To: The Board of Directors, Toyota Industries Corporation, Toyota Motor Corporation
From: The Asian Corporate Governance Association (ACGA)
Date: 8 August, 2025
Subject: Proposed Privatisation of Toyota Industries Corporation

Dear Members of the Board,

The Asian Corporate Governance Association (ACGA) is a non-profit membership association founded in 1999 to advance corporate governance standards and practices in the Asian markets We conduct research on corporate governance matters in 12 markets in Asia-Pacific and advocate at both regulatory and corporate level across the region. ACGA is funded by sponsors and a network of 102 member firms from 18 markets, of which 80% are institutional investors with more than US$40 trillion in assets under management globally. Our members include some of the largest asset owners, asset managers and stewardship service providers globally; the full list of our members can be found on our website.[1] The ACGA Japan Working Group (JWG) has been actively engaging in-person and through virtual engagement calls with Toyota Motor since 2021.

ACGA is writing this letter on behalf of a broad coalition of institutional investors who have a significant and long-standing interest in the evolution of Japanese corporate governance. The co-signatories of the letter include 27 members of ACGA as well as other investors who have asked that their views be included, on an exceptional basis, with this communication.

The proposed privatisation of Toyota Industries Corporation (TICO) marks a pivotal moment for Japan's capital markets. It has the potential to either reinforce or weaken the progress made in corporate governance reforms. We wish to highlight several key concerns and strongly urge the TICO board to address them openly and thoroughly, in keeping with both the letter and the spirit of Japan's evolving regulatory standards. We also include below in boxed text some recommendations for the board of Toyota Motor Corporation (Toyota Motor).

We would like to clarify that ACGA does not coordinate voting activity among its members, and will not coordinate votes cast by signatories to this letter. The purpose of the letter is to promote deeper understanding of the issues set out below and to request a call or meeting with a board or Special Committee member to enhance transparency and disclosures around the privatisation of TICO. This letter is based on a comprehensive review of public documents, investor surveys, and expert analysis, including the ACGA Japan Working Group Survey and recent market commentary. We trust that the board will consider and address these concerns representing the views of investors including minority shareholders of your company.

ACGA survey and investor expectations

In the days following the announcement of the privatisation proposal of TICO, ACGA's Japan Working Group conducted a survey to garner the views of institutional investors. The responses underscore widespread concern with the privatisation process. Key concerns include:

- Limited price negotiation and a neutral stance by the Special Committee, undermining confidence in the outcome to date.
- Opaque valuation methodology, with no disclosure of financial projections, discount rates, or tax calculations.

[1] ACGA | Asian Corporate Governance Association

- No exclusion of conflicted parties from the minority vote, diluting protections for genuine minority shareholders.
- Opaque and complex transaction structure that lacks quantitative justification on how it enhances corporate or shareholder value.
- Lack of disclosure on an integration plan, long-term growth strategy and synergies for TICO post-privatisation.

Please see below for further details with reference to relevant regulatory guidelines as background.

1. **Transparency and disclosure: Cornerstones of credibility**

The structure of the TICO privatisation is complex: it involves a new holding company, significant investments from Toyota Fudosan and also from Toyota Motor Chairman, Mr. Akio Toyoda, and a major preferred share issuance subscribed by Toyota Motor. While the stated objective, to unwind cross-shareholdings and improve capital efficiency, is commendable, the process lacks transparency and meaningful disclosure. This has raised significant concerns among minority shareholders and the wider investment community regarding the fairness of the transaction and how the resulting value arising from the privatisation will be allocated. Central to our concerns is the lack of full valuation disclosure. The offer price of ¥16,300 per share, while representing a premium to historical averages, is an 11% discount to the last closing price before the announcement and sits below the midpoint of the Special Committee's own discounted cashflow (DCF) valuation range. It is also significantly below the 44% average privatisation premium for subsidiary conversions according to Tokyo Stock Exchange (TSE) data.[2]

There has been no release of the underlying DCF models, tax assumptions, or third-party appraisals of TICO's substantial real estate and vendor finance assets. That the independent financial advisors (IFAs) did not use the sum-of-the-parts (SoTP) valuation methodology despite TICO having varied business units has left investors perplexed and curious to what extent the Special Committee and the TICO board considered the underlying or intrinsic value of the company. The IFAs engaged for the transaction are closely linked to the group's lending banks and appear to have relied on management-provided assumptions, which raises questions about the independence and robustness of the valuation process.

TICO's board has not provided any details of an independent valuation or fairness opinion in connection with the proposed transaction. While Japanese law does not mandate fairness opinions, both the Ministry of Economy, Trade and Industry's (METI) Fair M&A Guidelines[3] and TSE's Code of Corporate Conduct[4] clearly emphasize procedural measures and share value calculation details integral to "Fairness Ensuring Measures"—especially for cases where there are conflicts of interest or significant minority shareholder interests at stake. The absence of such disclosure in this context is concerning, given the complexity of the deal and the related parties involved in the transaction.

We therefore request:

- Immediate release of all DCF models, tax assumptions, and third-party appraisals used in determining the offer price, in line with the METI Guidelines for Fair M&A and TSE revised Code of Corporate Conduct.

[2] Revising the Code of Corporate Conduct (Supplementary Materials to Previous Council) - Tokyo Stock Exchange Listing Department, May 2024, page 3.
[3] Fair M&A Guidelines
[4] Revising the Code of Corporate Conduct on MBOs and Subsidiary Conversions - Tokyo Stock Exchange Listing Department

- A clear explanation of how the valuation reflects the full current market value of TICO's cross-shareholdings, real estate, and vendor finance business, given that these assets constitute a substantial portion of the company's intrinsic value.

2. **Synergy quantification: From rhetoric to reality**

The transaction has been justified on the basis of potential synergies from group consolidation. However, no quantitative estimate of these synergies has been provided, nor has any explanation been offered as to how they will be shared and benefit the respective minority shareholders. The preferred shares issued to Toyota Motor, yielding an 8.5% return, are presented as an attractive investment, but there is no disclosure of how this capital reallocation advances Toyota Motor's stated 20% ROE target or how it will benefit TICO's ongoing operations. Investors have asked for greater clarification as to how this could benefit (or otherwise) both TICO and Toyota Motor stakeholders.

***We therefore request of Toyota Motor board*:**

- Detailed quantification of expected synergies and how the structure of the transaction supports Toyota Motor's capital efficiency and ROE ambitions.
- The decision-making process of Toyota Motor's board to invest via preference shares rather than ordinary equity in the vehicle undertaking the privatisation, especially as this new holding company is expected to benefit significantly from the post-privatisation synergies.
- Given that the Chairman of Toyota Motor will invest directly in the privatisation through equity, how did Toyota Motor board address and manage the potential conflict of interest between the Chairman and the company as well as its other shareholders.

3. **Governance overhaul: safeguarding minority rights**

In our view, the governance process surrounding this transaction falls short of the standards set out in METI's Fair M&A Guidelines and the Tokyo Stock Exchange's revised Code of Corporate Conduct as well as international best practice. The Special Committee appointed to represent minority shareholders achieved a modest 11% increase over the initial offer and ultimately adopted a "neutral" stance rather than a robust recommendation for or against the transaction. This neutrality, justified by a media leak that moved the share price, has left shareholders with concerns over the fairness and independence of the process and raises questions as to whether the Special Committee acted in the best interests of minority shareholders.

Particularly troubling is the implementation of the "majority of minority" safeguard. Toyota affiliates, including Denso, Aisin, and Toyota Tsusho, are being counted as independent minority shareholders for the purposes of the tender offer vote. These companies are elsewhere publicly presented as Toyota Group companies with capital alliances[5]. This dilutes the protections the majority of minority rule was designed to provide, requiring just over 42% of true minorities for a two-thirds squeeze-out at TICO. The inclusion of conflicted parties in the minority count is a contravention of the spirit, if not the letter, of Japan's governance reforms.

[5] Toyota Group Company Information

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We therefore request:

- An explanation on how the board oversaw and addressed conflicts of interest issues as well as transparency on why Toyota-affiliated entities vote count in the tender offer and squeeze-out process.
- Appointment of independent experts to a reconstituted Special Committee tasked with re-evaluating the transaction, rather than individuals with limited sector expertise or ties to the group.
- A clear, unequivocal recommendation from the TICO board on the merits of the transaction, as required by METI guidelines, with full disclosure of any dissenting opinions or concerns.

4. **Fiduciary duty and board accountability**

The board's formal support for the tender offer at a price widely viewed as inadequate, coupled with its failure to provide an independent valuation reflecting the market value of TICO's assets, raises serious concerns about its independence and commitment to minority shareholders. The board's neutral stance, rather than a robust recommendation, suggests a reluctance to challenge the controlling shareholder and a potential breach of fiduciary duty.

Quoting from ACGA's commentary on this proposal issued on 2 July:[6]

> "It is the responsibility of directors to provide a clear recommendation to shareholders. Whilst the METI guidelines provide for "exceptional" circumstances, the process coupled with the opacity of the valuation raises questions around whether the "neutral" stance aligns with their fiduciary duty to protect shareholders interests. Independent directors are expected to have the interests of minority shareholders in mind and should possess relevant expertise to be able to assess transactions such as this one. In the case of TICO, we note that the current roster includes an academic, an insurance expert, and a banking and gender diversity expert, but lacks individuals with relevant industrial expertise who could constructively challenge the executive team and Toyota representatives. The revised guidelines for corporate governance systems released by METI[7] specifies that if evaluation in the capital markets is a key issue, it would be appropriate to appoint an individual with experience in capital market-oriented management. This appears to have been lacking on TICO's board and absent in the evaluation process."

The transaction also faces antitrust and regulatory approvals across multiple jurisdictions, yet there is no clear plan for updating the valuation if the process is delayed into 2026.

We therefore request:

- The board fulfill its fiduciary duty by providing a clear, substantiated recommendation on the transaction, supported by independent analysis and full disclosure of all relevant information.
- A commitment to update the valuation and offer price if regulatory approvals are delayed or if market conditions change materially before the transaction closes.
- A discussion by the Special Committee members and board members with investors to clarify on the process in determining fair value, the offer price, and how the deal structure was arrived at.

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[6] Toyota Industries privatisation - ACGA blog

[7] Guidelines for corporate governance systems, page 20 Section 2.5.2.

We urge TICO's board to place METI's Fair M&A guidelines and TSE's revised Code of Corporate Conduct at the centre of its decision-making process and commit to full transparency, robust independent oversight, and genuine protection of minority shareholder interests. We look forward to engaging with the TICO board and the Special Committee with a revaluation thereafter of the terms of the proposal. Thank you.

Yours sincerely,

The Asian Corporate Governance Association (ACGA)

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