Tokyo Broadcasting System Holdings Inc

US asset manager puts pressure on Japan's TBS to offload assets

Whitebox urges media company's board to increase dividends and return on equity

Kana Inagaki in Tokyo 36 MINUTES AGO

A US-based asset manager has launched a campaign to urge one of Japan's largest media groups, Tokyo Broadcasting System, to offload its substantial array of noncore holdings to improve returns for shareholders.

The effort by Whitebox Advisors is the second investor campaign against TBS after a shareholder proposal by UK-based fund Asset Value Investors demanding the sale of its large stake in chipmaker Tokyo Electron was rejected last summer.

TBS is the latest company to be targeted following a surge in activist positions in Kirin, Sony, Toshiba and other Japanese groups after a government-led governance push drove an increase in the unwinding of cross-shareholdings, share buybacks and the disposal of noncore businesses.

But the broadcaster has faced particularly strong criticism from investors for its outsized strategic shareholdings in companies that have little connection with its main media and content business.

While TBS's shares in Tokyo Electron and Recruit have climbed 77 per cent and 49 per cent respectively this year, its own shares have risen only 2.4 per cent due to a decline in TV advertising revenue.

Its top three listed holdings, including Tokyo Electron and Recruit, are worth $41bn compared to TBS's market capitalisation of $2.9bn.

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Simon Waxley, head of equity at Whitebox Advisors

Whitebox, a credit-focused hedge fund based in Minneapolis with about $6bn in assets under management, began building its stake in TBS to more than 1 per cent from last year after the launch of AVI's campaign.

The UK fund's proposal was supported by just 11 per cent of TBS's shareholders in June 2018, but investors were encouraged after the broadcaster signalled it would consider deploying its capital more efficiently by selling its cross-shareholdings.

"Unfortunately, our optimism proved misplaced," said Simon Waxley, head of equity at Whitebox Advisors and previously at activist fund Elliott Management. "Following a particularly discouraging investor meeting in Tokyo, where we were told 'don't expect much', we decided to appeal directly to the board."

In a November 21 letter to the board, Whitebox called on TBS to increase its dividends and return on equity, which averaged 3.6 per cent over the past three years, by selling its cross-held shares.

It also urged greater disclosure of the group's net asset value, 85 per cent of which is comprised of noncore assets such as listed holdings, real estate and cash. The third request called for an addition of truly independent external directors without business ties to the group.

In a faxed statement, TBS said it carries out "constructive dialogue" with its investors but declined to comment on Whitebox's letter.

The company has sold about $100m of its equity holdings in five companies, including shares in Tokyo Electron, in the 2018-2019 fiscal year.

But most of those proceeds were used for real estate investment and it has argued that its stake in Recruit is "necessary" to uphold business relationships. It also plans to cut its annual dividend due to a decline in broadcast revenue.

"The progress has been too little and too slow," Citigroup analyst Mitsunobu Tsuruo said. The brokerage recently downgraded TBS to neutral, noting that "the firm's effort to maximise shareholder value by selling off cross-shareholdings seems to have stalled somewhat".

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