

29 January 2020

**AVI has submitted shareholder proposals to Teikoku Sen-i (3302)**

- Two modest proposals, seeking an increase in this year's dividend from ¥40/share to ¥76/share and a ¥2bn share buyback (approximately 3% of outstanding shares)
- Calls on Teikoku's "Group Shareholders" to stop voting passively with management and to vote in the interests of all shareholders and best governance practices

Asset Value Investors ("AVI"), which manages funds that collectively own approximately 5.2% of the outstanding shares of Teikoku Sen-i ("Teikoku") (TSE ticker 3302), announces that it has submitted two shareholder proposals to Teikoku.

**Joe Bauernfreund, Chief Executive Officer of Asset Value Investors said:** *"AVI have been shareholders in Teikoku since March 2018. Since then, we have engaged with the company on a range of issues, in particular, those relating to the Teikoku's inefficient balance sheet. However, despite improving corporate governance across Japan and widespread acceptance that hoarding excess cash and maintaining "strategic securities" portfolios erodes corporate value, Teikoku has failed to make adequate improvements."*

Teikoku's Board, with the implicit support of Teikoku's "Group Shareholders", have created a value-destructive balance sheet in which 70% of total assets consist of cash and so-called "strategic securities". Hulic, a real estate business completely unrelated to Teikoku's core business, alone accounts for over 30% of Teikoku's total assets.

A balance sheet heavily loaded with low yielding cash and "strategic securities" hurts Teikoku's shareholders by dragging down return on equity (ROE). It also creates a "sum of the parts" discount in which the non-core assets trapped in the company are valued by the market at a discount to their real value.

**Bauernfreund added:** *"The obvious way to reverse this value destruction is for Teikoku to sell down its non-core financial assets and return excess cash to shareholders. Teikoku has a successful, cash generating business that could achieve a superior 20+% ROE if its balance sheet were reformed. Teikoku's management and its "Group Shareholders" cannot credibly argue that the reform of Teikoku's balance sheet is not in the best interests of Teikoku's shareholders."*

Over the past two years, other shareholders have submitted proposals targeting Teikoku's inefficient balance sheet. Despite being in shareholders' best interests, the proposals failed to receive sufficient support because Teikoku's "Group Shareholders" blindly voted with management.

The core members of Teikoku’s “Group Shareholders” are well-known companies and financial institutions who hold shares in Teikoku based on business ties and historic relationships. They include Sampo Holdings (TSE:8630), Mizuho Bank, Meiji Yasuda Life Insurance, Marubeni (TSE:8002), Hulic (TSE:3003), Morita (TSE:6455), Nishimatsu Construction (TSE:1820) and Teijin Frontier, a wholly-owned subsidiary of Teijin (TSE:3401).

While they pay lip service to corporate governance, they passively vote their shares in support of value destruction, harming the interests of other shareholders and creating an inconsistency with accepted principles of good governance. This is a systemic problem across corporate Japan and must come to an end to allow for much-needed reforms.

**IT IS TIME FOR TEIKOKU’S “GROUP SHAREHOLDERS” TO STOP VOTING PASSIVELY WITH MANAGEMENT, AND VOTE IN THE INTERESTS OF ALL SHAREHOLDERS AND BEST GOVERNANCE PRACTICES.**

AVI’s shareholder proposals for a ¥76/share dividend and 3% share buyback are intentionally modest. The proposals are meant to be a first step towards Teikoku’s balance sheet reform. If Teikoku’s “Group Shareholders” acknowledge the need to improve Teikoku’s balance sheet efficiency in the interests of all shareholders, AVI is confident that its proposals will receive majority support.

- Ends -

**Notes to editors**

Full details of AVI’s proposals and a presentation can be found on AVI’s dedicated website [www.TransformingTeikoku.com](http://www.TransformingTeikoku.com).

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**About Asset Value Investors**

Asset Value Investors (AVI) is a specialised investment manager in London that has been investing in Japan for over two decades. AVI was founded in 1985 and has been investing in high quality companies



that are under-valued by the stock market for over three decades. AVI's investment team engages with managements and boards of companies to improve long-term corporate value.

### **Activism**

Asset Value Investors (AVI) has a long history of engagement with investee companies in Europe and Asia, where we often interact with the Board and management to unlock shareholder value and promote high standards of corporate governance.

AVI's interactions usually take the form of behind-closed-doors communication (private meetings and letters) with boards and management, wherein we discuss the various avenues available for improving corporate value. Our discussions include advocating for, inter alia: increasing dividends; buying back shares; selling or reducing non-core assets; winding up investment vehicles without a viable future; or reducing the complexity of holding companies through simplifying the corporate structure.

AVI has been investing in Japanese equities for two decades, observing the slow development of the corporate governance agenda – which has now reached a critical mass.

Starting with the introduction of the Stewardship Code in February 2014, a host of private and governmental bodies – including Japan's FSA, the Ministry of Economy, Trade & Industry, the Government Pension Investment Fund, ISS, and Panasonic – has initiated efforts and reforms which are slowly pushing Japanese companies towards improving their corporate governance and balance sheet efficiency.

While change will not happen overnight in Japan, there is nonetheless growing evidence that the tide of public and private opinion in Japan has changed; the ripples from this seismic shift will spread slowly, but should have broad and deep effects on how Japanese companies operate – for the benefit of all stakeholders involved.

### **About TEIKOKU SEN-I Co., Ltd.**

TEIKOKU SEN-I Co., Ltd. is principally engaged in the manufacture and sale of firefighting products.

The Company operates in three segments. The Disaster Prevention segment is engaged in the manufacture, purchase and sale of fire hoses and related products, disaster prevention equipment, emergency rescue equipment, searching and alarm equipment, hazard disposal related equipment, rescue vehicles, special purpose vehicles for disaster prevention, as well as chemical fire engines for airport use.

The Textile segment is engaged in the manufacture and sale of high-performance fiber materials such as textile materials for government and nomex for industrial materials for private.



The Real Estate Leasing segment is engaged in leasing business such as shopping center leasing. The other segment is engaged in the insurance agency business.