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POLICY TUG-OF-WAR

Japan's Evolving Market for Corporate Control

Drew Edwards and Colin Bekemeyer | August 2026

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Each quarter, Drew Edwards, Head of GMO's Usonian Japan Equity team, and Colin Bekemeyer, Co-Portfolio Manager, share their latest views with GMO Usonian clients and explore the forces shaping the team's long-term investment outlook.

In their 2Q26 letter, the team examined the next front of Japan’s corporate governance reform: the evolving market for corporate control. Given its timeliness and broader relevance, we are sharing this excerpt as a standalone piece.

Please contact your GCR representative for access to the full quarterly client letter or to learn more about Usonian Japan Equity strategies.

The Next Front of Japan's Governance Reform

Japan's current phase of governance reform—and the evolving market for corporate control at its center—is best understood as a four-way tug-of-war. Investors and asset owners are pulling to strengthen minority-shareholder protections as change-of-control and related-party transactions multiply. Corporate management, backed by Keidanren, is pulling the other way, arguing that reform has gone far enough and is beginning to hinder investment in future growth. National-security hawks, like Prime Minister Takaichi, are pulling on a third axis, curating who may own strategically sensitive assets. And Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE) are pulling toward growth investment and consolidation—a stated preference for fewer, larger companies, backed by listing standards that press sub-scale firms to merge or delist. METI and TSE’s emphases differ: METI is focused on raising corporate value and competitiveness; TSE is focused on making the market more attractive to global investors. The contested change-of-control transactions of recent months show how that tug-of-war is playing out.

Last quarter, we described one front of this reform: the proposed revision of the Corporate Governance Code, which raises the bar for boards—especially at cash-rich companies—to justify how they deploy balance-sheet resources.[1] This quarter, we turn to the next front: the contest over changes of control. These two fronts are connected. Growing pressure on capital productivity is not exclusively focused on the balance sheet; pressure increasingly translates into changes of control. This is an arena where minority protections rest not on Japan's Companies Act, which provides little, but on METI's fair M&A and TSE’s conflicted-transaction guidelines. FEFTA, Japan's CFIUS equivalent, is also reshaping the market for control alongside recent geopolitical shifts. These rules have been written and are being tested in real time: METI finalized its takeover Q&A in July 2026, and a run of landmark cases over the past year stretches from the largest take-private in Japanese history (Toyota Industries) to the first state veto of a deal in nearly two decades (Makino Milling). What the emerging regime will decide is not whether reform creates value, but how much of it reaches minority shareholders when it is realized—and that turns on whether an investor can earn a seat at the table where the terms are set and use it to negotiate fair terms for minority shareholders.

1 See Japan’s Next Phase of Corporate Governance Reform (Edwards and Bekemeyer 2026).

Control, Policy, and Minority Protection

The tension is structural. Minority shareholders are best protected when the widest possible universe of buyers competes on price; industrial policy and national security, by design, narrow that universe and introduce criteria other than price. Japan's new guidance embeds both imperatives in a single test and asks a target board—often itself conflicted—to arbitrate between them. In METI's finalized Q&A, "desirable" acquisitions are those that enhance corporate value, a concept now read to encompass economic and national security, not necessarily those offering the highest tender price. A board may set aside a proposal it judges unlikely to clear antitrust or foreign investment review, and is urged to weigh the characteristics of bidders and their underlying investors.

We want to be clear where we stand. Usonian fully agrees with the Japanese government's responsibility to weigh economic and national security in change-of-control transactions. Our concern is with who has been handed that judgment. Asking boards to arbitrate the national interest places the decision in the hands of parties that are conflicted in precisely these situations and poorly positioned to assess security questions on the nation's behalf. We believe the cleaner division is the one it displaces: boards should prioritize optimizing returns for shareholders, and the government should determine which transactions run against the national interest. Yet the guidance points the other way. Japan appears to be converging on the European model: the mandatory tender-offer threshold has been lowered to 30%, in line with the UK, France, and Germany, and the corporate-value test echoes the stakeholder discretion boards have exercised there and is reinforced by expanded foreign investment screening.

When Minority Holders Have Leverage

Our own work now spans both sides of this divide. Some of our results are realized through the public market: positions built at attractive valuations and held through years of constructive engagement, with our exits driven by valuation discipline as market prices converge with our estimates of fair value. Critically, the improvements in governance, capital allocation, and fundamentals that engagement helps catalyze remain in place for the company and its continuing shareholders. But an increasing share of our results has instead come through changes in control, where a few actors set the terms in a bespoke and often opaque process, pursuing objectives that need not prioritize the best price for minority holders. Where those formal protections fall short, a minority investor's outcome turns not on the protections themselves but on what the shareholder can do about them—and increasingly, that means whether an engaged shareholder can earn a seat at the table where the terms are set.

The aggregate scale of engaged minority holders was the pivotal variable in two landmark cases from the past year. In the ¥6.7 trillion take-private of Toyota Industries—the largest acquisition of a Japanese company ever completed—sustained shareholder pressure lifted the offer 26%, but to a level disinterested minorities still considered inadequate.[2] The Toyota Group was able to complete the transaction despite those objections because parties related to Toyota Industries held enough shares to preclude any meaningful contest for control. Pacific Industrial ran the other way. When the president launched a management buyout in July 2025, we raised concerns about the process (no proactive market check, thin disclosure on valuation) with the board, and then publicly.[3] There, minority holders whose aggregate stake was large enough to veto the deal—and therefore large enough to be negotiated with—turned those objections into successive price increases that ultimately more than doubled the offer from the pre-offer level. The difference between the two outcomes was structural: at Pacific Industrial, minority holders were able to command a seat at the table. At Toyota Industries, structural impediments precluded minority shareholders from getting a real seat at the table.

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Toyota Fudosan's initial ¥16,300 proposal (June 2025) was raised to ¥18,800 in January 2026, and ¥20,600 in March 2026; Elliott Management, holding approximately 7.1% and arguing intrinsic value exceeded ¥26,000, tendered at the final price while noting unresolved concerns, including the absence of a true majority-of-minority condition (Takahashi 2026; Tai and Singer 2026). See GMO's Update on Toyota Industries Corporation (Edwards 2025).

3
See GMO's Concerns Regarding Pacific Industrial's Tender Offer Process and Valuation (Edwards 2025).

Earning a Seat at the Table

Makino Milling showed the national-security axis at work. Having escaped an unsolicited bid from Nidec, Makino's board endorsed MBK Partners as a white knight at ¥11,751 per share. But after 10 months of foreign investment review, the government recommended that the deal be discontinued under FEFTA, the first such action in almost two decades.[4] Minority holders bore the cost: suspended dividends, then a drop to a 52-week low when the recommendation became public.[5] A nominally domestic bidder soon emerged at a higher price and the shares recovered—but even that proposal ultimately foundered in part on FEFTA risk: the board concluded it could not count on clearance, given that the bidder envisioned foreign joint investors—including foreign government-related investors classified as high risk—providing a considerable share of the funding. The screening regime, it turns out, reaches consortium structures, not just foreign acquirers—and the recovery minority holders briefly enjoyed turned on a contingency no shareholder can count on.

The concern goes beyond FEFTA itself. Under METI's new guidelines, it is unclear how much latitude a board such as Makino Milling's would have to reject a bid for other reasons it deems in the company's interest. Subsequent to quarter-end, Makino's board—following its special committee's recommendation—resolved not to accept the domestic proposal and to end its consideration, citing a low probability of FEFTA clearance given the bidder's contemplated foreign joint investors and the funding-feasibility risk that reliance created. These are grounds outside shareholders have limited ability to independently assess. Either way, the discretion to break a deal is widening: for the state over foreign buyers, and potentially for boards over rationales that are harder for shareholders to evaluate. The appetite for consolidation remains, but the state wants to curate the buyers where security or control is a consideration. As the universe of eligible buyers narrows, so does the premium available to minority shareholders, unless the minority has a seat at the table and an ability to command a better outcome. Deal-break risk in Japan now runs through a policy channel where the downside falls on public shareholders, and a quieter one where the deal never surfaces at all.

This is not to say policymakers are turning against shareholders. There is broad recognition that engagement has driven the governance gains behind the market's re-rating, and the ruling party's own proposal states that replacing underperforming management "should not be considered taboo." The concern is narrower—what policymakers characterize as activism aimed at short-term extraction—and it explains the direction of legislative travel: draft Companies Act amendments would raise the threshold to requisition an extraordinary meeting from 3% to 5% and narrow shareholder-proposal rights. Whatever the intent, a threshold cannot screen for horizon—only for size—lifting the minimum scale at which a shareholder can force a board to act.[6]

When negotiation does not afford minority shareholders a path to fair valuation through the public market process, a second path to value realization remains: the option to stay an owner through the post-transaction value-creation process itself. In select transactions, long-term ownership has positioned us to advocate for improved terms that are equally available to all tendering shareholders, while retaining the choice to remain invested where we believed

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The recommendation under FEFTA 27(5) was received on April 22, and the tender offer agreement was terminated by mutual consent on April 30 (Makino Milling Machine Co., Ltd. 2026a). It was the first publicly disclosed discontinuance recommendation since the 2017 FEFTA amendments, and the second ever, after the 2008 J-Power case (NO&T 2026).

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The recommendation was disclosed after the market closed on April 22; Makino shares fell 8.8% the following day to close at ¥10,570, touching a 52-week intraday low of ¥10,370—well below the ¥11,751 offer price. Nikkei then reported that Nippon Sangyo Suishin Kiko (NSSK), a Tokyo-based investment firm, planned a competing takeover proposal at a higher price, and the shares recovered sharply. In late June, NSSK was reported to have raised its proposed price to approximately ¥16,000 per share. On July 31, 2026, following a report from its special committee, Makino's board resolved not to accept the proposal and to end its consideration, citing the low probability of FEFTA clearance given the contemplated participation of foreign joint investors (including foreign government-related investors classified as high risk), the funding-feasibility risk arising from that reliance, and its assessment that the proposal would not enhance corporate value relative to remaining listed (Hiasa and Oku 2026; Makino Milling Machine Co. 2026b, 2026c).

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The proposals remain in the draft stage, pending deliberation by the Legislative Council; thresholds and scope may change before any bill is submitted (Mori 2026).

the value-creation plan had further to run. That choice belongs only to an engaged minority shareholder able to earn a seat at the table.

None of this is caution about the transformation—the transformation is the opportunity. Japan's industrial landscape still carries far more domestic competitors than its markets can reward, and the consolidation now underway should finally deliver the scale and pricing discipline that fragmentation long denied. The market for corporate control is how that value gets unlocked, and it is accelerating. What the balance among minority protection, industrial policy, and national security will decide is not whether value is created—earnings, rates, and the reform cycle will drive the market as a whole—but how much of that value reaches minority shareholders when it is realized, and who has earned a seat at the table to participate in it. Arriving early, engaging credibly over time, and retaining the freedom to act across the full arc of a transition (resisting unfair deals, negotiating for higher prices and fair terms, and staying invested when the plan has further to run) is a discipline of rising importance in Japan today. Identifying undervalued businesses before these dynamics are recognized has always been our work; making sure our clients capture the value is where we intend to earn our keep.

Outlook

We remain constructive on the medium- to long-term outlook for Japanese equities, even as near-term volatility and market concentration have risen. The structural reforms we have highlighted for years—stronger shareholder engagement, rising expectations for capital efficiency, and a more active market for corporate control—continue to advance across our portfolio and are company-specific rather than macro-driven. While indices have become more concentrated in a smaller number of large-cap companies, we continue to see a large and growing opportunity set among businesses across the market-cap spectrum whose improving fundamentals, governance reforms, and engagement-driven change remain underappreciated by the market.

The path is unlikely to be smooth. Rising interest rates, persistent currency volatility, growing concerns about fiscal deterioration—including from a potential consumption tax cut—and geopolitical uncertainty, including the unresolved situation in the Middle East, will likely bring further periods of turbulence and shifting sentiment. But these forces now operate within a more dynamic corporate landscape than at any point in recent decades, with boards under growing pressure to justify capital allocation and to consider strategic alternatives—portfolio reviews, divestitures, restructurings, and changes of control—more actively than ever. As we've discussed in this letter, how value is realized and who participates in realizing it now matter as much as identifying it. Our approach emphasizes patient engagement, long investment horizons, and the flexibility to participate across the full range of outcomes.

In short, while the macro backdrop has become louder, our process remains unchanged: concentrate capital in high-quality businesses at sensible valuations, engage constructively with management teams and boards, and recycle capital as opportunities evolve. We believe this environment continues to favor disciplined value investors willing to look beyond short-term market noise.

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Drew Edwards

Mr. Edwards is the Head of GMO's Usonian Japan Equity team and a portfolio manager for the team's products. Mr. Edwards is a partner of the firm. Prior to joining GMO in 2020, he served as portfolio manager, Chief Investment Officer (CIO), and Chief Executive Officer (CEO) at Usonian Investments LLC. Mr. Edwards has been a member of the Usonian team since 2008. Prior to founding Usonian, he was Managing Director and portfolio manager at Advisory Research, Inc. Previously, Mr. Edwards had also been an investment professional at Taiyo Pacific Partners, an activist fund backed by CalPERS and W. L. Ross that focuses on Japanese equities, an investment banker at Lehman Brothers, and a finance executive in the health care industry. He earned his BA in International Business from Sophia University (Tokyo) and his MBA and JD from Northwestern University. Mr. Edwards is proficient in Japanese.

Colin Bekemeyer

Mr. Bekemeyer is a portfolio manager and research analyst for GMO's Usonian Japan Equity team. Prior to joining GMO in 2021, he was a portfolio manager at Oaktree Capital Management. Previously, he was an analyst at Taiyo Pacific Partners, an investment firm focused on Japanese equities, and an investment banking associate at J.P. Morgan Securities. He began his career in management consulting with A.T. Kearney in Tokyo. Mr. Bekemeyer earned a BA in East Asian Studies from Harvard University, an MA in International Studies from the University of Pennsylvania, and an MBA in International Financial Economics from the Wharton School of the University of Pennsylvania. He is proficient in Japanese.