WebMARR (December 29, 2025)

The M&A Strategy of an Activist Manager

Yasuto Monden

President and Representative Director, Chairman of the Board, Tokyo Cosmos Electric Co., Ltd.

(This article was made in Japanese and translated into Japanese. The Japanese text is the original and the English text is for reference purposes. If there is any conflict or inconsistency between these two texts, the Japanese text shall prevail.)

After acquiring shares in Tokyo Cosmos Electric (TOCOS) as an activist investor, Yasuto Monden of Axium Capital assumed the presidency in June 2025, following shareholder proposals (for details on the path to his presidency, see the company's "Publication Notice for the Special Investigation Committee's Report").

Immediately after assuming the presidency, the company conducted a self-due diligence, revealing severe organizational dysfunction, including deficiencies in cost management and sectionalism. Monden promptly implemented management accounting systems and has decisively pushed through reforms, including reorganization of business divisions and adopting a strategy of holding inventory.

Going forward, he aims to achieve non-linear growth through roll-up M&A targeting manufacturing companies, leveraging his background from private equity fund and TOCOS's ample cash reserves. What roadmap does the activist manager, who operates based cold hard logic while believing the activism brings social justice, envisions for Japanese companies' revival and growth?

From Activist Investor to Executive

——You initially acquired shares in Tokyo Cosmos Electric (TOCOS) as an activist investor. After various twists and turns, you became TOCOS's president. What gap existed between the hypothesis you held while observing from the outside and the reality of the company's management, which became apparent through dialogue with the former management team?

"To be honest, there were many realities we couldn't have known without joining the company. However, our initial reason for investing in TOCOS was straightforward."

TOCOS is a robust company with a portfolio of niche-leading products and holds a top-five global market share for its key products. Despite these solid fundamentals, its stock price remained significantly undervalued. That is where we first saw the investment appeal.

However, serious doubts arose during our repeated discussions with the management team, as shareholders at the time. Their management strategy severely lacked specificity.

The core business had strengths, and cash reserves were ample. Despite that, they were not making growth investments; they were merely accumulating cash aimlessly. Even when pressed on questions like ‘Why aren’t you growing?’ and ‘How will you steer the company forward?’, they provided no clear answers.”

——Is this the classic case of a cash-rich but strategically directionless Japanese company?

“The decisive factor was the mid-term management plan (MTP) announced by the previous management team in 2024. It was only four pages long and contained absolutely no mention of strategy—specifically, which businesses to grow and how. It did mention a JPY 2 billion growth investment but didn’t explain how the funds would be used. To make matters worse, the plan itself stated that revenue and profits would not grow over the next three years.

Even more serious was the succession problem. The then-70-year-old former president, after presenting a plan for three years of stagnation, said, “I won’t be responsible until the end,” effectively confirming the absence of a successor. The Nomination and Compensation Committee was also dysfunctional. Even outside directors merely lamented that “there are no candidates” and took no action.

On top of the leadership failure, the Nomination and Compensation Committee—the cornerstone of governance—had also ceased functioning. Given the critical nature of the situation for a listed company, we took the unusual step of initiating a board of directors overhaul through a shareholder proposal.”

The Day-One Self-Due Diligence and Management Accounting Issues

——After acquiring management control, you immediately conducted self-due diligence (DD). What was the biggest challenge uncovered during that process?

“On the afternoon of June 24, 2025, immediately after the shareholders’ meeting, the newly formed board convened for day one. Over the following weeks, we visited every business unit and held one-on-one meetings with key executives. The biggest problem we discovered was that management lacked the essential business information needed to make decisions.

Let me give one specific example. When a sales representative attempted to secure an order for a new product, they lacked visibility into the cost structure—specifically, the profit the product would generate after passing through design, purchasing, and production.

Without knowing the cost, they couldn’t provide an accurate quote. Furthermore, without knowing the threshold for how far prices could be lowered while still securing profit, salespeople often added excessive buffers, resulting in high quotes that ultimately lost the order. There was also a disconnect between the data field staff managed in Excel and the figures in the system, so even fluctuations in raw material prices couldn’t be tracked in a timely manner.

A system was in place in name only and certainly wasn't functioning. They neglected data preparation during implementation. Departments recorded part data using arbitrary criteria and manually entered hand-calculated values, resulting in severely unreliable data.

It made it impossible to analyze which products were profitable or where in the processes inefficiency existed. For years, management had operated under what could only be described as 'super-rough estimates.' We uncovered this reality within a week of starting DD. From that point, the reform had to begin precisely with 'making the numbers visible.'"

Moving Away from Excessive Build-to-Order Production

——Under the new system, you shifted to investing in production equipment and increasing inventory, contrary to recent trends. Why?

"Today's manufacturing industry takes the dominant view of 'don't hold inventory' and 'boost returns on invested capital (ROIC).' However, after seeing the reality in how the business was run, we deliberately adopted a strategy that runs counter to that view.

What became apparent through our self-DD was the detrimental effect of the previous management's excessive focus on build-to-order production. While maintaining no inventory looks good financially, it often leaves sudden, large client orders unfilled on time because component procurement can't keep pace. A significant gap existed between the delivery dates clients expected and the dates we could actually ship. It is a clear case of lost opportunities due to these lost orders."

——So, they sacrificed the top line to make the financials look good?

"TOCOS currently has a net cash position, meaning it holds more cash than its interest-bearing debt. Its financial security is already extremely high. Therefore, we should strategically increase inventory of critical components and finished goods to establish an immediate delivery capability, even if that means leaving some cash idle. We determined that this approach would better enhance corporate value by preventing lost opportunities and increasing sales and profits.

Rather than falling into the trap of thinking that simply reducing inventory is the solution, we are redesigning operations based on the criterion of 'whether it contributes to maximizing sales and profits.'"

Breaking Down the Drawbacks of Functional Organizations Through Restructuring and Incentive Design

——How did you then transform the organization?

"Alongside hard investments, we also made changes to the organizational structure. We transitioned from a traditional functional organization to a business division structure.

Previously, the organizational chart was laid out by function, such as the Technology Division, Sales Division, and Production Management Division. This created a situation in which technology, sales, and production were vertically siloed. The biggest problem with this structure was the lack of responsibility for profit at the business-unit level.

Typically, engineers focus on building good products, and salespeople on meeting sales quotas, but no one was looking at the big picture of how these efforts ultimately tie to the business's profit. As a result, communication

breakdowns became routine—sales knew nothing about the new products engineers were developing, leading to missed opportunities to propose solutions to clients."

——So, implementing the earlier inventory strategy requires seamless collaboration among manufacturing, sales, and engineering?

"The decision to stock inventory to chase sales cannot be made solely by salespeople. It requires collaboration with purchasing and production, with risks and returns shared between them. However, in a functional organization, departments tend to pass the buck, saying, 'That's not my department's decision.'

That's why we introduced the business division system. We restructured the organization into business units, such as the variable resistor and automotive businesses, and clearly defined profit-and-loss (P&L) responsibility for each unit.

This approach created a shared incentive among members of each function: to maximize our business's profit. When the question "What should we do as a business unit?" arises, engineering and sales naturally sit down together to strategize the next steps. While I come from an activist fund background, I am now advancing these gritty organizational reforms step by step as a corporate executive."

Unique Fund Structure and Financial Strategy

——How will you proceed with your M&A strategy going forward? Please explain the differences, including those compared with private equity (PE) funds or corporate investors.

"Unlike typical PE funds, Axium Capital has no fixed maturity date (an open-ended structure). The key differences lie in the time horizon and capital circulation.

Typical PE funds typically have a ten-year maturity, requiring a mandatory exit (sale) within that period to return capital to investors. Furthermore, capital recycling (reinvesting funds) is generally prohibited. Therefore, even if profits are generated from one investment, those funds cannot be reinvested into the next opportunity; they must be distributed to investors each time.

In contrast, our funds have no maturity date. As long as TOCOS's stock price continues to rise and growth persists, we can hold our investments for ten or even twenty years. That allows us to focus on enhancing corporate value from a genuine medium- to long-term perspective rather than on short-term value-ups driven by exit imperatives. This is the key difference.

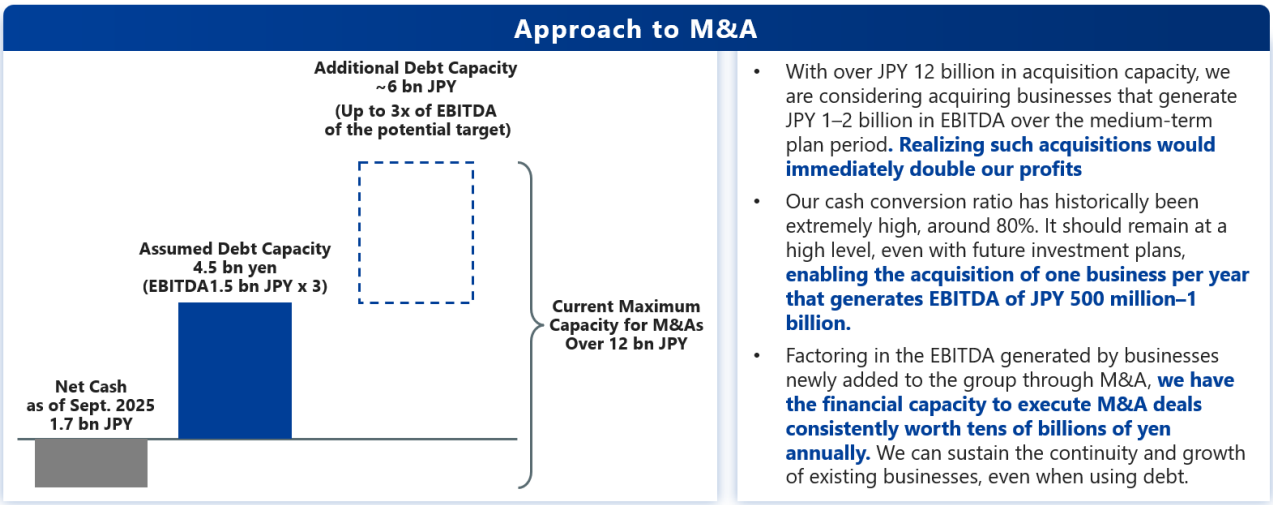
Furthermore, we are free to pursue capital recycling. Proceeds from selling a portion of shares can also be allocated directly to other growth investments or to M&A funding. This structure allows us to pursue returns for the entire fund while leveraging compounding."

——Regarding financial leverage, your IR materials disclose a 3x Net Debt/EBITDA guideline, which appears conservative.

"In PE fund LBO financing, leverage of around 6x EBITDA is common, so 3x falls within the investment-grade (equivalent to a triple-B rating) credit rating range. This level can be considered a threshold that ensures a listed company's financial soundness.

However, as a team with roots in fund management, we have the expertise to execute large acquisitions with higher leverage. Even in acquisitions where the smaller entity acquires a larger one, if the target is attractive, we are prepared to execute using LBO-style methods."

Chart: Approach to M&A



Source: TOCOS

Net cash as of September 30, 2025: JPY 1.7 billion
Assumed interest-bearing debt borrowing capacity: JPY 4.5 billion (3 x EBITDA of JPY 1.5 billion)
Additional borrowing capacity: Approx. JPY 6.0 billion (Acquisition funding capacity of up to approximately 3x the target company's EBITDA)
Current maximum recovery capacity: Over JPY 12.0 billion
・With over JPY 12 billion in acquisition capacity, we are considering acquiring businesses that generate JPY 1–2 billion in EBITDA over the medium-term plan period. Realizing such acquisitions would immediately double our profits.
・Our cash conversion ratio has historically been extremely high, around 80%. It should remain at a high level, even with future investment plans, enabling the acquisition of one business per year that generates EBITDA of JPY 500 million–1 billion.
・Factoring in the EBITDA generated by businesses newly added to the group through M&A, we have the financial capacity to execute M&A deals consistently worth tens of billions of yen annually. We can sustain the continuity and growth of existing businesses, even when using interest-bearing debt.

Roll-up M&A and Sourcing Strategy

——Beyond TOCOS's existing businesses, such as variable resistors and automotive electrical components, what target areas and sizes are you planning to source?

"Fundamentally, manufacturing is our primary target. TOCOS has nearly 70 years of experience and expertise in factory setup, production technology, and frontline capabilities, including injection molding and metalworking. We can create synergies by transplanting this production technology expertise to reduce costs or leverage overseas bases with any manufacturing company we aim to acquire, regardless of whether its business is in an unfamiliar niche."

——What about the target companies' scale?

"TOCOS has exceptionally high cash conversion efficiency, with approximately 80% of EBITDA converted into free cash flow. With this abundant cash, it is financially feasible to acquire one company per year with around JPY 1 billion in EBITDA, comparable to TOCOS's current size, using debt financing. Simply put, continuing this approach would allow us to build profits incrementally at a pace that organic growth alone cannot match.

Naturally, such results are wishful thinking, but my point is that we have the financial capacity and the team to execute this approach. I have experience in investment banking and private equity, and our team includes former McKinsey consultants. We have assembled a team with the skill set to go beyond managing listed stocks and fully execute post-merger integration (PMI). That is our edge that other activists and companies lack."

Perspective on the Japanese Market and Activism as “Justice”

——What social significance do you believe activism has in Japan?

“In the US market, for instance, S&P 500 companies have seen their share prices rise roughly eighteenfold over the past thirty years. They are already operating at the absolute limits of efficiency, squeezing every last drop from a dry rag. Activism there can sometimes look like greed.

However, Japan is different. Approximately 60% of Tokyo Stock Exchange-listed companies are in a favorable net-cash position, yet about half cannot even achieve an ROE of 8%. That means they are like a wet rag, dripping water even with a light squeeze.

Management resources are not being effectively utilized; they are simply stagnating. Correcting this structural inefficiency and redirecting cash reserves toward growth investments, employee benefits, and shareholder dividends will stimulate the metabolism of the entire Japanese economy.”

——Isn’t it true that many in Japan still hold a negative impression of activist investors in general?

“In Japan today, the arguments activists make are fundamentally sound and reasonable.

Demanding discipline from management and encouraging them to improve capital efficiency also creates the resources needed to maintain employment and raise wages. In that sense, I firmly believe that activism through our approach in Japan represents social justice and significantly contributes to the economy.

While creating a single PE fund has limited social impact, activist activities through TOCOS—which can send a message to the entire listed market—have the potential to change Japan. Based on this conviction, I am dedicating my life to activist investing.”

(Interviewer: Takeshi Takeshita, Recof Data)

■ Yasuto Monden

Born in 1975, Monden joined UBS Warburg Securities (now UBS Securities) in July 2000. After holding roles including Head of Investment Banking at Deutsche Securities and Managing Director at Lone Star Japan Acquisitions, he became Chief Investment Officer at Swiss Asia Financial Services in December 2022. He then became CEO of Axium Capital in July 2025. On June 24, 2025, the Tokyo Cosmos Electric shareholders’ meeting passed a resolution appointing directors, including Monden himself. That day, he assumed the roles of President and Representative Director of Tokyo Cosmos Electric.

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