

IS SEKISUI HOUSE AN OLYMPUS 2.0 SCANDAL?

Olympus 1.0¹

Company: Olympus Corporation

HQ: Tokyo

Industry: Cameras and medical devices

Scandal Years: 2011-2012 (however books cooked since 1980's)

Board Composition (2011): 15 directors (only 3 independent)

Wrongdoing: "Tobashi" massive hidden Company liabilities carried on third parties' books (US\$1.7 billion fraud)

Red flags: Unusual out-sized advisory and acquisition fee payments

Big red flag: \$678 million payment to unknown Cayman Island company

Insider Wrongdoers: Tsuyoshi Kikukawa (Chairman & CEO), Hisashi Mori (EVP), Hedio Yamada (auditor) (hereinafter the "Big 3")

Tenure of Bad CEO: Kikukawa ran domestic business: 10 years

How fraud uncovered: Michael Woodford, newly appointed President, spots red flags

Background of Woodford: 30 year veteran of Company and had been focused on its international business

Woodford's actions: confronts Big 3 who deny and deflect Woodford's investigation; then Woodford attempts to raise questions of wrongdoing before Board

What happens to Woodford?: Big 3 silences Woodford at Board meeting and causes Board to fire him (Board vote 15-0 to fire Woodford)

Company's Public Statement for Firing Woodford: "Woodford is disruptive and does not understand Japanese culture"

¹ The 2011-2012 Olympus scandal is deemed one of Japan's worst corporate governance failures. The government has focused on corrective reforms. However, the recent and continuing Sekisui House scandal reflects many of the same governance break-downs as Olympus. Therefore is Sekisui House an Olympus 2.0 Scandal?

Media Reporting: Facta (Japanese magazine) and Financial Times (Western financial publication) first to expose scandal

Cover Up: Board is puppet of Big 3 and Audit Board in reviewing one of the fraudulent transactions, states “no dishonesty or illegality is found in the transaction itself, nor any breach of obligation to good management or any systematic errors by the directors recognized”

Organized Crime: Media reports that transactions linked to Yakuza and Woodford cites organized crime are “forces behind” Board

Arrests: Big 3 are arrested under the Financial Instruments and Exchange Law

Guilty Pleas: Big 3 pled guilty to collusion to submit false financial reports

New Board: Old Board replaced and new Board restructures Company, improves corporate governance, delinks auditors from Board control, and Company’s share price dramatically rises