Hanshin Electric Railway©

Hanshin Electric Railway celebrated its centennial in 2005. Hanshin operates railways and department stores, and provides real estate services in the Kobe-Osaka corridor. It also owns the Hanshin Tigers baseball team.

In September 2005, Japanese shareholder activist Yoshiaki Murakami's investment firm, M&A Consulting, acquired 47% of Hanshin's shares at an average price of less of ¥700.

M&A Consulting then asked for seats on Hanshin's board of directors. M&A Consulting also proposed that Hanshin take various actions to increase shareholder value. One of the proposals was to spin off the Hanshin Tigers into a separate listed company.

To fend off M&A Consulting, Hanshin's management solicited a takeover by another rail operator, Hankyu Holdings. Hankyu began as a railway operator, and subsequently, diversified into real estate, hotels, travel, retail, and entertainment businesses.

Hankyu's largest shareholder was Privee Zurich Turnaround Group Company, which was led by Kenzo Matsumura. Mr Matsumura had pressed Hanky to spin off the Takarazuka Revue, a popular but loss-making all-female acting troupe, into a separate listed company.[1]

The combination of Hanshin with Hankyu would be the first major consolidation among Japan's private railways since the Second World War. The merged Hankyu-Hanshin company would be Japan's third rail operator in terms of revenue.

Hankyu negotiated to buy M&A Consulting's stake in Hanshin. However, by late May 2006, the two sides still disagreed by about ¥100 on the price. On May 29, 2006, Hanshin shares closed at ¥939. The next day, Hankyu launched a two-tier takeover with the agreement of Hanshin management.

The first tier was a conditional tender offer for 45% of Hanshin's shares at a cash price of ¥930. If the cash offer attracted 45% of Hanshin's shares by June 19, Hankyu would swap each of the remaining Hanshin shares for 1.4 Hankyu shares. If the cash offer did not attract 45% of Hanshin's shares, the offer would be cancelled.

 This case is based, in part, on "Hankyu sets price for bid to take over Hanshin", *Asahi Shinbun*, May 30, 2006; "Battle looms as Hankyu bids for Hanshin", *Financial Times*, May 30, 2006; "Sale decision puts Hankyu bid for Hanshin back on track", *Financial Times*, June 5, 2006.

[1] "Hankyu opposed to listing of Takarazuka Revue", Kyodo, January 17, 2006.

Hankyu's cash offer was priced at less than Hanshin's last traded price. Following the commencement of the cash tender offer, Hankyu shares rose 3% to ¥600, so the second-stage swap amounted to a squeeze out at a price of ¥600 x 1.4 = ¥840.

However, Standard and Poors analyst, Katsuyuki Nakai, questioned the synergies between Hankyu and Hanshin, "there are no apparent advantages in the railway business … given small complementary effects from their railway routes … unclear how much synergy can be achieved in the real estate development and retailing businesses".[2]

Initially, Mr Murakami opposed the Hankyu offer as being too low. Nevertheless, just a week later, on June 5, 2006, he agreed to Hankyu's bid. He remarked, "I hope the new company will be managed with shareholders in mind".[3] Several hours later, government prosecutors arrested Mr Murakami on charges of insider trading in relation to purchases of Nippon Broadcasting.

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[2] *Financial Times*, June 5, 2006, *ibid*.
[3] *Financial Times*, June 5, 2006, *ibid*.

Discussion questions

1. How should small minority shareholders of Hanshin Electric Railway respond to Hankyu's cash offer?

2. Was it reasonable for M&A Consulting to accept the Hankyu cash offer?

3. What was the advantage to Hankyu of structuring the takeover as a two-tier bid?