

US activist hedge fund wins Japanese company's board vote

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Atsumi & Partners

Speedread

An arm of US activist hedge fund group, Steel Partners, won a vote to elect board members at the annual general meeting of Aderans Holdings Company Limited (Aderans), Japan's biggest wigmaker, after successfully gaining the support of other shareholders on how to improve Aderans' business.

On 28 May 2009, Steel Partners Japan Strategic Fund (Offshore), LP, an arm of US activist hedge fund group, Steel Partners, won a vote to elect board members at the annual general meeting of Aderans Holdings Company Limited (Aderans), Japan's biggest wigmaker.

Steel Partners is the largest shareholder of Aderans, holding 26.7% of its shares. Aderans, wishing to remove Steel Partners' influence, agreed with Unison Capital group, a Japanese fund, on a capital alliance including Unison's making a tender offering for Aderans shares. Based on this alliance Aderans proposed for its shareholders' meeting a slate of board members including people from Unison, and also proposed Aderans tender its treasury shares to Unison.

Steel Partners lobbied other shareholders, persuading them to vote against Aderans' proposals and to vote for Steel Partners' counter-proposal of another board members' slate.

Unison's tender offer price was 5.8% higher than the market value of Aderans' shares, but Steel Partners asserted to other shareholders that the price was lower than the company's book value, and that Aderans would dilute existing shareholder interests by unnecessarily disposing of its treasury shares.

Steel Partners also persuaded other shareholders that the nominees for the board proposed by Steel Partners, most of whom are Japanese and have substantial experience in managing blue chip Japanese companies, would improve the currently poor performance of Aderans' business.

Steel Partners did not solicit proxy votes but instead asked other shareholders to vote by themselves.

At the general meeting, Aderans' proposals regarding nominees from Unison to be appointed to the board were voted down, which also made Aderans withdraw its proposal of tendering its treasury shares to Unison, while all nominees from Steel Partners were elected to the board.

Foreign activist funds were less active at general shareholders' meetings of Japanese companies in 2008 compared to previous years. This is partly due to cash shortages resulting from the current financial crisis, and to the fact that such funds have softened their approach from thrusting their demands on target companies to tactfully negotiating with such companies or obtaining other shareholder's support. Such funds have learned through many defeats in proxy fights in previous years that simply pushing hostile demands for increasing dividends on shares is unlikely to be

supported by Japanese shareholders, who are sceptical about foreign funds' long term commitment to target companies.

While foreign funds are generally less active, shareholders in Japanese companies are generally more conscious about performance of their shares under the current economic environment. According to a sampling survey by Nomura Securities published in May 2009, only 22.2% of shareholders who wish to exercise their voting rights, compared to 31.6% in 2008 and 52% in 2007, answered that they will vote for all companies' proposals. Japanese companies are becoming more accountable to shareholders on their business performance and future business strategy. The victory of Steel Partners resulted from its successful efforts to obtain support of other shareholders on how to improve Aderans' business.

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