HAS THE THREAT OF A TAKEOVER IMPROVED THE MANAGEMENT OF TARGET FIRMS? AN ANALYSIS OF FIRMS IN WHICH M&A CONSULTING, JAPAN'S FIRST HOSTILE BIDDER, ACQUIRED STAKES

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Abstract

This paper examines the new development of hostile takeovers and shareholder activism in Japan. The hostile bidders claim that the threat of takeover which they pose on the management of a poorly managed company is not only to their benefit, but also to that of the target company in general, because the management will run the company better to maximize its value. Nearly a decade having passed since the first-ever hostile TOB attempt in Japan by M&A Consulting (MAC), an investment fund led by Mr. Yoshihiro Murakami in January 2000, we examine the stock price and operating performance of the companies whose shares were bought by the MAC. We find that the shareholders of the target companies indeed enjoyed large positive abnormal returns in the two years following the news. We report, however, that their operating performance declined over the four fiscal years following such news. There is little evidence so far that the threat of a hostile takeover improved the actual operating performance of the target firm.

Keywords: Hostile Takeover, Corporate Governance

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1. Introduction

In January 2000, the investment fund M&A Consulting (MAC hereafter) run by Mr. Yoshihiro Murakami, a former METI (Ministry of Economy, Trade and Industry) bureaucrat, launched the first-ever hostile tender offer bid (TOB) in Japan for Shoei Inc. Although unsuccessful, the TOB attempt alerted Japanese managers of a new era of corporate governance. In particular, poor performance of a public company might result in the ousting of its incumbent management through a hostile takeover.

The MAC-Shoei case was the first of many hostile TOB and shareholder activism events at listed companies. These events have sparked a heated argument regarding the virtue of the threat of hostile takeovers and shareholder activism. Some observers claim the threat of a hostile takeover is an important aspect of corporate governance. They believe that when the incumbent management of a listed company cannot manage the company well, potentially more adept new management will replace it through a hostile takeover. Also, the threat of a hostile takeover will exert pressure upon the existing management to perform better. For example, the increase in the payout to fend off potential bidders might also bring a positive effect on the management of the company, since a payout increase results in the reduction of agency costs of free cash flow (Jensen, 1986).

Others believe the pressure from the threat of hostile takeovers might force the management to become short-sighted, sacrificing long-term growth to maximize the short-term performance. Besides, once the battle over the corporate control has started, there is a concern that management may concentrate too much on defensive strategy and will not be able to make decisions on the day-to-day operations of the company. Japanese managers are generally very skeptical about the effectiveness of a hostile takeover in Japan.[65]

Naturally, hostile bidders have stressed the virtue

[65] For example, refer to the discussion by the CEO of Canon Inc., Mr. Fujio Mitarai during the Nikkei Corporate Governance Symposium, which appears in July 22, 2005 edition of Nikkei Newspaper.

of the threat of a hostile takeover, claiming that it is not only to the benefit of the bidder and other shareholders, but also to the target company in general because it will precipitate improvements in the overall management and governance of the target firm. Mr. Murakami of MAC was the first Japanese investor who repeatedly claimed such benefit.[66] Currently, a similar battle is being waged regarding hedge fund activism in the United States.

The effectiveness of the threat from an activist is particularly relevant in Japan as many companies identified as potential hostile targets hold a large amount of cash beyond their need for the future investment. In fact, HSBC Securities reports that as of 2000, there were 21 companies whose market capitalization was less than the net cash on their balance sheets.[67] Moreover, as of March 2004, more than 40% of Japan's 3000 listed companies had a market capitalization less than the book value of their equity.[68]

Traditionally sheltered from the threat of a hostile bid through inter-corporate shareholdings, management of Japanese listed companies are generally unprepared about protecting its corporate control rights. As companies sell their cross-shareholdings, many are now vulnerable to other, more-active, shareholders who are taking their place (see Kuroki, 2003, for a description of the unwinding of the cross-shareholdings). As of March 2008, foreign investors owned about 25% of all Japanese shares, an increase from 9.8% of 10 years ago.[69] The recent hostile attempts prompted management to implement defenses. With a support from the economic ministry (METI), the use of a poison pill has been legalized in Japan.[70]

In addition to implementing legal defenses against potential hostile bids, some companies adopt corporate financial policy to deter hostile takeovers. The most common measure has been to increase the payout (either dividends or share repurchases) to existing shareholders hoping to raise share prices and discourage potential bidders.

The primary purpose of this paper is to examine the consequences of the threat of a potential hostile takeover. We attempt answer the following questions. How active are funds such as MAC? Do shareholders respond positively to the announcement of a MAC purchase of an ownership position (indicating the market believes the acquisition will bring about performance improvements)? Do MAC targets exhibit improvements in either share price or operating performance? By answering these questions, we hope to investigate the relative strength of the acquirers' arguments.

We examine a sample of firms which had public announcements of significant positions by MAC during 2000 to 2002. Although MAC launched only one hostile TOB, the companies whose shares were purchased by MAC after the failed TOB against Shoei regarded themselves as a potential target of a hostile TOB. Some of these companies increased payout to prevent a launch of a hostile takeover, others fought with the MAC over the management policy through a proxy contest. In any case, all companies felt the pressure from the shareholding of the MAC. Murakami was welcomed by Japanese investors as a corporate reformer providing discipline and changes to the management of companies with prolonged poor performance. At its peak in March 2006, MAC maintained more than 400 billion yen (4 billion US dollars) of assets under its management.

We examine the abnormal equity returns earned by the target companies surrounding the appearance of MAC as a major shareholder. We also examine changes in operating performance following MAC's acquisition. A typical long-term study based on operating performance requires 4 to 5 years of accounting data after the event occurred. Since MAC sold its stakes by the end of 2006, it is reasonable to assume that its influence also disappeared by fiscal year 2007. Between the first wave of MAC's share purchases that occurred between 2000 and 2002, and its closure at the end of 2006, we can find the 4 year post-event window of accounting data availability.[71]

We find that shares of companies whose shares had been purchased by the MAC performed significantly better than the market. We report, however, that the operating performance of the targets following the event is worse than that of their industry peers. Our results show that although the threat of a potential hostile takeover benefited the hostile bidder and the shareholders of the targets, we have no evidence of the improvement in operating performance of the target companies. Although we do not have sufficient sample size to claim our results are definitive, our research poses some skepticism over the benefit of the emergence of hostile bidders as "corporate reformers."

The paper is structured as follows. Section 2 provides additional background on hostile takeovers and shareholder activism. In Section 3, we briefly describe the case of the first hostile TOB against Shoei Company in the year 2000 by MAC. In Section 4, we explain the objective of our research, sample firms,

[66] For example, refer to an article on January 25, 2000 edition of Nikkei Newspaper.

[67] As reported in the *Financial Times*, January 24, 2000, page 27.

[68] *Wall Street Journal*, April 15, 2004, page A1 using data from PacificData.

[69] As reported by the *Stock Ownership Distribution Report* by the Tokyo Stock Exchange.

[70] The Japanese Commercial Law has a principle that all shareholders must be treated equally. Therefore, the issue of warrants or convertibles that exclude a hostile bidder (which is also a target's shareholder) was considered to go against the principle, if not illegal.

[71] The next wave of hostile TOBs and the emergence of activist funds occurred after 2003, so that we do not yet have sufficient sample size or data points to analyze the operating performance of targets of other activist funds than MAC.

and research methodology and describe our sample. In Section 5, we report the results of our event studies on abnormal share returns and abnormal operating performance. Section 6 summarizes our findings and concludes.

2. Background

Hostile raiders, or activist funds, are "vultures and hyenas" according to Masao Yamaguchi, the executive director of Teikoku Hormone Manufacturing Company.[72] Mr. Yamaguchi made this comment after the Steel Partners Japan Strategic Fund, a U.S. based investment partnership purchased a stake of just over 5% in his company. Steel Partners had just made the news by launching a double hostile TOB against Sotoh Company and Yushiro Chemical Industries. Mr. Yamaguchi added "When we operate the company, we are not only looking at stockholders, we look at employees and creditors and everybody."

Historically, these attitudes have ensured that hostile takeovers would rarely be attempted in Japan (see Kester, 1991 for example). However, economic conditions in the 1990s and the ongoing deregulation of Japanese financial markets, particularly in the form of dismantling of inter-corporate shareholdings paved a way for a possible hostile takeover bid for publicly traded Japanese companies.

Soon after the TOB for Shoei, there were three additional attempts of hostile TOBs targeting four public companies.[73] While none were successful, the whole TOB process was dramatically portrayed in the media. For example, one Japanese news magazine ran the headline, "U.S. Fund On Wild Rampage."[74] In addition, the fight over control of Nippon Broadcasting Inc. between Fuji Television Network and Live Door Inc. may be classified as another hostile takeover attempt against a listed Japanese company. However, in this case Live Door used a regulatory loophole and avoided the TOB procedures. More recent examples abound between 2006 and 2007.

Many companies have taken steps to protect themselves from this new threat. First, with the blessing of METI, many firms have adopted poison pills. Also, firms are changing their financial policy to make themselves less attractive to would be raiders. In particular, they are using some of their cash reserves to increase payouts in the form of dividends and/or share repurchases. This strategy has the added benefit of potentially increasing share prices.

In theory, raising the payout in itself does not necessarily increase shareholders' wealth. Miller and Modigliani (1961) show that in a perfect capital market, dividend policy is irrelevant to shareholders because an increase in dividend will be met with an offsetting change (fall) of share prices. A share repurchase does not change the wealth of remaining shareholders as long as the repurchase is made at the ongoing market price. Obviously, the payout policy is not irrelevant because there is no "perfect capital market" in a real world. The tax effect and the signaling effect under asymmetric information are examples of factors that ensure that payout policy is relevant to existing shareholders.

As mentioned in the introduction, there is an ongoing debate regarding the value of outsider pressure on companies in the form of hostile takeover attempts and shareholder activism. Proponents argue the pressure is forcing management to do a better job of managing their companies. Also, companies are returning more cash to their shareholders. However, others claim the raiders and activists have a short term focus and do not have the necessary experience to manage the target firms. In the end, they argue the targets are worse off.

Recently, hedge funds have become very active in the United States. Studies of this activism find significant abnormal returns of roughly 5 to 11% in the period surrounding the 13D filings, indicating the acquisition of a 5% ownership stake. (see Brav, Jiang, Thomas, and Partnoy, 2008, Clifford, 2008, Greenwood and Schor, 2009, and Klein and Zur, 2009). However, is less clear that the activism always enhances value. Specifically, the returns are greatest when the desired outcome is the sale of the target company and are not always significant given other activism goals. Greenwood and Schor (2009) focus on the impact of the sale of the target firms on performance. They report the abnormal returns in both the short and long terms are significant only if the target firm is put into play and ultimately acquired.

A primary goal of our study is to investigate whether a active raider will be able to bring about performance improvements at Japanese targets.

3. Information about MAC and Shoei Company

On January 24, 2000, M&A Consulting, (MAC), a private investment fund led by a former MITI bureaucrat, Mr. Yoshiaki Murakami, launched the first-ever hostile tender offer bid (TOB) in Japan against Shoei Company, a firm then listed on the second section of Tokyo Stock Exchange (TSE). Shoei was founded in 1931 as a silk manufacturer with the help of Yasuda Bank. Yasuda subsequently changed its name to Fuji Bank and then merged with other two major banks to create the Mizuho Financial Group. As Japan's economy grew, silk manufacturing became unprofitable and Shoei evolved into a real estate company. Its primary source of revenue is real estate based rental income, which accounts for about

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[72] *Wall Street Journal*, April 15, 2004, page A1.

[73] Early examples of hostile TOB's other than the one against Shoei are; (1) against Sotoh Company and Yushiro Chemical Industries by Steel Partners Japan Strategic Fund in December 2003, and (2) against Japan Engineering Consultants by Yumeshin Holdings Co., Ltd. in July 2005.

[74] As reported by the *Wall Street Journal*, April 15, 2004, page A1.

two-thirds of total revenue. Also, the company manufactures electronic and construction parts.

Shoei belongs to the Fuyo Group, one of the six bank-centered *keiretsu* groups, and its CEO at the time was a former Fuji Bank employee, Mr. Tanehiko Kamiura. Its largest shareholders at the time of the TOB included member companies of Fuyo Group, namely Canon Inc. (with a 19.5% stake), Yasuda Fire & Marine Insurance (10%), Yasuda Life Insurance (6%), Fuji Bank (5%) and Yasuda Trust Bank (5%), which in total accounted for 45.5% of outstanding shares. Mr. Murakami apparently came to know Shoei through his contact with Canon, Shoei's largest shareholder. In 1999, Mr. Murakami unsuccessfully tried to buy Canon's Shoei position; after collecting about 2 percent of Shoei's shares, he reportedly had a meeting with a board member of Canon in November 1999 suggesting a possible hostile TOB.

Mr. Murakami's TOB was for one hundred percent of Shoei's shares at the price of ¥1,000. The closing share price of Shoei on the previous trading day was ¥800, indicating an offered 25% premium. The deadline of the TOB was set to be February 14. On January 25, the day after TOB announcement, Shoei's board members issued a recommendation to the shareholders that they were against the bid, claiming that they would increase shareholders' value more than Mr. Murakami would. The TOB received huge media coverage in Japan, because it was the first-ever hostile bid in the sense that the board member of a target firm officially declared that they were against it. Major shareholders including Canon and other members of Fuyo Group quickly announced that they were reluctant to accept the deal because the bidding price was too low. In fact, because Shoei's large real estate holdings were valued far more than their book value, the company's liquidation value would have been at least ¥2,000 per share.

Shoei's share price soared to ¥1,280 immediately after the announcement (see Exhibit 1) and the highest closing price during the offer period was ¥1,302 on January 27. The market had anticipated an increase of the bid price, which never materialized. The offer expired on February 14 and Mr. Murakami could buy only 6.52% of Shoei's total shares. After the failure of the hostile bid, Mr. Murakami continued to own the shares that he bought through the TOB and requested that the management of Shoei take measures to increase its value. Shoei's share price stayed around ¥1,000 throughout the remainder of 2000 (see Exhibit 2).

On February 22, 2001, Shoei announced that it would increase its dividend for the fiscal year ending December 2000 to ¥14 per share, an increase of ¥6 over the previous year. In March 2001, Mr. Kenji Watanabe, another former Fuji Bank employee, replaced Mr. Kamiura as a CEO. Unlike Mr. Kamiura, who was reluctant to talk with Mr. Murakami, Mr. Watanabe started to implement drastic changes that reflected his orientation toward shareholders. Mr. Watanabe quickly introduced an employee stock option program and appointed external board members. In July and August 2002, Shoei repurchased its shares in an effort to increase its payout to equity holders. Mr. Murakami sold his shares to Shoei in response to the repurchase offer. Shoei sold the shares they repurchased through a secondary equity offering in March 2003, which led to the increased number of shareholders and consequently paved the way for a listing on the first section of the TSE.

As for Shoei's share price, it increased to around ¥1,400 after Mr. Watanabe's succession in 2001. It further increased to about ¥1,600 following the announcement of the listing on the TSE first section in 2003 (see Exhibit 2). In contrast to the rapid rise in share price, Shoei's operating performance improved rather slowly. Table 1 shows Shoei's sales, operating profit and operating profit margin (over sales) between 1995 and 2006. Because it manufactures electronic parts, its sales were affected by the silicon cycle, but even on the operating profit margin basis, the real improvement in performance was not realized until 2004, by which time MAC had already unwound its investment in Shoei.

In the years after its Shoei acquisition, MAC acquired significant stakes in an additional 27 companies, reaching the peak of its power in early 2006. Then in 2006, MAC experienced a rather abrupt downturn and subsequent dissolution. In June 2006, Murakami was arrested, allegedly having been involved in insider trading of Nippon Broadcasting System, one of MAC's portfolio companies. While the case is still being fought in the higher court, MAC dissolved itself shortly after Murakami's arrest and has sold off all of its stakes by the end of 2006.

4. Shareholder Gains and Operating Performance

4.1. Research Objectives

Following MACs failed hostile TOB for Shoei in early 2000, many Japanese managers became concerned about the potential threat of a hostile takeover. In fact, MAC invested in many listed companies other than Shoei following the failed TOB attempt. Japan's Securities and Exchange Law (SEL) stipulates that if a person or a firm owns more than 5 percent of the outstanding shares of a listed company for the first time, he (or it) must report a change in his ownership to the Ministry of Finance and the stock exchange within 5 calendar days, or at the end of every quarter in the case of a financial company or an investment fund. Subsequently, increases by more than or equal to 1 percent of the company's outstanding stocks, must be reported as well (Article 27-25 of the Securities and Exchange Law). These reports are called "A Report of Large Shareholdings," or *Kabushiki Tairyo Hoyuu Hokokusho*. Upon submission of a Report, it immediately becomes available to the public on the Internet through the TD (Timely Disclosure) Net system run by the Tokyo Stock Exchange. Thanks to

the TD Net, the name of companies whose shares are owned by the hostile bidder became public knowledge to the market. We also search the database to identify the date that such report of shareholdings about a certain firm was submitted.

We are interested in how the threat of a hostile takeover affects share prices and operating performance of the potential targets. We hypothesize the share prices of the target firms will increase at the disclosure of the shareholding information of the hostile bidders. It is well documented in the U.S. that the share price of a target of a takeover goes up by more than 40 percent on average (see Bruner, 2002, for a survey of the takeover literature). Although MAC has not launched any TOBs since its first attempt against Shoei, the mere threat raised by their acquisition of a stake might be sufficient to provide abnormal returns to potential targets. Furthermore, the target management sometimes increased the payout to shareholders, either by increases in dividend and/or share repurchases, which may be met with the positive share price reaction. We conduct a simple event study to examine the abnormal returns to the targets' shares generated by the announcement of a stock acquired by MAC.

The second subject of interest, which, we believe, is more important, is whether the potential threat of a hostile takeover of these companies resulted in an improvement of their operating performance. If the market is efficient, a rise in share price should be followed by the actual performance improvements by the targets. If this is indeed the case, it will support the hostile bidders' argument that the threat of a hostile takeover serves as a governance mechanism prompting the target companies to be operated more efficiently. Otherwise, we can infer that the threat benefits the targets' shareholders in the short run, but does not necessarily lead to the increase in the companies' operating cash flow in the long run, and that the market was too optimistic about the future operating performance improvement of target companies. This outcome is consistent with the common argument that shareholder activists are not always experts at managing their target firms.

4.2. Data and Methodology

We collect data on the MAC's targets from TD Net Database, the Nikkei Telecom Database and the Nikkei NEEDS Database to examine abnormal returns from the potential target companies. As we explained before, we searched TD Net to identify the name of the companies whose shares were purchased by MAC, and the date on which Report of Major Shareholdings was submitted to the stock exchange by MAC. In some cases, newspaper articles report lists of companies purchased by the MAC prior to the submission of Report. We collect such articles from Nikkei Telecom Database, which permits searches of articles appearing in four newspapers published by Nihon Keizai Shimbun.

Our event date is the earliest of the following three dates; (1) the date on which a Report of Large Shareholdings was submitted, (2) the date on which an article appeared in one of the Nikkei newspapers, or (3) the annual *yuuka-shoken hokokusho* was submitted to the relevant stock exchange. The above search identified 27 companies, including Shoei, whose shares were purchased by the MAC between 2000 and 2004. Since we analyze the long-term operating performance of target companies, we have limited our sample to non-financial firms and the events to those occurred between 2000 and 2002 to make four-year post-event accounting data available before the dissolution of MAC in late 2006. Our final sample consists of 21 observations.

We calculate the buy-and-hold abnormal returns around the event date (e.g., the report submission date). Our benchmarks are the TOPIX Index, a value weighted index of all stocks listed on the First Section of the Tokyo Stock Exchange, and returns on a control firm that we identify below. We subtract the return on the TOPIX Index and the control firm from our sample's buy-and-hold returns. Since the TOPIX Index does not take dividends into account, we report abnormal returns calculated excluding dividends. We note this will bias away from finding abnormal returns as many of the sample firms increased their payouts following MACs acquisition of shares.

We have assigned a control firm (benchmark) to assess the relative operating performance of our sample firms. Following by Barber and Lyon (1996), control firms operate in the same industry as that of our sample firms and exhibit similar operating performance (return on asset) in the pre-event year (year −1). We use ROA (operating profit over the book value of the total asset) as our performance measure.

4.3. Descriptive Statistics

We describe the characteristics of our sample in this subsection. Table 2 presents the summary of our sample firms. The 21 firms have an average market capitalization of 31,505 million yen (the median is 21,696 million yen), which is a little larger than the average market capitalization of the Second Section of the Tokyo Stock Exchange. MAC held an average stake of 5.86% of the sample firms. The average cash holding balance relative to the book-value of total assets in the year before the event was 15.1 percent, but varied from a minimum of 2.2 percent to a maximum of 89.1 percent. The average of the same ratio of cash holding balance for all firms on the First Section of the Tokyo Stock Exchange is about 13 percent in the Year 2000.

Table 3 shows the composition of the sample by industry. Trading, service, and engineering companies together account for more than half of our sample.

5. Results of Event Studies

5.1. Share Price Performance

Table 4 reports the announcement effects of MAC's purchase of shares in terms of the buy-and-old abnormal returns (BHAR) over those of the TOPIX Index and of a control firm.

Our results show that the average abnormal returns around the announcement date (days 0 to +2) is positive but not statistically significant. The long-term BHAR against TOPIX is significantly positive before the event (days −120 to −1), suggesting some run-up before the event. Because a looser disclosure rule is imposed on an investment fund like MAC to submit Report of Large Shareholdings only on quarterly basis, and because some of the event dates arise from the appearance of an article in the newspaper or when an annual 10K report was submitted, the market might have already known about the purchase of the MAC by the event date. The significant positive pre-event returns might well indicate the leak of information.

In terms of the post-event BHARs, we find that the target firms of the MAC significantly out-performed TOPIX Index over one year (~+250 days) and two years (~+500 days) after the news of the purchase by 15 to 20 percent. However the BHARs are not significant in any of the periods when we use a control firm as the benchmark. The latter results may be because of the spillover effect from the information that MAC targeted our sample firms. Our control firms share the industry and the characteristics of our sample firms, so they could have been regarded as a potential target for the future hostile activity, resulting in their share prices to be bid up in line with those of our sample firms. Admitting the weak robustness of our results as above, we report that MAC generally earned higher returns than the market in general.

5.2. Operating Performance

We show the operating ROA of our sample firms in Table 5. Panel A reports both the average adjusted and control firm adjusted ROA across all sample firms around our event year. Note that in year –1, the control firm adjusted returns are closest to zero due to our method of choosing control firms.

The unadjusted and control firm adjusted returns declined during the 10 years around the event. The unadjusted ROAs barely change in the years following the event, while the control firm adjusted ROAs are significantly negative in years +2 to +4, suggesting that ROAs of control firms have improved after the event.

Panel B examines the changes of ROA of each sample between Year –5 and +4 and Year –3 and +3. The decline of both adjusted and unadjusted ROA is significantly negative cross-sectionally between Year –5 and Year +4. Overall our results suggest that MAC was unable to bring about improvements in operating performance at its target firms. If anything, performance deteriorated.

6. Conclusion

We examine the share price and operating performance of companies whose shares were purchased by MAC following MACs hostile TOB of Shoei in January 2000. We find that the shares of our sample firms show significant abnormal returns over two years after the purchase became publicly known. On the other hand, we have shown that the raw ROA and control firm adjusted ROA declined following the MAC's purchase. The average control firm adjusted ROA becomes significantly negative after 2 years and on following the event.

Our sample size is limited, but at least we have shown that the first hostile TOB attempt followed by the threat of hostility by the first-ever activist fund in Japan has resulted in decent investment returns for the fund, but not in the improvement of the target's operating performance. Managers of the target companies frequently complain that outside activists do not have the necessary expertise to understand the business of the target. Moreover, many managers will see the effort as a threat to their jobs or autonomy. As a result, it is likely that the target management will resist making the changes proposed by the activists at all costs, devoting his time to defending his position rather than to managing his company's operations.

Anecdotal evidence supporting this claim is provided by the case ofTokyo Style Co., one of our sample firms. Tokyo Style's management fought back most fiercely against Murakami involving several lawsuits. The adjusted and the unadjusted ROA of the company at year +4 are −5.7 percent and 0.8 percent, respectively, which are below the mean and the median of our sample. More recent attempts by other activist funds in Japan, such as Steel Partners Japan Strategic Fund (SPJSF) that adopted similar activist strategies as MAC since 2003, will provide an opportunity to examine the robustness of our results within a few years. In the meantime, our preliminary investigation of other activist funds implies that a similar result may emerge.

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Appendices

Exhibit 1. Shoei's Share Price around the Hostile TOB

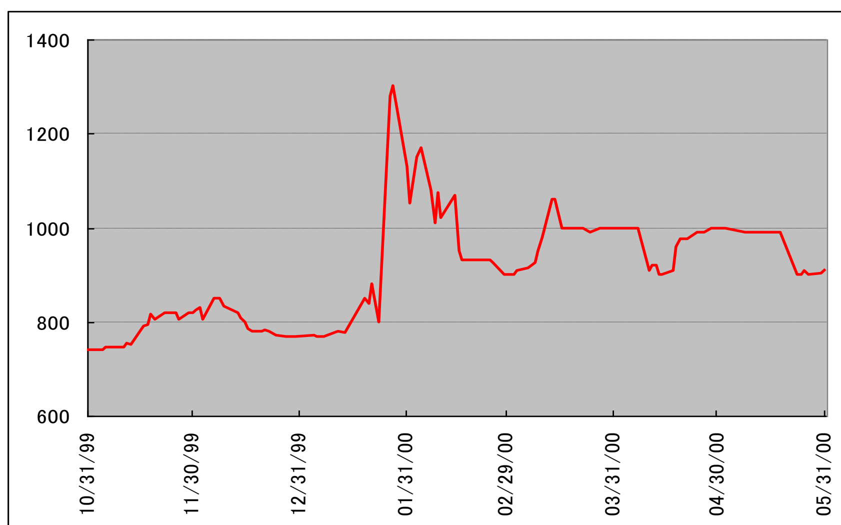

Exhibit 2. Shoei's Share Price over Longer Period

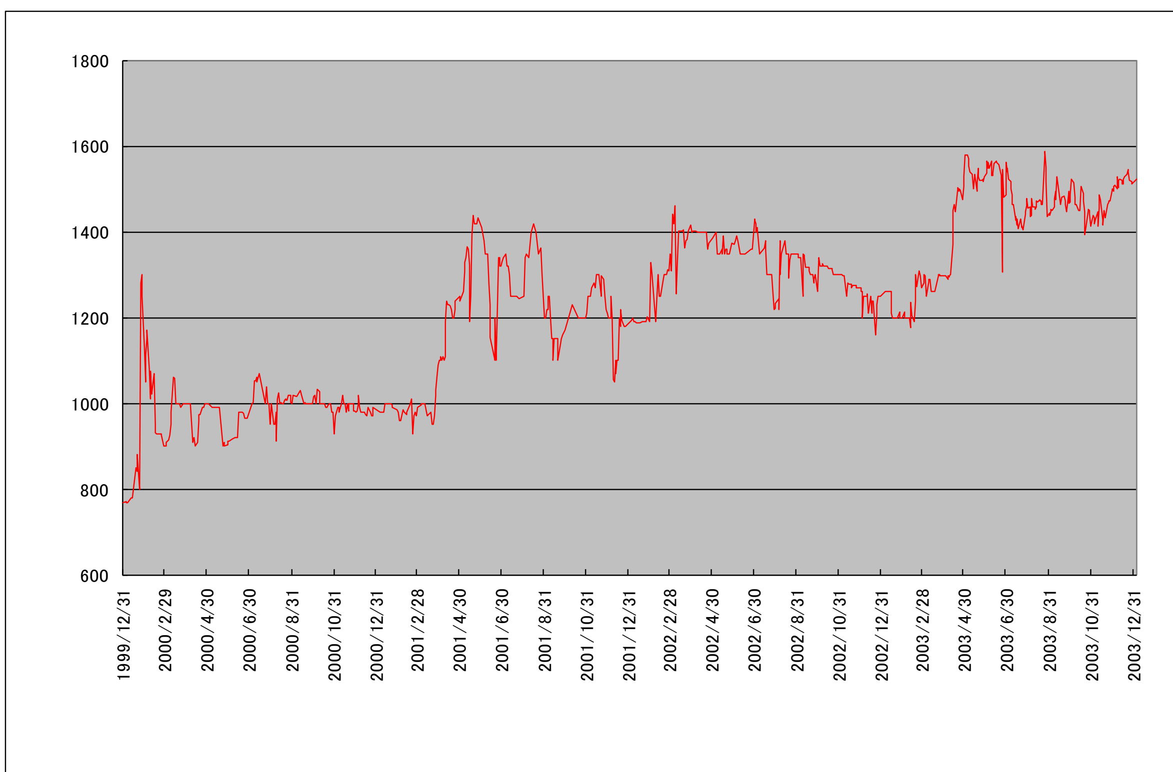

Table 1. Sales, Operating Profit, and Operating Profit Margin of Shoei
Sales and operating profit are reported in millions of yen.

FY	SALES	OP. PROFIT	OP. PROF. /SALES
1995/12	10,104	1,046	10.4%
1996/12	8,072	671	8.3%
1997/12	8,812	850	9.6%
1998/12	7,280	1,029	14.1%
1999/12	5,880	801	13.6%
2000/12	7,475	953	12.7%
2001/12	4,908	585	11.9%
2002/12	7,702	820	10.6%
2003/12	8,100	898	11.1%
2004/12	9,101	2,014	22.1%
2005/12	13,707	2,813	20.5%
2006/12	16,904	6,044	35.8%

Table 2. Summary Statistics of Sample Firms

Event Year	# of Firms	Avg. Mkt Cap. (in Million Yen)	Avg. % of Hldg. by MAC	Avg. % of Cash to Total Assets
2000	5	17,213	6.44%	4.73%
2001	15	37,693	5.94%	17.76%
2002	1	10,150	1.73%	27.57%
TOTAL	21	31,505	5.86%	15.12%

Table 3. Sample by Industry

Industries	
Textile	2
Pharmaceuticals	1
Non-Iron Material	2
Transportation Machinery	1
Other Manufacturing	1
Engineering	4
Trading (Wholesale)	5
Retailing	1
Service	4
TOTAL	21

Table 4. Buy-and-Hold Abnormal Stock Returns (Excluding Dividends)

The table reports the average buy-and-hold abnormal returns over the TOPIX Index over the pre-and post-event period. “*” and “**” denote the significance at the 5% and 1% level, respectively.

Days (Event Date=0)	Raw BH Return		Adjusted BH Return			
			Against TOPIX		Against Control Firm	
	Mean	Median	Mean	Median	Mean	Median
-120～-1	7.38%	10.13%	18.80% **	24.53% **	-10.38%	17.98%
0～+2	3.76%	-0.30%	4.09%	-0.12%	3.98%	0.00%
0～+60	1.04%	0.00%	3.33%	-2.19%	-1.94%	-8.44%
0～+120	-3.07%	-2.46%	5.69%	0.82%	-4.44%	-5.70%
0～+250	-3.47%	-1.73%	14.40% **	15.85% *	0.96%	11.16%
0～+500	10.09%	9.83%	24.14% **	15.89% *	-16.89%	-4.45%
-120～+500	15.82%	10.79% *	41.55% **	33.47% **	-23.65%	10.64%

Table 5. Absolute and Relative Operating Performance of Sample Firms

Median pre- and post-merger unadjusted and control firm adjusted operating returns for 21 firms. ROAs are the operating profit divided by the book value of assets for the previous year. Control firm is chosen to be the one in the same industry as that of the sample firm, and must be the closest in ROA in the year –1. "*" indicates significance at the 5 percent significance level.

	Sample firms		**Control firm adjusted**	
	mean	**median**	**mean**	**median**
Panel A – ROA for year relative to event:				
–5	6.25%	3.49%	2.21%	-0.37%
–4	6.15	3.15	1.65	-0.17
–3	4.43	2.94	0.42	0.46
–2	1.84	2.64	-0.53	0.27
–1	1.15	2.14	-0.17	-0.01
0	1.32	1.31	-1.35	-0.76
+1	2.34	1.45	-1.15	-0.22
+2	1.79	1.79	-2.55*	-1.99*
+3	2.30	1.57	-2.48*	-1.31*
+4	1.98	1.82	-4.03*	-1.45*
Panel B – Change in ROA between:				
-5 to +4	-4.27*	-2.67*	-6.36*	-3.19*
-3 to +3	-1.21	-0.70	-2.77	-2.16