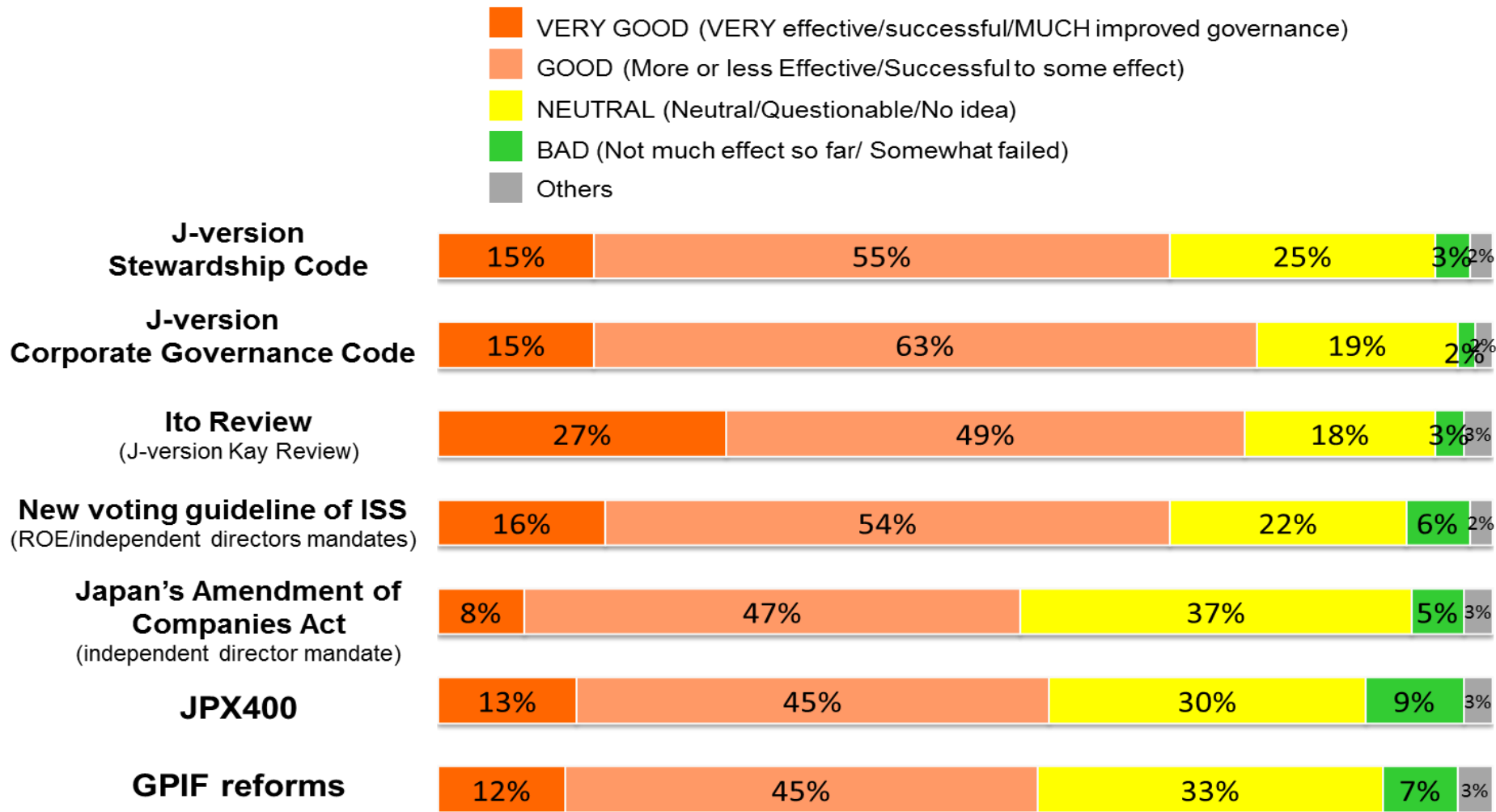


What is your overall assessment on the effect of the Abenomics' Corporate Governance reforms so far?



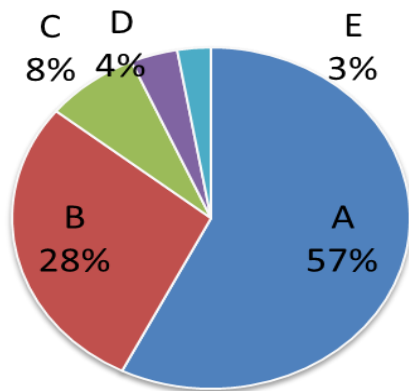
【Dr. Yanagi's investor survey 2016】

Tenure: NOV 2015-JAN 2016 Respondents: JPN 61 + outside JPN 122=total 183 investors(JPN 32funds + outside JPN 80 funds=112 funds)

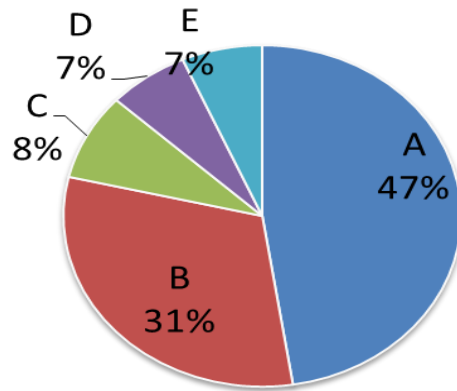
Japanese Equity Holdings by all the respondents' funds: 100 trillion yen(estimate)

Do you agree with the statement “Japanese companies should seek at least 8% or higher ROE” in “Ito Review”?

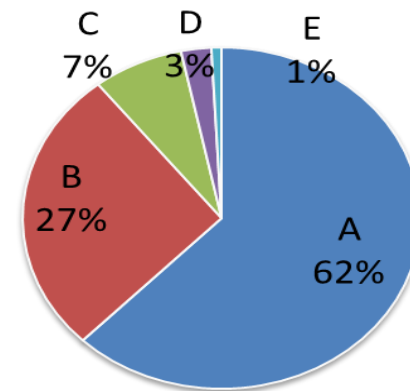
[Total]



[Domestic investor]



[Foreign investor]



- A) Strongly agree
- B) Basically agree
- C) Disagree
- D) Neutral
- E) Others

Fisher's exact test
p-value 0.07

	Domestic investor	Foreign investor	Total
99% confidence level	62.4%	80.2%	77.9%
binomial distribution	90.3%	95.3%	91.7%

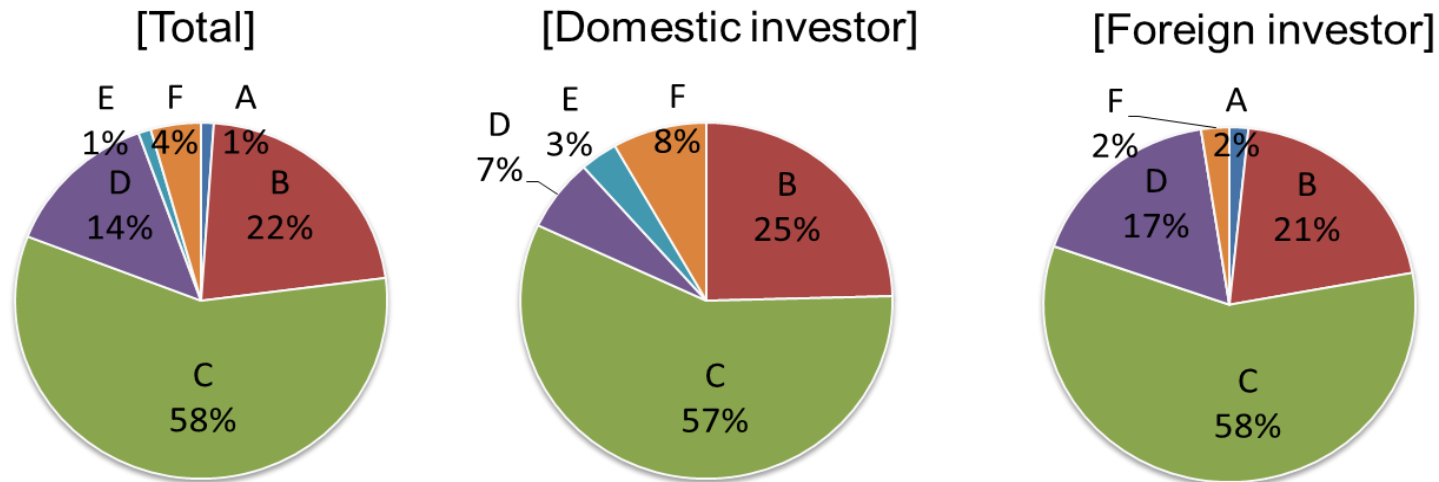
	Domestic investor	Foreign investor	Total
Agree	48	109	157
Disagree/Neutral	13	13	26
Total	61	122	183

⇒ Approval rating of the total is 77.9% to 91.7%. (Confidence level 99%)

【Dr. Yanagi's investor survey 2016】

Tenure: NOV 2015-JAN 2016 Respondents: JPN 61 + outside JPN 122=total 183 investors(JPN 32funds + outside JPN 80 funds=112 funds)
Japanese Equity Holdings by all the respondents' funds: 100 trillion yen(estimate)

Are you satisfied with Japan's corporate governance in general?



- A) Very Satisfactory. Shareholder Value is highly respected here.
- B) Satisfactory. Shareholder Value is respected here.
- C) Unsatisfactory. Shareholder Value is not respected here.
- D) Very unsatisfactory. Shareholder Value is ignored here.
- E) Corporate governance is irrelevant to shareholder value.
- F) Others

Fisher's exact test
p-value 0.57

	Domestic investor	Foreign investor	Total
99% confidence level	13.20%	13.60%	16.20%
binomial distribution	44.40%	34.00%	33.30%

	Domestic investor	Foreign investor	Total
Satisfactory	15	27	42
Unsatisfactory/Irrelevant	41	92	133
Total	56	119	175

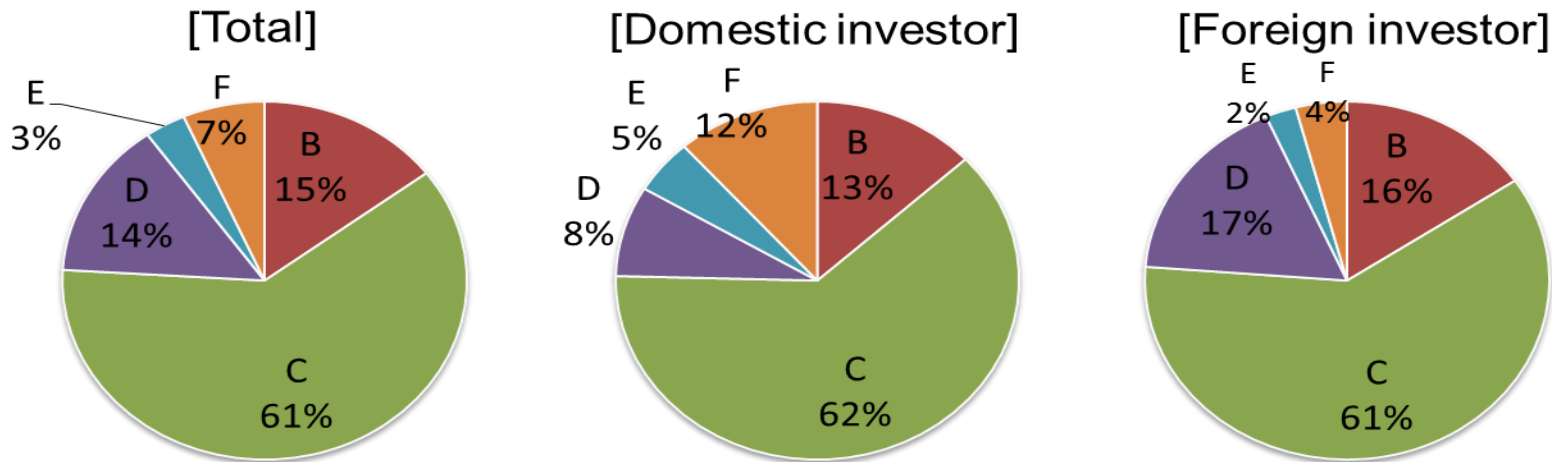
⇒ Satisfaction rating of Japan's CG is 16.2% to 33.3% of the total. (Confidence level 99%)

【Dr. Yanagi's investor survey 2016】

Tenure: NOV 2015-JAN 2016 Respondents: JPN 61 + outside JPN 122=total 183 investors(JPN 32funds + outside JPN 80 funds=112 funds)

Japanese Equity Holdings by all the respondents' funds: 100 trillion yen(estimate)

Are you satisfied with Japan's ROE in general?



- A) Very satisfactory. ROE is much higher than cost of equity.
- B) Satisfactory. ROE is above COE.
- C) Unsatisfactory. ROE is below COE.
- D) Very unsatisfactory. ROE is much below COE.
- E) ROE is irrelevant.
- F) Others

Fisher's exact test
p-value 1.00

	Domestic investor	Foreign investor	Total
99% confidence level	5.0%	8.6%	9.4%
binomial distribution	31.1%	26.8%	24.2%

	Domestic investor	Foreign investor	Total
Satisfactory	8	19	27
Unsatisfactory/Irrelevant	46	98	144
Total	54	117	171

⇒ Satisfaction rating of Japan's ROE is 9.4% to 24.2% of the total. (Confidence level 99%)

【Dr. Yanagi's investor survey 2016】

Tenure: NOV 2015-JAN 2016 Respondents: JPN 61 + outside JPN 122=total 183 investors(JPN 32funds + outside JPN 80 funds=112 funds)
Japanese Equity Holdings by all the respondents' funds: 100 trillion yen(estimate)

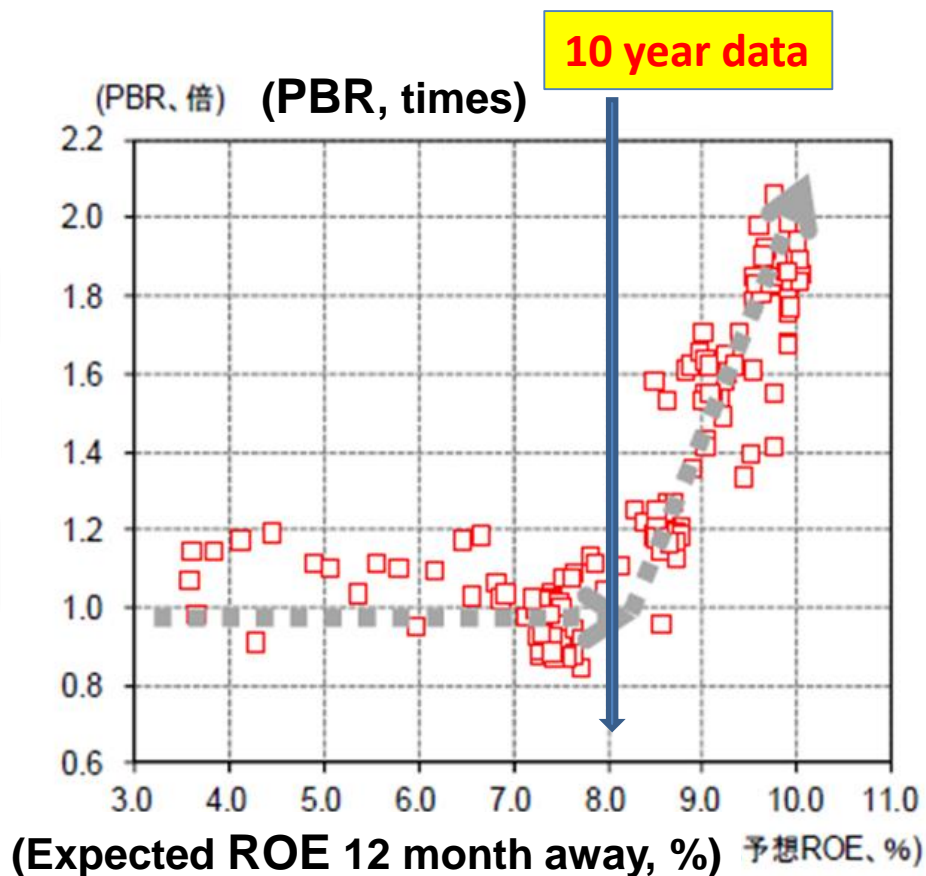
Value Proposition: Disclosure of Equity Spread and Accountability thereof

Dr. Yanagi's opinion inserted in "Ito Review" of METI

$$\text{Equity Spread} = \text{ROE} - \text{CoE}$$

$$\begin{aligned} \text{Shareholder Value} = \text{Market Cap} &= \text{Equity BV} + \text{Market Value Added} \\ &\quad \text{Financial capital} \quad \text{Non-financial capital (Intangibles)} \\ &= \text{Equity BV} + \frac{\text{Equity BV} \times \text{Equity Spread}}{\text{CoE} - \text{sustainable growth ratio (r-g)}} \\ \text{PBR} = \frac{\text{Market cap}}{\text{Equity BV}} &= 1 + \frac{\text{Equity Spread}}{\text{CoE} - g} \end{aligned}$$

- If Equity Spread is positive, PBR > 1
- If Equity Spread is negative, PBR < 1



Source: SMBC Nikko Sakagami Report Aug 2014

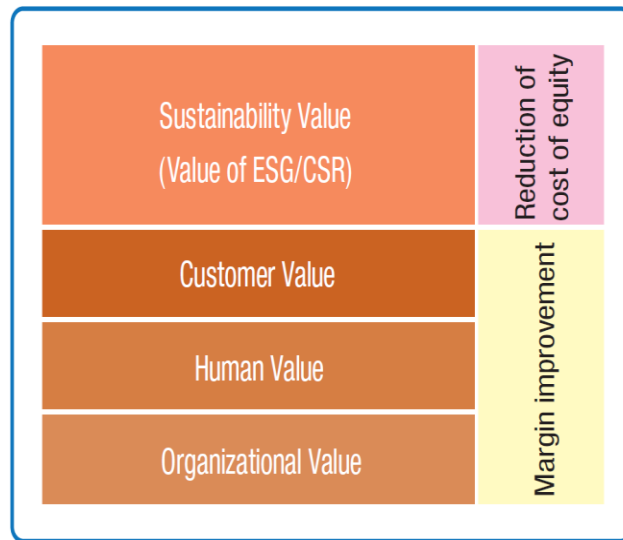
※ Expected ROE(for 12 month away) and PBR(2004-2013, TOPIX) ROE forecast is I/B/E consensus (FY2014-2015 data by SMBC Nikko)

Reference: Nikkei newspaper August 26, 2014

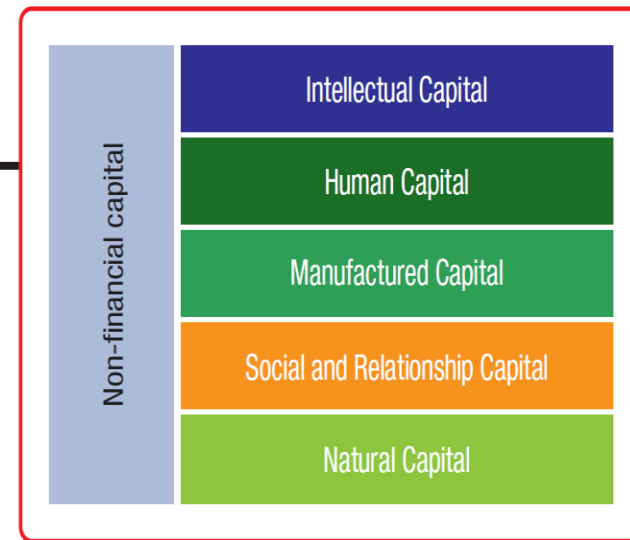
Synchronization of Non-financial and Equity Spread

■ Non-Financial Capital and Equity Spread Value Relevance Model*1

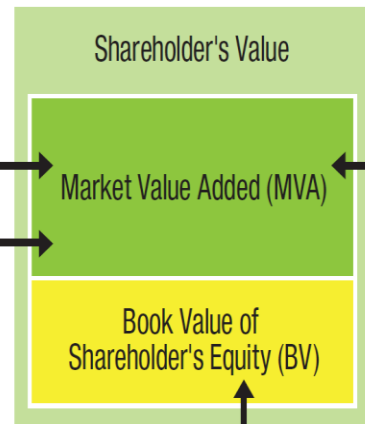
① Intrinsic Value Model*2



② Eisai PBR Model



Financial Capital (IIRC framework)



③ Residual Income Model(RIM)

Shareholder Value = BV +

$$\sum_{t=1}^{\infty} \left(\frac{\text{Net income}_t - \text{CoE} \times \text{BV}_{t-1}}{(1+\text{CoE})^t} \right)$$

Sum of Present Value of Equity Spread(MVA)

Residual Income

$$\left(\frac{\text{ROE} - \text{CoE}}{\text{Return on Equity} - \text{Cost of Equity}} \right) \times \text{BV}$$

*1 "ROE revolution and Financial Strategies" CHUOKEIZAI-SHA (2015) *2 "Financial Strategies for Maximizing Corporate Value" Doyukan (2009)

Value Relevance between ESG and ROE

- **Market value added (MVA: $PBR > 1$) is theoretically attributed to Equity Spread (by Residual Income Model) on a long-term basis.**
- **Market value added (MVA: $PBR > 1$) is also related to non-financial capital (ESG / CSR / intangibles).**
⇒ **As source of future value creation**
- **Therefore, non-financial capital (ESG) can be synchronized with Equity Spread (ROE).**
⇒ **Correlation bet. ESG & ROE is proved by academic theses.**
- **Japanese companies tout ESG/CSR while investors seek ROE.**
⇒ **Dichotomy and conflict should be avoided.**
- **With this value relevance model, Corporate Governance and Engagement can create win-win situation.**

(To be presented at ICGN/IIRC London Conference on December 7th)