Asset Value Investors (AVI) urges Aichi and TICO to dissolve listed subsidiary structure to address persistent undervaluation and unlock Aichi's full potential

London, May 8, 2024 - Asset Value Investors Limited (hereafter "AVI") launches a campaign calling for the board of Aichi Corporation (Securities Code 6345, hereafter "Aichi" or "the Company"), a listed subsidiary of Toyota Industries Corporation (Securities Code 6201, hereafter "TICO"), to dissolve its listed subsidiary structure after years of poor valuation and weak corporate governance and failure to achieve meaningful synergies. A detailed presentation has been published on a dedicated website (www.TakingAichiHigher.com).

AVI, on behalf of its client funds, has been a shareholder of Aichi, the number-one aerial work platform ("AWP") manufacturer in Japan, since 2019. Currently holding 1.7% of the Company's issued shares, AVI has sent presentation materials and a letter to the Company's board to encourage fundamental reforms during this period, with all engagement so far carried out in private. AVI's client funds are also shareholders in TICO, holding 0.1% of its issued shares.

AVI has also sent a letter to the board of TICO and met the company several times to suggest actions that can enhance the corporate value of Aichi, actions which should naturally be favourable to the controlling shareholder. TICO is also to blame for Aichi's longstanding undervaluation, having not added value as a controlling shareholder by failing to generate meaningful synergies, in part, due to Aichi being non-core (Aichi accounts for 2% of TICO overall sales).

Joe Bauernfreund, CEO of AVI, introduced the campaign, stating, "Aichi is one of the most profitable companies in the unique AWP space, with an attractive business model and potential global growth opportunity. Our intention has been to support the Company in becoming a best-in-class AWP company by accelerating its global growth over the next ten years."

"But the reality today is that Aichi trades at a valuation discount to peers. Trading on a lowly 4.9x EV/EBIT multiple vs 9.0x for its listed global peers is a symptom of Aichi's underlying issues that need urgently addressing."

In the presentation AVI outlines several key issues that explain the reasons for Aichi's underperformance.

- <u>Strategy issues</u>: Aichi's core domestic business has hit a growth ceiling. The overseas business is stagnant with management failing to leverage its domestic competitiveness. The Company lacks a long-term vision and has been unambitious in its growth investments.
- <u>Low capital efficiency</u>: An excessive amount of shareholder equity due to years of under-investment in Capex/M&A, is leading to a depressed ROE relative to global peers. This is further exacerbated by an excess of cross-shareholdings which management have failed to make a compelling case for. The Company also lacks a rigorous and transparent capital policy.
- <u>Poor shareholder communications</u>: A vague mid-term plan lacks detail and substance, with China segment disclosure inadequate, no earnings call and insufficient English disclosure.
- <u>Weak corporate governance</u>: Structurally weak governance due to listed subsidiary structure with TICO with a board that lacks independence and diversity. The board is composed of ex-TICO/Toyota Motor Corporation employees raising questions about whether the board is biased towards Toyota group interests rather than minority shareholders.

In light of Aichi's sleepy attitude towards addressing the aforementioned issues, AVI believes that fundamental reform is not possible with the current listed subsidiary structure, in which TICO holds 54% of Aichi's shares outstanding. The listed subsidiary structure is the cause of dysfunctional corporate governance in Japanese companies, where at best, controlling shareholders fail to adequately support a subsidiary growth and, at worst, creates serious conflicts of interest. All this is to the detriment of minority shareholders. AVI therefore urges the board of Aichi, with the support of TICO, to seriously consider dissolving its parent-subsidiary structure, either by:

- Option A: Aichi buying back and cancel all the 54% shares that TICO holds
- Option B: Inviting a capital partner to take Aichi private
- Option C: TICO to acquire 100% of Aichi

Joe Bauernfreund commented: "After years of persistent undervaluation, we conclude that the current parent-subsidiary listing structurally inhibits Aichi from taking much needed reforms and driving long-term sustainable growth. We believe the timing for the dissolution of the parent/subsidiary structure is opportune amid the recent activities by Toyota Motor Corporation, TICO, and other group companies in unwinding cross-shareholdings."

"As a shareholder of both Aichi and TICO, we have had many constructive discussions with both management over the past five years. While we are encouraged that Aichi discontinued depositing cash with TICO in March 2024, the Company's transformation has been slower and more modest than we had hoped. We believe that by taking our concerns public it will help to shine light on the issues with parent-subsidiary structures and pave the way for fundamental change in the corporate governance of Japanese companies."

About Asset Value Investors (AVI)

AVI is an investment management company established in London, United Kingdom, in 1985, and AVI has invested in Japanese equities for more than 35 years. AVI manages AVI Global Trust (total gross assets: approximately JPY250bn (£1.3bn)) and AVI Japan Opportunities Trust (total gross assets: approximately JPY40bn (£0.2bn)). AGT and AJOT are public companies whose shares are listed and traded on the main market of the London Stock Exchange.

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