

Investment Stewardship Group

Voting bulletin: Toshiba Machine

As part of our fiduciary duty, BlackRock’s Investment Stewardship team (BIS) advocates for sound corporate governance and business practices that are aligned with long-term sustainable financial performance. This objective underpins all our engagements and votes at company meetings.

We engage company leadership on key topics emphasizing governance practices including management of environmental and social factors that potentially have material economic, operational or reputational ramifications for the company.

We determine our engagement priorities based on our observation of market developments and emerging governance themes, and evolve them year over year as necessary. The BIS team’s key engagement priorities include:

1. Board Quality
2. Environmental risks and opportunities
3. Corporate strategy and capital allocation
4. Compensation that promotes long-termism
5. Human capital management

We are committed to enhancing the transparency of our stewardship practices. Where we believe it will help to understand our voting decisions at shareholder meetings, we will publish a Voting Bulletin explaining the rationale for how we have voted, and (where relevant) provide information around our engagement with the issuer.

These Voting Bulletins are made public on, or shortly after, the day of the meeting.

Company	Toshiba Machine Co., Ltd (Shibaura Machine Co., Ltd, as of 1 April 2020)
Market	Japan
Meeting Date	27 th March 2020 (Special shareholder meeting) ¹
Resolutions	Item 1: Approval Regarding Introduction of Response Policies for the Tender Offer, etc. for Company Shares by Office Support K.K. and Its Subsidiaries Item 2: Allotment of Share Options without Contribution
Board Recommendation	In favor
BlackRockVote	BIS voted in favor of all management proposals

Overview

Toshiba Machine Co., Ltd supplies machinery and electronic controls to automotive, aerospace, heavy equipment, construction, plastics, transportation, semiconductor, and communication to clients worldwide.

¹ Meeting details and resolutions can be accessed at: <https://www.shibaura-machine.co.jp/en/ir/GeneralMeeting.html>

Key resolutions

Toshiba Machine sought shareholder approval during an extraordinary meeting to introduce a shareholder rights plan in Item 1 and to trigger the plan in Item 2, specifically intended to dilute stakes held by companies tied to an activist investor. The resolution is conditional on it being approved by a majority of shareholders. In January 2020, Office Support (the fund), an affiliate of the activist investor, launched a tender offer for Toshiba Machine shares. The tender offer sought a maximum of 43.8% of total shares outstanding, including the 12.7% stake currently held by the fund at JPY 3,456 per share in cash (effectively restricting the tender offer to 31.1% of shares outstanding).

The fund stated that they do not intend to build a controlling stake in Toshiba Machine. The company counterargued that a 43.8% stake would effectively transfer control of the company to the fund as it enables it to determine the outcome of resolutions voted on at shareholder meetings, including on the election of directors. The company further raised concerns that the fund seems interested only in returning cash to shareholders as it has been advocating for a buyback of JPY 12bn to 50bn without providing any statements on the company's plans, including on strategy and board composition.

Rationale for BlackRock vote

Considering the legal framework in Japan, BlackRock evaluates shareholder rights plans on a case-by-case basis. We set a high threshold for these types of proposals and will only support a plan when concerns over management entrenchment are fully addressed and the plan would be utilised solely to protect and enhance the interests of minority shareholders. Our proxy voting guidelines² specify numerous conditions we consider, including but not limited to the structure of the plan such as thresholds and duration, board composition and practices, the role and membership of the special committee implementing the plan. We also consider closely the rationale given for implementing a plan and other disclosures published by the company. We review these proposals with regards to their necessity in executing a company's long-term strategy. BlackRock may also engage directly with the relevant stakeholders to ensure we make a fully informed decision.

As a long-term investor, BlackRock believes it was in our clients' interests to vote in favor of the introduction of the shareholder rights plan for a number of reasons in this specific situation. The proposed plan was structured appropriately with a reasonable threshold of 20% and a limited duration until the annual shareholder meeting scheduled in June 2020, which satisfies our stringent requirements related to safeguards and to prevent the plan being used as a tool for management entrenchment. We carefully considered the conditions of the tender offer and the public statements made by the bidder. We compared these with the company's long-term vision and the mid-term action plans, which involve enhancements in corporate governance practices, and the commitment from the board, including the independent non-executive directors, to deliver on these plans.

We will continue to engage with the management and the board to monitor progress on the delivery of the mid-term plan and corporate governance improvements.

² Please see our "Corporate governance and proxy voting guidelines for Japanese securities", <https://www.blackrock.com/corporate/literature/fact-sheet/blk-responsible-investment-guidelines-japan.pdf>, also available in Japanese on our website, <https://www.blackrock.com/corporate/about-us/investment-stewardship#principles-and-guidelines>