

Considerations Regarding Listing Criteria for the Growth Market

Tokyo Stock Exchange, Listing Department

March 22, 2024



- ◆ Based on discussions at previous sessions of this council, the following measures will be taken to further enhance the functionality of the Growth Market (TSE will implement measures 1-4 respectively).
- ◆ Today we would like to discuss **basic ideas (objectives, points to keep in mind, etc.) for the future consideration of listing criteria.**

#	Measure	Implementation Status and Future Plans
1	Encourage companies to disclose their reasons for listing, etc.	<ul style="list-style-type: none"> ● Encourage the disclosure of “Matters Relating to Business Plans and Growth Potential” at the time of initial listing, including reasons for listing and the approach to setting the timing of listing and the financing details [Promptly]
2	Promote a proper understanding of listing preparation	<ul style="list-style-type: none"> ● Make more effective use of listing consultation for listed companies to consult with TSE directly on questions related to IPOs [in order]. ● Publish a collection of FAQs on topics that are often misunderstood by companies preparing for listing, such as IPOs of unprofitable companies and M&A prior to IPO, showing the concept of listing examination based on case studies [Promptly] ● Establish a forum for exchanging opinions on a wide range of issues surrounding IPOs, including other topics, with related parties (managing securities companies, auditing companies, VCs, issuers, etc.) [as soon as possible]
3	Promote proactive sharing of information with investors	<ul style="list-style-type: none"> ● Encourage companies to actively communicate their growth story through investor briefings, individual meetings, etc., and promote the disclosure of implementation status in corporate governance reports, etc. [Promptly]
4	Assist in the sharing of information with institutional investors	<ul style="list-style-type: none"> ● Provide IR seminars that introduce basic IR knowledge and the perspective of institutional investors. [Starting this month] ● Provide good examples of management that proactively communicated their growth stories. [As soon as they are finalized] ● Create opportunities for management to share information with institutional investors (create points of contact) [As soon as preparation is complete]
5	Implement stricter listing criteria	<ul style="list-style-type: none"> ● To be considered based on facts presented in this meeting. [After today]
6	Promote the use of professional markets	

Summary of Discussions From Previous Sessions

Initial Listing Criteria

- It is conceivable to raise the initial listing criteria to require a size that would make the company eligible for investment from a wide range of institutional investors
- There is no need for stricter initial listing criteria, as this could crush the budding growth of smaller companies and would be counterproductive to the promotion of industrial renewal.
- The current supply of funds in the unlisted sector is limited, and raising the initial listing criteria, at least at this time, could deprive startups of an important opportunity.
 - The government is currently in the process of creating an environment that will allow for significant growth of unlisted companies with their 5-year plan for startup development, and others. Progress in this area should be monitored and the pros and cons of the stricter criteria should be considered.

Continued Listing Criteria

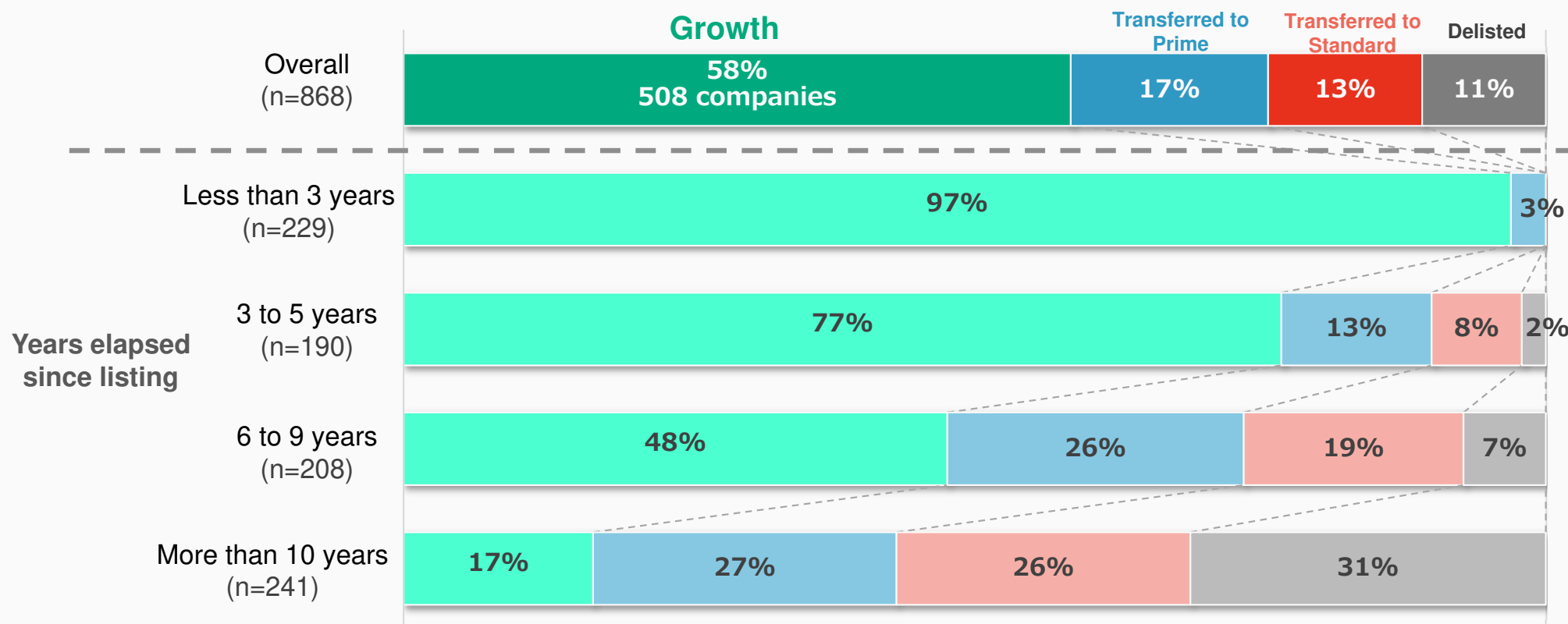
- Implementing stricter continued listing criteria will encourage growth after listing, and at the same time, startups that fail to achieve growth may be encouraged to reestablish themselves, including by merging with other companies.
- Specifically, one idea would be to raise the minimum market capitalization (JPY 4 billion or more after 10 years of listing), but since the criteria were changed only two years ago when the market segment was revised, and some companies are currently making efforts based on the new criteria, stricter criteria is currently not realistic.
- Since a sufficient notification period is required for revisions to listing criteria, it is important to discuss the direction we are taking in advance based on facts such as the actual situation of listed companies, and to make the public aware of this situation.

- **The initial listing criteria shall be reviewed while taking into account the progress of environmental improvement in the non-listed sector, etc. in the future. Firstly, the continued listing criteria shall be considered based on the facts about the listed company's situation and other factors.**

Post-listing Status of the Mothers/Growth Market

- About 60% of the companies listed on the Mothers/Growth Market are still listed on the Growth Market today
- Approximately 30% of the companies have been subject to segment transfers or were delisted as a result of corporate actions (mergers with other companies, becoming subsidiaries, MBOs, etc.)

Current Market Segment of Companies Initially Listed on the Mothers/Growth Market



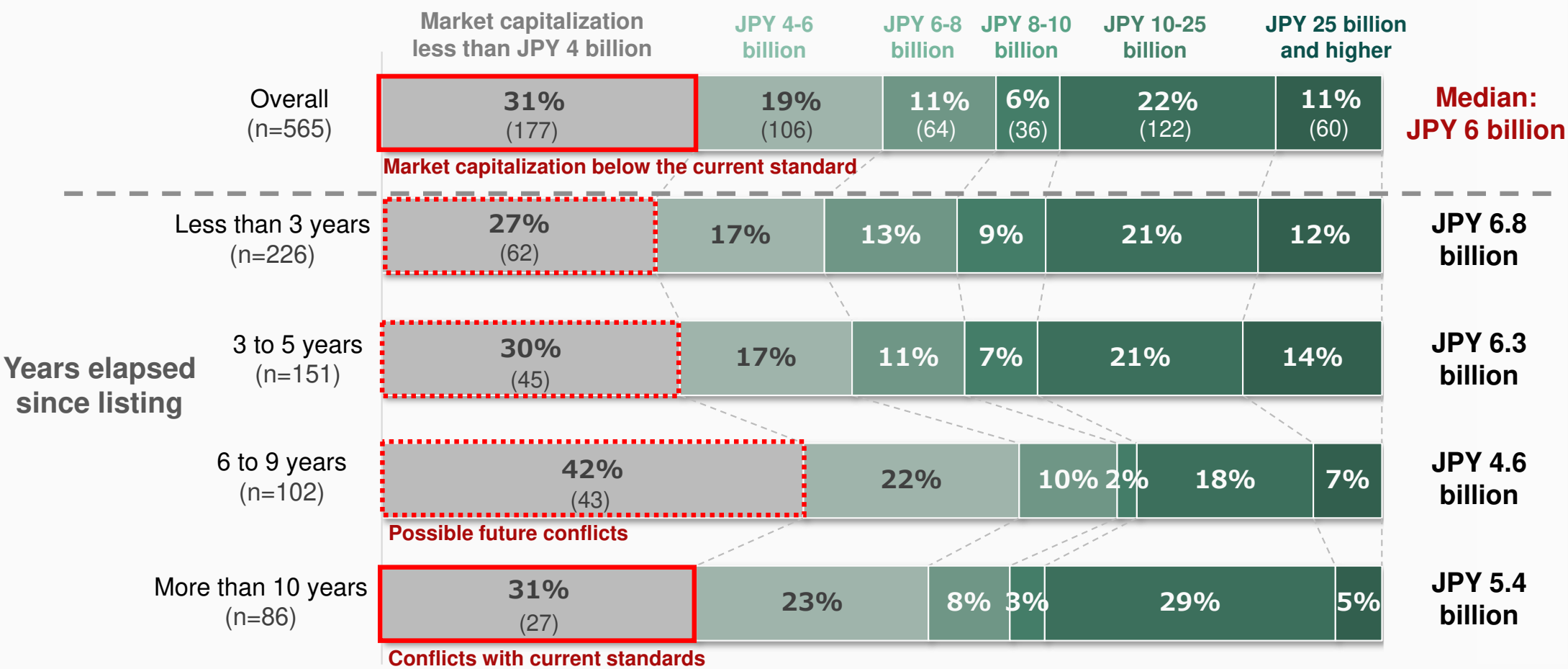
Note: Initial listings of companies listed on the Mothers/Growth Market between 2004 and 2023 are included.

Note: Approximately 80% of delistings are due to corporate actions such as M&A and MBO (management buyout) (the rest are due to failure to meet quantitative standards, inadequate management systems, and other violations of delisting standards).

Current Status of Growth Market Listed Companies (1) (Market Capitalization)

- The current **median market capitalization** of Growth Market listed companies is **JPY 6 billion**
- **31% (177 companies)** have not reached the current standard of **JPY 4 billion** (If 10 years have passed since listing, the standard will be considered not met).

Growth Market Capitalization of Listed Companies

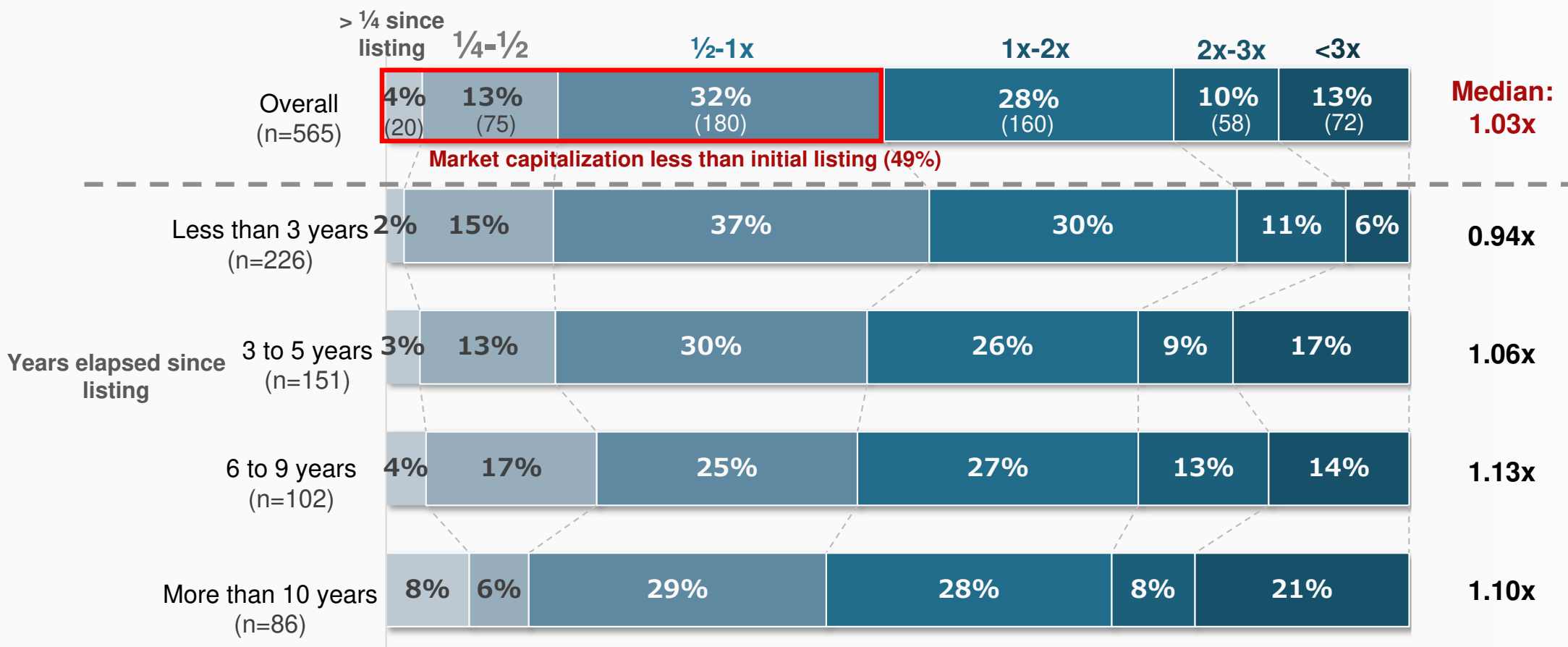


Note: Growth market listed companies as of the end of 2023
 Note: Market capitalization is based on the average closing price from October to December 2023

Current Status of Growth Market Listed Companies (2) (Growth Rate)

- The median market capitalization growth since initial listing for current Growth Market listed companies is **1.03x**.
- 49% of listed companies have a current market capitalization lower than their initial listing.

Market Capitalization Growth Rate for Growth Market Listed Companies



Note: Growth Market listed companies as of the end of 2023

Note: Market capitalization growth rate is calculated by dividing the initial listing market capitalization (based on the IPO price, or if there is no IPO price, based on the closing price at the end of the month of listing) by the current market capitalization (based on the average closing price from October to December 2023).

Current Status of Growth Market Listed Companies (3) (Market Capitalization/Growth Rate)



- There are some companies with **small current market capitalization that have grown significantly since listing (1)**, and some **companies with a relatively fair market capitalization (market valuation) even if they have not grown since listing (2)**.

Market Capitalization/Growth Rate of Growth Market Listed Companies (Cross Tabulation)

Current Market Capitalization

	>JPY 4 billion	JPY 4-6 billion	JPY 6-8 billion	JPY 8-10 billion	10-25 JPY billion	<JPY 25 billion	Total	
Growth rate of market capitalization since listing	<3x (1)	1(0%)	7(1%)	4(1%)	6(1%)	30(5%)	24(4%)	72(13%)
	2x-3x	5(1%)	14(2%)	7(1%)	5(1%)	19(3%)	8(1%)	58(10%)
	1-2x	36(5%)	35(5%)	25(4%)	13(2%)	40(6%)	11(2%)	160(28%)
	1/2-1x	80(12%)	37(6%)	21(3%)	7(1%)	24(4%)	11(2%)	180(32%)
	1/4-1/2x	44(7%)	7(1%)	6(1%)	5(1%)	(2) 7(1%)	6(1%)	75(13%)
	>1/4x	11(2%)	6(1%)	1(0%)	N/A	2(0%)	N/A	20(4%)
	Total	177(31%)	106(19%)	64(11%)	36(6%)	122(22%)	60(11%)	565(100%)

current standard (10 years after listing)

Note: Growth Market listed companies as of the end of 2023

Status of Companies to Subject to Transitional Measures

- **There are 52 companies in the Growth Market subject to transitional measures** (reflecting the status of judgement made up to the end of October 2023).
 - Of these, **25 companies are in violation of the market capitalization criteria** (a decrease of 4 companies and an increase of 11 companies since the market restructuring in 2022).
- In the Growth Market, the longest period of the conformance plan is until **March 2027**.

Number of Companies that do not Meet the Criteria

Prime	Tradable Share Market Cap (JPY 10 bil.)	:	77
	Tradable Share Ratio (35%)	:	26
	Trading Value (daily avg. JPY 20 mil.)	:	16
	Total (excluding duplications)	:	111

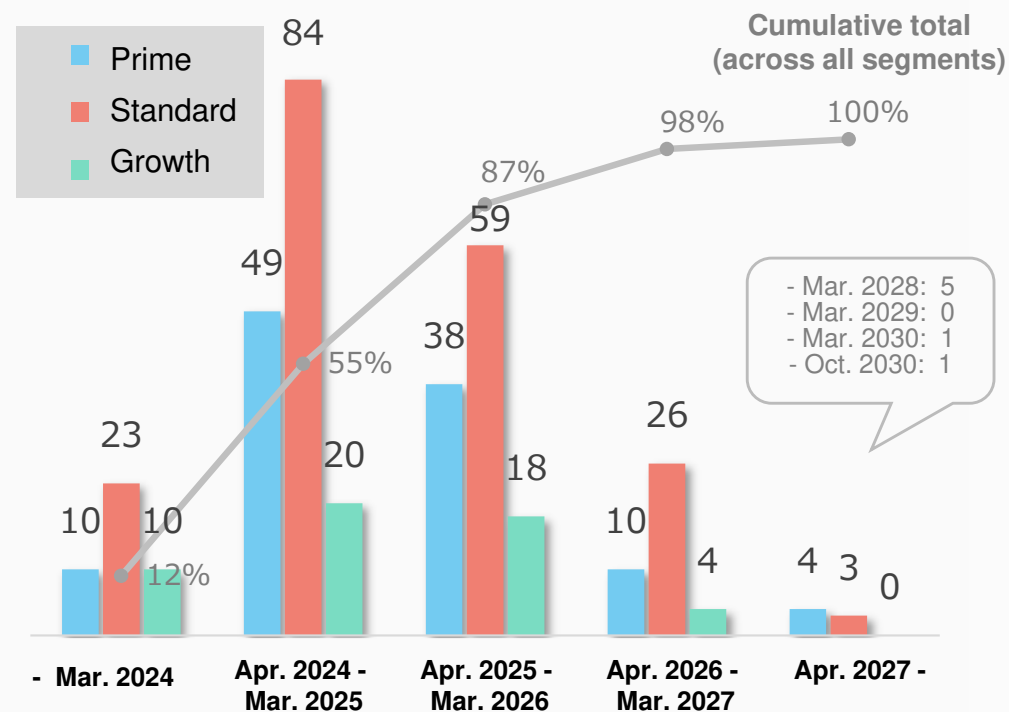
Standard	Tradable Share Market Cap (JPY 1 bil.)	:	131
	Tradable Share Ratio (25%)	:	76
	# of Shareholders (400 shareholders)	:	5
	Total (excluding duplications)	:	195

Growth	Tradable Share Market Cap (JPY 0.5 bil.)	:	9
	Tradable Share Ratio (25%)	:	22
	Market Cap. (JPY 4 bil. from 10 th yr. of IPO)	:	25
	Total (excluding duplications)	:	52

18 companies were in violation of the market capitalization criteria at the time of the market restructuring (since then, 4 companies have complied, and 11 companies have newly violated (Some companies have newly violated due to the passage of 10 years since their IPO.)

Note: The number of companies in violation of the market capitalization criteria differs from the figure on page 4 due to different timing of calculation.

Distribution of Plan Lengths



Note: If multiple criteria are not met for a plan period, the longest plan period is used.

Continued Listing Criteria (Pre-Revision vs. Post-Revision)



- **Stricter criteria for market capitalization** (from 1 billion JPY to 4 billion JPY after 10 years of listing) in conjunction with the market restructuring.

	Growth Market		Mothers	JASDAQ Growth
	Continued Listing	(Reference) Transitional Measures	Delisting	Delisting
Market Capitalization	JPY 4 billion or more (after 10 years of listing)	JPY 500 million or more (after 10 years of listing)	Less than JPY 1 billion (JPY 500 million until 10 years after listing)	N/A
Tradable Share Market Capitalization	JPY 500 million or more	JPY 250 million or more	Less than JPY 500 million (JPY 250 million until 10 years after listing)	Less than JPY 250 million
Number of Tradable Shares	1,000 units or more	500 units or more	Less than 2,000 units (1,000 units until 10 years after listing)	Less than 500 units
Tradable Share Ratio	25% or more	5% or more	Less than 5	N/A
Number of Shareholders	More than 150	More than 150	Less than 400 (150 until 10 years after listing)	Less than 150
Performance	N/A	N/A	Sales less than JPY 100 million (after 6 years of listing)	Negative operating income and operating CF for 10 consecutive years; negative operating income for 10 consecutive years since listing
Financial Condition	positive net assets (from 3 years after listing)	positive net assets (from 3 years after listing)	insolvency (from 3 years after listing)	insolvency
Stock Prices	N/A	N/A	During the first three years after listing Less than 10% of the public offering price	less than 10 JPY
Trade	Monthly average of 10 units or more	Monthly average of 10 units or more	Monthly average of 10 units or more	N/A

(Reference) Continued Listing Criteria (International Comparison)

- **NASDAQ has several continued listing criteria, and a company can continue its listing if it meets any one of them.**
 - **47%** of listed companies on the NASDAQ Capital Market **do not meet criterion (2) listed market capitalization criteria (approximately JPY 5.3 billion or more)** but are able to continue listing by meeting criterion (1) shareholders' equity criteria or (3) profit criteria.

	Growth Market (JP)	NASDAQ Capital Market (U.S.)			LSE Standard Main Market (UK)
		Criterion (1)	Criterion (2)	Criterion (3)	
Market Capitalization	JPY 4 billion or more (after 10 years of listing)	N/A	More than \$35 million (approximately JPY 5.3 billion) or more	N/A	N/A
Tradable Share Market Capitalization	JPY 500 million or more	USD 1 Million (approximately JPY 150 million) or more			N/A
Number of Tradable Shares	1,000 units or more	500,000 shares or more			N/A
Tradable Share Ratio	25% or more	N/A			10% or more
Number of Shareholders	More than 150	More than 300			N/A
Performance	N/A	N/A	N/A	Net income for the current fiscal year USD 0.5 million (approximately JPY 80 million) or more	N/A
Financial Condition	positive net assets (from 3 years after listing)	Shareholders' equity USD 2.5 million (approx. JPY 400 million) or more	N/A	N/A	N/A
Stock Prices	N/A	More than USD 1			N/A
Trade	Monthly average of 10 units or more	N/A			N/A

Note: Market capitalization data from NASDAQ Capital Market as of February 2024 (for the 1,270 companies for which data could be obtained).

Note: In the U.K., AIM is a possible listing destination for startups in addition to the Standard Main Market, but there are no quantitative criteria.

Converted at the rate of JPY 150 to the dollar

Segment Transfer to the Standard Market

- **Some have suggested a segment transfer to the Standard Market as an option** for Growth Market listed companies that are in violation of the criteria, but they would need to undergo an examination based on the same criteria as the initial listing criteria for the Standard Market.
- Many companies do not meet the criteria, mainly the profit standard, and **75% of companies with a market capitalization of less than JPY 4 billion do not meet some initial requirements** (and even if they meet the initial requirements, they still need to conform to the substantive standard)

Status of Compliance with Initial Listing Criteria (Formal Requirements) for the Standard Market

	Requirements met	Some requirements not met	Requirements not met		
			Tradable share market capitalization (JPY 1 billion or more)	Profit (JPY 100 million in the last 1 year)	Other
Growth Market Total (N=565)	253 (45%)	312 (55%)	92	219	32
Of which Market capitalization is less than JPY 4 billion (N=177)	44 (25%)	133 (75%)	85	87	10
Of which listed After 10 years (N=27)	7 (26%)	20 (74%)	9	19	3

Note: Tradable share market capitalization is calculated by multiplying the current market capitalization (based on the average closing price from October to December 2023) by the tradable share ratio as of the end of the most recent fiscal year.

Note: Profit is calculated using ordinary income for the most recent fiscal year

Note: Criteria for years of business operation are not subject to determination.

Initial Listing Criteria for Current Market Segments



- Hurdles for listed companies in the Growth Market to achieve a transfer to the Standard Market are the criteria for tradable share market capitalization and profit.

	Growth Market	Standard Market	Prime Market
Market Capitalization	N/A	N/A	JPY 25 billion or more
Tradable Share Market Capitalization	JPY 500 million or more	JPY 1 billion or more	JPY 10 billion or more
Number of Tradable Shares	1,000 units or more	2,000 units or more	20,000 units or more
Tradable Share Ratio	25% or more	25% or more	35% or more
Number of Shareholders	More than 150	More than 400	More than 800
Performance	N/A	Profit of JPY 100 million or more in the last 1 year	Total profit of JPY 2.5 billion or more for the last two years or Sales of 10 billion JPY and market capitalization of 100 billion JPY or more
Financial Condition	N/A	Positive net assets	Net assets of JPY 5 billion or more
Years in Business	More than 1 year	More than 3 years	More than 3 years
Public Offering	500 units or more	N/A	N/A
Stock Prices	N/A	N/A	N/A

(Reference) International Comparison of Initial Listing Criteria

- **NASDAQ has several criteria for initial listing, and a company can be listed if it meets any one of them.**

	Growth Market (JP)	NASDAQ Capital Market (U.S.)			LSE Standard Main Market (UK)
		Criterion (1)	Criterion (2)	Criterion (3)	
Market Capitalization	N/A	N/A	USD 50 million (approximately JPY 7.5 billion) or more	N/A	LB 30 million (approximately JPY 5.6 billion) or more
Tradable Share Market Capitalization	JPY 500 million or more	USD 15 million (approximately JPY 2.3 billion) or more	USD 15 million (approximately JPY 2.3 billion) or more	USD 5 Million (approximately JPY 700 million) or more	N/A
Number of Tradable Shares	1,000 units or more	More than 1 million shares			N/A
Tradable Share Ratio	25% or more	N/A			N/A
Number of Shareholders	More than 150 people	More than 300 people			N/A
Performance	N/A	N/A	N/A	Net income (for the current fiscal year) USD 750,000 (approximately JPY 100 million) or more	N/A
Financial Condition	N/A	Shareholders' equity USD 5 million (approximately JPY 700 million) or more	Stockholders' equity USD 4 million (approximately JPY 600 million) or more	Stockholders' equity USD 4 million (approximately JPY 600 million) or more	N/A
Years in Business	More than 1 year	More than 2 years	N/A	N/A	N/A
Public Offering	500 units or more	N/A			N/A
Stock Prices	N/A	More than USD 4			N/A

*Converted at JPY 150 JPY to the dollar and JPY 185 to the pound.

Note: In the U.K., AIM is a possible listing destination for startups in addition to the Standard Main Market, but there are no quantitative criteria.

Matter (1)

◆ What is your view on the purpose of increasing the continued listing criteria?

Perspectives Regarding the Purpose

- The continued listing criteria should be set from the perspective of seeking a healthy demonstration of high growth potential based on the market concept, and some have voiced the opinion that **the criteria could be raised to motivate growth after listing.**
 - However, **it is unlikely that companies who do not have concerns about violating the criteria will be motivated to work towards growth**, even if the stricter criteria were implemented. **It is unlikely that stricter listing criteria would be effective in motivating startups to grow significantly after listing.**
- On the other hand, stricter criteria would likely **encourage companies that have not achieved growth after listing and are concerned about violating the criteria to consider new growth initiatives, including exchange of production factors with other companies, and mergers and acquisitions. Some have expressed the opinion that it is important for the market to function as a driver for industrial metabolism.**
 - *In the "Summary of Discussions on Measures to Improve the Effectiveness of the Market Restructuring" published in January last year, it was stated that the industry should be encouraged to renew itself through the exchange of production factors with other companies, and mergers and acquisitions.

(Reference) “Summary of Discussions on Measures to Improve the Effectiveness of the Market Restructuring” (Excerpt)

I. Response Policy

- In Japan’s economy, the lack of a smooth transition of personnel and capital resources to growing areas has led to a prolonged slump in productivity. In order to ensure the sustainable development of the Japanese economy in the future, **it is important to promote industrial metabolism and innovation in business in society.**
- In doing so, individual listed companies can not only take measures independently, **but they can also consider ways to increase productivity by exchanging factors of production and by implementing M&As with other companies. It is important** for TSE to **create a framework to encourage such efforts and thereby contribute to the improvement of productivity in the Japanese economy as a whole.**

... (omitted)...

- In light of this background:
 - TSE should immediately make clear how the transitional measures will be handled in the future with respect to the continued listing criteria, which have been established as a measure for easing drastic changes, including the timing of termination, from the perspective of ensuring a healthy industrial metabolism.
 - In order to revitalize the capital markets, and ultimately the Japanese economy, TSE should create a framework to motivate listed companies that are not concerned about violating the continued listing criteria to take action independently to enhance their medium- to long-term corporate value, such as promoting cost of capital-conscious management, by taking advantage of the characteristics of the three market segments.
 - These measures should be evaluated on an ongoing basis for further improvement.

*Bold font differs from original

Matter (2)

- ◆ **If the stricter listing criteria were to be implemented, what points should be kept in mind? Based on the actual situation of listed companies, for example, should the following points be taken into consideration?**

Factors

- (Pages 3-6) While some companies have grown significantly after listing on the Growth Market, approximately 30% of all companies on the current Growth Market have a market capitalization below the current standard of JPY 4 billion (if the market capitalization criteria is raised, many more companies may be in violation of the standard).
- (Pages 7-9) The market capitalization criteria was just made stricter at the time of the 2022 market restructuring, so not enough time has passed to verify its effectiveness, and companies have chosen to move to the Growth Market based on that criteria, and some are currently working toward meet it.
- (Pages 10-12) Most of the companies are not able to transfer their segment to the Standard Market due to profit criteria and other reasons (each market segment is independent to begin with).

Notes

- If the continued listing criteria were to be made stricter and many listed companies were to be delisted, would this result in the loss of trading opportunities for many shareholders, which in turn could have a negative impact on the supply of funds to the Growth Market?
- We should also be aware of the time frame, as the criteria that were revised two years ago would be changed again, which may affect the efforts of many listed companies, including those currently subject to transitional measures.
- In order to realize and promote the aforementioned objectives, it may be possible to encourage listed companies to take measures other than raising the continued listing criteria by combining other means*
*For example, if the market capitalization (market valuation) is below a certain level, the disclosure of "Business Plans and Matters Related to High Growth Potential" should include an analysis of the causes and countermeasures.