



Meeting the Challenges of a Changing World: Active engagement with Toyota Industries

“Directors are often captive to the management teams they are meant to supervise.”

Warren Buffett

In recent years, we at Hosking Partners have been increasingly drawn to opportunities on offer in Japan due to a compelling combination of low valuations and corporate governance reforms. As of 30 June 2025, the Hosking Global Equity Fund had a 14.7% exposure to Japanese equities, making it the largest basket exposure in the portfolio.

We have discussed the investment opportunity in Japan extensively, most recently in [this video](#) with Portfolio Manager Omar Malik and [this Hosking Post](#) written by Founder and Portfolio Manager Jeremy Hosking. Summarizing the thesis, nearly half of the c.3,600 companies listed on the Tokyo Stock Exchange (TSE) have a price-to-book (P/B) ratio below 1.0x. This is partly a reflection of the sub-par returns on equity (ROE) generated by Japanese firms relative to global averages, weighed down by their bloated balance sheets from large cash piles and substantial cross-shareholdings. Corporate Japan is responding to pressure from government policy, the TSE, and activists and that, whilst the road is certainly expected to be long and winding, the reforms will ultimately help improve the capital efficiency. As this

occurs, valuations in Japan – currently amongst the lowest in the developed world – are expected to rise.

In the journey of Japanese companies unlocking value, we will inevitably encounter companies where management or controlling families exploit the undervaluation to capture more value for themselves at the expense of minority shareholders. The recently proposed privatisation of Toyota Industries Corp (TICO) by the **Toyota Motor Corp** and related parties including Toyota Motor's chairman, Akio Toyoda, strikes us as a particularly egregious case of controlling management acting solely in their own best interests. To recap, TICO is the original Toyota company, founded in 1926, from which various business lines were subsequently spun out, the largest of which became Toyota Motor. Today, TICO is primarily a holding company, owning stakes in several Toyota entities – its stake in Toyota Motor is worth Y3.2tn – and is also the global number one producer of forklift trucks and of automotive compressors, which together generate over Y200bn in annual operating profit.

On 3 June 2025, Toyota Motor announced its plan to form a vehicle to take TICO private via a tender offer, which would assist in unwinding the Toyota Group's web of cross-shareholdings as well as increase the transparency and alignment of the Group's entities. If successful, the deal would be the second largest takeover in Japan and has the potential to serve as a showcase for Japanese governance reform. However, a closer look reveals a bid that materially undervalues TICO and demonstrates a major failure of good corporate governance, having been designed to enrich insiders at the expense of minority shareholders.



To start, the tender offer price of ¥16,300 per share, equal to a 1.0x P/B ratio, was an 11% discount to the prior day's closing price and looks to dramatically undervalue TICO's assets. Frustratingly, however, the lack of transparency makes it difficult for outside shareholders to confirm this. Toyota Motor's valuation methodology is opaque on several layers: the group has not disclosed the valuation methodology or financial projections of TICO's existing business, and it appears to exclude the market value of TICO's vast real estate, strategic shareholdings and vendor finance business.

Significant in its absence, TICO's board has not provided an independent fairness opinion of the deal. While fairness opinions are not legally required in Japan, they are highly recommended by the TSE's Code of Corporate Conduct. Related to this, we find the timing of the offer (June 2025) to be more than coincidental: a few months before Toyota Motor's move to tender for TICO, the TSE announced that it was in the process of enhancing its disclosure rules for management buyouts and subsidiary conversion transactions to protect minority shareholders. In our view, such transactions have inherent conflicts of interest, making the need for independent third-party assessments and detailed disclosures all the greater. Specifically, the TSE's revisions were set to increase the demands on fairness disclosures, necessitating the acquirer to provide the specific assumptions used in financial forecasts and the valuation methodology used for non-business assets such as real estate and cross-shareholdings. These changes were set to be put into effect in July 2025, just a month after the tender offer for TICO that, conveniently, does not disclose the value of such non-business assets nor provide an insight into the financial forecasts used to value TICO's operating business.

We also find it noteworthy that the Special Committee appointed by TICO's board to review the offer on behalf of minority shareholders ended up giving a "neutral" recommendation rather than the typical "for" or "against". A rare occurrence! One has to believe that if the Special Committee had deemed the offer to be fair, they would have granted their approval of the deal. Speculating about the Special Committee's atypical behaviour, they may acknowledge TICO's undervaluation based on the tender offer price but are resistant to voting against the deal due to their conflicts of interest with the acquirer, Toyota Motor and its related parties. A neutral recommendation potentially absolves the Special Committee from being held personally liable for a breach of fiduciary duty. We would expect to see the committee actively push for a better deal and are making our opinion known.

The governance concerns do not stop there. Other acute issues include the fact that the entity with voting control of the vehicle that acquires TICO, Toyota Fudosan, is partly owned by TICO itself, which creates a large conflict of interest and further obfuscates the valuation of TICO's shares. How is the Toyota Fudosan stake valued on TICO's balance sheet? Is the transaction factoring in the look-through ownership that TICO has in Toyota Fudosan in the offer price or not? Shareholders are left with many questions and few answers.

Perhaps the most egregious governance failing is the manipulation of the "majority of minority safeguard". Toyota Motor argues that all it needs is 42% support from minority shareholders to finalize the takeover bid. This is based on the company's view that other TICO shareholders – Denso, Aisin and Toyota Tsusho (all Toyota Group entities) – are counted as independent minority shareholders. This raises serious questions about the legitimacy of the majority of minority rule and its interpretation.

In theory, this mechanism is meant to protect genuine minority shareholders by requiring that a majority of them approve the resolution. In practice, the definition of "minority" has been stretched to include Toyota affiliates – entities with clear conflicts of interest and a vested stake in the outcome. As a result, the threshold for approval by true outside shareholders is perilously low, diluting the very protections the rule was designed to provide. As long-term shareholders in both Toyota Motor and TICO, we are engaging with the company on behalf of our clients' best interests. We are disappointed in the actions taken by the Toyota Group and would like to see a more transparent assessment of the assumption underpinning the valuation methodology, as well as an appropriate increase in the tender offer price to more accurately reflect the fair value of TICO's shares.

The TICO buyout by Toyota Motor would be among the largest takeover deals in Japan, yet it retains all the hallmarks of the poor governance practices of Japan's past. If Japan's governance reforms are to be taken seriously, the country's largest companies need to be torchbearers of the movement and lead by best practices. We believe this is an important test case for the broader reform in Japan and should not set the standard practice for future corporate takeover proposals. We will have more to say on TICO in the future – stay tuned.

References

References for any data or quotations included in this article and articles elsewhere in this report are available on request.