



# Turning activist countermeasures into an opportunity for transformation



# Table of contents

Introduction	3
<b>01</b> Activist trends in Japan	4
(1) Activist activity status	4
(2) A Japanese market extremely conducive to activist activity	6
(3) Institutional and cultural characteristics not seen in the West	8
<b>02</b> Activism in Japan	9
Types of activist funds	9
<b>03</b> Changes in activism	10
(1) From confrontation to proposals	10
(2) The importance of prevention and early response	11
(3) Opportunities for enhancing the corporate value of target companies	14
<b>04</b> Turning activist countermeasures into an opportunity for transformation	16
(1) A spark for corporate transformation	16
(2) Implementing transformation programmes aligned with activist perspectives	17
<b>05</b> The role PwC plays	19
(1) Value consulting	19
(2) Stakeholder management support	20

# Introduction

Activist<sup>1</sup> activity in the Japanese equity market is on the rise, and the scale of shareholder proposals and investments is also expanding. Against this backdrop, companies are being compelled to respond and transform at an unprecedented pace.

The Japanese equity market can be described as an environment where activists can readily generate returns. In addition to the establishment of the Corporate Governance Code and the Stewardship Code, the market reforms of the Tokyo Stock Exchange (hereinafter 'TSE'), the strength of minority shareholder rights, an accommodative monetary environment and the number and size of listed companies are all driving increased activist activity.

Activists can be broadly classified into 'aggressive' or 'moderate' types. Aggressive activists take a strong interventionist stance through 'demands' and the 'power of numbers', while moderate activists aim to build collaborative relationships through 'dialogue' and 'proposals'.

Many domestic investors desire medium- to long-term enhancement of the corporate value of Japanese companies. Unlike in the past, activist demands increasingly focus on content that enhances corporate value—content that is more readily accepted by institutional and retail investors. The Japanese equity market is transitioning from a 'battleground' between companies and activists to a 'forum for dialogue'.

Activist activity progresses in stages—from private communication to public communication, shareholder proposals and proxy fights, and in some cases may even lead to shareholder derivative lawsuits. Companies forced to respond face a tremendous burden of effort.

Responding to activists requires a transformation of management mindset and the establishment of internal organisational structures. In addition, it is important to advance activist response efforts while enriching dialogue with the equity market. In doing so, a framework is needed in which the IR department takes the lead and senior management is proactively involved.

As activist demands shift from securing short-term gains to enhancing medium- to long-term corporate value, this paper positions activist response as an opportunity for transformation. It presents approaches for establishing organisational structures and developing talent, while incorporating activist perspectives into the company's own transformation approach and leveraging external resources.

Additionally, this paper introduces PwC's multifaceted support, including corporate diagnostics from a capital markets perspective, management strategy formulation, governance strengthening and communication strategy.

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<sup>1</sup> A style of investment in which the investor acquires several percent to several tens of percent of the shares of a listed company whose stock price is significantly lower than its asset value, demands earnings growth or shareholder returns from surplus capital and then sells the shares after the stock price rises to generate short-term profits. Also known as 'activist shareholders'.

# Activist trends in Japan

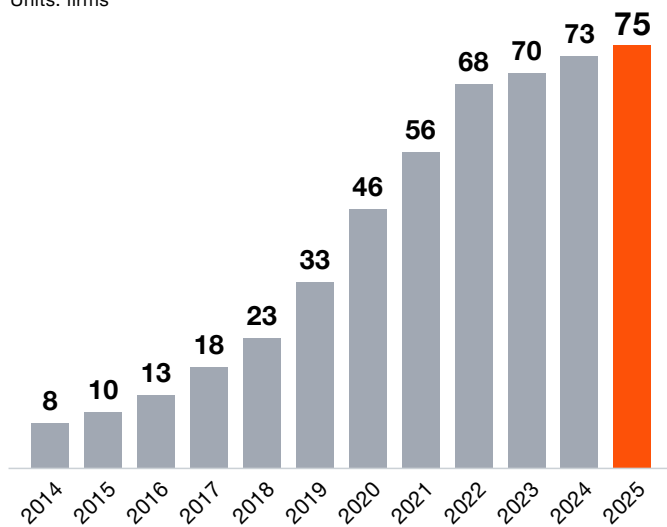
## (1) Activist activity status

The number of activists targeting Japanese companies is trending upward, and accordingly, the number of shareholder proposals by activists is also increasing (Figures 1 and 2).

The scale of activist investments is also expanding. Backed by abundant capital and the weakening yen, activists are increasingly targeting large-cap companies, with a growing number of cases involving companies with market capitalisations on the order of ¥1tn.

**Figure 1: Trend in the number of activists active in Japan**

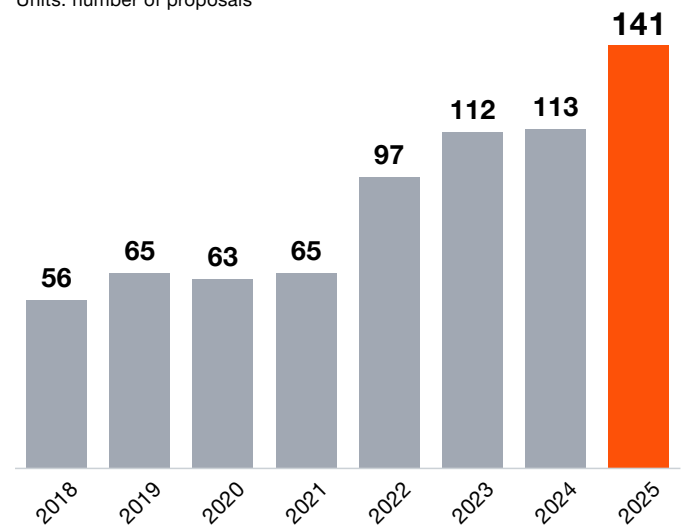
Units: firms



Source: Prepared by PwC based on IR Japan disclosed materials

**Figure 2: Trend in the number of shareholder proposals**

Units: number of proposals



Note: Compiled for June general meetings. 2020 includes Toshiba's July general meeting.

Prepared by PwC based on Daiwa Institute of Research and various companies disclosed materials

Why are such large amounts of capital flowing to activists? The simplest answer to this question is: ‘Because the Japanese equity market is easy to profit from.’

In recent years, when activists demand enhanced shareholder returns, listed companies tend to implement dividend increases and share buybacks more readily than before. Figure 3 compares the distribution (dispersion) of total payout ratios by earnings growth rate for TSE-listed companies and New York Stock Exchange (NYSE)-listed companies. This shows that while NYSE-listed companies see their total payout ratios rise in line with earnings growth, TSE-listed companies tend to have low total payout ratios even when they achieve significant earnings growth. TSE-listed companies are actively returning capital to shareholders but still have room for further enhancement – meaning they are potentially subject to activist demands for increased returns. Additionally, TSE-listed companies face the reality that even when profits grow, there are insufficient domestic investment opportunities, leading to cash accumulation while total payout ratios remain low, providing activists with an opening for intervention.

**Figure 3: Relationship between earnings growth rate and total payout ratio for Japanese and US listed companies**

**NYSE-listed companies**

		Total payout ratio										
		-0%	0-20%	20-30%	30-40%	40-50%	50-60%	60-70%	70-80%	80-90%	90-100%	+100%
Earnings growth	-100%	17	9	0	1	1	0	1	0	0	0	8
	-100-80%	0	0	0	0	0	0	0	0	0	0	6
	-80-60%	0	1	0	0	0	0	0	0	0	0	6
	-60-40%	0	3	1	0	1	0	0	1	0	2	19
	-40-20%	0	1	0	1	0	3	0	2	0	5	32
	-20-0%	0	2	1	1	2	1	5	7	2	5	25
	+0-20%	0	3	1	1	8	10	15	15	7	16	37
	+20-40%	0	3	1	6	9	9	14	7	8	10	22
	+40-60%	0	3	5	4	3	1	3	6	3	5	5
	+60-80%	1	3	0	2	4	2	1	6	1	1	3
	+80-100%	0	5	1	1	2	2	0	2	2	2	3
	+100%	1	12	5	1	5	1	2	3	1	1	11

NYSE-listed companies increase total payout ratios as earnings grow, while TSE-listed companies tend to maintain low payout ratios even amid strong earnings growth.

**TSE-listed companies**

		Total payout ratio										
		-0%	0-20%	20-30%	30-40%	40-50%	50-60%	60-70%	70-80%	80-90%	90-100%	+100%
Earnings growth	-100%	7	4	2	2	0	0	0	2	0	0	1
	-100-80%	0	0	0	0	0	0	0	0	0	0	4
	-80-60%	1	0	0	0	0	0	0	0	0	0	8
	-60-40%	0	0	0	0	1	2	1	2	1	2	13
	-40-20%	0	1	1	1	3	2	4	2	0	0	15
	-20-0%	0	1	2	3	4	4	6	5	3	3	17
	+0-20%	0	4	10	14	11	10	8	10	8	4	28
	+20-40%	1	4	16	19	21	15	10	5	6	4	7
	+40-60%	0	2	9	10	8	4	6	3	1	2	1
	+60-80%	0	6	4	5	5	5	3	1	0	1	4
	+80-100%	0	3	2	1	0	2	2	1	2	0	1
	+100%	4	19	8	6	3	6	3	3	0	1	4

Note: The vertical axis represents net income performance (5-year average earnings growth rate relative to the base year); the horizontal axis represents total payout ratio.  
Source: Prepared by PwC

## (2) A Japanese market extremely conducive to activist activity

Why can activists generate such significant returns in the Japanese equity market? It is because the Japanese market is extremely conducive to activist activity.

Five factors can be identified as driving activists to increase their investments in the Japanese market.

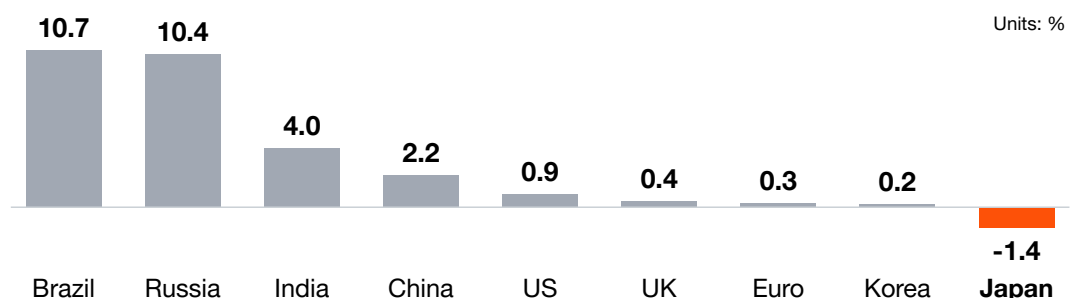
First, there is the establishment of the Corporate Governance Code, jointly developed by the Financial Services Agency (FSA) and the TSE, and the Stewardship Code, developed by the FSA—the so-called ‘two codes’. The next revision of the Corporate Governance Code is scheduled to take place by June 2026. In the first revision in approximately five years since June 2021, a policy encouraging investment in human capital is expected to be directed at listed companies with abundant cash and deposits.

Second, there are the TSE’s market reforms. The market reforms, which began in earnest in 2022, consist of the introduction of new market segments, clarification and tightening of listing standards and the promotion of corporate value enhancement. These reforms have effectively raised the bar for listing (and maintaining a listing), and companies are now required to improve capital efficiency and enhance corporate value through sustainable growth. Proactive involvement of senior management is required for systematic and continuous dialogue with the equity market.

Third, there is the strength of minority shareholder rights. For example, under the Companies Act, a shareholder proposal can be made by holding 1% or more of total voting rights or 300 or more voting rights continuously for six months or more. Due to reductions in minimum investment units and stock splits, the cost of acquiring 300 voting rights has dropped significantly since 1981, when the current requirements were established. The reality is that the requirements for shareholder proposal rights are extremely low, as it is possible to submit proposals related to business execution decisions by framing them as articles of incorporation amendment proposals.

Fourth, there is the advantage of the fundraising environment. While the Bank of Japan is proceeding with the normalisation of monetary policy, real interest rates remain in negative territory and accommodative conditions persist (Figure 4). Additionally, since the yen is at a historically weak level in real effective exchange rate terms, Japanese listed companies appear to be on sale from the perspective of overseas investors. Cases in which overseas companies take advantage of Japan’s extremely favourable fundraising environment—such as U.S. companies issuing yen-denominated corporate bonds domestically to invest in Japanese companies—are expected to continue to increase.

**Figure 4: Comparison of real interest rates among major countries (‘Policy rate minus consumer price index’, December 2025)**



Note: Simple calculation using current data rather than expected inflation rates

Source: Prepared by PwC based on FSA materials

The fifth factor lies in the listed companies themselves. Compared to the U.S. market, the TSE has a large number of listed companies with smaller market capitalisations (Figure 5). Such a group of listed companies provides activists with abundant opportunities for business restructuring, M&A and going-private transactions.

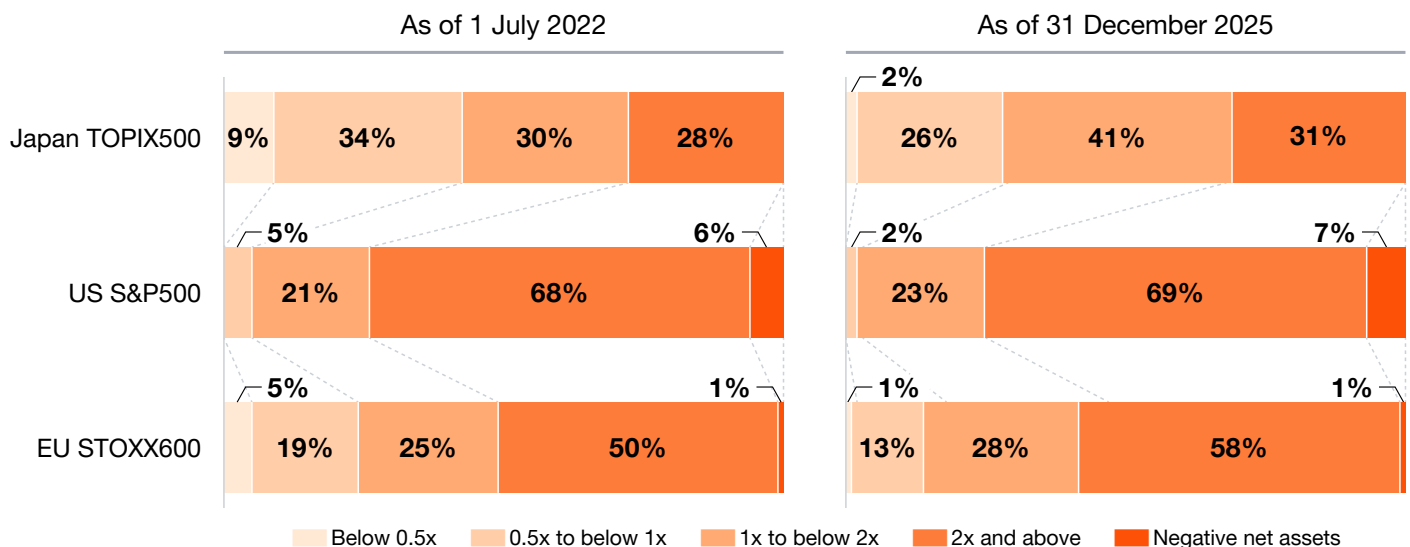
Figure 6 compares the PBR (price-to-book ratio) distribution of listed companies in Japan, the United States and Europe. Comparing 2022 and 2025, it is evident that the proportion of companies in Japan with a PBR of 1x or above has increased significantly. However, the reality is that this proportion is still lower than that of Western companies (the proportion of companies with a PBR below 1x is still high). This, combined with the five factors above, serves as a major incentive for activists to increase their investments in the Japanese market.

**Figure 5: Comparison of Japanese and U.S. listed companies (Number of listed companies, market capitalisation) (December 2025)**

		Number of listed companies (Unit: companies)	Market capitalisation (Unit: USD billions)	Market capitalisation per company (Unit: USD billions per company)
Japan (Japan Exchange Group)		3,947	7,611	1.9
US	NASDAQ	5,489	68,938	12.6
	NYSE	3,342	37,536	11.2
	NYSE	2,147	31,402	14.6

Source: Prepared by PwC

**Figure 6: Comparison of PBR distribution in Japan, the United States and Europe**



Note: Local currency basis (Euros for Europe)

Source: The proportions as of 1 July 2022 are prepared by PwC based on 'Action to Implement Management that is Conscious of Cost of Capital and Stock Price' (Tokyo Stock Exchange, 22 March 2024); others are prepared by PwC based on Capital IQ data.

### (3) Institutional and cultural characteristics not seen in the West

The Japanese equity market has institutional and cultural characteristics not seen in the West, which are considered to facilitate activist activity.

For example, in Japan, there are cases where activists request enhanced shareholder returns, leading to dividend increases or share buybacks. In contrast, in the West, the business judgement rule and stewardship culture are mature, making it difficult for shareholders, including activists, to directly intervene in dividend policy or capital allocation. In the United States in particular, dividends and share buybacks are considered the exclusive prerogative of management, and activists appear to focus primarily on management structure and business portfolio restructuring. In the United Kingdom as well, short-term shareholder return demands tend to be viewed as 'non-constructive', and dialogue is generally based on a medium- to long-term perspective.

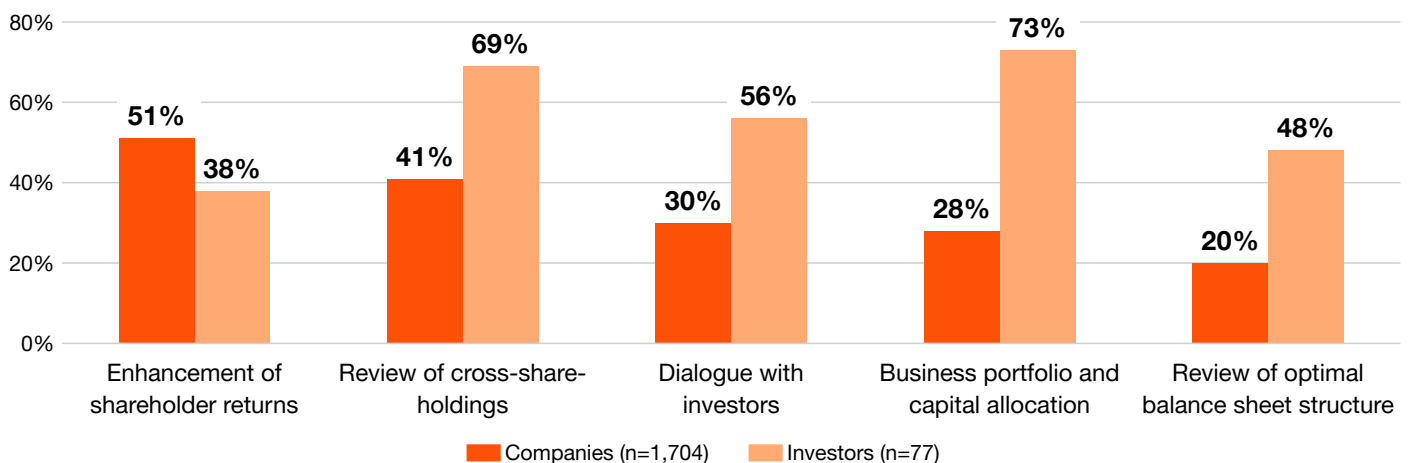
The Japanese equity market, which lacks (or has few) such practical constraints, can be described as an environment conducive to activist activity.

That said, domestic investors are not seeking short-term profits to the extent of demanding excessive dividends that could destroy the corporate value of listed companies. Many investors desire medium- to long-term enhancement of corporate value from management.

According to the 'Governance Survey 2025' published by Sumitomo Mitsui Trust Bank in November 2025, many companies are working to enhance shareholder returns, suggesting they are meeting investor expectations. On the other hand, initiatives such as reviewing business portfolios and resource allocation or examining optimal balance sheets are limited, revealing a significant gap with the expectations of domestic and international institutional investors (Figure 7).

Reflecting these changes, activist demands have increasingly gained acceptance among institutional and retail investors in recent years. This can also be described as the maturation of the domestic equity market. For activists, the Japanese equity market is transforming from a 'battleground' into a 'place where corporate value can be enhanced' through proposals with a medium- to long-term perspective.

**Figure 7: Initiatives for management conscious of capital costs and stock price**



Source: Sumitomo Mitsui Trust Bank, 'Governance Survey 2025' (November 2025)

# Activism in Japan

## Types of activist funds

Backed by abundant capital, activists are deploying multifaceted approaches that go beyond mere financial improvement demands to include business strategy proposals. Companies are being compelled to respond not only defensively but with comprehensive and proactive responses that include a review of their overall business strategy.

Broadly speaking, activists can be categorised as ‘aggressive’ or ‘moderate’. Aggressive activists take a strong interventionist stance through ‘demands’ and the ‘power of numbers’ via large shareholdings. Meanwhile, moderate activists aim to build collaborative relationships through ‘dialogue’ and ‘proposals’. There are also cases where activists themselves become board members and support business management.

The origins of activists are diverse—Japanese, American, British, Asian and others—and fund sizes can exceed ¥10tn at the larger end. In Japan, the activities of aggressive funds have been widely covered in the news, and activists have long had a significant presence.

Given the existence of such diverse activists, a uniform response is insufficient; rather, individual responses tailored to the characteristics and background of each fund are required. It is essential to formulate appropriate strategies based on fund size, regional characteristics and degree of aggressiveness. It is equally important to accurately understand and evaluate those strategies and intentions, responding flexibly and proactively, in order to maintain and enhance corporate value.

Engagement with activists is now an unavoidable element for modern companies. Management must comprehensively evaluate activist proposals and consider the need for fundamental reforms, such as a fundamental review of business strategy and strengthening of financial foundations. An inadequate response heightens management risk and could significantly impair corporate value.

Furthermore, approaches from activists may span multiple years, and the persons involved in the response may extend beyond IR staff to include internal and external directors and officers. When campaigns are launched, they can lead to reputational damage for the company and consume significant resources in terms of both time and personnel, making advance preparation advisable.

## Changes in activism

### (1) From confrontation to proposals

As already noted, the Japanese equity market is extremely conducive to activist activity, and as a result, activists are generating significant returns from Japan.

On the other hand, recent changes in activist activity have been observed. Specifically, there is a shift from securing short-term returns (achieved primarily through enhanced shareholder returns) to medium- to long-term enhancement of corporate value. This can also be described as a transition towards ‘an approach of enhancing corporate value through proposals rather than confrontation’. This is also consistent with the results of the aforementioned ‘Governance Survey 2025’.

As a result, an increasing number of activist demands are items that institutional and retail investors can support. Specifically, these include business portfolio reviews, reconsideration of business and financial strategies, including mid-term strategy overhauls, and strengthening of management foundations (governance reform, ESG, SDGs, etc.). These are demand items that contribute to the medium- to long-term enhancement of corporate value.

How does the stock price react to activist proposals? Enhanced shareholder returns, such as dividend increases and share buybacks, generally have a positive impact on stock prices. However, if the scale of the return enhancement is within the market’s expected range, it is already priced in, and the stock price does not rise significantly. According to PwC’s analysis, for a stock price to rise on the announcement of dividend increases or share buybacks, the announcement itself must be a surprise to the market (e.g. ‘We did not expect this company to become proactive about shareholder returns’), or the scale of shareholder returns must exceed market expectations. On the other hand, stock price increases from shareholder returns are only a temporary effect, and for medium- to long-term stock price appreciation, sustained earnings growth—ultimately a sustained increase in EPS (earnings per share)—is necessary.

As medium- to long-term enhancement of corporate value (sustained increase in EPS) gains importance, changes such as the market becoming less responsive to dividend increases and share buybacks are expected going forward.



## **(2) The importance of prevention and early response**

### **1. Transformation of management mindset and establishment of internal organisational structures**

In light of these changes, what measures should listed companies take? The most important thing is the transformation of management mindset and the establishment of internal organisational structures.

#### **■ Transformation of management mindset**

The typical perception of management towards activists is that ‘activists are unwelcome visitors’, and the standard response has been to ‘accept demands that can be accepted and resolve the matter quickly’. However, this approach does not enhance medium- to long-term corporate value and only invites approaches from other activists thereafter. Even if internal discussions on enhancing corporate value have taken place, if communication with the market is not properly conducted, the company will continue to be subject to activist demands.

Breaking this vicious cycle requires a transformation of management mindset. Rather than leaving activist countermeasures entirely to the IR department, management should build an internal structure that allows them to receive direct reports from the IR department, obtain support from external specialists as needed and proactively engage in activist countermeasures. On that basis, it is important to view activist demands not as confrontations but as proposals, and to connect them to the medium-term enhancement of corporate value.

What must be re-examined here is the company’s equity story. An equity story is an explanation of a company’s business model and medium- to long-term growth scenario directed at equity market investors. Naturally, managers have their own management philosophies and corporate strategies, but these need to be refined into content that appeals to investors’ decision-making, aligned with their context so as to lead to their trading (preferably buying).

### ■ Establishment of internal organisational structures

For the CEO to commit to IR, a permanent organisation that can engage in direct and continuous dialogue with investors and analysts is needed within the company.

The IR department is a critical organisation that engages in direct dialogue internally with management and externally with investors and analysts. It should be granted appropriate authority so that it can collect information and exchange opinions on an equal footing with each business division and administrative department within the company.

Within the IR department, rather than relying on a person-dependent approach that depends on specific experienced staff, it is desirable to form teams that share knowledge and know-how, creating a framework for stable and continuous dialogue with investors and analysts.

Typically, activists request meetings with the CEO (representative director and president). However, it is not strategically advisable to confront activists whose goal is to raise the target company's stock price over a short period through demands for improved management efficiency or enhanced shareholder returns before adequate preparation has been made. It is preferable for the IR director (or head of IR) to meet first, listen to the activist's demands, and in parallel with conducting internal analysis, prepare for a meeting between the CEO and the activist. This bottom-up approach to investor engagement is employed by large companies, such as financial institutions that have many IR staff. This presupposes that the IR department can organisationally handle investor engagement, and it is difficult for all listed companies to establish such a structure. Nevertheless, organising market communication as an institutional rather than person-dependent function is an extremely high-priority management task.

In this way, it is important that preventive and early response measures against activists are executed step by step, operated organisationally rather than on a person-dependent basis to enhance reproducibility, and thereby accumulate knowledge and know-how within the organisation.

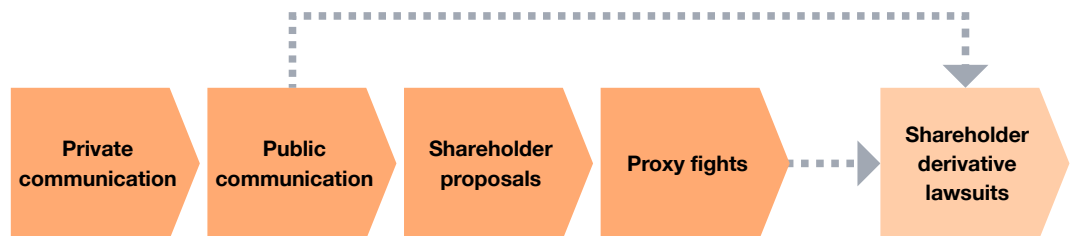


## 2. How activist activity progresses

In implementing prevention and early response, this section provides an overview of the specific processes through which activist activity progresses.

Activist activity takes various forms. It generally begins with a light meeting, and based on the results, the next actions are considered (Figure 8).

**Figure 8: Activist activity**



Source: Prepared by PwC

### Step 1: Private communication

This is generally the first approach taken by activists, involving private dialogue with the company's IR staff, management and the board of directors. At this stage, activists convey their goals and demands and attempt to negotiate for enhanced shareholder value. The initial contact is often through IR, but if the activist feels that their 'position is not being understood', the target shifts to management and others.

### Step 2: Public communication

This is used when private dialogue proves ineffective. Activists launch campaign websites and present their arguments in a publicly accessible format. They also publicise their demands to companies and the market through the media, increasing pressure. The aim is to gain the support of investors and public opinion and expand their influence over the company. In some cases, activists approach major institutional investors to explain the legitimacy of their demands and gather support, and such activities may already be underway from the private communication stage.

### Step 3: Shareholder proposals

Activists submit proposals at the general meeting of shareholders, demanding specific changes such as management policy or the appointment of directors. In Japan, shareholders who meet certain voting rights holding requirements can make proposals, prompting the company to consider and respond to the proposed content. When both parties' positions remain at an impasse during public communication, activists frequently proceed to file shareholder proposals to push through their claims.

**Step 4: Proxy fight**

Through shareholder proposals, activists nominate their own director candidates and directly confront the company in a bid to secure voting rights at the general meeting of shareholders. Through this, activists aim to exert direct influence on management.

**Other: Shareholder derivative lawsuit**

While activist activity generally follows the process described above, it can also escalate into shareholder derivative lawsuits. For example, there are cases where lawsuits are filed alleging that the company's management made inappropriate decisions that harmed shareholder interests. Derivative lawsuits are filed with the aim of holding management accountable and preventing destruction of corporate value. When dialogue and shareholder proposals fail to produce improvement, activists may choose derivative lawsuits as a legal means to ensure management transparency, strengthen governance and protect investor interests.

**(3) Opportunities for enhancing the corporate value of target companies****1. Establishment of IR structure and building relationships with long-term investors**

The goal of establishing an IR structure is to build long-term relationships with investors. It is important to gain their agreement with the company's equity story and to have them become shareholders who will maintain a long-term relationship. Generally, target investors include certain retail investors and long-only<sup>2</sup> institutional investors, such as pension funds and insurance companies, with the goal of having them hold shares over the long term.

Meanwhile, in the equity market, short-term investors, such as hedge funds that combine long (physical purchase) and short (short selling) positions, also play an important role. One role played by short-term investors is to frequently execute trades—buying when stocks are undervalued and selling (short selling) when overvalued—thereby 'discovering fair prices' in the equity market. The IR team needs to maintain dialogue with these short-term investors as well.

In building long-term relationships with investors, it is important to objectively assess how the company is viewed (evaluated) in the equity market. A growth strategy is necessary for every listed company. However, to put it simply, not all companies can be viewed as growth companies by the market. Industry sectors have general characteristics, such as growth/mature or cyclical/defensive, but within the same sector, there are both growth companies and mature companies. Companies that the equity market views as mature but that self-identify as growth companies and are passive about shareholder returns will find it difficult to be favoured by investors.

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<sup>2</sup> Investors who manage portfolios using only long (physical purchase) positions. They take a medium- to long-term perspective, deriving returns from capital gains through stock price appreciation and dividend income. Accordingly, they do not short sell even when they anticipate a decline in stock prices.

## 2. Scrutinise activist proposals and leverage what can be leveraged

Activist proposals include both those that contribute to enhancing corporate value and those that could potentially destroy it.

Among those that contribute to enhancing corporate value are optimisation of the business portfolio, review of cost structures, governance strengthening, clarification of dividend policy and share buybacks using surplus funds in an environment lacking promising investment opportunities. These are proposals that promote corporate growth, management efficiency and effective shareholder returns.

On the other hand, those that could potentially destroy corporate value include proposals that prioritise short-term stock price boosts and near-term profits/cash flow at the expense of medium- to long-term growth strategies, such as excessive cost cutting or investment reductions. Furthermore, regarding shareholder returns, excessive demands for dividend payout ratios or share buybacks that do not consider the company's situation from multiple perspectives could reduce future investment capital and are considered detrimental to corporate value from a medium- to long-term standpoint.

Among such activist proposals, those that lead to enhanced corporate value can be seen as fresh external perspectives or market voices, which can be connected to management improvements and governance strengthening. For example, proposals regarding business portfolio optimisation may include the assertion that 'Business X is not adding to corporate value'. Since internal and external views of a business may differ (whether it is a core business, whether synergies can be realised, etc.), the assertion may be off the mark. However, using the proposal as an opportunity to re-examine in detail whether the business was designed to exceed the cost of capital, and whether it can continue to generate sufficient returns, can also be useful. At the same time, proposals that only seek short-term results should be considered carefully, and strategic judgement that does not lose sight of the long-term perspective is important. Since activist observations and proposals can also serve as a warning to companies, calmly receiving them and incorporating them as one voice among stakeholders may lead to the realisation of sustainable growth.



# Turning activist countermeasures into an opportunity for transformation

## (1) A spark for corporate transformation

Activist activity is expected to continue to expand going forward. Companies targeted by activists should shift their thinking and take action by viewing activist proposals as a spark for corporate transformation—in other words, as an opportunity to enhance their own corporate value.

In addition to the shift in activist focus from securing short-term returns to medium- to long-term enhancement of corporate value, the fact that the Japanese economy is at a turning point from deflation to inflation will also provide a tailwind for corporate transformation. During an inflationary period, companies that hoard cash and do not invest, or companies that only focus on shareholder returns (dividends, share buybacks), risk being viewed by the equity market as companies with no room for growth. In such circumstances, taking the initiative to proactively present measures to enhance the company's own corporate value—going one step beyond conventional activist countermeasures—will be the most effective strategy.

Specifically, what actions should be taken? One idea is to apply activist screening methods to the company's own transformation approach.

Activists target industries in which they have expertise, list companies with room for reform (issues), formulate strategies for enhancing corporate value (strategies), confirm their own feasibility of execution (resources) and then purchase shares. Recent activists are increasingly hiring external advisors in the course of conducting these evaluations, which has led to their arguments becoming more sophisticated as a result.

Using this transformation approach of 'identifying issues', 'formulating strategies' and 'confirming resources to support them' as a reference, corporate leaders should objectively assess whether they can do all of this in-house, and if necessary, consider utilising external resources.

Once corporate reform gains traction, the next step is to develop talent and establish organisational structures in parallel so that the company can run this cycle on its own, charting a path to medium- to long-term enhancement of corporate value. There is no shortage of cases where excessive expectations and reliance on non-organic growth through M&A or dependence on external specialists have drained the vitality of in-house talent—the very source of a company's competitive advantage. It is at this stage that internal organisations must be developed to strengthen the company's foundations.

## **(2) Implementing transformation programmes aligned with activist perspectives**

In advancing the transformation approach described above, it is important to be conscious of activist perspectives.

The principal value drivers of medium- to long-term corporate value enhancement are corporate growth potential, capital efficiency and cost of capital. To optimise these, business strategy, financial strategy, governance and disclosure come into focus. It is essential to re-examine each of these four items from an objective, external perspective.

Regarding business strategy, activists are interested in ‘what the company’s core business is’, ‘how it will be grown’ and ‘how the business’s profit margins will be improved’.

From a financial strategy perspective, activists expect optimisation of the cost of capital based on capital structure, rating strategy and risk management. They also expect improvement of capital efficiency through appropriate investment evaluation management frameworks and processes that are conscious of the cost of capital. In addition, they are interested in maintaining an appropriate capital structure and improving capital efficiency based on shareholder return policies. Furthermore, they expect that capital allocation and business portfolio management—with an eye towards the company’s future aspirations, such as whether to pursue capital efficiency or growth—will serve as a foundation for improving capital efficiency and business growth. In this process, it is also desirable to clarify the treatment of non-core businesses and non-business assets.

Business strategy and financial strategy are thus closely interrelated, and activists also evaluate from a governance or management foundation perspective to ensure that the two strategies are considered in an integrated manner and appropriately executed. In addition to aspects such as the board of directors, management through performance targets, human capital strategy, ESG and data infrastructure development leveraging digital technology, the establishment of business portfolio review committees—which serve as the nexus between business and finance—has also recently come under the spotlight.

The content relating to business strategy, financial strategy and governance needs to be disclosed to relevant parties and communicated appropriately. Awareness of business-segment cost of capital in the Japanese market has increased to a degree unimaginable in the past, and disclosure of business-segment performance has progressed. However, complaints are frequently heard that insufficient information disclosure makes it difficult to evaluate businesses by segment, and that the true picture of the company remains elusive. Even in cases where sufficient consideration has been given internally, there is a risk that a failure to communicate externally will invite unnecessary criticism. Therefore, from a disclosure perspective as well, it is necessary to proceed with careful consideration of how the company appears from the outside.

Based on the above, transformation programmes to be implemented by listed companies are divided into four categories, with respective items listed below.

### **1. Business strategy**

Review of business portfolio, formulation of growth strategy and investment plan for core businesses, improvement or withdrawal from non-core and unprofitable businesses, etc.

### **2. Financial strategy**

Unwinding of parent-subsidary listings; evaluation and elimination of conglomerate discounts through spin-offs and spin-outs; formulation of financial strategy frameworks; establishment of capital allocation policies and investment evaluation management criteria conscious of the cost of capital; rationalisation of non-business assets, including cross-shareholdings; continuous dialogue with investors towards PBR improvement, etc.

### **3. Governance**

Establishment of management foundations supporting business and financial strategies (formulation of mid-term management plans, monitoring through KPIs, human capital strategy, sustainability, data infrastructure leveraging digital technology, etc.). In addition, whether mechanisms capable of performing the following functions have been established under the strong decision-making and commitment of top management:

- Oversight of management, the traditional purpose of governance
- A mechanism to confront—and, if necessary, accept—activist demands for board representation
- A board model called ‘Board 3.0’, which adds strategy formulation and execution functions to the conventional board’s oversight and monitoring functions, as a measure to strengthen the board of directors

### **4. Disclosure**

Proactive and continuous involvement (commitment) by management to strengthen dialogue not only with investors and analysts but also with activists. Establishment of an IR structure to support management, etc.

It is important that all of these programmes be prepared on a cross-organisational basis rather than a person-dependent basis, anticipating all possible scenarios, before activist approaches begin.

## The role PwC plays

Japan's global presence has been declining steadily. According to the International Monetary Fund (IMF), Japan's share of global nominal GDP was approximately 18% in 1994 but has recently fallen below 4%. In the World Competitiveness Ranking published by the International Institute for Management Development (IMD), Japan ranked first in the world around 1990, but dropped to 35th in the 2025 edition. In terms of capital market performance as well, there is approximately an 8x gap in market capitalisation between Japan and the United States, and the gap in average PBR exceeds 3x.

PwC believes that supporting Japanese companies' efforts towards medium- to long-term corporate value enhancement can contribute to addressing these issues, and we are committed to this as an important social challenge. This domain requires consistent examination and initiatives across a wide range of fields, including business, finance, governance and disclosure. Moreover, since it is important to provide advice from a third-party position while objectively maintaining a capital market perspective, we have been leveraging PwC's comprehensive capabilities in this area.

### (1) Value consulting

To turn activist countermeasures into an opportunity for transformation, it is important to undertake corporate value enhancement initiatives during normal times. PwC has long supported efforts towards corporate value enhancement based on consistent management strategies, with specialists in sectors, business strategy, financial strategy, management foundations/governance and stakeholder communication working as one team.

In particular, we have divided our support into the steps of 'corporate diagnostics from the perspective of capital markets and external investors' and 'support for corporate value enhancement initiatives'. We provide support for objective self-awareness and comprehensive corporate value enhancement based on these steps. Furthermore, we believe that in addition to direct support, indirect contributions through the dissemination of knowledge are important for solving these issues, and we are actively engaged in publishing books, issuing research reports and speaking at various seminars.

#### 1. Corporate diagnostics from the perspective of capital markets and external investors

We support clients' corporate value enhancement by analysing both capital market and corporate perspectives and highlighting the gaps between them. For example, the review is conducted in the following order:

- Building hypotheses on issues through analysis based on market information
- Analysis from an external perspective based on public information (outside-in analysis)
- Analysis based on the company's own understanding using internal information (inside-out analysis)
- Identification of perception gaps based on both analyses
- Extraction of implications regarding future direction considering perception gaps

## 2. Support for corporate value enhancement initiatives

Taking into account the results of corporate diagnostics, we provide wide-ranging support to maximise client corporate value across themes including business portfolio management, capital allocation, investment evaluation management criteria, business-specific hurdle rates, optimal capital structure, integrated risk assessment, management foundation development, management target setting, capital policy, communication strategy, financial simulation, tax and legal considerations, ROIC management, cost reduction and working capital optimisation.

### (2) Stakeholder management support<sup>3</sup>

Building relationships with stakeholders is becoming increasingly important in pursuing corporate value enhancement. In Japan, activist activity has become more vigorous in recent years, and their proposals and demands have increased and become more complex. PwC Japan Group supports medium- to long-term corporate value enhancement from a capital market perspective during normal times, as well as strategy formulation, dialogue with capital markets and M&A execution during critical times, in preparation for dealing with stakeholders, including activists.

In normal-time response, we provide support through systematic analysis via strategic reviews<sup>4</sup>, strategy formulation (mid-term management plan formulation, financial strategy formulation, ESG/sustainability management strategy formulation, business portfolio/group reorganisation, etc.) and organisational development/execution of corporate value enhancement measures (ROIC management, optimal capital structure, investment evaluation management, construction and sophistication of various governance structures, various value-up strategies, etc.).

In critical-time response, we provide support through overall organisation (formulation of response strategies [defence policies], overall management of related parties), communication strategy formulation and M&A execution support.

PwC believes that strategic reviews are also important for turning activist countermeasures into an opportunity for transformation.

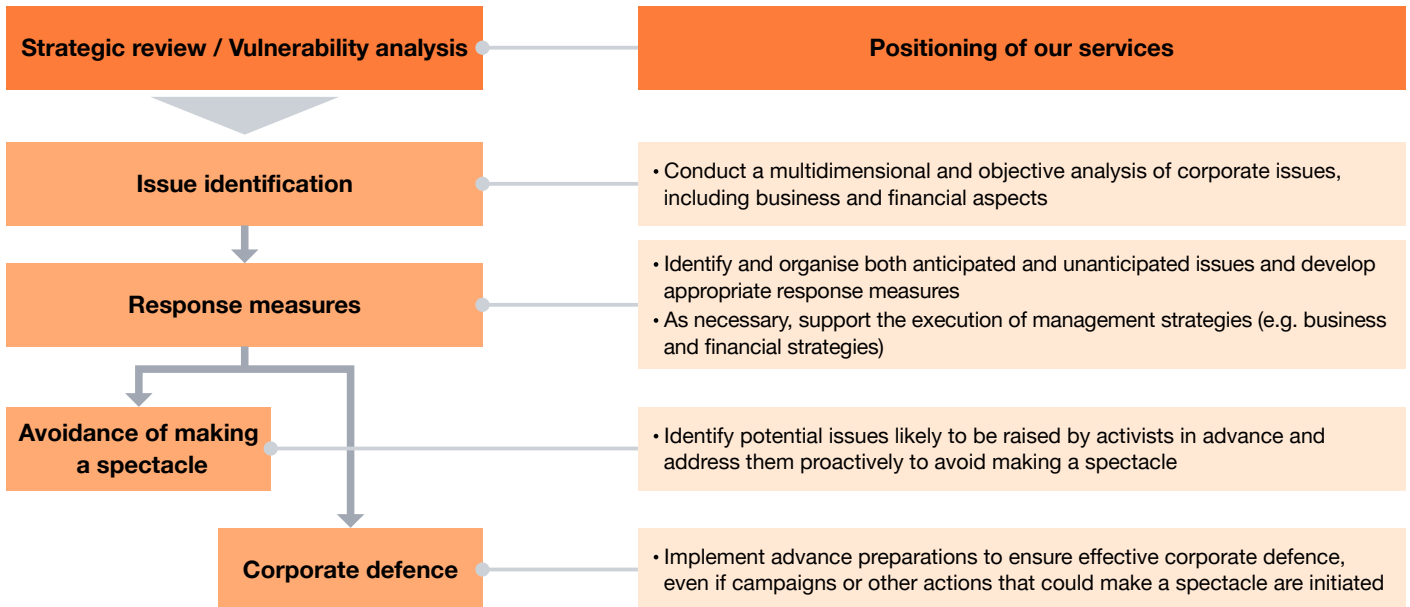
In our Strategic review / Vulnerability analysis service, we analyse companies from multiple angles using an activist's perspective and identify issues. We identify both anticipated and unanticipated issues and connect them to the examination of countermeasures. By taking pre-emptive action before an activist's approach becomes a spectacle, appropriate responses become possible (Figure 9).

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<sup>3</sup> <https://www.pwc.com/jp/ja/services/deals/stakeholder-management.html>

<sup>4</sup> In the 'Practical Guidelines for Business Restructuring—Toward Transformation of Business Portfolios and Organizations' published by the Ministry of Economy, Trade and Industry on 31 July 2020, a strategic review is defined as 'conducting a strategic review of the business with the objective of maximising corporate value. In Western companies, strategic reviews are sometimes conducted in response to shareholder proposals and other events, utilising external financial advisors and other specialists. A Strategic Review Committee may also be established for conducting the strategic review.'

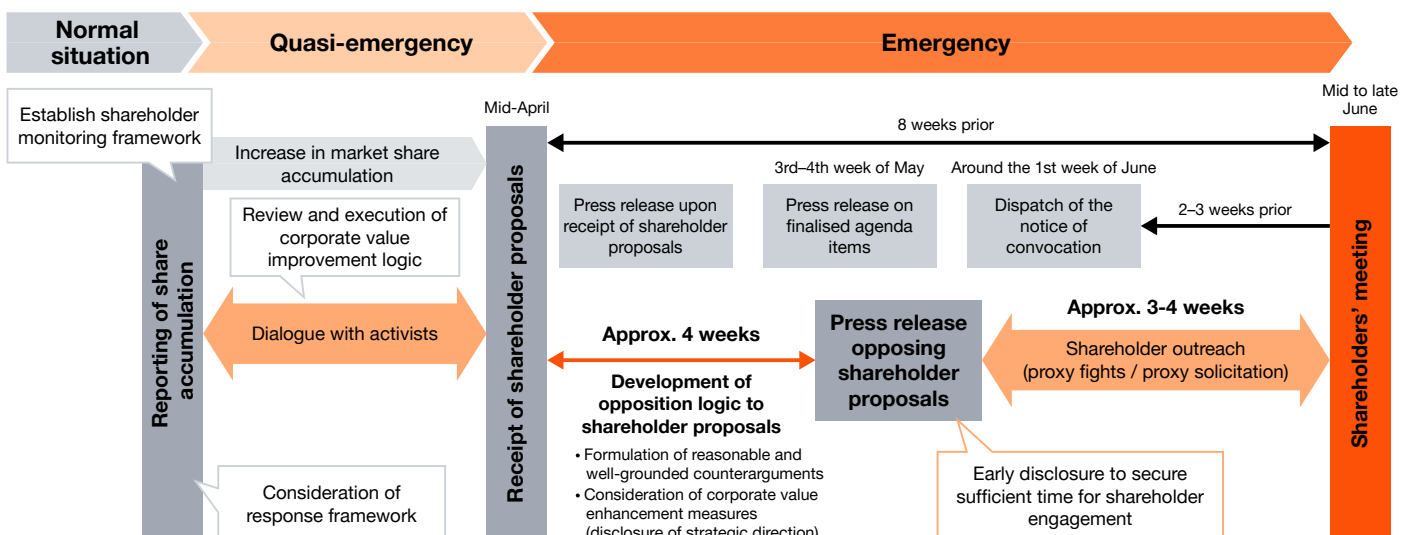
Figure 9: Overview of Strategic review / Vulnerability analysis service



Source: Prepared by PwC

In general, once a shareholder proposal has been submitted, companies are required to take a wide range of actions under an extremely tight timetable. Formulating and disclosing a rational strategy that can convince the equity market in response to an activist’s demands—and then explaining that strategy to shareholders and other investors based on such disclosures—within a limited time frame is no easy task. It is therefore critically important to identify issues in advance and to review and organize response policies, including organisational readiness, before such a situation arises (Figure 10).

Figure 10: Activist countermeasures and schedule



Source: Prepared by PwC



## **PwC Japan Group**

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In response to our clients' increasingly complex and diverse corporate management issues, the PwC Japan Group has put in place a system that consolidates our knowledge in the fields of auditing and broader assurance services, consulting, deal advisory, tax and legal services, and encourages organic collaboration among our professionals in each field. As a professional services network with approximately 13,500 certified public accountants, tax accountants, lawyers and other professional staff, we strive to provide services that more accurately address our clients' needs.

This report is a translation of アクティビスト対策を変革の好機に, originally published by PwC Japan Group in March 2026. Although we have made every effort to provide an accurate translation, in the event of any differences in interpretation between this translation and the original, the original takes precedence.

You can download the original (Japanese) version here:

<https://www.pwc.com/jp/ja/knowledge/thoughtleadership/activist-response-strategy.html>

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Publication date: April 2026 Reference number: I202504-02

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