

(Japanese)

積水ハウス、ここへきて「前会長 VS. 現経営陣」委任状争奪戦へ

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(English)

Sekisui House, Proxy Fight between Former Chairman vs. Current Management Team

Pursuit of management responsibility or power struggle?

Tomoyuki Isoyama

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Clash at AGM on April 23, 2020

Mr. Isami Wada, who was ousted in January 2018 as Chairman and CEO of Sekisui House, has made a shareholder proposal to replace the current directors at the Company's general meeting of shareholders in April. The Company has held a board meeting on March 5, 2020 and decided to oppose the proposal.

The Company also announced their slate directors, and a proxy fight will likely be held for each of them to seek support from shareholders at the general meeting of shareholders to be held on April 23, 2020.

Wada and others are focusing on the fraud incident in 2017 that involved a piece of land in Nishi-Gotanda, Tokyo. Sekisui House lost about 5.5 billion yen by pursuing to purchase the land from a fake owner. Current Chairman Toshinori Abe (then President) executed the land purchase transaction despite the fact that the real owner repeatedly sent them content proof mail saying that the seller is fake. Furthermore, Wada and

his allies point out that Abe and his team had conducted "an unusual transaction that nobody would do", settling the transaction by "deposit checks" instead of bank wires.

Wada criticizes the current management team and call for their resignation saying that it is not mere fraud but an "improper transaction resulting from repeated incredible misjudgments as a manager."

Both sides chose outside directors

In response, Sekisui House completely rejected the shareholder proposal saying that there was no improper transaction in the incident. In addition, as regards Wada's argument that the Company refused to publish the investigation report and continued to cover it up, the Company denied it and said that it had published a " Report of Summary of Development of the Problems with the Purchase of the Land for Condominiums" and that there has been no cover-up.

The Company has announced eight internal directors and four external directors for a total of 12 slate directors. The four representative directors including Chairman Abe and President Yoshihiro Nakai, are all to stay.

The other four internal directors have been reappointed, except for Fumiyasu Suguro, incumbent director and senior managing officer who joined forces with Wada and is one of the slate directors in the shareholder proposal. The Company added one new internal director candidate who will replace Suguro. The number of candidates for outside director has increased from three to four. The Company emphasized its commitment to governance reform by doing so.

The shareholder proposal included appointment of Motohiko Fujiwara, managing officer until June last year, and Koji Yamada, CEO of its US entity, in addition to Wada and Suguro. As slate outside directors, they chose a total of seven including Christopher Douglas Brady from the U.S. So four internal and seven outside.

Which will win -- unclear

What decisions will the shareholders make?

Given the shareholding ratio and other factors, it is likely that Wada's "complete victory", in which the shareholder proposal is fully adopted and the company proposal is denied, will be difficult. "Wada opposes the reelection of the current management team due to lack of corporate governance, but because he is also a slate director in the shareholder proposal, it gives the impression that it is a power struggle aiming for a return to the leadership," a financial institution research analyst said.

The Company's release has the following statement:

"...the Company cannot help thinking that Mr. Wada is not "concerned the Company's current distress and stand up" (reasons of Shareholder's Proposal) but there most likely is a private reason for the proposed shareholder, and is not intended to enhance the corporate value of the Company and the common interests of the shareholders."

The shareholder proposal was made by Wada as a revenge aimed at returning to the board.

Wada repeatedly said at the press conference that he had no intention of

becoming a representative director, but he did respond clearly when asked who would be the President.

What will the voting behaviors by overseas & institutional shareholders be?

What voting behaviors will foreign and institutional investors take at the general meeting of shareholders? You may vote for the shareholders if you pursue management responsibility for the land fraud, but if you see this as a power struggle between Wada and Abe, then they won't vote for the shareholders.

It is not easy to say no to the Company proposal, and institutional investors will not vote for the shareholders unless the shareholder proposal is convincing enough.

The number of outstanding shares of Sekisui House is 690.68 million as of the end of January 2019. The top of the list of major shareholders is a trust bank account. In fact, the Government Pension Investment Fund (GPIF) announced that it had 58,729,500 shares of the Company as of the end of March 2019. With 8.5% of outstanding shares, it is considered to be the largest shareholder.

In addition, the U.S. investment firm BlackRock Group holds a total of 6.16%.

Overseas investors are sensitive to corporate scandals and governance issues, and the current Sekisui House management team will come under scrutiny. If a voting and governance advisory company like the

Institutional Shareholder Services (ISS) recommends that shareholders vote against the Company proposal, there will be a big hit to Chairman Abe and President Nakai.

Hard to tell what will happen

At the LIXIL Group's general meeting of shareholders last June, Kinya Seto, who was dismissed as President and CEO by Yoichiro Ushioda, the Chairman of the board of directors then, made a shareholder proposal with the support of overseas funds and many others, and returned to the board. At LIXIL, many slate directors, both company-proposed and shareholder-proposed, were elected, and a mixture board of directors was formed. The Seto faction barely won the majority, and Seto became CEO. Sekisui House may see a mixture board, too.

However, at this point it is not easy to tell whether institutional investors will vote for Wada's return to the board. It is not convincing to elect someone who was seen as an authoritative executive in order to strengthen governance.

On the other hand, it is unclear whether Abe and Shiro Inagaki, Vice Chairman (then Executive Vice President) will be reappointed since, as they admit, they are responsible for the land fraud.

One of the keys is which outside director candidates will be supported by the major shareholders. It will determine which will win the majority of the board, the current management team or Wada. An unusual situation may be a possibility where many of the outside director candidates are elected, and at the same time all the Sekisui House directors who were directors at the time of the incident are not. Wada and the Company will

be fighting a lot as they get closer to the AGM in April, and how much convincing their arguments are to the institutional investors will determine the outcome.