera. Mitsubishi Electric just quit altogether in 2008. I remember a time when Japanese clam-shell phones were amazing. Friends from foreign lands would marvel at the designs, light weight and features versus the clunky Nokia and Motorola offerings of the time. They also were stumped at how these devices could get so much battery life. Alas, Japan kept them largely from overseas markets leaving them without the little scale efficiency from expansion abroad.

Fig 3 : Global Handset Sales Market Share (%)



	Samsung	Apple	Microsoft	Lenovo/ Motorola	LG Electronics	Huawei	TCL Comm	Xiaomi	ZTE	Sony	Micromax
2013	24.6	8.3	13.9	3.7	3.8	2.9	2.7	0.7	3.3	2.1	1.4
2014	20.9	10.2	9.9	4.5	4.0	3.8	3.4	3.0	2.9	2.0	2.0
Q1 2015	21.3	13.1	7.2	4.2	4.3	4.0	3.1	3.2	2.7	1.7	1.8

Source: Gartner, Custom Products Research

Smartphones have left Japanese handset makers in the dust

As smartphones have caught on, Japanese handset makers have been left further in the dust. Sony has the highest global share among Japanese brands at 1.7% (Q1 2015), however even in the domestic market, Apple and Samsung command the leading shares. Japan's market share in mobile phones globally has slid from 15% a decade ago to less than 4% in 2012. Japanese maker's global share of flat screen TVs slump from 45% to around 20% over the same period. What magic can a Toshiba-Fujitsu PC alliance make?

Complacency is a killer. Nokia's story should be read be all Japanese CEOs

Nokia's Elop memo should be mandatory reading for the tech sector in Japan

Take Nokia's then CEO Stephen Elop's "Burning Platform" memo to staff. It is worth reading in its entirety because it points straight to the heart of Japan's woes. In essence Elop had to send a warning shot across the bows of his own company to wake them up to the imperative to innovate or die.

Platform on fire

"There is a pertinent story about a man who was working on an oil platform in the North Sea. He woke up one night from a loud explosion, which suddenly set his entire oil platform on fire. In mere moments, he was surrounded by flames. Through the smoke and heat, he barely made his way out of the chaos to the platform's edge. When he looked down over the edge, all he could see were the dark, cold, foreboding Atlantic waters.

As the fire approached him, the man had mere seconds to react. He could stand on the platform, and inevitably be consumed by the burning flames. Or, he could plunge 30 meters in to the freezing waters. The man was standing upon a "burning platform," and he needed to make a choice.

Unexpected decision

He decided to jump. It was unexpected. In ordinary circumstances, the man would never consider plunging into icy waters. But these were not ordinary times – his platform was on fire. The man survived the fall and the waters. After he was rescued, he noted that a "burning platform" caused a radical change in his behaviour.

We too, are standing on a "burning platform," and we must decide how we are going to change our behaviour.

Over the past few months, I've shared with you what I've heard from our shareholders, operators, developers, suppliers and from you. Today, I'm going to share what I've learned and what I have come to believe.

I have learned that we are standing on a burning platform.

Multiple explosions

And, we have more than one explosion – we have multiple points of scorching heat that are fuelling a blazing fire around us.

Intense competition

For example, there is intense heat coming from our competitors, more rapidly than we ever expected. Apple disrupted the market by redefining the smartphone and attracting developers to a closed, but very powerful ecosystem.

Apple

In 2008, Apple's market share in the $300+ price range was 25 percent; by 2010 it escalated to 61 percent. They are enjoying a tremendous growth trajectory with a 78 percent earnings growth year over year in Q4 2010. Apple demonstrated that if designed well, consumers would buy a high-priced phone with a great experience and developers would build applications. They changed the game, and today, Apple owns the high-end range.

Android

And then, there is Android. In about two years, Android created a platform that attracts application developers, service providers and hardware manufacturers. Android came in at the high-end, they are now winning the mid-range, and quickly they are going downstream to phones under €100. Google has become a gravitational force, drawing much of the industry's innovation to its core.

China's speed to market

Let's not forget about the low-end price range. In 2008, MediaTek supplied complete reference designs for phone chipsets, which enabled manufacturers in the Shenzhen region of China to

produce phones at an unbelievable pace. By some accounts, this ecosystem now produces more than one third of the phones sold globally – taking share from us in emerging markets.

2 years to overtake us

While competitors poured flames on our market share, what happened at Nokia? We fell behind, we missed big trends, and we lost time. At that time, we thought we were making the right decisions; but, with the benefit of hindsight, we now find ourselves years behind.

We are too slow

The first iPhone shipped in 2007, and we still don't have a product that is close to their experience. Android came on the scene just over 2 years ago, and this week they took our leadership position in smartphone volumes. Unbelievable.

Symbian not competitive

We have some brilliant sources of innovation inside Nokia, but we are not bringing it to market fast enough. We thought MeeGo would be a platform for winning high-end smartphones. However, at this rate, by the end of 2011, we might have only one MeeGo product in the market.

Fighting with the wrong weapons

At the midrange, we have Symbian. It has proven to be non-competitive in leading markets like North America. Additionally, Symbian is proving to be an increasingly difficult environment in which to develop to meet the continuously expanding consumer requirements, leading to slowness in product development and also creating a disadvantage when we seek to take advantage of new hardware platforms. As a result, if we continue like before, we will get further and further behind, while our competitors advance further and further ahead.

War of ecosystems

At the lower-end price range, Chinese OEMs are cranking out a device much faster than, as one Nokia employee said only partially in jest, "the time that it takes us to polish a PowerPoint presentation." They are fast, they are cheap, and they are challenging us.

And the truly perplexing aspect is that we're not even fighting with the right weapons. We are still too often trying to approach each price range on a device-to-device basis.

Ratings agencies cutting outlook

The battle of devices has now become a war of ecosystems, where ecosystems include not only the hardware and software of the device, but developers, applications, ecommerce, advertising, search, social applications, location-based services, unified communications and many other things. Our competitors aren't taking our market share with devices; they are taking our market share with an entire ecosystem. This means we're going to have to decide how we either build, catalyse or join an ecosystem.

Brand preference slipped

This is one of the decisions we need to make. In the meantime, we've lost market share, we've lost mind share and we've lost time.

On Tuesday, Standard & Poor's informed that they will put our A long term and A-1 short term ratings on negative credit watch. This is a similar rating action to the one that Moody's took last week. Basically it means that during the next few weeks they will make an analysis of Nokia, and decide on a possible credit rating downgrade. Why are these credit agencies contemplating these changes? Because they are concerned about our competitiveness.

We've poured gasoline on our own platform

Consumer preference for Nokia declined worldwide. In the UK, our brand preference has slipped to 20 percent, which is 8 percent lower than last year. That means only 1 out of 5 people in the UK prefer Nokia to other brands. It's also down in the other markets, which are traditionally our strongholds: Russia, Germany, Indonesia, UAE, and on and on and on.

Must shift behaviour

How did we get to this point? Why did we fall behind when the world around us evolved?

This is what I have been trying to understand. I believe at least some of it has been due to our attitude inside Nokia. We poured gasoline on our own burning platform. I believe we have lacked accountability and leadership to align and direct the company through these disruptive times. We had a series of misses. We haven't been delivering innovation fast enough. We're not collaborating internally.

Nokia, our platform is burning.

We are working on a path forward — a path to rebuild our market leadership. When we share the new strategy on February 11, it will be a huge effort to transform our company. But, I believe that together, we can face the challenges ahead of us. Together, we can choose to define our future.

The burning platform, upon which the man found himself, caused the man to shift his behaviour,

and take a bold and brave step into an uncertain future. He was able to tell his story. Now, we have a great opportunity to do the same.

Stephen.

It is an exceptionally powerful message. No doubt the majority of Nokia's employees acknowledged such candour from their leader. It proves that high market shares are not always defendable in the face of innovative new products. Complacency is a killer.

Is it misguided altruism that pervades among Japan Inc?

Societally much to praise in Japan

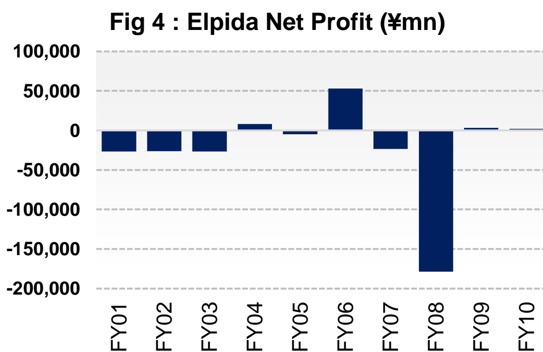
There is much to love about Japan's selfless dedication to the preservation of its citizens. I've often held that Japan is not capitalism with warts but communism with beauty spots. However this misguided altruism sometimes leads to a situation much worse for the overall group than were it surgically removed.

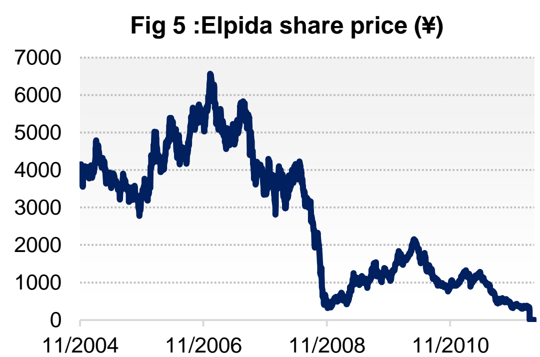
For listed business not much to praise

If we look realistically at Toshiba's new found energy to resuscitate economic fortunes and show a clean face on corporate governance with a majority of independent directors, how can one possibly believe that things will change when they look to embark on a carbon copy of the journey in PCs which failed so dismally.

Elpida went bust

Elpida Memory (cynically dubbed Hinomaru Semiconductor) was a typical Japan Inc merger combining the ailing DRAM businesses of Hitachi and NEC in 1999 then adding Mitsubishi Electric's DRAM business in 2003. The company listed in 2004 and went bankrupt in 2012 with debts in excess of $5.5bn. It finally was acquired by Micron Technology in 2013 for around $2bn. Elpida had 18% market share but DRAM became so commoditised that the company was more famous for capital raisings than from making inroads on the competition.





Source: Custom Products Research

Renesas trades at 10% of its all-time peak

Renesas (6723), formed with NEC Electronics in 2010 was initially a merger of Hitachi and Mitsubishi Electric's semiconductor operations in 2003. Since that time the company has lost money 9 out of 13 years with an aggregated net loss since listing of ¥509bn. While profitability was achieved in the most recent year it remains a question of sustainability. Renesas currently trades at a measly 10% of its peak price reached some 12 years ago.

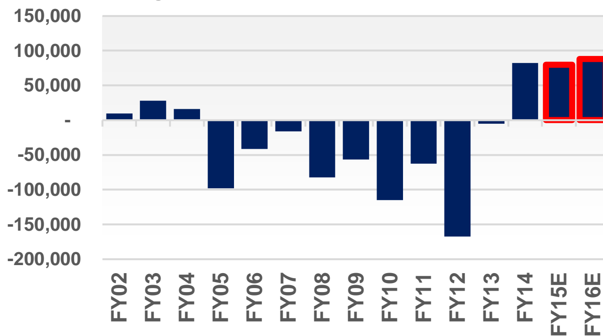


Fig 6 : Renesas Net Profit (¥mn)

Fig 7: Renesas share price (¥)

Source: Consensus estimates, Company data, Custom Products Research

Japan Display 60% off its high

It begs the question whether **Japan Display (6740)** a LCD technology JV between Sony, Toshiba and Hitachi set up in 2012 will be any different. Net income in FY17 is estimated to hit ¥24bn almost ¥10bn below its FY14 peak. Japan Display (JDI) was reported in the Mainichi newspaper on December 3rd to potentially merge with Sharp's ailing LCD business. It is unclear what parts of Sharp that JDI would be required to swallow and how much government pressure is being exerted to consummate it. The likely deal is being lauded as helping JDI reach 30% global share nearly double its nearest competitor LG Display at 17%. It throws up the obsession of market share versus profitability. We note that the Korean manufacturer has outperformed JDI by 52% since its listing on a currency adjusted basis.

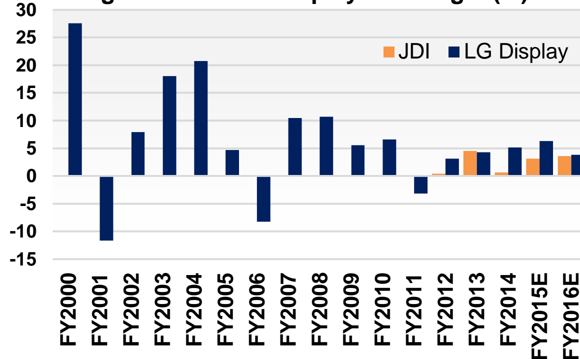


Fig 8 : JDI vs LG Display OP Margin (%)

Fig 9 : JDI share price (¥)

Source: Consensus estimates, Company data, Custom Products Research

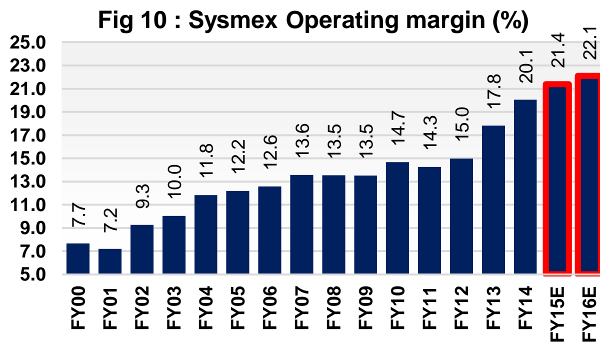
Market share vs. profitability

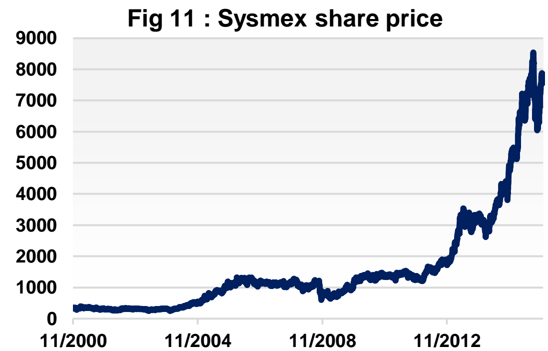
3.6% OPM for 30% global share

The general view is that companies should have sustainably higher margins when dominant market share arises because of the economies of scale. A look at Fig 8 reveals JDI's projected operating margin in FY16 is only 3.6%, hardly an achievement for 30% global share. Apple is the largest customer of JDI and it is clearly exerting its influence over the company's ability to eke out higher margins. Many sell-side analysts have appealed that having Apple as a customer is a good thing. However, the list of suppliers that have suffered margin compression is long.

Sysmex 40% global share

Sysmex (6869) is a good example of a Japanese corporation taking a 40% global market share in hematology testing equipment and converting it to superior margins. A weaker yen has helped the company which exports nearly three-quarters of its business.

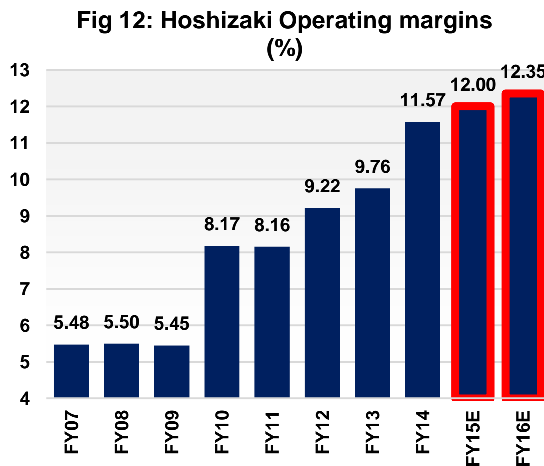


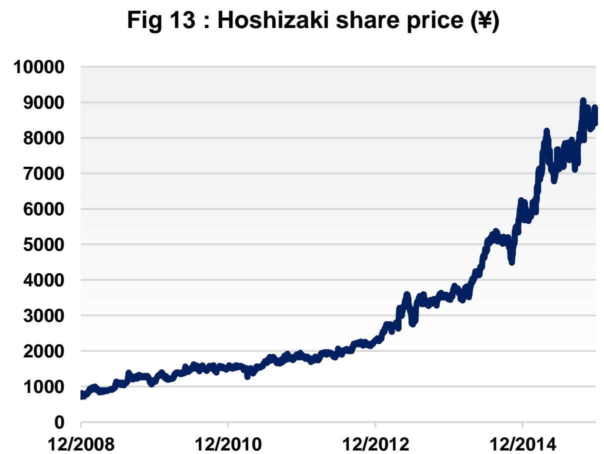


Source: Consensus estimates, Company data, Custom Products Research

Hoshizaki margins rising

Hoshizaki Electric (6465) has been another example of a company that has seen a steady improvement in margins over the last 8 years since listing. The company has seen success of its Z-series low power consumption industrial fridges which hold the highest share domestically.





Source: Consensus estimates, Company data, Custom Products Research

However making market share move from irrelevant to tiny isn't advised

Ricoh & Pentax

Copier and printer maker **Ricoh (7752)** announced in 2011 it would buy the Pentax camera business from Japan's Hoya (7741) to add to the company's own sub 2% market share. Ricoh paid ¥10bn for the Pentax camera business with hopes to get a firmer grip on the consumer camera market dominated by the Big 3. Canon, Nikon & Sony held over 80% of the market in the higher margin DSLR business. Ricoh's net income over the last three years has been flat at around ¥68bn, with consensus expectations for a similar number for the next two years despite the softer yen. Canon has a similar story with net profitability expected to remain flat between ¥220 and ¥250bn. Nikon is expect to do around half of its FY2012 net profit in FY17.

Japan should quit businesses they have no competitive advantage in

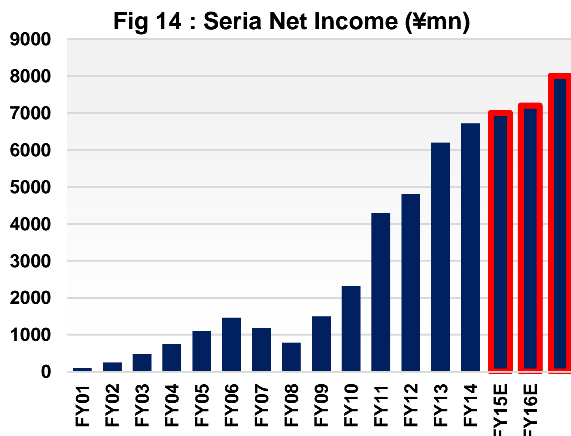
We could go on with plenty more examples but the message is clear. Japanese companies must realise that they should quit businesses they lack a competitive edge in. If Toshiba and Fujitsu embark on a merger of PCs it will make absolutely no sense other than protecting jobs for several more years. This will be at loggerheads with the Tokyo Stock Exchange (TSE) & Financial Services Agency (FSA) trying to push a mantra of increasing global competitiveness through shareholder returns outlined in the new corporate governance code. Although we do not rule out the possibility of convoy investing with the encouragement of the state.

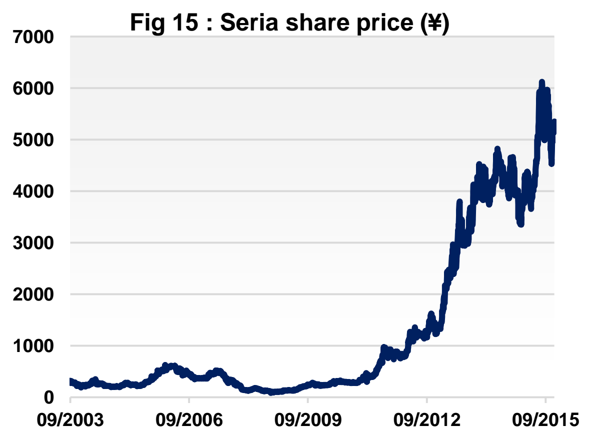
Japanese success stories are everywhere & generally don't have fiddly M&A

In my former life as a sell-side analyst I was lucky to stumble over many fantastic small-mid cap growth names. Looking back over the past few years I only wish that strict compliance hadn't hampered my ability to buy some of them. Note the following is not in any way endorsing a recommendation to buy/sell the companies listed hereafter. I own none of these shares (sadly). It is more to reminisce on the fun of finding these 'diamonds in the rough' as I liked to call them. Note I had sell recommendations on a few of the below names on valuation grounds only.

Seria in ¥100 stores

Japanese ¥100 store player **Seria (2782)** has been the best performer among listed companies in the space. It has grown its net income steadily post Lehman Shock, despite the weaker yen and the consumption tax hike. The shares have responded strongly since that date. Seria is a good example of a company executing well to a one product strategy.

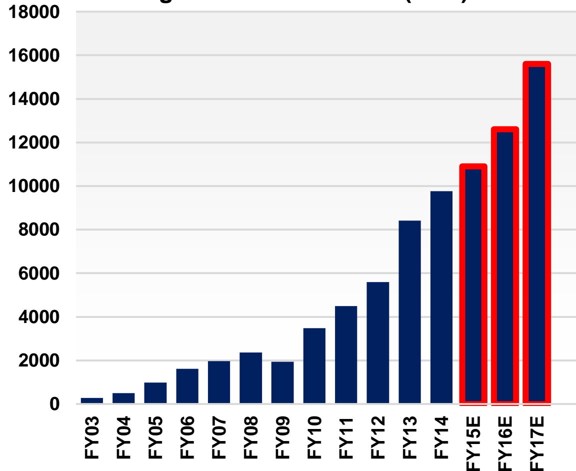




Source: Consensus estimates, Company Data, Custom Products Research

M3's expanding services

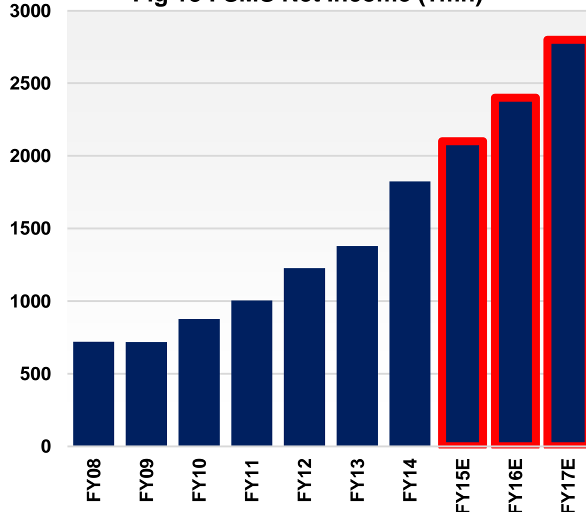
M3 (2413) has forged a globally dominant Facebook for doctors platform, which cuts costs for pharmaceutical marketing representatives. The company has expanded the services to leverage business lines to the nearly 2.5mn doctors in its database. M3 trades at 61.1x FY16E Toyo Keizai EPS estimates.



Source: Consensus estimates, Company Data, Custom Products Research

SMS

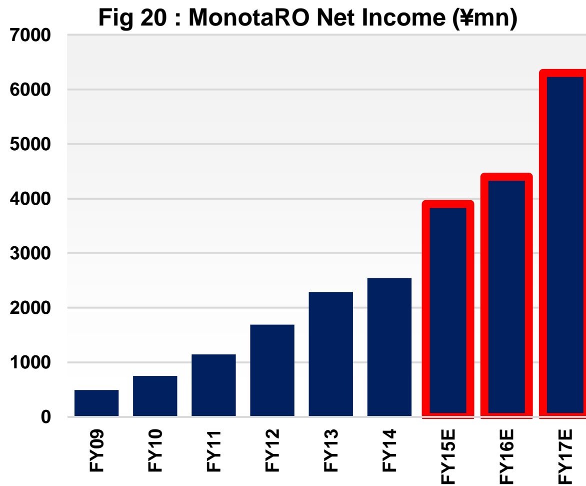
SMS (2175), owned 50% by M3, is a recruitment site for medical professionals disguised as a social networking site for nurses. SMS trades on 37.3x FY1E Toyo Keizai EPS. A simple business model catering to Japan's long term need for health/medical services to cope with a rapidly aging population.

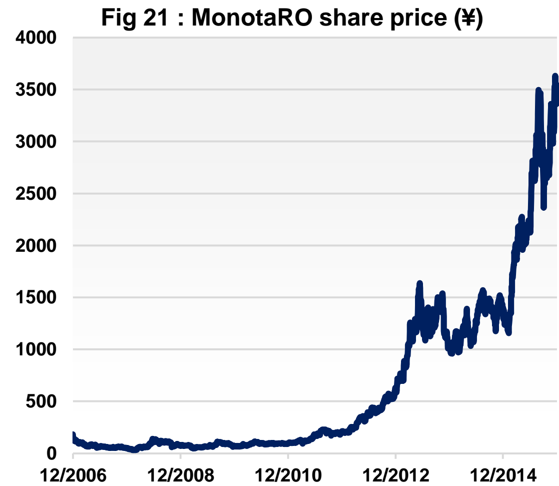


Source: Consensus estimates, Company Data, Custom Products Research

MonotaRO

MonotaRO (3064) has driven an online industrial warehouse with same day delivery services. The company has also seen strong net income growth, which has been reflected in share prices. MonotaRO trades at 73x FY16E Toyo Keizai EPS estimates.

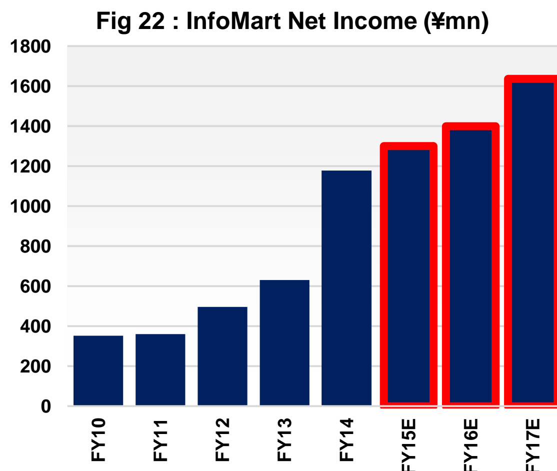


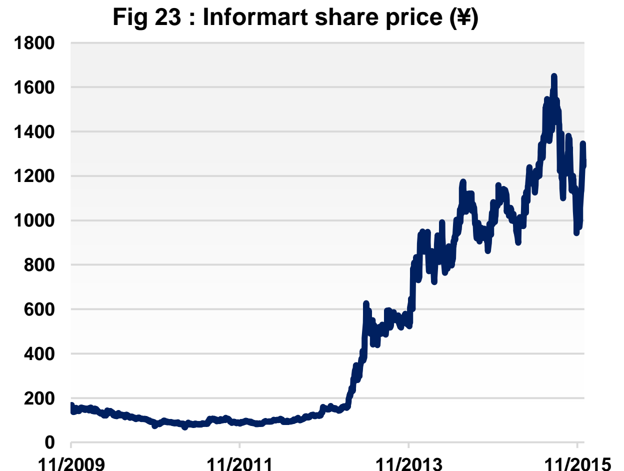


Source: Consensus estimates, Company Data, Custom Products Research

InfoMart has doubled margins

InfoMart (2492) has developed an innovative B2B e-commerce site for restaurants and hotels which facilitates ordering between food suppliers. Operating profits have grown from ¥600mn in FY06 with consensus expectations looking for ¥2.65bn in FY16. Revenues are expected to double from ¥3.04bn to ¥6.74bn on the same metrics with OP margins growing from 19.7% to 38.9%. Effectively InfoMart is executing on one main service. InfoMart trades at 53.1x FY16E Toyo Keizai EPS estimates.





Source: Toyo Keizai estimates. Company Data, Custom Products Research

Daikyo Nishikawa growth in plastics for auto panels

It is rare to see such rapid growth in automotive parts companies but core Mazda Motor (7261) supplier **Daikyo Nishikawa (4246)** has revised up no less than four times since it listed in 2014. The company has focussed on increasing the use of plastic parts as a substitute for steel. The company claims its latest technologies enable high gloss colour to be impregnated into the plastic panel removing the need for painting. Since FY2010, Daikyo Nishikawa has grown EPS by 30.1% on average versus Denso (6902) at 19% and Aisin Seiki (7259) at 5%.

Fig 24 : DaikyoNishikawa Net Income (¥mn)

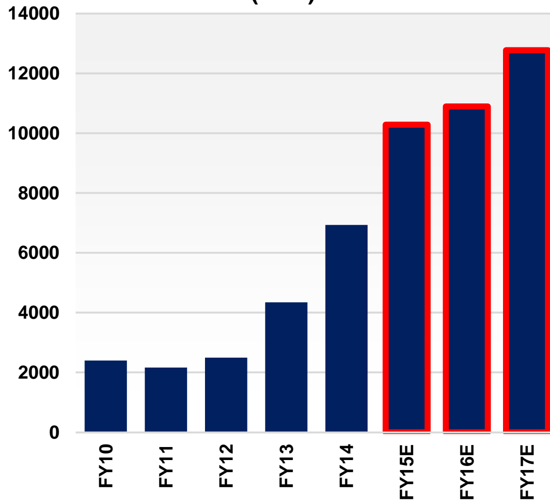
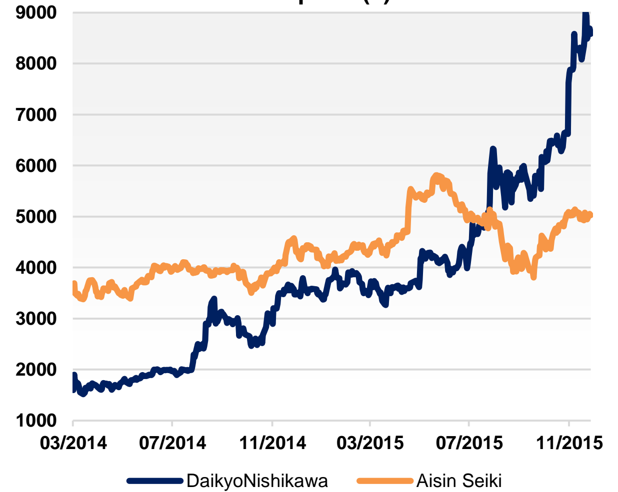


Fig 25 : DaikyoNishikawa vs Aisin Seiki share price (¥)



Source: Toyo Keizai estimates. Company Data, Custom Products Research

How the world has changed in what it values

Uber, Airbnb & Apple's assetlessness

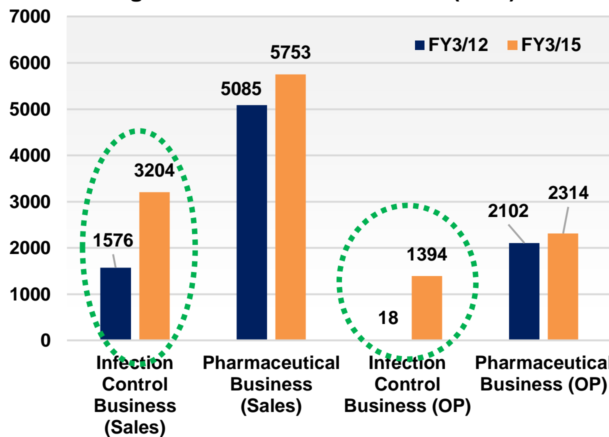
We live in a world today where Uber, the largest taxi company by implied market cap, owns no vehicles. Airbnb is the largest hotel chain globally by implied market cap but owns no property. Apple is the largest company by market cap globally yet owns no factories.

Some names that seem to have innovative new technology

We looked at several names which have new technology but share prices that have not reacted as some of the aforementioned names. Our studies show that liquidity (or lack thereof is a hindrance to share price performance which we wrote about here.

Taiko's new product line surging

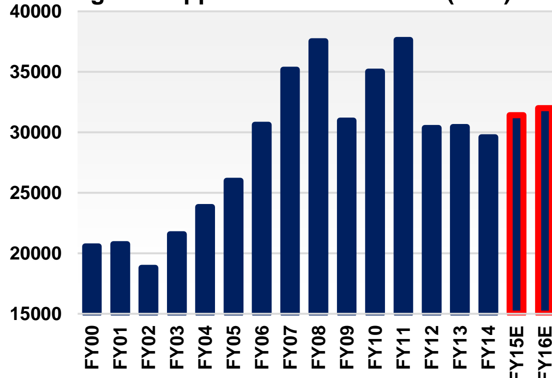
Taiko Pharmaceutical (4574) has introduced a new product called Cleverin which removes 99% of viruses and bacteria (airborne and surface). The company claims to have made a leap forward in producing chloride dioxide in industrial quantities. Sales of the product have doubled since FY12 to ¥3.2bn and operating income surged 77-fold (44% OPM) over the same period assisting the mainstay 'Seirogan' gastro business, Fig. 20. The Cleverin business also has industrial applications. Taiko claims to have the number one share in both product fields. Shares have traded around ¥282mn over the last 12 months. Taiko trades at 20.3x FY16E Toyo Keizai EPS.



Source: Company Data, Custom Products Research

Nippon Carbon's unique technology

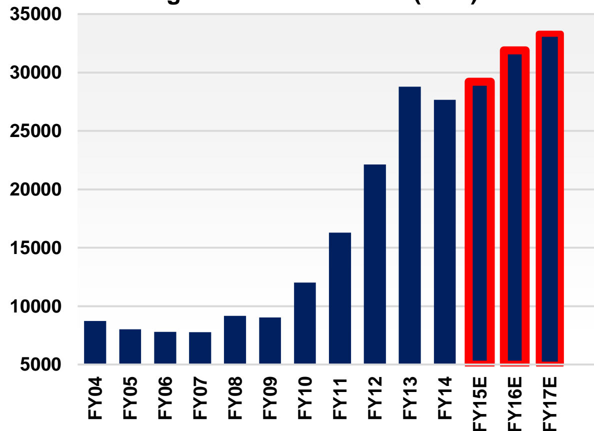
Nippon Carbon (5302) has teamed up with General Electric (GE) and Safran (SAF FP) to increase production of its Hi-Nicalon advanced composite fibre 10-fold in coming years to keep up with supply to CFM International. Hi-Nicalon is a patented ingredient to form the next generation ceramic matrix composites (CMC) for use in the Leap-X turbine engine. GE is talking of more of its engine families adopting the new material. Stock trading at 1.2x PBR.



Source: Toyo Keizai estimates. Company Data, Custom Products Research

Zuiko a leader on diaper production equipment

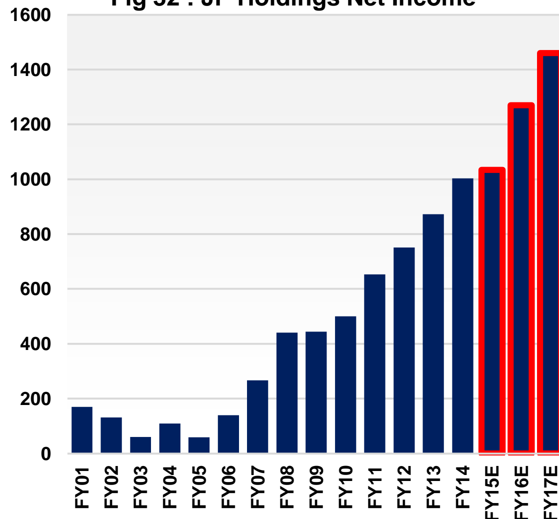
Zuiko (6279) is a manufacturer of diaper production equipment, commanding an 80% market share in Asia where the growth expected for adult diapers is driven by the aging populations of China and Japan (population of those over 65 years old set to exceed 25% of the population by 2030). The company says its machines are custom built to client requirements. Unicharm (8113) owns 3.4% of Zuiko's outstanding shares. Shares trade on 15.8x FY16E Toyo Keizai EPS.



Source: Toyo Keizai estimates. Company Data, Custom Products Research

JP Holdings leading in day-care

JP Holdings (2749) is the largest individual provider of day-care centres in Japan. PM Abe has called for 400,000 new day-care places by 2018 in order to get more women back into the workforce to offset the declining working age population. The national government is funding c. 88% of the cost of construction in order to cut back on waiting lists. JP Holdings trades on 22.5x FY16E Toyo Keizai EPS.



Source: Toyo Keizai estimates. Company Data, Custom Products Research

Beauty Garage

Beauty Garage (3180) is similar to MonotaRO in business model but focuses exclusively on the hairdressing, nail, massage and aesthetic salons. Its customers order consumables, furniture and tools online. The company also offer services (financial, design, furniture, client management systems to help new salons set up. The stock trades at 14.8x FY16E Toyo Keizai EPS.

Fig 24: Beauty Garage Net Income (¥mn)

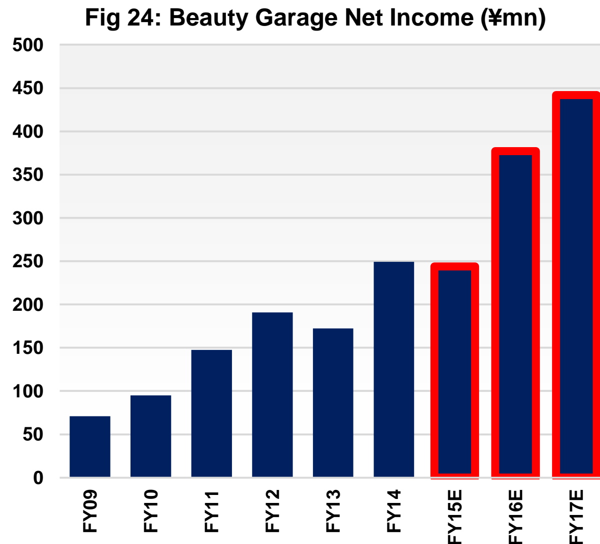
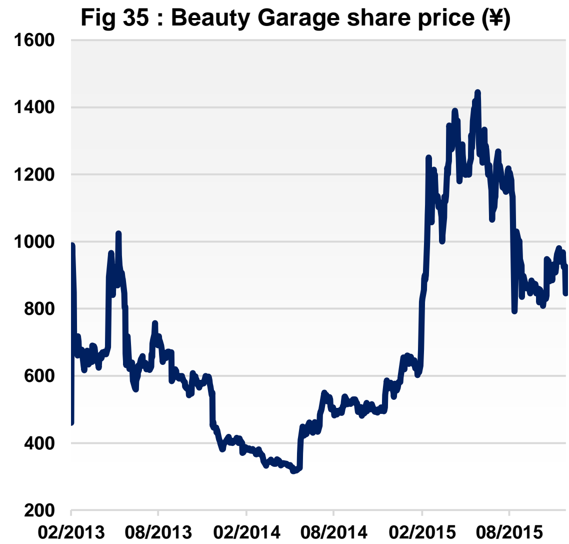


Fig 35 : Beauty Garage share price (¥)



Source: Toyo Keizai estimates. Company Data, Custom Products Research

Sony once prided itself on innovation

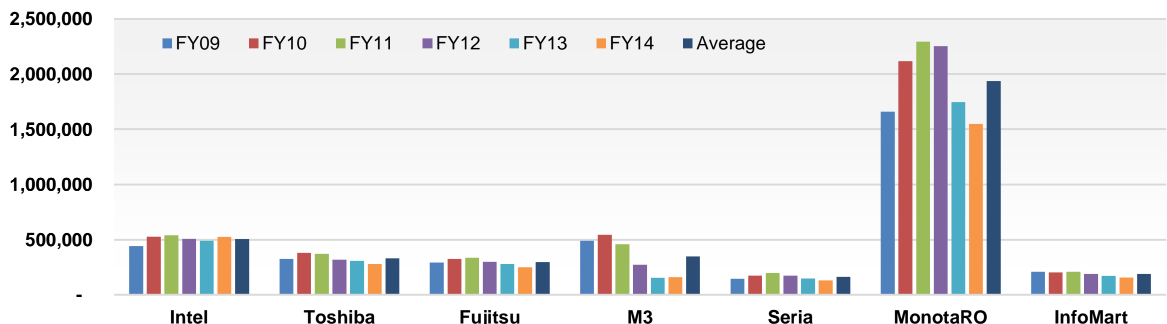
Sony's innovation has been a strength if subsidiary performance is looked at

The ingredient of 'innovation' coursed through Sony's veins in the 1980s. It dazzled the world with the 'Walkman'. Now, Sony is cutting divisions as it seeks to rediscover its own sense of purpose. Akio Morita would be rolling over in his grave if he saw what had happened. The irony of it all was that Sony's innovation didn't die. It ended up in a lot of creative and profitable spin-offs such as Sony Financial Holdings (8729) and M3 (2413). However the core business is struggling to work out what it should be.

What many of the stocks included above show is that focused product lines in relatively untapped sectors leads to sustained profitability.

Going back to our original study of Intel versus large cap tech companies in Japan we noted that sales per employee (Fig. 36) numbers are not so far removed from Intel but profitability is a different question. Figs. 37 & 38 show the large disparity at the operating and net profit levels.

Fig 36 : Revenue/Employee (US$)



Source: Custom Products Research

Fig 37 : Operating Income/Employee (US$)

	Intel	Toshiba	Fujitsu	M3	Seria	MonotaRO	InfoMart
FY09	71,566	3,785	5,883	199,374	6,332	106,361	51,791
FY10	188,945	14,876	9,485	223,971	10,696	156,480	40,351
FY11	174,595	7,122	7,907	184,161	16,189	207,375	40,814
FY12	139,410	5,149	6,509	97,664	14,692	229,427	40,687
FY13	114,229	12,192	8,336	57,468	13,701	196,250	43,494
FY14	143,833	7,160	9,388	50,051	11,614	149,161	61,058
Average	138,763	8,381	7,918	135,448	12,204	174,176	46,366

Source: Custom Products Research

Intel has consistently achieved US$139,000 at the operating income level. Toshiba and Fujitsu just manage around $8,000 of operating profit per employee. Seria has doubled its operating income per employee over the last six years. MonotaRO's high level of revenue per employee is more indicative of the low number of employees, at last count 242. M3 has embarked on M&A which has caused it to absorb a higher number of employees. InfoMart also averages around 7 times the level of Toshiba or Fujitsu.

When looking at Net Income/employee we see a similar trend. Intel manages to pip MonotaRO and M3. Once again Toshiba only managed to average $1,500 per employee over the last six years. Fujitsu managed to double Toshiba's effort.

Fig 38 : Net Income/Employee (US$)

	Intel	Toshiba	Fujitsu	M3	Seria	MonotaRO	InfoMart
FY09	54,749	-2,844	5,803	80,469	2,854	57,888	28,929
FY10	138,958	9,632	3,941	129,466	4,880	90,021	23,533
FY11	129,291	198	3,207	108,182	8,998	118,551	22,662
FY12	104,810	751	-4,981	58,832	8,486	132,462	24,775
FY13	89,405	2,856	2,842	35,201	8,326	115,637	25,075
FY14	109,691	-1,589	7,359	30,412	7,418	87,769	36,965
Average	104,484	1,501	3,028	73,760	6,827	100,388	26,990

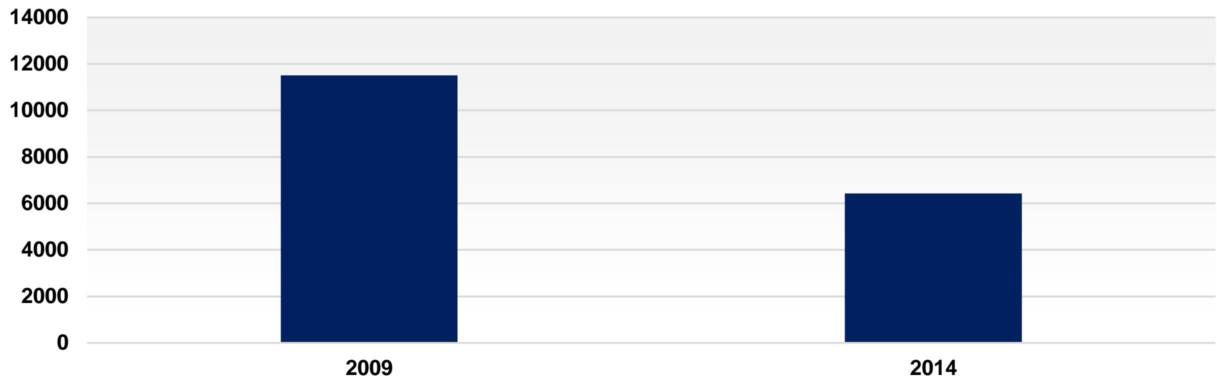
Source: Custom Products Research

In Summary

In conclusion, it is clear that Japanese companies must re-evaluate product line ups and staff numbers. In today's globally competitive landscape, Japanese corporations need to innovate. New age companies that exploit gaps in the market by offering efficiencies without the need for vast swathes of employees have rewarded shareholders well.

The juxtaposition for the small-mid cap companies is to get recognised by the investment community. Staff numbers in the Japanese securities industry has halved since 2009, Fig 39. This is putting even harsher conditions on sell-side securities firms to be able to 'economically' cover small-mid cap companies due to the relatively lower liquidity.

Fig 39: Japanese Securities Industry staff numbers



Source: Japan Banking Association

The irony is that many in the overseas investment community realise many high value small-mid cap companies exist in Japan but the regulations (such as MiFID II) will force the separation of trading and research commission. That will mean investment firms will need to put a hard price on research reports. Companies such as ResearchPool & Research Exchange aim to provide an Apple iTunes style platform which will allow investors to pay for individual reports, Fig. 40. Any research house can list their financial research on these exchanges and pay a percentage from the price they set.

Fig 40 : Independent Research Exchanges

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Source: ResearchPool Limited

Japanese corporates will be forced into the position to look to sponsored/independent research houses to improve chances of being discovered by institutional investors. While brokers have tended to provide this service over the decades, onerous compliance costs, coupled with a lack of liquidity in small-mid cap stocks will prevent companies gaining exposure. Although the costs of getting coverage is tiny relative to the peace of mind it can provide not only to increasing exposure but executing upon the corporate governance code to maximise shareholder returns.

Interesting times ahead and Japanese corporates should waste no time taking action.

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