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What company do overseas investors like?

Summary

Titlis analyzed 15 factors on overseas ownership for 494 companies of the composites of TOPIX100 and JPX400. Multiple regression analysis indicated that factors of Compensation Committee and ROA (expected) were statistically significant. ROE should be more plausible than ROA conceptually, but really overseas investors invest in higher ROA companies. Also, overseas investors would consider a company having committees as more positive, whereas a company having a parent or a large ownership as negative on this analysis for TOPX100 and JPX400 companies.

Development of Corporate Governance Rating Research

Titlis explores developed research by using its Corporate Governance research data base. At this time % of ownership by overseas investors is highlighted. Analyzing total 15 factors on the ownership rate, we could find a hint what company overseas investors like. The % of ownership and factors are used latest data.

Multiple Regression Analysis

Titlis examines cross sectional analysis using data as of January 2017. Total 15 factors are comprised of 5 board practice factors such as Nomination Committee, Compensation Committee, Diversity of Board Members, % of Independent Directors and Incentive Plan, and 10 Actions such as Stock Holdings, Dividend Policy, Equity Issue, Share Cancellation, Takeover Defense, Growth Strategy, Parent/Large Ownership, Shareholders Meeting/IR, ROE and ROA for ongoing year. Detail of factors are described Table below.

Factors	Data type	Explanation	High Score
Nomination Committee	Score	Committee(y/n), 50% of ID/Member	Having Committee and >50% are Positive score
Compensation Committee	Score	Committee(y/n), 50% of ID/Member	Having Committee and >50% are Positive score
Diversity of Board Members	%	% of Women Directors of Board of Directors	Higher % is Positive
% of Independent Directors	%	% of ID of total # of Board of Directors	Higher % is Positive
Incentive Plan	Score	Performance-Linked Remunation, Stock Option, Disclosure and Policy	Having Incentive Plan, Disclosure and Guideline is Positive
Stock Holding Score	Score	Sales/Stock Holdings	Higher % is Positive
Dividend Policy	Score	Whichever lower of Dividend/Net Profit or Target % of Dividend Payout	Higher payout ratio is Positive upto 50%
Equity Issuance	Score	Issues of Common Shares, Preferred Shares and Convertibles	Less Equity Issue is Positive
Stock Cancellation	Score	Shares Cancellation	Only Share Buyback is not scored
Takeover Defense	Score	Takeover Defense	No Takeover Defense is Positive
Growth Strategy	Score	Mid-Term Plan, Quantitative Target, KPI and ROE	Explicit and Clear Target and higher ROE (E) are Positive
Parent/large Ownership	Score	Parent, >20% Ownership	No Parent and >20% large owner are Positive
Shareholders Meeting/IR	Score	AGM/IR	e-Voting, Translated in English are Positive
ROE (E)	Number	Expected ROE for ongoing year	data source from Toyo Keizai
ROA (E)	Number	Expected ROA for ongoing year	data source from Toyo Keizai

(Source) titlis

Analysis Result

Analysis result shows that factors of Compensation Committee and ROA (expected) are statistically significant in t-Stat and P-value. For the investor point of view, ROE should be more plausible than ROA but interestingly they are more likely to invest in a higher ROA company in real. But considering ROE as a result after corporate action such as share buyback, focusing on higher ROA company would be a right investment. Such a company is likely to raise its shareholder return as higher

return on assets and cash flows will push its excess cash higher. Regarding Compensation Committee, a company that has compensation committee would be more positively appreciated, as a better-governance structure company. Fewer number of companies adopts nomination committee right now, but 77% of the companies employing compensation committee have nomination committee, too. Those companies seem to promote corporate governance more positively. However, coefficient of Nomination Committee factor was slightly negative. Do overseas investors dislike a company employing a Nomination Committee? Titlis does not believe it, but think that nomination committee is quite new in Japan and most companies are just employing such a function in a year. Overseas investors could hardly assess how effectively it works. By the way, a factor of Diversity of Board Members showed relatively significance. Considering this factor that overseas investors are more likely to invest in a company promoting diversity, a company that has committees would be regarded as a 'progressive' in this country and will be more positively evaluated going forward. Regarding a factor of Parent/large ownership, the result suggests that overseas investors be more likely to invest in a company that is not a subsidiary controlled by a parent company or a large owner. It seems to make sense, as a minority shareholder could hardly reflect its interest well to a company having a parent, controlled ownership or cross-holding shares. Of course, a number of family company has a great performance led by founder's strong leadership. But companies of TOPIX100 and JPX400 are mid-large company and many of Parent/large ownership companies are a subsidiary and affiliate of a large business.

Multiple Regression Analysis: (y) Overseas Ownership

<i>Regressn Statistics</i>	
Multiple R	0.242410043
R Square	0.058762629
Adjusted R Square	0.029225891
Standard Error	0.130934584
Observation	494

ANOVA

	<i>dF</i>	<i>SS</i>	<i>MS</i>	<i>F</i>	<i>Significance F</i>
Regression	15	0.511609609	0.034107307	1.989475938	0.014545064
Standard Error	478	8.194767563			
Total	493	8.706377172			

	<i>Coefficient</i>	<i>STDEV</i>	<i>t Stat</i>	<i>P-value</i>	<i>Lower 95%</i>	<i>Upper 95%</i>
Intercept	0.200800977	0.047705836	4.209149064	3.06293E-05	0.107061905	0.294540048
Nomination Committee	-0.029917988	0.016191907	-1.847712417	0.06526158	-0.061734103	0.001898126
Compensation Committee	0.068367282	0.019061185	3.586727762	0.00036933	0.030913211	0.105821353
Diversity of Board Members	0.133667012	0.104343546	1.281028072	0.200804958	-0.07136172	0.338695744
% of Independent Directors	0.008754102	0.050332237	0.173926349	0.861996978	-0.090145687	0.107653891
Incentive Plan	0.000348232	0.004333322	0.080361485	0.935983393	-0.008166483	0.008862947
Stock Holding	0.0002403	0.001997661	0.120290938	0.904303226	-0.003684982	0.004165583
Dividend Payout	0.006174256	0.005592328	1.104058304	0.270123317	-0.004814329	0.017162841
Equity Issuance	-0.048803388	0.542383254	-0.089979525	0.928341175	-1.114553543	1.016946768
Stock Cancellation	0.056996708	0.51229614	0.111257344	0.911458981	-0.949634096	1.063627511
Takeover Defense	-0.001461243	0.001604702	-0.910600838	0.362964684	-0.004614384	0.001691899
Growth Strategy	-0.000611097	0.002104142	-0.290425644	0.771616583	-0.004745607	0.003523414
Parent/large Ownership	0.003330618	0.002050696	1.624140405	0.105005047	-0.000698875	0.00736011
Shareholders Meeting/IR	-0.000915001	0.005563488	-0.164465412	0.869434296	-0.011846917	0.010016914
ROE (E)	0.014542142	0.088580632	0.164168417	0.869667958	-0.15951342	0.188597705
ROA (E)	0.245743761	0.101622271	2.418207717	0.015969971	0.046062169	0.445425352

(Source) titlis

Conclusion

On the multiple regression analysis for major 494 companies, Compensation Committee and ROA for ongoing year were statistically significant. Then, factors of Diversity and Parent/large ownership are relatively significant. This interprets that overseas investors think that higher ROA companies are more likely to generate cash flows on a solid business fundamentals than simply higher ROE company that is buoyed by share repurchase. Also, they would invest in a company that is promoting corporate governance and diversity, setting up clear compensation guideline and hiring women directors in board members. Conversely, they are reluctant to invest in a company that are influenced by a parent or a large ownership.

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