

Corporate Governance Research: Mandom (4917)

Summary:

Mandom's corporate governance should more focus on shareholders' value. Is board practice has done minimum requirement such as appointment of 2 independent directors and advisory committees of nomination and compensation. However, its CG is enhancing at slower pace in real term. Mandom maintains relatively high level of stock holdings and cash levels compared with its sales. Right now, its business and financial return are higher than average of Japan's public companies, but in order to maintain sustainable growth for long-term, the company should build board practice that connects to appropriate action and value creation for long-term. Additionally, nomination and compensation policy are not clear enough to ensure objectivity and transparency as well as reflect mid-to-long term strategy. For this family company, appropriate board practice is necessary to maintain sustainable growth after current manager.

CG Rating

B

62.7

(02/2017)

Shareholders:

1) Nishimura Foundation (7.4%), 2) BNP Pariba Lux (6.7%), 3) Japan Trustee trust a/c (3.6%), 4) Japan Master Trust trust a/c (3.2%), 5) Treasury Stocks (3.1%), 6) Goldman Sachs & Co. Reg (3.0%), 7) Motonobu Nishimura (2.9%), 8) Employees Stock Ownership Plan (2.6%), 9) State Street Bank & Trust a/c 505004 (1.5%), 10) Sumiko Nishimura (1.2%)

Organizational Structure:

Company with corporate auditors

Board of Directors:

Term of office: 1 year
Chair of board: president
Number of directors: 7
Outside directors: 2 (Independent directors: 2)
Satoshi Nakajima - ex-Osaka Gas
Satoshi Nagao - ex-KDDI
Nomination committee: 4 (Outside directors: 2)
Compensation committee: 4 (Outside directors: 2)
Corporate Auditors: 4
Outside auditors: 2 (Independent auditors: 2)
Yukihiro Tsujimura - lawyer
Masayoshi Nishio - accountant
Total independent directors + auditors: 4
Relatively compact board is good for the not-large company, but an internal executive director increased from 4 to 5. Ideally the majority of the Board of Directors should be independent of management. In real, gradual but steady improvement should be expected.

Nomination of Director:

"Regarding the nomination, appointment and dismissal of senior executives, the Board of Directors of the Company, in order to ensure the fairness and transparency of the process, the Board of Directors, and more than half consult with the nominating committee composed of outside members (outside officers or outside experts) and deliberate on that committee based on the report passed through, we have properly decided. At the Nominating Committee, the

selection criteria and the selection process of candidates for newly appointed executive directors and supervising executive officers, Guidelines "and" Guidelines for Selection of Executive Officers, "and deliberates and reports on this basis. Also for re-appointment / dismissal Regardless of whether the representative director evaluates the performance of each director individually through evaluation of corporate performance and individual interviews, the nominating committee reports the evaluation result after analyzing, we deliberate on deliberation and are making reports."

"Regardless of nationality, age, gender, etc., we have a strong ethical perspective, resonate with our corporate philosophy system, accept diverse values, it is our policy to appoint and appoint superior personnel who are capable of fulfilling the expected role on a global stage. Incidentally, individual policies are as follows."

According to its CG guideline, the nomination policy is fair and transparent as stated above. However, the committee is consisted of a chief representative director (president) and 2 independent directors and an outside knowledgeable person and chair of the committee is sit by internal director (president). This would hardly secure objectivity and transparency. Such a family company as Mandom, president and founder family so strongly influence the management. For long-term view, the nomination of directors and succession plan is one of the most important matter. Nomination committee should exclude the president from the committee first. Mandom has also vague nomination policy. Candidates of director should have appropriate knowledge, skill and experience that should match with needs as well as mid-to-long term strategy of the company. Candidate searching should use outside source such as executive search and etc. Preferably, reasons of nomination should be disclosed on the above needs based matching. Making clear guideline is required.

Compensation Policy:

"1. Policy on remuneration amount determination of directors

Compensation for the executive director of the Company is achieved by achieving the management plan by pursuing "efficiency pursuing" on the premise of "securing soundness and transparency" In order to achieve above, it is necessary to set fixed compensation necessary for the stability of the job department's devotion, to increase interlocking with performance and to promote an increase in motivation We set a policy to set performance variable remuneration as an appropriate balance. Remuneration for non-executive directors including outside directors is fixed remuneration only.

2. How to decide the policy concerning the remuneration amount and remuneration amount for directors

The remuneration amount for directors is deliberated and reported by a "Compensation Committee" consisting of more than half of the outside members (outside directors and outside experts). It is decided by resolution of the Board of Directors within the remuneration frame approved at the General Meeting of Shareholders. In addition, regarding the policy on the remuneration number of directors, Compensation Committee "after the deliberation and reporting, based on this decision, has been decided by resolution of the Board of Directors."

As the company states above policy, Mandom has not clear compensation policy. Generally, compensation policy should reflect company's mid-to-long-term strategy and uses to motivate directors to perform well, considering compensation level of industry and its employees. Also, it shows how much the remuneration allocates to variable and fixed and more detail about design of incentive plan.

Compensation of Disclosure:

Disclosure of remuneration of each director: No

Guideline of remuneration: Yes

Due to transparency, ultimately full disclosure of compensation is recommended in each director level in future.

Incentive Plan:

Incentive plan of Compensation: performance based remuneration
Person to be entitled stock option: S.O. is not employed
"Director compensation 8 persons 224 million yen (including 2 outside directors 22 million yen)." "Since the term of office of directors and executive officers of our company is set every year to clarify responsibility, we will work as an incentive. For variable performance remuneration, in line with this, it is based on company performance and individual performance for a single fiscal year."
How much Performance based remuneration is allocated is unknown. Incentive portion should be raised. Preferably, incentive remuneration should incorporate long-term vision and short-term performance.

Evaluation on Board of Directors:

"The Board of Directors of the Company responds to the Corporate Governance Code Chapter 4 (Responsibilities of the Board of Directors) on the Company's website 'Corporate governance guideline' based on the self-evaluation of each director as to whether it effectively fulfills its role in accordance with each policy described in "Analysis and evaluation are carried out and the outline of the result is disclosed (http://www.mandom.co.jp/ir/src/g_guideline_ex3.pdf). In this analysis and evaluation Is an advisory body of the Board of Directors, more than half of the deliberations and reports of the Nominating Committee consisting of Independent Outside Directors etc., procedures to be resolved at the Board of Directors."
More importantly, action for enhancement should be explored. Unfortunately, current theme and future solution are not seen. Explicitly weakness should be listed and discussed more than once for improvement.

Training Policy of Directors:

"In pursuit of sustainable growth by creating high-quality profits through the pursuit of "efficiency" on the premise of "securing soundness and transparency" in the Asian global domain, the Company has established directors and audits Properly provide training opportunities related to legal, accounting and finance, management theory, expertise in the execution field, skills and other required fields so that roles and responsibilities such as decision making, supervision, auditing etc. can be fulfilled sufficiently In addition, we aim to support acquisition of knowledge and skills through self-development."
Periodical training and seminar are useful. All directors must maintain keeping up with knowledge level in all matter of management. The company should explicitly state fee of outside seminars is paid by company in the policy. A newly elected director should take training prior to AGM.

Shareholders Meeting:

Notice of Convocation: sent 3 weeks prior to the date held AGM
Date of AGM: held on June 24th 2016, when it is one of other days many companies hold shareholders' meetings
Electronic Voting: Yes
Disclosure of AGM information on company web site: Yes
"Notice of Convocation in English: Yes
In consideration of the ratio of institutional investors and overseas investors and the cost corresponding to these investors, we do not translate the use of the electronic voting platform or convocation notice in English at this time. In the future, we will consider the response in a timely and appropriate manner based on changes in the composition of shareholders and other factors."
AGM disclosure is improving.

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Investors Relation:

IR meetings for analysts: semiannually (explanation by representative director: Yes)
 IR meetings for overseas investors: NA (explanation by representative director: NA)
 Disclosure of IR information on company web site: Yes
 CG Report translated in English: No
 IR department: Yes

Corporate governance guideline and report should be published in English.

Takeover Defense:

Takeover defense Plan: No

Cross Holding Shares:

"Because the judgment factors concerning the exercise of voting rights related to policy holding shares will differ depending on individual possession objectives and tie-up environments etc., we do not set the exercise standards and decide each time individually. However, we will strive for a constructive dialogue with the holders from the standpoint of shareholders, and we will strive to conduct proper and strict proceedings in order to improve mutually sound corporate value and improve synergy when exercising voting rights."

Holding shares other than investment purpose has maintained owing 32 stocks whose value rose from JPY5,793 million (03/2015) to JPY6,936 million (03/2015). Holdings to sales remain relatively high of 9.2% (03/2016). The company states holding shares help business relationship strengthen with pharmaceutical and drug retailers, but not a few of which are held for cross-holding purpose."

Mid-Term Growth Target

Quantitative Target by company	Sales and OP target JPY83 billion and JPY8.6 billion (3/2017)
ROE	11.5% (03/2016) actual, 8.5% (03/2017) CE
ROA	8.0% (03/2016) actual, 6.6% (03/2017) CE
Cash Equivalent	JPY29,228 million (03/2016) actual
<i>Company's business and profitability are performing well right now, but quantitative goal has been set at sales and OP only. For shareholder value point of view, other KPI such as ROE, EVA and other shareholder value related should be included.</i>	
<i>Cash/Sales is 38% or 4.6 months of sales that is too large and should be used more effectively for business or return to shareholders.</i>	

Shareholder Return

Dividend per Share	JPY80 (03/2016) actual, JPY86 (03/2017) CE
Dividend Payout	29.3% (03/2016) actual, 40.2% (03/2017) CE
Share Buyback	Previous repurchase was 2009.
Operating CF=JPY7,232 million (Net Profit=JPY10,698 million, Depre= JPY2,919 million, Capex=JPY3,994 million, dividend paid=JPY1,870 million (03/2016) actual)	
<i>Excess cash is increasingly piled up every year. Expected div payout is likely to reach 40%. Cash should be spent for more on business of accelerating in Asian market.</i>	

Capital Policy

Equity Issuance	No (03/2016) actual
Share Cancellation	No (03/2016) actual

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