Corporate Value Creation from an Analyst's Perspective
—What do analysts want from XBRL?—

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Yukio Suzuki

It is a tremendous honor to have this chance to deliver a keynote speech at the 25th XBRL International Conference. From my own perspective as an analyst, I would like to share some thoughts on corporate value creation and how to evaluate it. I would also like to talk about what analysts want from XBRL in this context.

What do investors invest in?

Let me begin with an example. When the Seven-Eleven convenience store chain first appeared in Japan more than 30 years ago, or even when it became well known, few investors anticipated that it would grow to its current size and continued to invest in the company right through to today.

When companies list on the stock market, they already have some kind of strength. As a source of revenue, this strength brings profits. Viewed from the perspective of products and services, such profit-making mechanisms seem easy to understand, yet predicting the future is no easy task. This is because products and services soon become obsolete if left untouched. A company cannot survive if its existing strengths are not adapted to meet changing market needs.

Such profit-making mechanisms form business models. Many listed companies try to shed light on various aspects of their businesses to explain themselves, but they fail to clearly communicate the business models that are the cornerstones of their operations. So are business models difficult to explain? Not at all. Since a business model simply constitutes the corporate value creation mechanisms that a company devotes most of its energy to, it is not difficult to understand.

Internal corporate activities aimed at creating value are not clearly visible to outsiders. However, such activities can only proceed with the cooperation of various stakeholders. Listed companies need to gain the full understanding of their investors. Investors invest in corporate value creation mechanisms. They want to understand and share in not only results and accomplishments, but also the value creation process.

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- Investors invest in corporate value creation mechanisms.
- They want to understand and share in not only results and accomplishments, but also the value creation process.
- Strategies are stories for developing new value creation mechanisms (business models).
- If stakeholders cannot fully understand these stories, they become biased; shared understanding with stakeholders improves the probability of achieving strategies.
- Accountability toward investors also enhances the consistency of internal corporate activities.
- The key to success lies in achieving effective engagement toward this end.

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Perspectives on Evaluating Corporate Value

Then, what is the corporate value of companies like Takeda Pharmaceutical or Hitachi? How much damage has been done to the social value of TEPCO? Can corporate value really be measured in monetary terms? Price is certainly not a complete measure of corporate value. Different people attach different values to companies. When we try to show corporate value through price, important aspects may get lost. Even so, investors want to evaluate corporate value.

It is fine to take several perspectives on evaluating corporate value. However, when people look at things qualitatively from different perspectives, it is best to stick to three or four. Too many perspectives make it difficult to form a clear view and exaggerate biases. Let’s focus on three perspectives.

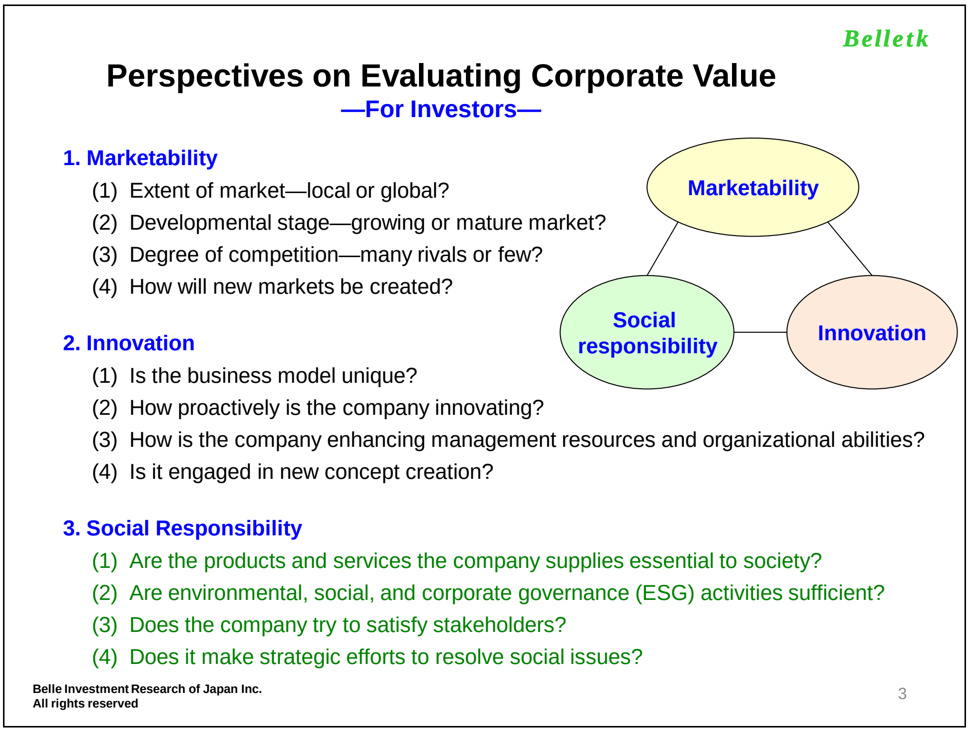
The first is marketability. A company creates some kind of value. Where does it conduct the activities that provide this value? I want to know about the market to which it supplies products and services. How big is the market? Is it local or global? I evaluate its potential for development: is the market growing or already mature? Then I examine the extent of competition: does the company have many rivals or few?

The second perspective is innovation. How unique is the business model that forms the company’s value creation mechanisms? How is the company responding to the challenge of creating new mechanisms, in other words innovation? It is essential to look at how the company is enhancing its management resources and organizational abilities through such mechanisms.

The third perspective is social responsibility. Are the products and services the company supplies really recognized as essential? Is the company exercising sufficient responsibility in its environmental, social, and corporate governance activities? Does it communicate well with stakeholders involved in value creation and gain their understanding and satisfaction?

The series of processes that a company uses to develop and supply products and services constitute value creation. Value creation mechanisms form a business model, which frankly speaking is a scheme for making money. However, a business will not last long if it concentrates solely on making money for itself and forgets about others. Similarly, a business will not last long if it does not make profits, no matter how good it appears. Even if a mechanism is working well right now, failure to adapt to changes in the business environment will sooner or later lead to obsolescence and decline.

Markets are created, and challenges beget innovation. Companies need to have an ongoing social presence in any setting. When deciding where to invest, investors evaluate the marketability, innovation, and social responsibility of corporate activities. Viewed in this way, evaluation is not so difficult. However, some people may say that such abstract ideas do not form a concrete image of how to evaluate corporate value.



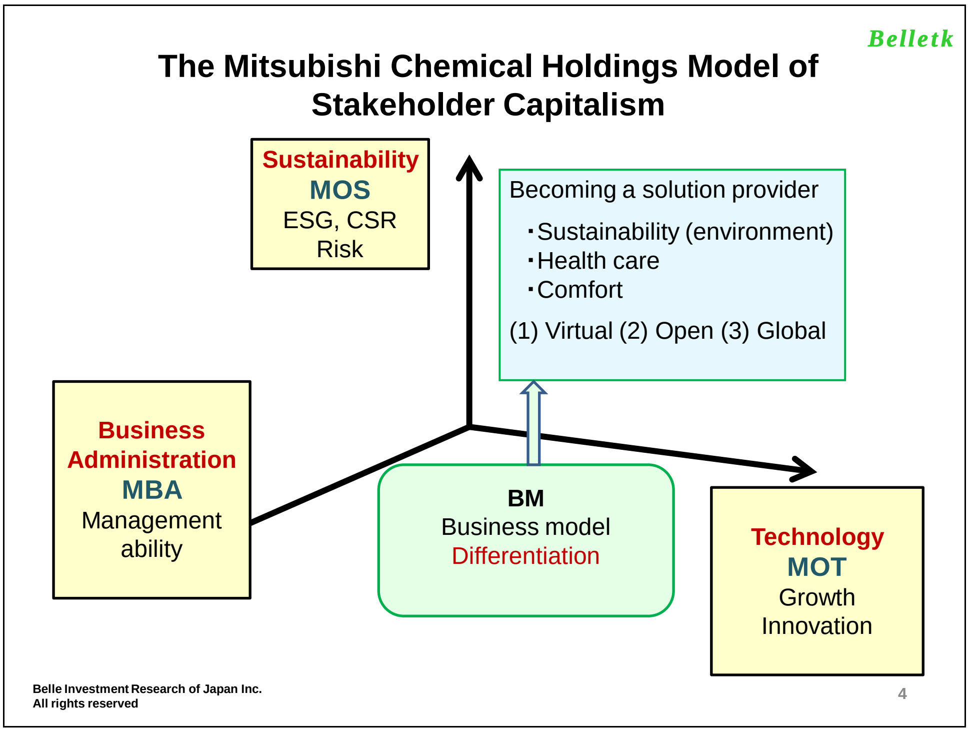
Stakeholder Capitalism

Then, I would like to introduce the case of Mitsubishi Chemical Holdings. Company president Kobayashi maintains that there are three basic drivers behind corporate management. The first is management of business administration, or MBA, which refers to financial management. The second is management of technology, or MOT, which entails pursuing corporate growth through technological innovation. The third is management of sustainability, or MOS, a term coined by Mr. Kobayashi. Within its environmental, social, and corporate governance activities, Mitsubishi Chemical Holdings places particular emphasis on the environment.

What does this company provide? Going beyond the normal sector classification of a general chemical company, Mitsubishi Chemical Holdings declares that it provides KAITEKI, or comfort. KAITEKI is a concept created by Mr. Kobayashi, and underpins a new corporate vision.

Based on the philosophy of being a virtual, open, and global enterprise, Mitsubishi Chemical Holdings has decided to declare itself a company that provides solutions relating to comfort, health care, and sustainability.

Mr. Kobayashi stresses that companies need to adopt a time horizon of one year for business administration, 10 years for technology, and 100 years for sustainability. Since he is an engineer by profession, his idea of looking at new technology development on a 10-year horizon is persuasive.



Mr. Kobayashi originally thought that corporate management simply meant keeping a close eye on business administration and technology. However, after becoming head of the company, he added the concept of sustainability to make three axes for corporate value creation.

An interesting point is that he used characteristically Japanese terms to name these three axes: *yoku*, meaning desire, hunger, or passion, to denote business administration; *chi*, meaning knowledge or wisdom, to denote technology; and *gi*, meaning justice, to denote sustainability. In addition to justice, *gi* also forms part of the Japanese worlds for loyalty and morality, indicating the company's desire to do the right thing and pursue its vision. Mitsubishi Chemical Holdings aims for a style of capitalism that takes account of the multifaceted needs of various stakeholders.

Mr. Kobayashi feels that in recent years the financial community has tended to pursue short-term returns with a horizon of a single year, and this view is worthy of careful attention. When investors look at a company, they need to focus not only on immediate business results, but also on mid-range technology prospects and long-term sustainability. I hope that many corporate managers will also do this.

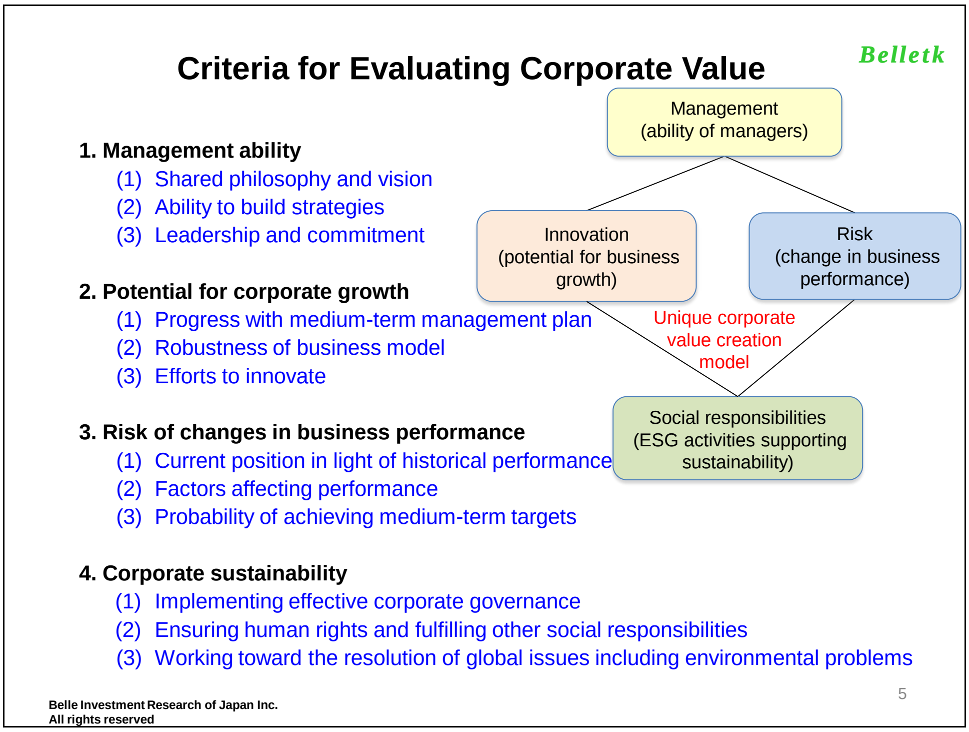
Four Criteria for Evaluating Corporate Value

Next, let's look at four criteria for qualitatively determining corporate value. The first is management ability. To evaluate this criterion, I ask three questions. Firstly, does management have a clear philosophy and vision, and are these shared with stakeholders? Secondly, judging from the strategy formulation process, does management have the ability to build business strategies? And thirdly, does it display sufficient commitment to future goals and the leadership needed to achieve them?

The second criterion is potential for corporate growth. Once again there are three key factors. Firstly, is the medium-term management plan appropriate in its content and has a good level of progress been achieved? Secondly, how robust is the business model? Do the current corporate value creation mechanisms have enough strength to withstand changes in the business environment? Thirdly, is the company innovating? I assess the company's efforts to innovate so that it can maintain its current strengths and grasp the next opportunity for growth.

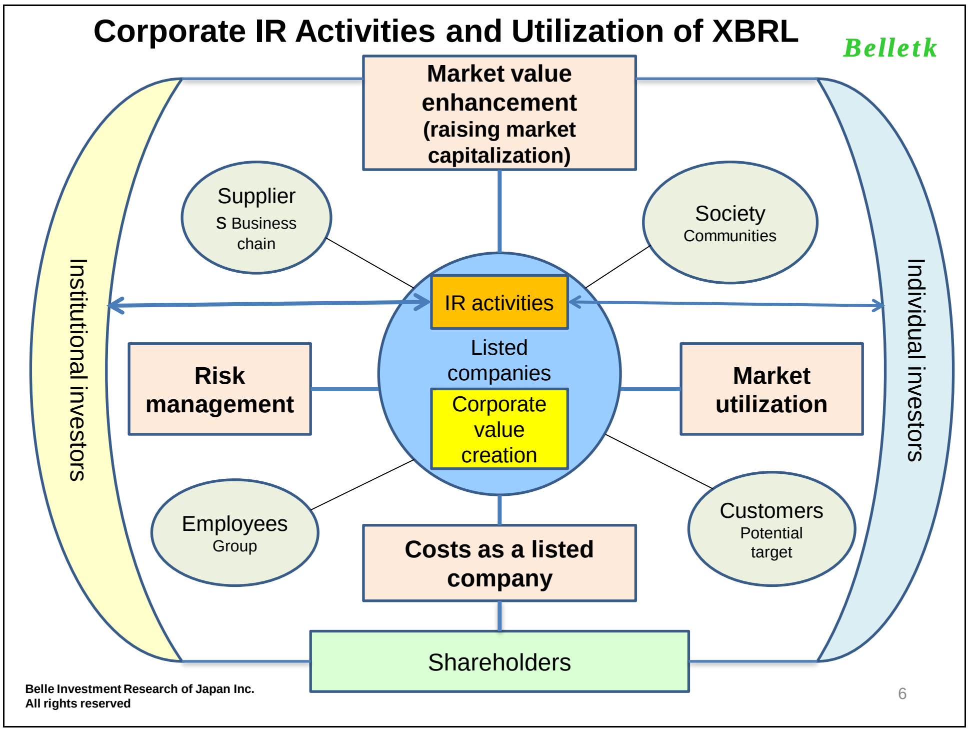
The third criterion is the risk of changes in business performance. Here, the first factor is deciding where the current level of performance sits in historical terms. I also carefully check the return on equity. Secondly, what is behind changes in performance? In addition to regular fluctuations that affect profits, how does the company respond when something unexpected happens? I assess the impact and extent of measures it takes. The third factor is the direction for medium-term performance and the probability that medium-term targets will be achieved. If the probability is high, I want to know why. If the probability is quite low, I want to know what the issues are.

The final criterion is corporate sustainability, which is supported by the company's environmental, social, and corporate governance activities. I evaluate this criterion by checking whether the company implements effective corporate governance, ensures human rights and fulfills other social responsibilities, and works toward the resolution of global issues including environmental problems.



Investors first check these four criteria based on available information. If some factors are unclear, they identify points needing clarification. Investors and analysts can ask the company about these points. They meet with management in person to find the answers to their questions. By meeting those responsible and looking at the disclosed data, they strive to understand the business. They may also check facts with investor relations staff and ask for information relating to revision of future prospects.

Although it is often no simple matter to understand management abilities, the growth potential of a company's business, the risk of changes in its medium- to long-term performance, or its sustainability, investors want to know these things. Investor relations staff may not be able to provide clear answers on future prospects. However, investors do not wish to access undisclosed information or company secrets. They want to use publicly available information to gain insights and hints about future performance, and to draw up their own scenarios based on this information.



Securities Reports: The Investors' Bible

In my role as an analyst, I have examined many companies over the years. After Japanese companies release their financial results, they produce a securities report called a *yukashoken-hokokusho*, and this report is the analysts' bible. Whenever something happens, we start with the securities report, and we go back to it whenever something new occurs. If I want to know all about a company, I start by meticulously reading its securities report. If something important happens to the company, I make sure to read it again. When incidents such as the TEPCO and Olympus scandals occur, I focus on the directors, the balance sheet, and the footnotes. Having said that, since I usually concentrate on a company's future prospects, in reality I rarely look at past data such as securities reports, turning to them only when necessary.

Take the example of Sumitomo Corporation's securities report for fiscal 2010. That year the company adopted IFRS, so the report included two years of data compiled under IFRS and five years of data compiled under US GAAP. This clearly showed the difference in revenue, equivalent to sales, under IFRS and US GAAP. The report also showed that the company's revenue was completely different from regular Japanese trading companies' sales. The figures included for reference made this very clear.

The next section I focus on is the overview of business. Knowing how the company sees its business environment is useful in evaluating it. Sumitomo Corporation's securities report gives an overview of its medium-term management plan and results achieved. They also include sections on CSR efforts such as environmental initiatives and social contribution activities. Including this type of information with comments on business performance makes a company's stance very easy to understand, so Sumitomo Corporation sets a very good example.

Expectations of XBRL

Many people complain that securities reports all contain similar information, but I focus on the sections dealing with business risks and issues to be addressed. Companies that write these sections properly include quite detailed information. I also read the sections on key contracts, facilities, major shareholders, and treasury stock. In the section on directors, I look at their careers and executive officerships they hold concurrently. The section on corporate governance in Sumitomo Corporation's securities report tells us that the company has established the Remuneration Committee as an advisory body. Recently problems in various companies have made the news, and if you plan to own shares in a company long-term, you need to start by carefully checking its quality.

Reading all this information takes a lot of time, and it is quite difficult to compare several companies. In my case, I compare and evaluate companies in light of the four criteria I mentioned earlier, namely management ability, potential for corporate growth, risk of changes in business performance, and corporate sustainability. To assess management ability, I look at issues to be addressed and details of directors. Business overview and segment data tell me about growth potential. Sections on business risks and key contracts provide information on the risk of changes in business performance. To assess sustainability, it is important to consider the extent to which corporate management incorporates outside viewpoints and to look at outside directors and independent auditors. I also pay attention to changes in accounting auditors.

However, this kind of work takes time. So if I could acquire this information on the company I am examining and comparative information on its competitors in the form of data, and compare it as I would compare financial statements, I could analyze the information very efficiently and extend the scope of analysis.

For example, I can imagine extracting relevant items from documents released and lining them up side-by-side for each company. Analysis is based on comparison and forecasting. In a sense, comparing companies within the same industry is the easiest, and comparing companies from different industries gets more difficult. Sector analysts examine single industries, but fund managers have to look at companies in different industries and try to work out which are the best. So the “editing” work I am talking about becomes even more necessary for them. They want to spend more time considering how to compile information and include more companies in their research. If XBRL is useful in making this kind of work more efficient, it will be a very promising tool.

Since comparison is at the very heart of the XBRL concept, the key point is whether the items to be compared are appropriately tagged. Another important issue is that when I start to examine a new company, I read its securities reports and other published documents for the past 10 years at least. When examining American companies, I have read 30 years worth of documents. If we can access 30 years of securities reports and line up information in the section on issues to be addressed for those 30 years, then we will have quite a powerful tool. I would be pleased to see that scale of data accumulated as quickly as possible.

This concludes my presentation. Thank you.

