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Feature Articles

This month's focus: **"Minority investor protection in MBOs and other privatizations"**

If a listed company becomes subject to a management buyout (MBO), the Tokyo Stock Exchange requires it to submit an appraisal of its corporate valuation as well as more timely disclosure of detailed information (than for a regular takeover bid) regarding the company's expression of intent because such transactions often involve conflict of interest and information asymmetry. This essay outlines the timely disclosure required for each procedure of a two-step acquisition transaction and explains key disclosure points when the company expresses its intent in the first step, the takeover bid.

More than two years have passed since amendments to rules of the Tokyo Stock Exchange (TSE) regarding timely disclosure in respect of, among other things, management buy-outs (MBOs), came into effect. This article considers the practical impact of the amendments (which are based on the notice entitled "Enhancing the content of timely disclosure concerning MBOs" dated 8 July 2013, issued by the TSE to listed companies) on MBOs, with focus on the enhanced scope and segmentalization of timely disclosure rules in respect of (i) target companies' opinions on price and other proposals from purchasers and (ii) matters concerning how target companies calculate the value of their shares, based on disclosures in actual MBOs following the promulgation of the aforementioned amendments and our practical experience.

In July 2013, the Tokyo Stock Exchange amended its Securities Listing Regulations concerning going private transactions, particularly regarding the disclosure of opinion issued by the management of the target firm of a tender offer bid. The amendment requires management of the targeted firm to disclose details of the third-party valuation report. This paper summarizes 29 actual TOB cases following the amendment, focusing on the parameters used in the DCF (discounted cash flow) model. We analyze the parameters relating them to theories of corporate valuation, and discuss the effect of the amendment.

Management buyouts of publicly traded firms in Japan create substantial value for both pre-buyout public shareholders and post-buyout managers and investors. A sample of 54 management buyouts of public firms from 2001 to 2009 saw an average nominal buyout premium of 49%. Total nominal returns to pre-buyout shareholders and post-buyout investors for a subsample of observations with post buyout valuation data average 116.3% while average nominal returns to post-buyout investors are 54.6%. These large, positive buyout premiums and investor returns are economically significant and raise the question of why a firm's managers choose to take their companies private in a buyout transaction.

Prospects

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This paper examines how the stock market evaluates lease liability information disclosed in the footnote in terms of equity risk. Capital lease liabilities to which exceptional treatment was applied and current operating lease liabilities are analyzed. The empirical results do not show that the market evaluates any lease liability as a financial risk.

This paper studies the relationship between news and the Tokyo Stock Exchange (TSE) during 2003 to 2015. We use recursive neural networks in order to quantify news tones from Reuters. We link news tones and TSE activities through Tetlock [2007] models. Our three main findings are: news tones affect stock returns, at the same time, and chase after stock returns; the effect of news causes return reversals; and the effect of news has a longer lasting and larger impact on small stocks. These results are consistent with empirical analyses of the New York Stock Exchange. Our results also show that recursive neural networks can quantify news tones better than naive Bayes classifiers and sentiment dictionaries.

Book Reviews