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SoftBank Chairman Masayoshi Son to Face Notorious Activist Fund Elliot Management

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Elliott Management, the $38 billion US activist hedge fund, has reportedly built up a $2.5 billion stake in SoftBank—urging improvements in governance and a share buyback from the troubled Japanese conglomerate. In a country that is only recently seeing the emergence of shareholder activism, this move represents the latest in a series of high-profile and controversial investments by Elliot in Japan. But after a disastrous 2019, the prospect of change may be welcomed by SoftBank shareholders and corporate Japan.

According to Japanese tradition, certain years in a person's life are predestined to be so-called *yakudoshi* ("calamitous years"). For SoftBank Chairman Masayoshi Son, 2019 may very well have been one, with the WeWork debacle at the forefront. A key investment of SoftBank's $100 billion Vision Fund, WeWork's IPO had to be scuttled after a disappointingly cold reception by Wall Street. This shattered the hopes of a $47 billion evaluation and resulted in a $4.6 billion loss for SoftBank's Fund. The Fund's other investments have not fared much better: Uber—perennially unprofitable and unable to raise its stock price above IPO levels—is facing an increasingly harsh regulatory environment. Other unfortunate investments include Wag, the dog-walking startup, Oyo, an Indian hotel startup, and Zume, a pizza robot startup. The upshot is that SoftBank recorded a 99% loss in operating profit in the last quarter of 2019 versus the previous year, and the proposed new Vision Fund will likely fall far short of the $100 billion-plus goal—with most of the capital coming from SoftBank itself.

Enter Elliot Management Corp. Attracted by SoftBank's comparatively low stock price, which is discounted to the value of its holdings, the hedge fund clandestinely built its stake since the WeWork disaster and is now pressing for a $20 billion share buyback and improvements in SoftBank's corporate governance. A "vulture fund" to some, Elliott's reputation in Japan is nothing short of notorious, especially since the bidding war surrounding Unizo. In an open letter in October 2019, Elliott pressured the Tokyo real-estate company to take a tender offer from Blackstone, with possible plans to remove the company's top executives by calling an extraordinary shareholder meeting.

Until recently, such tactics were unheard of in Japan. But now, the country is an appealing market for foreign activists—perhaps even the most attractive outside the

U.S. Many companies listed in the TOPIX trade well below their book values, with many of them having passive management and large stockpiles of cash. The S&P 500 has an average price-to-book ratio of about 3.74, whereas the TOPIX 500 manages a measly 1.21. SoftBank currently trades at a price-to-book ratio of 0.94. The activists are betting that improvements in corporate governance and share buybacks will finally realize the intrinsic value of these Japanese stocks. That dream is shared by the Abe government, which, hoping to finally revitalize the ailing Japanese economy, has been pushing reforms to improve corporate governance.

The verdict is still out on whether these bets will play off, but activist investors are sure to remain in the Japanese spotlight for the years to come. And while controversial, they might bring about the creative destruction that Japan, Inc. desperately needs.