Investment Review / Portfolio Review continued

TOYOTA INDUSTRIES

A Pillar of Japanese Corporate Identity

It is difficult to overstate the significance of Toyota Motor in Japanese corporate culture. It is not simply because of its size or global importance as the world's largest automaker, but because it has long embodied the ideals and core values of Japan Inc.

Toyota's success story was seen by the nation as mirroring Japan's rise from post-war devastation and evolution into a global powerhouse. For decades, Toyota has epitomised "Japaneseness"; group companies, cross-shareholdings, lifetime employment, consensus decision-making and keeping closed ranks. Corporate governance naysayers have argued that it's been these very qualities that have kept companies like Toyota strong, leading the company to be seen by some as an "emblem of resistance to corporate governance reform".

The proposal by the grandson of Toyota's founder himself to initiate a buyout of Toyota Industries in 2025 carries substantial significance.

Akio Toyoda, Chairman of Toyota Motor, stunned corporate Japan in late April 2025 when news emerged of plans to facilitate one of the largest global privatisation deals in history, valued at $42bn. The formal announcement then came on 3 June.

From our position as constructive activists long-invested in Toyota group companies, there are several key points to highlight – both encouraging and deeply frustrating.

From our perspective, this buyout is the direct result of the shareholder pressure which had been mounting against the Toyota Group for some time. Foreign shareholders had been an increasing presence on their register, whilst Akio Toyoda's approval rating at Toyota Motor's AGM fell to 72% from 96% in 2022 (only 57% excluding Toyota Group votes).

We at AVI had been applying pressure on the company for years to consolidate or privatise. Since 2015, we have been encouraging management to unwind their cross-shareholdings, which made up almost half of Toyota Industries' balance sheet assets. Our efforts with Aichi, majority owned by Toyota Industries, moved into the public sphere last year when we launched "Taking Aichi Higher". In March 2025, Toyota Industries and Aichi announced a transaction bringing Toyota Industries' controlling stake from 52% down to 20%.

The deal structuring and execution, however, has been opaque and biased.

When news first broke of the $42bn potential deal in late April 2025, Toyota Industries shares climbed to around ¥18,400, a level which the market felt reflected fair value. The formal tender offer announcement on 3 June for ¥16,300 fell well short this, representing a lowly 23% premium to the undisturbed share price, well below the c. 44% average premium for privatisation transactions on the Tokyo Stock Exchange.

The market's immediate reaction was damning, as Toyota Industries' shares plummeted 12% in response.

Despite calls from over two dozen asset managers, Toyota also declined to disclose the detailed valuation models used to determine the offer price. Most egregiously, we feel the deal structure manipulates the "majority of minority" safeguard, with Toyota arguing it needs only 42% support by dubiously classifying other Toyota Group entities as "independent" shareholders.

In recent weeks, the Asian Corporate Governance Association publicly stated this deal "has the potential to either reinforce or weaken the progress made in corporate governance reforms." We remain hopeful that a more amenable deal outcome will be reached.

Nonetheless, what Toyoda has accomplished is something only Toyota could achieve. They have dissolved a symbolic bastion of resistance to corporate governance reform. If even Toyota supports these changes, there must be something to them. Whilst the execution has disappointed on pricing and process transparency, the transaction itself represents a watershed moment. For minority shareholders who have supported the company through years of governance challenges, this represents tangible evidence that kaizen – the pursuit of continuous improvement – can deliver transformational change in corporate Japan, even if imperfectly executed.

Source / Luis Alvarez via Getty Images