Shinko Shoji Tender offer: Fairness protection is more form, less substance

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July 21, 2026

This commentary has been written following the amendment to the Tender Offer Registration Statement filed by Kaga Electronics on 17 July 2026 - the third extension of the offer, now to 3 August 2026 and 55 business days in total, and the first change to its conditions beyond the offer period. That change is not a higher price. It is a cut in the minimum tender condition from 19,226,700 shares (64.93%) to 15,988,500 shares (53.99%), and with it, the removal of the majority-of-minority ("MoM") protection that the original offer satisfied.

We publish this commentary because the amendment turns an offer that was merely inadequate into one that is structurally coercive and because our research shows this is not an isolated event, but a repeated use of the same technique in twelve months. We have sent a copy of this commentary to the Financial Services Agency (FSA), Ministry of Economy, Trade and Industry (METI) and the Tokyo Stock Exchange (TSE) for that reason.

1. Removing the majority-of-minority condition defeats the purpose of Japan's fairness framework.

When this offer launched on 18 May 2026, Kaga's own filing presented the MoM structure as one of its central fairness measures: the minimum was set so that the offer could not succeed without the support of a majority of shareholders unaffiliated with the offeror. Two extensions and 52 scheduled business days later, that support had not arrived. The minority was giving its verdict on ¥1,580 in the only way open to it - by declining to tender. Kaga's response, on 17 July, was not to improve the price. It was to remove the mechanism through which the minority's verdict would have taken effect.

This is backwards. METI's Fair M&A Guidelines (2019, §3.5) value the MoM condition precisely because it makes a transaction depend on the informed consent of disinterested shareholders. The Guidelines allow boards to weigh its costs and benefits before launch. Nothing in them contemplates an offeror adopting the condition, watching the minority withhold the consent it requires, and then discarding it mid-offer for that very reason. Used this way, MoM is not a safeguard. It is just form not substance: displayed while convenient, removed the moment it binds. The argument advanced by Kaga and accepted by the Special Committee that keeping the condition might "destabilise" the offer concedes the point: the offer is unstable precisely because the minority does not support it at this price.

The amended offer sits poorly with the Tokyo Stock Exchange's Code of Corporate Conduct revised in July 2025 and the two outputs from the TSE's study group on minority shareholder protection in listed subsidiaries in December 2023. Together, these expect Prime-listed companies to ensure that transactions with conflicted counterparties respect minority shareholders and give them a fair opportunity to represent their rights and views. Kaga is not a controlling shareholder but is an existing shareholder and close commercial counterparty of the target, and both companies are Prime-listed. Deleting the safeguard that gave the minority a decisive voice, after the minority declined to use that voice in the offeror's favour, does not show Kaga in a good light.

To understand how common this practice is, we used an API to screen every amendment to a tender offer registration statement filed on EDINET from January 2021 to 17 July 2026 - 253 amended offers in total*. Eighteen of them lowered the minimum tender condition mid-offer. In every case before 2025, the cut did not revoke an adopted MoM condition - the original filing had declined MoM, never claimed it, or the lowered floor still satisfied it. Whatever one thinks of those offers, they did not promise a minority veto and then revoke it. But these offers across twelve months show a different trend:

Launched	Bidder → Target	Floor cut	Outcome
Jul 2025	Tomo → Freund Corp (6312), MBO	7.5m → 6.73m (Oct 2025)	Completed – floor cut twice
Aug 2025	Toyoda Gosei → Ashimori Industry (3526)	2.31m → 1.80m (Oct 2025)	Completed - the cut changed the outcome
Sep 2025	Hakuhodo DY → Digital Holdings (2389)	40.55% → 24.67% (Nov 2025)	Completed by a 0.1% margin
Feb 2026	Baron Co Ltd→ Sanko Sangyo (7922), MBO	5.19m → 5.00m (Mar 2026)	Completed
May 2026	Kaga Electronics → Shinko Shoji (8141)	19.23m → 15.99m (Jul 2026)	Live - closes 3 August

In each case, the original filing presented a MoM-satisfying floor as a fairness measure. In each case, when the minority's tenders fell short - that is, when the condition began to bind - the bidder amended it away, extended the offer by ten business days as the statute requires, and proceeded. In all these cases the target's special committee accepted the change and the board maintained its endorsement. Ashimori shows the cut can change the outcome: when Toyoda Gosei's offer closed, 1,996,068 shares had been tendered - below the 2,308,100-share floor the offer launched with. Under its own original terms, the offer had failed; the amendment moved the goalposts to where the ball had already landed. Digital Holdings shows the cut can defeat a better price: Hakuhodo DY's floor reduction came mid-battle against Silvercape's ¥2,380 counter-offer, 18% above Hakuhodo's own raised price. The condition was not dropped because the minority was apathetic; it was dropped because the minority had a superior alternative. The offer succeeded by one-tenth of one percent, and the higher bid died with it.

Kaga's amendment now runs the same play, complete with the arithmetic that has become this template's signature: derive a new floor from historical AGM voting-participation rates multiplied by the two-thirds special-resolution threshold, so that the squeeze-out is designed to pass on the minority's predicted silence rather than its consent. The near-identical drafting across these filings suggests the template is circulating among advisors as settled technique. And the deeper problem is that the regime imposes no cost for skipping the safeguard and no cost for revoking it. Adopting MoM has become theatre - a bidder collects the fairness credit at announcement while keeping a free option to discard the condition the moment it binds, at a price of ten business days.

2. The lowered minimum creates the two-step coercion that METI's Takeover Guidelines warn against.

The original minimum guaranteed that a successful offer would carry the two-thirds supermajority needed for the squeeze-out, so that non-tendering shareholders would promptly receive the same ¥1,580. The new minimum of 53.99% guarantees no such thing. Worse, the amendment openly describes what awaits shareholders if the squeeze-out resolution fails: an indefinite campaign of further buying - a new tender offer with no floor, open-market purchases, or block trades - all capped at ¥1,580, continuing until the resolution becomes passable. Combined with the Board's 14 July resolution to cancel both FY3/27 dividends if the offer succeeds, the message to each minority shareholder is plain: tender now at ¥1,580, or hold an illiquid, dividend-free position under a likely controlling shareholder publicly committed never to pay more, for as long as the endgame takes. This is the textbook coercive structure (強圧性) that METI's Guidelines for Corporate Takeovers (2023) identify as illegitimate: pressure engineered through transaction design rather than persuasion through price. The Special Committee's conclusion that coercion is “eliminated or sufficiently reduced” because the offeror has disclosed its plan to keep buying at the same price mistakes the disclosure of coercion for its cure.

3. Shinko Shoji's own Board still does not recommend that shareholders tender.

The Board expressed support for the transaction on 15 May 2026 but left the decision on whether to tender to shareholders - and on 17 July, having reviewed the lowered minimum, both the Special Committee and the Board reaffirmed that neutral stance. The Special Committee's additional opinion states plainly that ¥1,580 has still not reached a level at which tendering can be actively recommended. Under established Japanese practice, this split opinion is the clearest signal a board can send that it cannot affirm the adequacy of the price. We ask the Board and the Special Committee directly: if the price does not merit a recommendation to tender after an offer period now stretched to 55 business days, on what basis does the transaction merit continued support in its amended, less protective form?

4. The price remains inadequate on every measure the Board's own process produced.

The DCF analysis by the target's independent financial advisor placed intrinsic value at ¥1,358–1,874; the offer of ¥1,580 sits below the midpoint. The price was a premium of just 6.4% to the pre-announcement close of ¥1,485, against the 30–40%-plus premiums customary in Japanese going-private deals, and the shares have traded as high as ¥1,772 in the past year. Kaga's own amendment concedes that the market price exceeded ¥1,580 for part of the offer period; its answer was to lower the minimum rather than meet the market.

Further, sector peers have re-rated meaningfully since the price was struck, making an unchanged ¥1,580 across three extensions less defensible with each passing week.

No auction was conducted, so the market-check fairness measure was not met either. The offer also prices a Prime-listed company below its net asset value - roughly 0.85x book, against roughly 0.6x before the run-up began in late March- while the TSE has made the elimination of sub-1x valuations a pillar of its market reforms. And it is struck at a cyclical trough: after the loss of the Renesas distributorship, Shinko Shoji earned operating profit of ¥1.2bn on revenue of ¥99.1bn in FY3/26. The recovery value that Kaga itself describes - scale, channel complementarity, EMS expansion - is value that ¥1,580 does not share with the shareholders asked to give it up.

5. What we ask.

EV22 concludes this commentary by respectfully making these requests:

Of Kaga Electronics: (i) restore a minimum tender condition that satisfies majority-of-minority, so the offer succeeds only with the genuine consent of unaffiliated shareholders; and (ii) raise the offer price to a level above the midpoint of the independent valuation range and meeting book value.

Of the Shinko Shoji Board and Special Committee: state clearly whether you consider ¥1,580 fair; explain how the removal of a fairness measure - adopted by the offeror at launch and discarded when it bound - is consistent with your duty to minority shareholders under the TSE's Code of Corporate Conduct; and withdraw your support for the transaction if you cannot.

Of the regulators: FSA and the TSE: close the gap this letter documents. The FSA's October 2024 disclosure guideline tests whether a claimed MoM floor genuinely qualifies at launch but is silent on whether it may be withdrawn mid-offer. Neither the UK Takeover Code nor US practice lets a bidder claim MoM-level protection at launch and then discard it against the minority's expressed will at the cost of a ten-day extension. We recommend three fixes: make an adopted MoM condition binding, so a floor cannot be amended below it absent a competing offer at a higher price; require any downward amendment of a minimum condition to trigger withdrawal rights and a fresh, published special committee opinion explaining why the answer to insufficient minority uptake is a lower floor rather than a higher price; and in conflicted transactions, make MoM or an equivalent protection comply-or-explain, with the explanation owned and published by the special committee rather than the bidder.

Of institutional holders and proxy advisors: scrutinise any squeeze-out resolution presented to the extraordinary general meeting now expected in late October 2026. A resolution engineered to pass on assumed abstention deserves a 100% turnout and an actual vote.

We are long-term supporters of consolidation in Japan's electronics distribution sector and of Kaga's strategic logic. Our objection is not to the transaction. It is to the price, and to a structure that - with this amendment - no longer even pretends that the minority's consent is required. This is not acceptable in a regulatory environment that asks to move from substance to form.

**Methodology and disclosure: EDINET full-text screen of all tender offer registration statement amendments, January 2021 - 17 July 2026 (n=253 amended offers); EDINET's public inspection period for tender offer documents is five years, so 2019-2020 filings have aged out. Floor changes were extracted from the 訂正前/訂正後 tables and MoM classification from original-filing language, verified against source filings. Figures are per disclosed amendment documents. Nothing herein is investment advice. EV22 Capital founder Anuja Agarwal holds a position in Shinko Shoji (8141).* *We thank Ken Hokugo - formerly the head of CG and HF investments at PFA, Japan for his inputs.*

Fair M&A Guidelines (2019) - English version:
https://www.meti.go.jp/policy/economy/keiei_innovation/keizaihousei/pdf/fairmaguidelines_english.pdf

METI Guidelines for Corporate Takeovers (2023) https://www.meti.go.jp/press/2023/08/20230831003/20230831003-b.pdf

TSE Code of Corporate Conduct (revised July 2025): https://www.jpx.co.jp/english/equities/listing/code-of-conduct/index.html

TSE Study Group on Minority Shareholder Protection (December 2023):
https://www.jpx.co.jp/english/equities/improvements/study-group/index.html

TSE Study Group - Main Report (December 2023): https://www.jpx.co.jp/english/equities/improvements/study-group/b5b4pj0000032jkr-att/u5j7e500000018ef.pdf

TSE Study Group - Compilation of Case Studies (December 2025):
https://www.jpx.co.jp/english/equities/improvements/study-group/b5b4pj0000032jkr-att/b5b4pj000003r9ev.pdf

The Investor's Perspective on Parent-Subsidiary Listings (February 4, 2025):
https://www.jpx.co.jp/english/equities/improvements/study-group/b5b4pj0000032jkr-att/sjcobq000000hflb.pdf

FSA "From Form to Substance": Action Program for Accelerating Corporate Governance Reform: From Form to Substance (April 26, 2023): https://www.fsa.go.jp/singi/japan_corporate_governance_forum/06.pdf

Points to Note Regarding Disclosure of a Tender Offer (Effective October 1, 2024)
https://www.fsa.go.jp/common/law/kaiji/20241001_guideline-tenderoffer.pdf

Related FSA Working Group Report on Tender Offer Rules (December 2023):
https://www.fsa.go.jp/en/refer/councils/singie_kinyu/20240130/01.pdf