



USONIAN JAPAN EQUITY TEAM

Update on Toyota Industries Corporation

May 1, 2025

Following recent news reports regarding a potential take-private transaction of Toyota Industries Corporation (TIC), we have been engaging with clients in discussions about the potential implications. In those conversations, some have expressed concerns about how minority shareholders might be treated, particularly given Toyota Group's control of TIC through a web of cross-shareholdings and TIC's governance structure, which we summarized in a letter to clients approximately one year ago: [February 2024 Letter](#). What follows is for your information; no specific action is required on your part.

We have been invested in TIC for over 14 years, recognizing the immense value of its world-class industrial businesses including material handling equipment, automotive air conditioning compressors and bipolar nickel-metal hydride battery technology. We commend TIC's current management and their predecessors for building a truly exceptional global enterprise.

Despite the strength of TIC's businesses, the company's valuation has persistently lagged its intrinsic value, weighed down by its vassal status to Toyota Group, and its disproportionately large holding of Toyota Group companies' stock, which saddled TIC's asset efficiency and distorted its meaning as a listed company. As recently as April 7, 2025, TIC was trading at a price-to-book ratio of 0.66—less than the market value of its holdings in Toyota Group companies.

Following reports on April 26 that Toyota Motor Company Chairman Akio Toyoda, along with Toyota Group companies, was in discussions to take TIC private, TIC's stock price surged to a record high. The market's reaction reinforces our long-held thesis: TIC's undervaluation has been driven primarily by distortions in corporate governance and capital inefficiency stemming from its shareholding structure. TIC sits at the center of a longstanding web of Toyota Group cross-shareholdings, an arrangement that has been recognized by Japan's regulatory bodies—including METI, the FSA, and the TSE—as a contributor to poor governance and suboptimal capital allocation.

Given this backdrop, we are enthusiastic about the prospect of a transaction that would meaningfully address TIC's awkward ownership and governance structure. We also applaud Mr. Toyoda's acknowledgment of the need for governance reform across the Toyota Group, and his leadership in seeking to resolve the challenges posed by TIC's entanglement with Toyota Group companies.

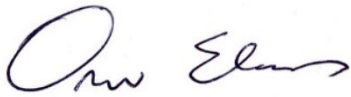
That said, we believe it is important to balance our enthusiasm with a note of caution regarding the need to protect minority shareholders in the transaction process. To ensure fairness and transparency in navigating the inherent conflicts of interest, we respectfully encourage TIC's board of directors to implement the following measures as they contemplate any proposed transaction:

- **Independent Evaluation:** Formation of a special committee comprised solely of truly independent directors, supported by leading independent legal and financial advisors.
- **Transparency:** Clear and thorough disclosure of the data, assumptions, and methodologies used in determining any buyout price.
- **Acknowledgment of Past Valuation Distortions:** Recognition that TIC's historically depressed market valuation was a direct consequence of its governance and ownership structure and, therefore, should not be used as a transaction valuation anchor.
- **Market Check Procedures:** Consideration of external valuations, including comparisons with global peers such as Kion Group Mitsubishi Logisnext.
- **Fair Exit Opportunity:** Assurance of a non-coercive exit opportunity for all TIC shareholders, allowing them to receive cash at a fair and properly validated price.

Japan has made remarkable strides in corporate governance over the past decade and has established itself as a regional leader in corporate governance and market dynamism. In this context, the issue of listed subsidiaries has drawn growing public scrutiny, with mounting pressure to unwind cross-shareholding structures. Given the extraordinary influence and status of Toyota Group within Japan's capital markets, we are confident that decisive action and proper process to improve governance at TIC would set a positive precedent that would reverberate broadly across the Japanese market.

We appreciate your continued trust and partnership. As always, please feel free to reach out if you would like to discuss these developments in greater detail.

Sincerely,



Drew Edwards
Head of GMO Usonian Japan Equity

Disclaimer

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