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Pokemon Go's 'shadow wirepuller'

There is a 'shareholder activist' behind this comeback of Nintendo. How long is Japan going to continue this 'Isolationism' by ignoring such contribution?

Nintendo revived itself with the big hit of 'Pokemon Go' which is a game app for smartphones. Behind this rebirth is this shareholder activist but the company doesn't want to recognize and acknowledge such contribution. How long is this Japanese company going to continue its 'isolationism'?

Pokemon Go's huge success is non-stop. The share price has settled a bit since its launch, but still maintains 22,000 Yen level, and the transaction volume is at 200 billion Yen taking up 9% of the First section of the Tokyo Stock Exchange's total volume.

It is from the view that Pokemon Go's pay-as-you-go revenue should be building up. According to Censor Tower who is an apps research company, since launch the total sales have reached above 200 million U.S. dollars (20 billion yen) around the world in one month.

In Japan, media are talking about 'inheritance left by the former President Mr. Satoshi Iwata,' that had passed away suddenly at the age of 55 in July of 2015. In 2014, Mr. Iwata who underwent surgery for bile duct cancer brought his PC into his hospital bed and was working persistently to start up Pokemon Go until his last days. However Mr. Iwata was originally passive about launching into smartphone games. Smartphone games that make you challenge continuous chargeable drawings repeatedly he felt 'was not good for kids,' in general who were the Nintendo main targets.

Persuading persistently 'to go into smartphone games':

It was June of 2013 that Mr. Iwata received a letter. It was from the CIO Chief Investment Officer of an investment fund, OASIS Management Mr. Seth Fischer, the so-called activist.

Activist after acquiring the shares of a company will send letters of critical opinion to Management, and propose different alternative strategies in public, remind secretly things to management to boost the share price and to gain profit when they sell. Mr. Fischer used his position as activist to urge Mr. Iwata to go into 'smartphone games,' that he was not fond of.

At around the same time, Mr. Fischer in an annual meeting for the Hedge-fund industry in Hong Kong makes a comment encouraging Nintendo to change their course of strategy. This is a standard move for an activist. And once again in February of 2014, he sends a letter to Mr. Iwata.

At around this time the world's game market had moved towards the smartphones from the dedicated game machines from Nintendo and Sony. Mr. Fischer through series of events insisted that, 'Nintendo's management by sticking to the game dedicated machines left behind all those potential customers of a broader scope. While they have sufficient capital they should respond to consumer demand and behavior and be responsive to the changes.' He also estimated that, 'Launching into smartphone game market for Nintendo could raise the share price by 97%-240%.'

However, Nintendo's response was unsympathetic. 'We will consider the recommendation separately, but will not announce the results.' Mr. Iwata continued to reject saying, 'Smartphone games look like it will be profitable at a glance, but the price drop or deflation of its contents are too violent.'

However Mr. Fischer's assessment of the status quo that games are moving from dedicated machines to smartphones was correct. Nintendo failed in 'Wii U' game machine that launched in 2012. And in March of 2014, they incurred a loss of 46.4 billion Yen in consolidated operating income. Mr. Iwata finally decided in March 2015 to launch into smartphone games. This is how the joint development between Pokemon K.K. (funded 32% by Nintendo) and Niantic who split from Google for 'Pokemon Go' began.

Mr. Fischer recalls that until Oasis became the large shareholder, Nintendo to take on smartphone games 'was an obvious opportunity but nobody said it out loud.' Not only did he send letters, he had several consultations with Mr. Iwata in person to insist on the development of smartphone games. Mr. Fischer who is in his mid-40s confided that he grew up playing with Nintendo games and urged that, 'those generations who have spent many hours playing with Super Mario, Donkey Kong, Zelda, will be potential customers with the smartphone games which could amount to over 100 billion U.S. dollars.'

After two years of persuasion, Mr. Iwata decided on advancing with smartphone games. But Mr. Iwata died before seeing the debut of Pokemon Go, so we do not know how much Mr. Fischer's persuasion helped in the decision of Mr. Iwata.

As a result, with Pokemon Go's success, Nintendo's share prices rose by more than 50% in the 1 week after launch in the U.S., and the market Cap at one time gained above 1 trillion Yen.

Oasis is about to get few tens of millions of yen.

It is a heap of treasures for Activists:

Pokemon Go hype excited the whole world and this was a case where a major Japanese company accepted the proposition of a 'shareholder activist' and boosted their corporate value to success which is quite unique, but Nintendo side stubbornly does not accept this view.

When asked by Wall Street Journal, 'What was the role that Oasis and other outside shareholders played in the success of Pokemon Go?' Nintendo says, 'The decision by our company to go into the smartphone game market was not due to the advice by a certain investor.'

In responding to other media interviews, too, the launch into smartphone games they remain to say that, 'it was part of a strategy developed by the company itself.' Everyday Japanese media is reporting on the success of Pokemon Go's excitement but hardly crediting Mr. Fischer's input.

Such attitude reminds us of an abduction case overseas of a Japanese employee or staff, and how the Japanese company responds. The employee is safely returned but the company never admits to the fact that they paid ransom, even if they had paid.

If they admit it, 'they will be labelled as a company that will pay ransom,' and will be a target for abduction. 'They will see that particular country's company will pay ransom,' and therefore the whole of the Japanese corporate entity will be a target is what they are afraid of.

In other words, they see Mr. Fischer as 'a kidnapper who would be asking for very high ransom using the company shares as hostage.' If Nintendo admits to have 'paid ransom,' it will not only be Mr. Fischer but other activists who will start knocking, and rage a storm in the Japanese market. Therefore we must ignore the contribution made by Mr. Fischer to management.

Mr. Fischer recently consulted a Japanese media consulting firm saying, 'What must investors like us do in order for us to be accepted in Japan?'

Japan has many companies that have stored away assets and human resources, therefore is a mountain of treasures for activists. However, if activists are viewed with hostility by society as in the case today, it is hard for them to seriously commit.

It all started in 1989 when Mr. Boone Pickens feared as the 'Greenmailer' bought up Koito that the rejection to dialogue with 'shareholder activist' began. When we look at Nintendo and Mr. Fischer's relationship, that position by the Japanese company has not changed in over a quarter of a century.

Those shareholders who put words into management are 'enemies' that need to be removed.

If it were at the height of the Japan Money days, it may have been acceptable. We could say, 'strangers or outsiders should not intervene,' as if to take out the logic of irregularities. However, times have changed. Japan needs investment from abroad, and the FSA in February of 2014, drew up the Japanese version of the Stewardship Code.

In this it says that the Japanese government will request of both inside and outside institutional investors to, 'improve its corporate value to boost their mid to long term ROE by executing their resolution rights.' There are more than 200 or more internal and external institutional investors that have adopted the Stewardship Code and OASIS Management led by Mr. Fischer is one of them.

Canon and Kyosera cannot ignore this, can they?

Using corporate governance code and stewardship code as two wheels to get more investment into Japan from abroad is Abe Administration's aim, but once you open that door, the 'shareholder activists' will come in. You cannot just turn them away at the door today. Mr. Fischer fully appreciates the changing environment. From the Japanese company's view, he is more formidable than the Greenmailer decades ago. He wrote in his comment to the Wall Street Journal the following.

'In the past, if investors asked for return similar to Western countries from Japanese companies, it never succeeded. However the reform by the Abe Administration is giving platform to a larger constructive shareholder participation. The Abenomics' third arrow of the Abe's economic policy, is trying to bring about an ROE reform. This is good news to both Japan as well as to the investors around the world.'

More than half of the listed companies in the First section of the Tokyo Stock Exchange, averages less than 5% ROE for the past five years. The U.S. European listed companies average ROE is around 15%, so it is fact that the capital efficiency of the Japanese companies are very poor. Mr. Fischer praises the Abenomics as 'ROE Reform,' but urges those Japanese companies that stores up money.

OASIS sits as the large shareholder for other companies besides Nintendo, such as Canon and Kyosera. Through the major success of Pokemon Go, Mr. Fischer is becoming someone which Japanese companies cannot ignore.

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