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Articles

An Interpretation of Focus Strategy: Empirical study of diversifying the ‘acquisition puzzle’

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Focus strategy has been an important concept for Japanese firms for years. Indeed, reflecting the so-called ‘conglomerate discount’, diversification (the opposite so to speak) tends to be assessed negatively by financial analysts and researchers. Nevertheless, firms still aggressively pursue diversification, mainly through diversified acquisitions.

This paper attempts to empirically explain ‘diversifying the acquisition puzzle’, which describes the contradiction between existence of a conglomerate discount in the stock market and continuing attempts to diversify acquisitions by Japanese firms. Our empirical results show that diversifying acquisitions is an efficient investment method and does not contradict the observed conglomerate discount.

Spin-Offs, Value Creation, and Corporate Governance: Learning from recent US and European experience

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This paper explores, based on selected case studies, why US and European companies actively undertake spin-offs and in what circumstances they are likely to lead to value creation.

Findings suggest that spin-offs create significant value by increasing management focus, especially when the difference in business characteristics is substantial and the pace of change in the industry environment is accelerating. Strong corporate governance is a prerequisite for management to engage in a spin-off that increases shareholder value but reduces corporate size.

Spin-offs in Japan: Legal and tax issues

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Since the introduction of special tax treatment for corporate reorganization in 2001, M&As and corporate reorganization have dramatically increased in Japan.

However, as a result of the lack of tax deferral for spin-offs, which is available in the US (type E reorganization), the ‘selection and concentration’ of existing subsidiaries and business units has not been popular among Japanese companies.

To remedy this situation, Japan should introduce tax deferral treatment for spin-offs as soon as possible.

Selection and Concentration in Japan’s Machine Tool industry: A case study of Tsugami’s carve-out strategy

..... *Isao Hamada, Yosuke Mitsusada, CMA* 40

Japan’s machine tool industry is facing globalization challenges. To better understand responses and results the authors studied Tsugami Corp., a medium-sized machine tool maker. They analyze customer evolution following the firm’s concentration strategy and describe how customer segments, sales areas, product strategies, and production methods changed. Tsugami is simultaneously carving out its China subsidiary and planning its IPO in Hong Kong. The authors compare Tsugami’s financial alternatives from the corporate value viewpoint.

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Article

Predicting the Financial Ratios of Companies in a Bank’s Loan Portfolio Using Macro Indicators

..... *Tomoyuki Miyagi, Mingzi Song* 72

To construct an appropriate risk management system, banks are required to understand how changes in economic conditions impact a bank’s own earnings and capital.

In this paper, through analysis of the relationship between macro indicators and the financial ratios of companies in a bank’s loan portfolio, we confirm the usefulness of macro indicators in predicting the financial ratios of companies.

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