



Solicitation of Opinions from Growth Market Listed Companies (Draft)

*The Tenth Council of Experts Concerning
the Follow-up of Market Restructuring
TSE Explanatory Material b)*

**Exchange & beyond
Tokyo Stock Exchange, Inc.**

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Solicitation of Opinions from Growth Market Listed Companies (Draft)

- To identify issues that need to be addressed in order for the Growth Market to function effectively, TSE will solicit opinions from those in top management positions of companies listed in the Growth Market regarding issues that they consider to be challenges in achieving high growth after listing.
 - TSE will update the contents of the solicitation of opinions based on today’s discussion, and will promptly notify listed companies of those changes along with a summary of past discussions at the follow-up council regarding the Growth Market and the data referred to in those discussions.
 - Based on the responses, TSE may conduct additional hearings to further explore any issues and possible measures to be taken.

Details of the Solicitation of Opinions (Draft) Note: Answers are in open-ended format.

1. Do you think your company is taking advantage of listing on the Growth Market to achieve high growth? Please answer this question along with the purpose of listing that you had in mind before listing and the effects that you have seen after listing.
2. Please provide details of any issues that your company is facing in achieving high growth at the time of listing/post-listing and what, if any, actions you expect TSE to take in response to those issues.

	Perspective (example)
a) Time of Listing	<ul style="list-style-type: none"> • Timing of listing (relationship with the fundraising environment for private companies, comparison with overseas markets for start-ups, etc.) • Process for listing (support from market participants, speed and complexity, etc.) • Fundraising at the time of listing (amount raised, allocation (to institutional investors), etc.)
b) Post-Listing	<ul style="list-style-type: none"> • Fundraising to achieve high growth (demand for funds for growth investments, concerns about dilution, etc.) • Information disclosure and IR (disclosure of business plans, growth potential, etc., IR opportunities, dialogue with institutional investors, etc.)

3. Please provide any other issues that you consider to be challenges to achieving high growth.

⇒ Comments received will be presented at the next or subsequent meetings (individual company names will not be disclosed).

Reference:
**Summary of The Council's Recent Discussion
on the Growth Market**



Listing

- It is too early to tighten the initial listing criteria because we have just transitioned to the new market segments. However, the council should consider the future of listing especially in regard to the stimulation of TOKYO PRO Market (TPM) and the establishment of a secondary market for unlisted stocks.
- Tightening listing criteria would not be supportive to the regeneration of industry.
- Stricter criteria could encourage the participation of institutional investors that will support growth after listing.
- Even at this point, we should make it known that larger IPOs are preferable.

Promoting Growth after Listing

- It is possible that there are companies who at IPO only raised funds equivalent to about 10% of the market cap, and those companies have been listed not for growth but just so that existing shareholders can exit their positions.
 - Setting limits on the amount or the ratio of secondary distribution is a possible solution.
 - However, it is necessary to consider this issue along with the establishment of a secondary market for unlisted shares, as it will cause problems such as the loss of opportunities for venture capitalists to exit.
- Only about 14% of companies conduct public offerings after listing, and both investors and companies have a negative perception of capital increases, including those for growth investing. This perception needs to be corrected.
 - Requiring disclosure of financing plans for growth investing is a possible solution.
- The criterion for continued listing (market capitalization of at least JPY 4 billion after 10 years of listing) should be stricter to promote growth.
 - The criteria could be modified in stages: at a point 5 years after listing and then 10 years after listing.
- For the time being, it is important to analyze the impact of the end of transitional measures, and it is not practical to hastily tighten the criteria for continued listing.

Disclosure and IR, etc.

- TSE should encourage and inspire companies listed on the Growth Market to grow by sharing best practices in disclosure and IR, and by raising managers' awareness in a school-like environment.
- Companies listed on the Growth Market seem to lack opportunities to promote their value and growth potential. TSE should consider providing them with more opportunities.

Voting Class Shares

- There was a lot of debate regarding the fair and equal treatment of shareholders, and this topic should be discussed further while considering the companies' intentions in issuing voting class shares and the investors' intentions in investing in them.
- Investors may not be totally against voting class shares but there are issues related to the protection of minority shareholders' rights, which should be addressed by improving governance and disclosure.
- There is no need to force companies to issue voting class shares, and they can maintain their current situation.
- In addition to issuing voting class shares, the ratio set as the criterion for tradable share ratio (25%) could be lowered in consideration of the founder's right to control the company.

TOKYO PRO Market (TPM)

- TPM could be used as one of the options in an ecosystem that supports startups.
 - It could be regarded as a gateway before stepping up to the Growth Market or other public markets.
 - It could be utilized to meet demand for secondary trading of unlisted stocks.
- However, the fact that almost no trading is currently taking place is a problem.
 - The reality of what TPM is being used for should be investigated.
 - To improve liquidity, it is necessary to develop professional investors comparable to those in the U.S. and Europe.

Future Actions

- Companies listed on the Growth Market could be surveyed regarding topics such as issues after listing.
- Institutional investors could be interviewed regarding the reasons they do not invest in companies listed on the Growth Market. Issues other than size should be investigated and the companies should be encouraged to respond to the results.
- Interviews could be held with startups, venture capitalists, and others to find out how they feel about the system, criteria, conditions, etc. of the Growth Market, while keeping global perspectives in mind.