Supplementary Reading

Ito-Yokado dumps stock at discount

Desmond Hutton

2005-04-22 06:46 (China Daily 04/22/2005 page12)

Shares of Ito-Yokado Co, Japan's second-largest retailer, headed for the biggest drop in 25 years after the company agreed to sell stock at a discount to subsidiary Seven-Eleven Japan Co, partly to discourage hostile takeover bids.

Ito-Yokado fell by as much as 13 per cent to 3,430 yen (US$32.06) on the Tokyo Stock Exchange. Seven-Eleven Japan said on Wednesday it will combine with Ito-Yokado under a holding company in a transaction valued at 1.46 trillion yen (US$13.6 billion).

Ito-Yokado's 51 per cent stake in Seven-Eleven Japan was worth US$11.3 billion, or three-quarters of its market value, before the announcement, meaning a takeover of Ito-Yokado would bring control of bigger Seven-Eleven Japan. A similar anomaly in stock values prompted Livedoor Co's Takafumi Horie to make a hostile bid two months ago for the radio unit of Japan's biggest media group.

"It is a glorified poison pill in my view and unfair to Ito-Yokado shareholders, foreign or domestic," said John Vail, chief Japan equity strategist at JPMorgan Securities Asia Ltd in Tokyo. "The effect on overall market sentiment is negative."

The purchase price values Ito-Yokado's shares at a 10.8 per cent discount from Wednesday's closing price. Ito-Yokado's shares fell by 12 per cent, or 480 yen, to 3,430 yen at 1:11 pm yesterday, making the company the biggest decliner on the MCSI World Index. Its previous biggest one-day drop was on February 25, 1975.

Stock in Seven-Eleven Japan, the world's biggest convenience store chain, fell by 1.4 per cent to 2,865 yen.

Denny's

The holding company will also include Ito-Yokado's smaller restaurant subsidiary Denny's Japan Co.

Shareholders of Denny's, which is valued at 64.2 billion yen, will receive 0.65 of a share in the merged company for each share they own, the companies said. That is about a 4.8 per cent discount to its 1,984 yen closing price on Wednesday.

After the September 1 merger, Seven-Eleven Japan shareholders will own about 61 per cent of the enlarged company, Ito-Yokado investors about 37 per cent and Denny's stockholders the rest. This measurement does not threaten the 50.6 per cent stake that Ito-Yokado owns in Seven-Eleven Japan as treasury stock, which is normally excluded from calculations of common stock.

"It's unfair to Ito-Yokado shareholders," said Masanao Yoshitake, who holds both Ito-Yokado and Seven-Eleven Japan among the US$1 billion in Japanese equities he manages at RCM Japan Ltd in Tokyo. Creating a holding company is "just a good excuse for them" to establish a takeover defense strategy.

Denny's shares fell by as much as 4.4 per cent to 1,897 yen.

All three companies are based in Tokyo.

Ito-Yokado, which began as a family-owned clothing store in 1913, said on April 7 that full-year profit fell by 68 per cent last year as it accounted for the cost of closing shops and the lower value of assets. The company forecast a four-fold profit increase in the current business year to 63.7 billion yen as it starts to see the benefits of a reorganization begun earlier this year. (US$1=107 yen)

Hostile bid

Fuji Television Network Inc, Japan's biggest broadcaster, agreed on April 18 to pay Internet portal Livedoor Co about 147.4 billion yen to end a two-month hostile bid for radio affiliate Nippon Broadcasting System Inc. Fuji TV will take a 12.8 per cent stake in Tokyo-based Livedoor as part of the settlement.

Tokyo-based Nippon Broadcasting's most valuable asset is its 22.5 per cent stake in Fuji TV, which is worth almost two-thirds of its US$1.9 billion market value. Livedoor's Horie targeted Nippon Broadcasting, in part, to possibly influence Fuji TV.

"We cannot specifically name them as the direct reason for this move, but it is true that we thought about them, and they were part of the reason to resolve the skewed capital relations," Ito-Yokado chairman Toshifumi Suzuki said on Wednesday at a press conference when asked if Livedoor's takeover bid influenced the decision to form a holding company.

Suzuki said that the companies began planning the change about two months ago. Livedoor began its takeover bid for Nippon Broadcasting on February 8 by buying a 29.6 per cent stake.