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Monetary Economics 1
(Corporate Finance)

LECTURE 10

2000年以降の日本における企業再建ビジネス

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Restructuring of Japanese firms in 1990s and 2000s

- Compared with 1960s and 70s
  - Best borrowers have switched to capital market: bank's portfolio is concentrated to small and/or troubled firms.
  - Number of non-performing loans were much more.
  - In some sense, banks themselves are insiders of non-performing problem
  - Bank's balance sheet was already suffering from substantial damage
- Banks could not be an arbitrager or a judge.
  - Cf. Mazda's case in 1970s

Shinsei bank's case (1): Initial stage

- Long-term Credit bank (LTCB) was already insolvent in early 1998.
- Incentive of the government (ruling party LDP): Protecting existing borrower firms = Keep lending to those firms.

新生銀行

Shinsei bank's case (2): Initial stage

- LTCB went bankrupt and nationalized. Then, auctioned.
  - 1998年10月 - 金融機能再生緊急措置法による特別公的管理・国有化
  - Many non-performing loans were left untouched even after nationalization.
  - Enough time and information for due diligence were not provided.
  - Many potential buyers dropped out from the bidding of LTCB (JP Morgan, Sumitomo Trust among others)

Shinsei bank's case (3): Lipplewood

- Lipplewood: Then unkown American private equity (restructuring fund).
- MoF added a put option (瑕疵担保条項) that if more than 20% loss was realized, the government buybacks the non-performing loan.
- Lipplewood considered this as a satisfactory complement to buy LTCB.
- 2000年3月にリップルウッドや外銀らから成るNew LTCB Partners CVに売却され、同年6月に『新生銀行』に改称.

Shinsei bank's case (4): Collision of business customs

- Japanese government and businesses were expecting new bank (Shinsei bank) to act along Japanese conventional business custom
  - Roll over existing loans to existing borrowers
  - Do not exercise put option on no-performing loans.
- However, Shinsei bank soon exercised put option in Sogo department store case.

Shinsei bank's case (5): Restructuring Sogo department store

- Main bank was Industrial Bank of Japan (IBJ).
- IBJ's strategy: Avoid radical resturcturing.
- Other Japanese banks were in similar situations in their borrower firms cases. So agreed with IBJ to avoid retaliations.
- Shinsei bank did not have such constraints.

Incentives and restructuring scheme of Japanese banks in 1990s

- Fundamental strategy: Do nothing radical.
  - Wait and pray, spring might come.
- This strategy is sustainable only if all banks are facing similar situations so that have similar incentives.
- If some major player did not participate, the scheme will collapse.
- This scheme makes banks balance sheet eroding gradually.

21世紀の日本における企業再建の転換の制度的背景

- 最大の要因: 長期の貸借関係における企業再建の行き詰まり(共犯者としての銀行)
- 民事再生法の成立・施行　cf.和議法
- 公的金融機関(産業再生機構ほか)による再建ビジネス
- 1990年代の民間プライベート・エクィティの活動
- 外資系リストラクチャリング・ファンドの参入

Public financial institutions: IRCJ

- Industrial Revitalization Corporation Japan (産業再生機構)
- Establishment of IRCJ was a really successful promotion of restructuring business in Japan.
- The intervention of IRCJ has been limited
- Its assessment is very close to the one in market-based restructuring.
- IRCJ will not be a problem
  - Its tenure is predetermined. Will be gone by 2008. (実際にはさらに1年早く解散)
  - IRCJ people do not have incentives to be soft on zombies.

Public financial institutions: DBJ

- DBJ is more heavily involved in restructuring than IRCJ, in terms of the amount of money they have provided and the number of cases they have dealt.
- But, DBJ has been involved mostly as one of the participants in the scheme.
  - The DBJ has been a major supplier of funds to newly established distressed funds and consortiums in Japan.
- DBJ might be potentially more important, but potentially more problematic
  - Survival of its own organization
  - More vulnerable to political pressure

Role of public financial institutions: Restructuring of Kanebo (1)

- Kanebo: One of largest spinning companies before WWIII
- In high growth era, Kanebo sold real estates and entered into new businesses.
  - 鐘紡→カネボウ
- Oil crisis in 70s: President Junji Ito took very labor-friendly stance and avoided layoffs.
- By late 1990s: typical too-diversified firm.

Case of Kanebo (2): Kao's buyout attempt

- Kao wanted to buy Kanebo's cosmetic division only.
- However, Kanebo declined the offer blaming for strong opposition from labor union.
- Finally, Kanebo decided to go IRCJ.

Case of Kanebo (3): IRCJ's assessment

- IRCJ's assesment was far less favorable to Kanebo than they had been expected.
  - 2004年に支援決定
  - It is not very different from Kao's proposal.
  - Kanebo's management had to resign.
  - IRCJ split the firm to new cosmetic company and remaining.
- 最終的に2006年1月に花王の子会社へ

Lessons from case studies (1)

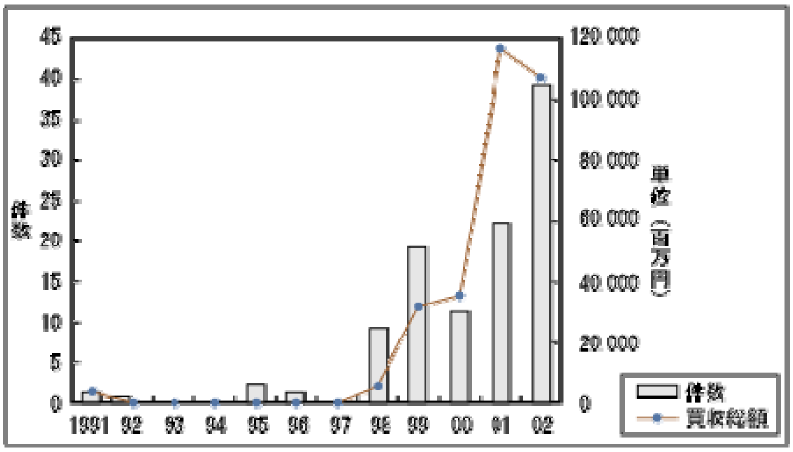
- Need a third party who has not been involved in tangled long-term relationships.
  - Ripplewood for LTCB/Shinsei
  - IRCJ for Kanebo
  - Renault for Nissan
- It requires a third party for the breach of trust among insiders (Shleifer and Summers, 1988).

Lessons from case studies (2)

- Generous bail out scheme by public financial institutions will be in the expense of:
  - tax payers
  - healthy competitors
- We need government interventions only when there is obvious market failure

Increasing buyouts in Japan

left scale (bar graph): Numbers
right scale (line graph): Amount in million yen



Policy suggestions

- Restructuring business in Japan is rapidly increasing. So don't worry.
- Limit the government intervention. Because it might crowd out private restructuring activity.

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