

Future Actions to Enhance the Functionality of the Growth Market

Tokyo Stock Exchange, Inc. Listing Department
December 18, 2023



Topics for discussion

- What are your thoughts on promoting the following measures to ensure that **IPOs in the Growth Market function as opportunities for growth**, especially when it comes to **supporting startup managers' efforts toward growth**?

1. Promoting disclosure of reasons for listing, etc.
2. Promoting a proper understanding of how to prepare for listing
3. Promoting proactive sharing of information with investors
4. Assistance in sharing information with institutional investors
5. Implementing stricter listing criteria
6. Promoting the use of the professional market (TOKYO PRO Market)

1. Promoting Disclosure of Reasons for Listing, Etc.

- It has been pointed out that **recent IPOs have not necessarily been "IPOs to achieve growth,"** as many IPOs, for example, have focused on secondary distribution rather than fund raising for growth.
- It is particularly necessary to create an environment in which **managers who are responsible for their company's growth** can more deeply consider **why they are conducting an IPO at this time in the company's envisioned growth strategy.** We must reaffirm that the IPO is only a process for achieving growth, and that further growth is expected especially after the company goes public.

Possible Initiative

- **Encourage disclosure** at the time of the IPO of the company's reasons for listing based on its own growth strategy and its approach to setting the timing and financing (public offering and secondary distribution) of the IPO.

Note: Conduct in cooperation with lead underwriter securities companies, audit firms, and other relevant market users that support IPOs.

2. Promoting a Proper Understanding of How to Prepare for Listing

- In many cases, **startups preparing to go public refrain from taking proactive corporate actions**, such as cutting back on upfront investments to avoid losses or refraining from M&A to avoid major changes in their internal structure because they think that this will hinder their IPO. It has been pointed out that in some cases, **preparations for IPOs have instead hindered growth**.
- In terms of this point, it is considered that companies should avoid making unreasonable forward-looking investments or conducting M&As without adequate internal management systems in place. However, **since such actions are not uniformly disallowed, It is necessary to carefully communicate to startups the key points of listing examination at the exchange and how to approach to listing examination.**

Possible Initiatives

- Compile and distribute **FAQs focusing on issues that are often misunderstood in startups, for example: listing in the red, M&A and organizational changes prior to IPO, forecast management, and shareholder attribute surveys.**

Note: **Regularly set up opportunities to share awareness of IPO practices**, including those not mentioned above, with related parties such as lead underwriter securities companies, audit firms, investors, and issuers.

3. Promoting Proactive Sharing of Information With Investors

- When reviewing market segments, **the Growth Market newly requires periodic disclosure of matters related to business plans and growth potential**, and listed companies are expected to proactively promote growth-oriented initiatives while obtaining assessment from investors.
- While this disclosure has been well received, especially by institutional investors, **there are still some listed companies that do not take a proactive stance in providing information to investors** and need to improve their implementation of this disclosure.
- In particular, to encourage the management of listed companies to share information, it is important to **encourage them to more proactively explain their initiatives for growth to investors**, while also **utilizing IR frameworks other than disclosure (investor briefings and one-on-one meetings, etc.)**.

Possible Initiatives

- Encourage **investor briefings and one-on-one meetings** regarding the items specified with regard to matters related to **business plans and growth potential**, as well as **disclosure** of the **status and content of such briefings and meetings** (including attendees from the company, investor demographics, main themes, status of Q&A sessions, and the availability of videos of the briefings).

4. Assistance in Sharing Information With Institutional Investors

- For **institutional investors** to enter the Growth Market, it is considered **important for the management of listed companies to actively present their company's growth story**. However, many listed company managers are concerned that they **lack contacts with institutional investors and analysts, and that they do not know how to conduct effective IR**.
- To support listed companies that actively seek to attract institutional investors, it may be necessary to **provide opportunities for management to communicate the company's growth story** and to **support effective IR practices** by providing examples of good IR and institutional investors' perspectives, etc.

Possible Initiatives

- Regularly hold **IR events where listed company management can communicate and present growth stories** to institutional investors, etc.
- **Publish interviews, etc.**, with the management of listed companies on their efforts toward growth (expand TSE's interviews with top management of listed companies, "SOU").
Note: TSE's "SOU" interview page : <https://www.jpx.co.jp/english/listing/ir-clips/interview/>
- **Provide good examples of proactive IR** in the Growth Market and **share institutional investors and others' perspectives on IR in the form of interviews, seminars, etc.**

Note: In addition, promote the use of the TSE Growth Market 250 Index and the listing of ETFs (including active ETFs).

5. Implementing Stricter Listing Criteria

- In the Growth Market, **the listing criteria has been relatively lax to allow companies to raise growth funds from the public market even at a small to expand the options for startups.**
- However, it has been pointed out that **changing the initial listing criteria to an IPO size that would make it an investment target for a wide range of institutional investors and implementing stricter continued listing criteria as well** may help motivate growth after the IPO.
- The following points have been raised **regarding the immediate changing of criteria given the current situation:**
 - Initial listing criteria: **without improving the funding function in the non-listed area, it may deprive startups of an important opportunity.**
 - Continued listing criteria: **The criteria were just changed last year** when the continued listing criteria was revised, and **we should wait until the transitional measures are finished.**

Possible Initiatives

- **Continue to consider specific possible changes to the listing criteria** after progress is made in the supply of funds in the non-listed sector or in the situation of existing listed companies.

Note: In doing so, it is necessary to keep in mind that the continued listing standards will **require a longer notice period** before actual application.

6. Promoting the Use of the Professional Market (TOKYO PRO Market)

- The government and other related organizations are implementing measures to improve the fundraising environment for non-listed companies, such as the Startup Development Five-year Plan, etc. One action TSE could take is to promote the use of the professional market in step with these measures.
- On the other hand, the current TPM (TOKYO PRO Market) has some challenges, such as a lack of liquidity, and it has been pointed out that a fundamental review of the market is needed without being bound by the current system.

Possible Initiatives

- Continue to **discuss specific actions that would be necessary to revamp the current TPM at the fundamental level** (e.g., creating a mechanism to promote the growth of listed companies and the entry of specified investors).

Reference Materials



Concept and Institutional Design of the Growth Market

Concept

- For companies which have a certain level of market value by disclosing business plans for realizing high growth potential and their progress towards these achieving these plans appropriately and in a timely manner, but at the same time pose a relatively high investment risk in terms of their business track record.

Institutional Design

- Take over the role and function of providing growth capital to startups that Mothers had played, and **maintain a broad frontage for listing** (e.g., market capitalization of JPY 500 million or more for tradable shares, etc.)
 - Given the limited amount of funds supplied to private companies in Japan, Mothers had set a **relaxed listing criteria** to allow startups with high growth potential to raise growth funds from the public market even at a smaller size.
- Institutionalize **disclosure of “Business Plans and Matters Related to High Growth Potential”** based on the market concept.
 - At the time of listing and at least once a year thereafter, disclose updated information reflecting progress.
- From the viewpoint of seeking a healthy realization of high growth potential, **the continued listing criteria for market capitalization (JPY 4 billion or more) is applicable ten years after IPO.**

Reference: Listing Criteria for the Growth Market

Item	Purpose	Outline of Listing Requirements															
<p>Business Plans</p>	<ul style="list-style-type: none"> ➤ A business plan to realize high growth potential and that enables investors to make reasonable investment decisions based on information disclosed 	<ul style="list-style-type: none"> ➤ All requirements below must be met <ul style="list-style-type: none"> • Reasonable business plans in place • Principle underwriter submits basis for its opinion on company's high growth potential • Appropriate disclosure (after listing as well) on business plans and matters related to high growth potential (business model, market size, source of its competitive advantages, business risk) ➤ Below required to ensure high growth potential is achieved/realized appropriately <table border="1" data-bbox="840 651 2119 758"> <thead> <tr> <th>Criteria</th> <th>Initial Listing</th> <th>Continued Listing</th> </tr> </thead> <tbody> <tr> <td>Market Capital</td> <td>–</td> <td>from 10th yr. of IPO JPY 4bn.</td> </tr> </tbody> </table>	Criteria	Initial Listing	Continued Listing	Market Capital	–	from 10th yr. of IPO JPY 4bn.									
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<p>Liquidity</p>	<ul style="list-style-type: none"> ➤ Minimum criteria to ensure appropriate liquidity for smooth trade by public investors 	<table border="1" data-bbox="840 831 2119 1099"> <thead> <tr> <th>Criteria</th> <th>Initial Listing</th> <th>Continued Listing</th> </tr> </thead> <tbody> <tr> <td>No. of Shareholders</td> <td>At least 150 shareholders</td> <td>At least 150 shareholders</td> </tr> <tr> <td>No. of Tradable Shares</td> <td>At least 1,000 units</td> <td>At least 1,000 units</td> </tr> <tr> <td>Tradable Share Market Cap</td> <td>At least JPY 0.5 bn.</td> <td>At least JPY 0.5 bn.</td> </tr> <tr> <td>Trading Value</td> <td>-</td> <td>At least monthly avg.10 units</td> </tr> </tbody> </table>	Criteria	Initial Listing	Continued Listing	No. of Shareholders	At least 150 shareholders	At least 150 shareholders	No. of Tradable Shares	At least 1,000 units	At least 1,000 units	Tradable Share Market Cap	At least JPY 0.5 bn.	At least JPY 0.5 bn.	Trading Value	-	At least monthly avg.10 units
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<p>Governance</p>	<ul style="list-style-type: none"> ➤ Governance standard appropriate to the level of size of business and growth stage <p>Note: Only Basic Principles of CG Code applied</p>	<ul style="list-style-type: none"> ➤ Basic level of tradable share ratios required as public company (same level as global stock exchanges) <table border="1" data-bbox="860 1286 2141 1393"> <thead> <tr> <th>Criteria</th> <th>Initial Listing</th> <th>Continued Listing</th> </tr> </thead> <tbody> <tr> <td>Tradable Share Ratio</td> <td>At least 25%</td> <td>At least 25%</td> </tr> </tbody> </table>	Criteria	Initial Listing	Continued Listing	Tradable Share Ratio	At least 25%	At least 25%									
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Reference: Disclosure of “Business Plans and Matters Related to High Growth Potential”

Disclosed Items		Contents
Business Model	Business	➤ Details and characteristics of the products and services, contribution of each business, and the details and processes of permits and approvals that will be required in the future
	Earnings Structure	➤ Contracts with terms and conditions that have a significant impact on revenue and expense structures, cash flow acquisition streams, and earning structures
Market Environment	Market Size	➤ Details and size of the market (type of customer, region, etc.)
	Competitive Environment	➤ Details of competition, company’s positioning, market share, etc.
Source of Competitiveness	Competitive Advantage	➤ Technology, intellectual property, business models, know-how, brands, human resources, etc. that will serve as growth drivers
Business Plan	Growth Strategy	➤ Management policies and growth strategies, and specific measures to realize them (R&D, capital investment, marketing, personnel, financial planning, etc.) *The period covered by the business plan is expected to vary depending on the business activities of each listed company.
	Management Index	➤ Indexes that are important for management (reasons for adopting them as indexes, actual values, specific target values, etc.)
	Profit Plans and Assumptions	➤ If a medium-term management plan has been announced, its contents and assumptions
	Progress	➤ Status of achievement of previously stated items, updates from previously stated items, and next scheduled disclosure date
Risk Information	Perceived Risks and Countermeasures	➤ Major risks that could have a significant impact on the realization of growth and the execution of the business plan, and measures to address them

Status of IPOs

IPO Market Trends

- While **about 100 companies have been listed every year** in recent years (**about 70% are listed on Mothers/the Growth Market**), the **size of market capitalization and amount of funds raised at the time of IPO are relatively small** compared to overseas markets.
 - **The majority of IPOs have a market capitalization of less than JPY 10 billion and raised less than JPY 1 billion, with limited participation by institutional investors** (more than 80% of allocations of IPO are to individual investors).
 - In addition, **about 60% of new listings have a larger amount of secondary offering than that of public offering.**

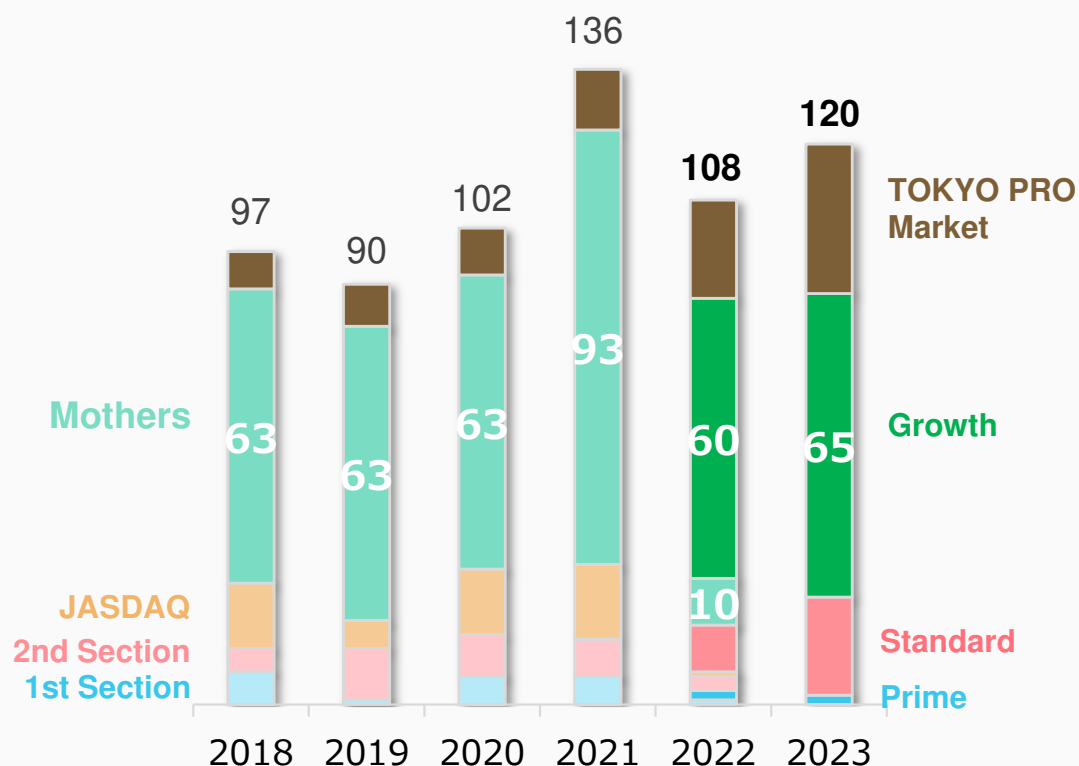
Fundraising Environment for Private Companies

- While **funding for private companies in Japan had traditionally been limited**, this has **increased in recent years** (more than 10 times over 10 years).
 - The government's "Startup Development Five-year Plan" has set a goal to **increase the provision of funds to startups 10-fold (up to JPY 10 trillion)** in five years, and **public and private sector efforts are progressing toward achieving this goal.**

Reference: Number of IPOs, Amount of Capital Raised and Market Cap. at IPO

- In recent years, about 100 companies have been listed every year (about 70% are listed on Mothers/the Growth Market).
- The size of market capitalization and amount of funds raised at the time of IPO are relatively small compared to overseas markets.

Number of New Listings



Note: Includes initial listings on TOKYO PRO Market, but excludes technical listings and listings via TOKYO PRO Market.

Note: Figures for 2023 are estimates as of December 1.

Amount of Capital Raised and Market Cap. at IPO

(billion yen)

Year	Mothers		U.S.	
	Average Market Cap.	Average Amount of Capital Raised	Average Market Cap.	Average Amount of Capital Raised
2017	8.3	0.8	183.4	26.0
2018	16.3	2.3	193.4	30.0
2019	15.1	1.3	354.6	42.0
2020	10.1	1.0	499.6	45.0
2021	15.9	1.4	458.3	45.8
2022	10.1	0.9	230.5	22.0
2023	17.0	1.6	-	-

Small in scale compared to the U.S.

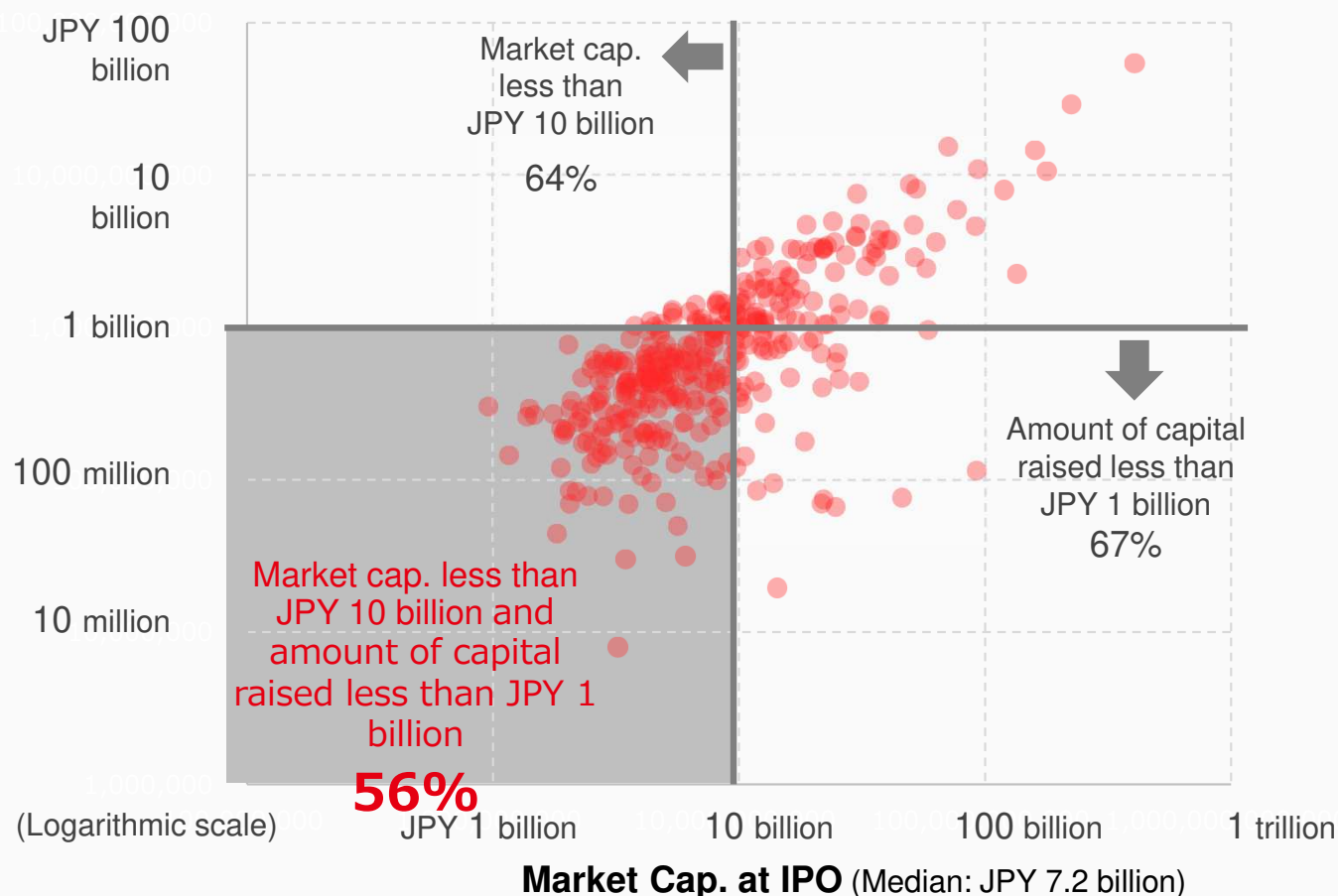
Note: Market capitalization is calculated based on public offering price
 Source: University of Florida Prof. Jay Ritter "Initial Public Offerings: Underpricing"
 Note: Note: Japan's 2023 figures are for companies that had IPOs by November

Reference: Distribution of Market Cap. and Amount of Capital Raised at IPO

- The majority of IPOs have a market capitalization of less than JPY 10 billion and raised less than JPY 1 billion, with limited participation by institutional investors (more than 80% of allocations of IPO are to individual investors).

Distribution of Market Cap. and Amount of Capital Raised at IPO

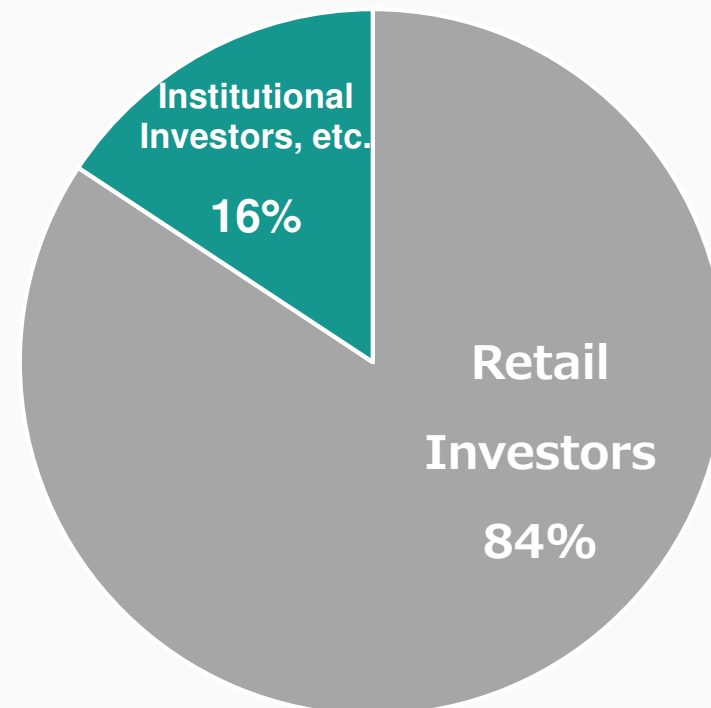
Amount of Capital Raised at IPO (Median: JPY 0.6 billion)



Note: Plots 357 companies newly listed on Mothers/the Growth Market from 2018 to 2022.

Allocation at IPO

(average between 2020 and 2022)

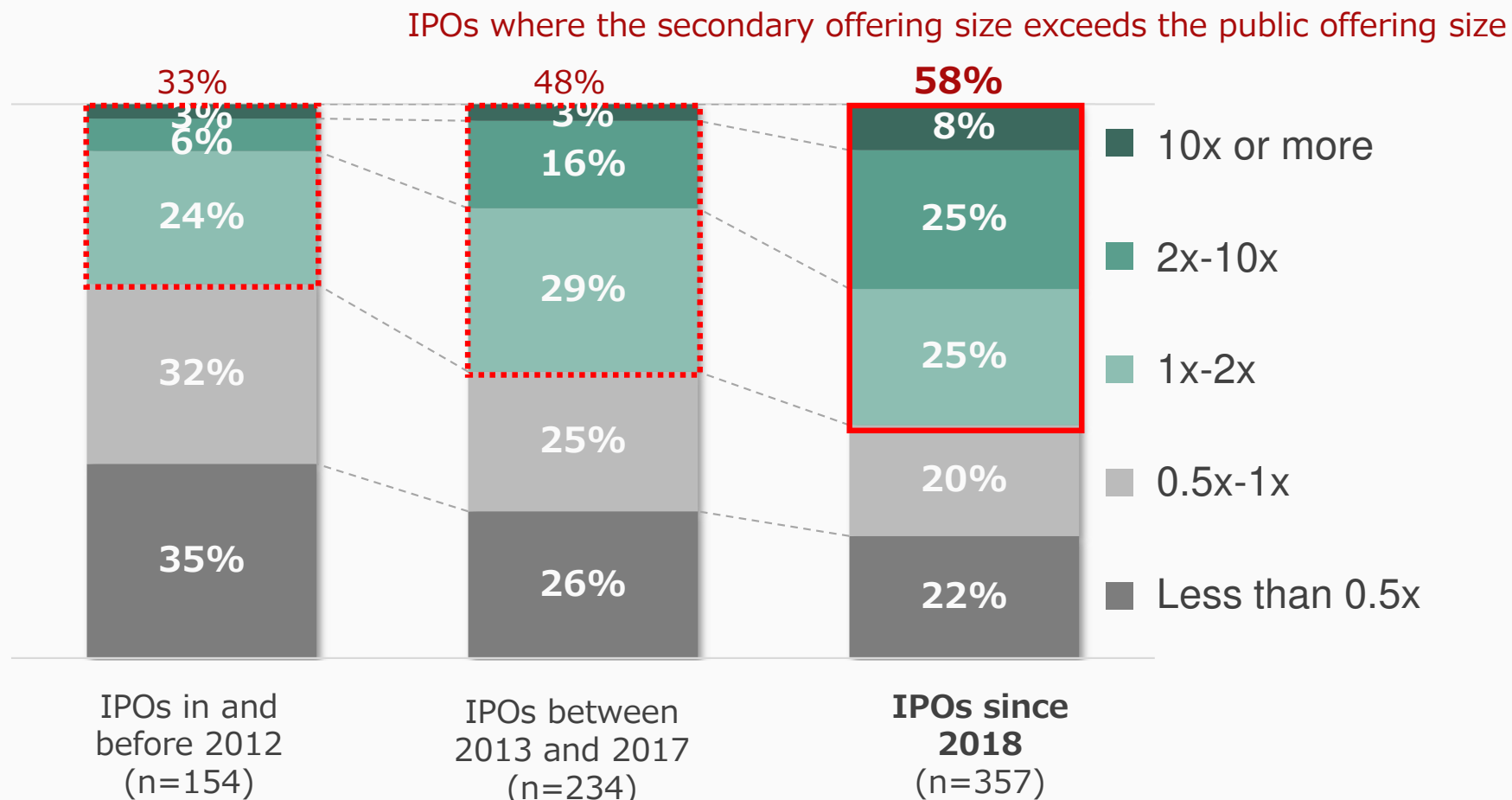


Note: Compiled by TSE from "Retail Investors in Transactions by Investor Sector," Japan Securities Dealers Association

Reference: Public Offering Size vs. Secondary Offering Size at Timing of New Listing

- About 60% of new listings (since 2018) have a larger amount of secondary offering than that of public offering. (Increasing in recent years)

Ratio of Secondary Offering Size to Public Offering Size at Timing of Listing (Secondary Offering Size / Public Offering Size)

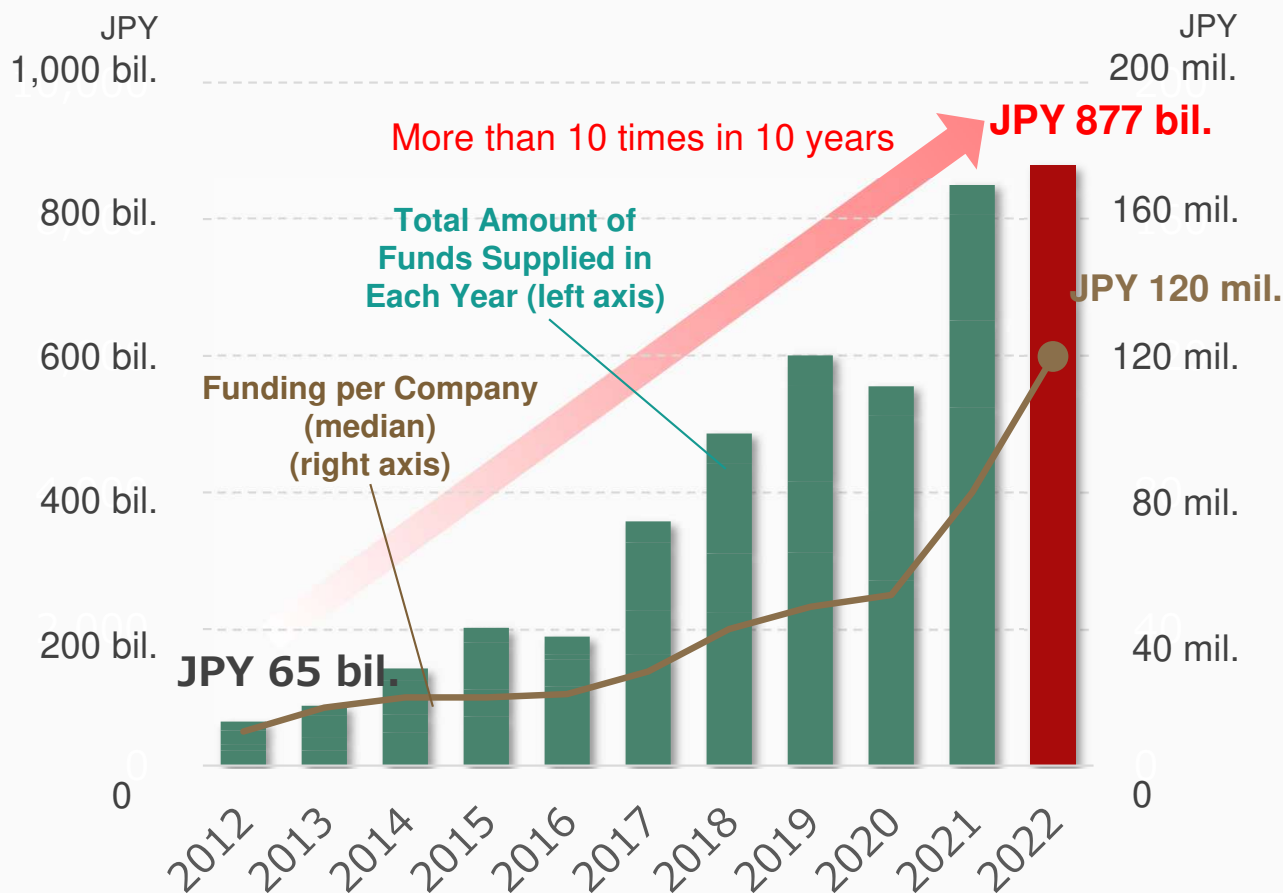


Note: Compiled for companies listed on Mothers/the Growth Market between 2005 and 2022.

Reference: Status of Funding for Private Companies

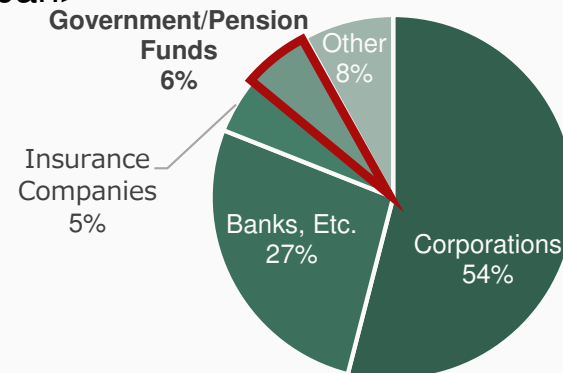
- **Funding for private companies has increased in recent years** (more than 10 times over 10 years, and funds supplied per company have also increased).
 - The government's "Startup Development Five-year Plan" (published in November 2022) has set a goal to **increase the provision of funds to startups by 10-fold (up to JPY 10 trillion)** over five years.
- In Japan, the main providers of funds are corporations and banks (funds provided by the government and pension funds are small)

Amount of Funds Provided to Private Companies

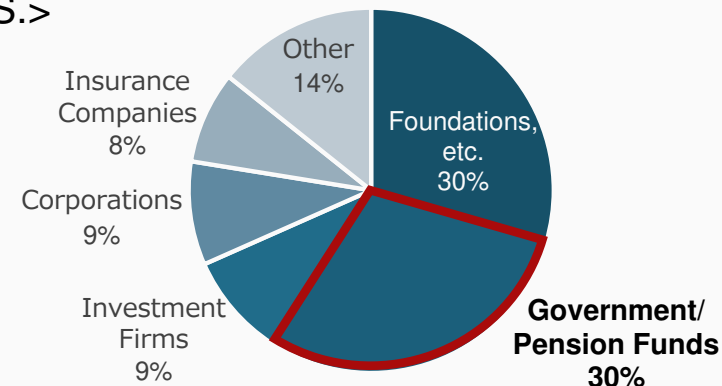


Entity supplying funds to VC funds

<Japan>



<U.S.>



Note: Compiled by TSE from INITIAL "Japan Startup Finance 2022" and other sources.

Note: Financial System Council Working Group on Market System
Prepared by TSE from materials provided by the secretariat at the 15th meeting.

(Reference) Current status of the TOKYO PRO Market

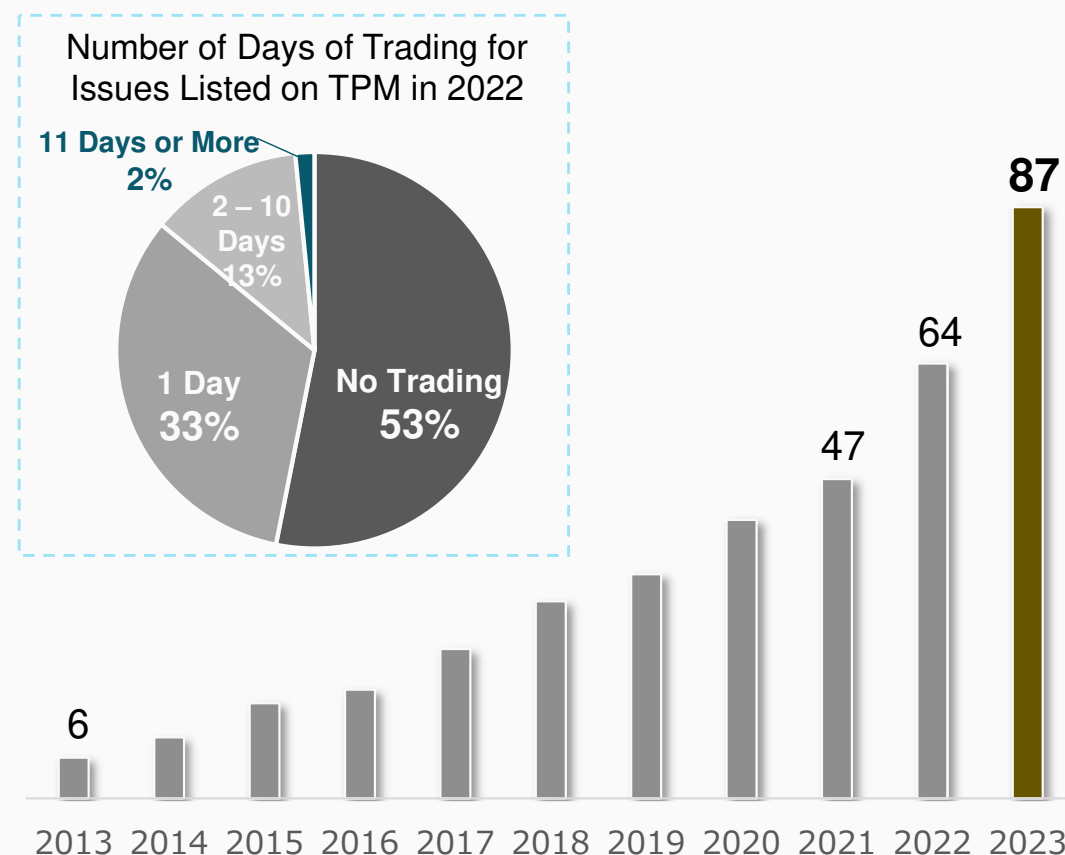
- **The number of listed companies on the TOKYO PRO Market, a market for specified investors (often called "professional investors"), is on the rise.**
- **However, most companies see minimal trading results throughout the year**

Overview of TOKYO PRO Market

	TOKYO PRO Market	Growth Market
Investor class	Professional Investors Only*	General Investors
Listing criteria	No initial requirements	Some initial requirements
Audit certification	For the last one year	For the last two years

*Sale is open to non-professional investors. In July 2022, the FIEA was amended to expand the scope of individuals eligible to become professional investors.

Number of Listed Companies in TPM



Note: The number for 2023 is as of the end of November.

Status of Listed Companies

Growth after listing

- **Many issues are mainly traded and held by individuals, and many companies have high PBRs even if they are in deficit, which suggests that investors expect companies to have high growth potential in the future.**
- **On the other hand, while listed companies achieve high growth after listing on average, few companies have achieved significantly high growth, and about half of the companies have a lower market capitalization than when they first listed.**
 - **Only a limited number of companies have raised large amounts of capital through public offerings after listing. (Only about 14% of the companies have made public offerings after listing.)**
 - **There are some cases where high growth could not be achieved even after a certain period of time after listing.**

Information Disclosure

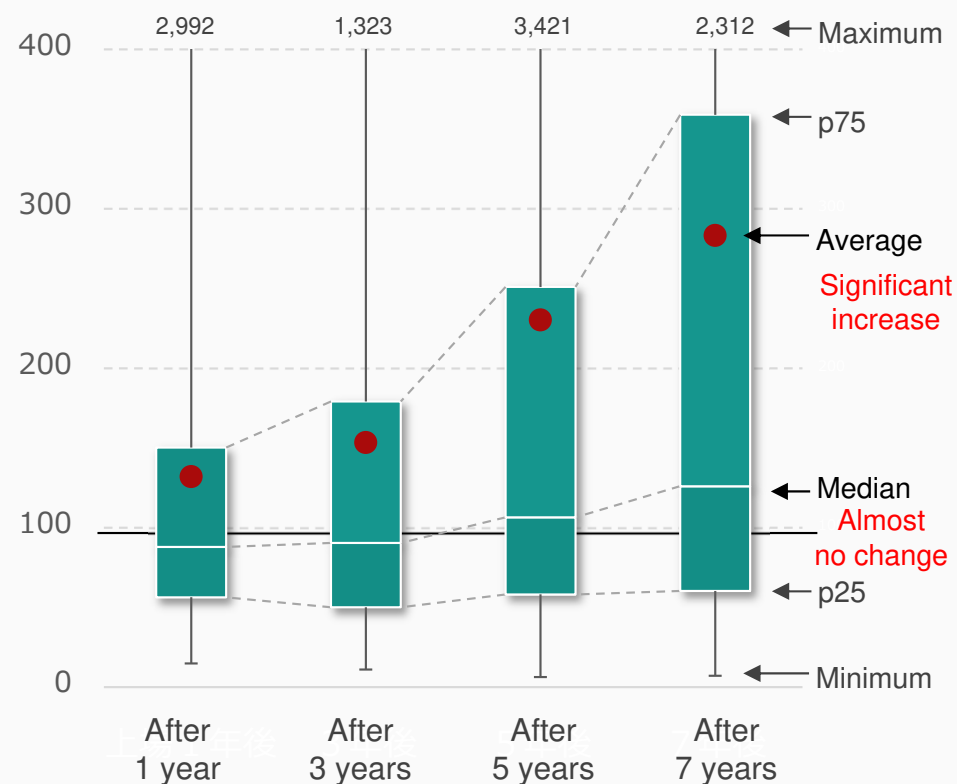
- **Investors and analysts have commented on the progress made in disclosing information on business models, competitive advantages, growth potential, etc., through the newly instituted disclosure of “Business Plans and Matters Related to High Growth Potential” etc.**
 - **Some pointed out the importance of continuous disclosure of the progress of business plans, etc., and called for further enhancement of disclosure on points that are important for investment decision making.**

Reference: Growth after Listing

- On average, Mothers listed companies achieve high growth after listing.
- However, there is **no significant growth in the median market capitalization** of listed companies, and **about half of the companies have a lower market capitalization than when they listed.**

Market Cap. after X Years since Listing (where market cap. at the end of the listing month is 100)

	After 1 year	After 3 years	After 5 years	After 7 years
Average	132	153	230	283
Maximum	2,992	1,323	3,421	2,312
p75	150	179	251	359
Median	88	90	107	126
p25	56	50	58	60
Minimum	15	11	6	7
Sample Size	488	362	243	142

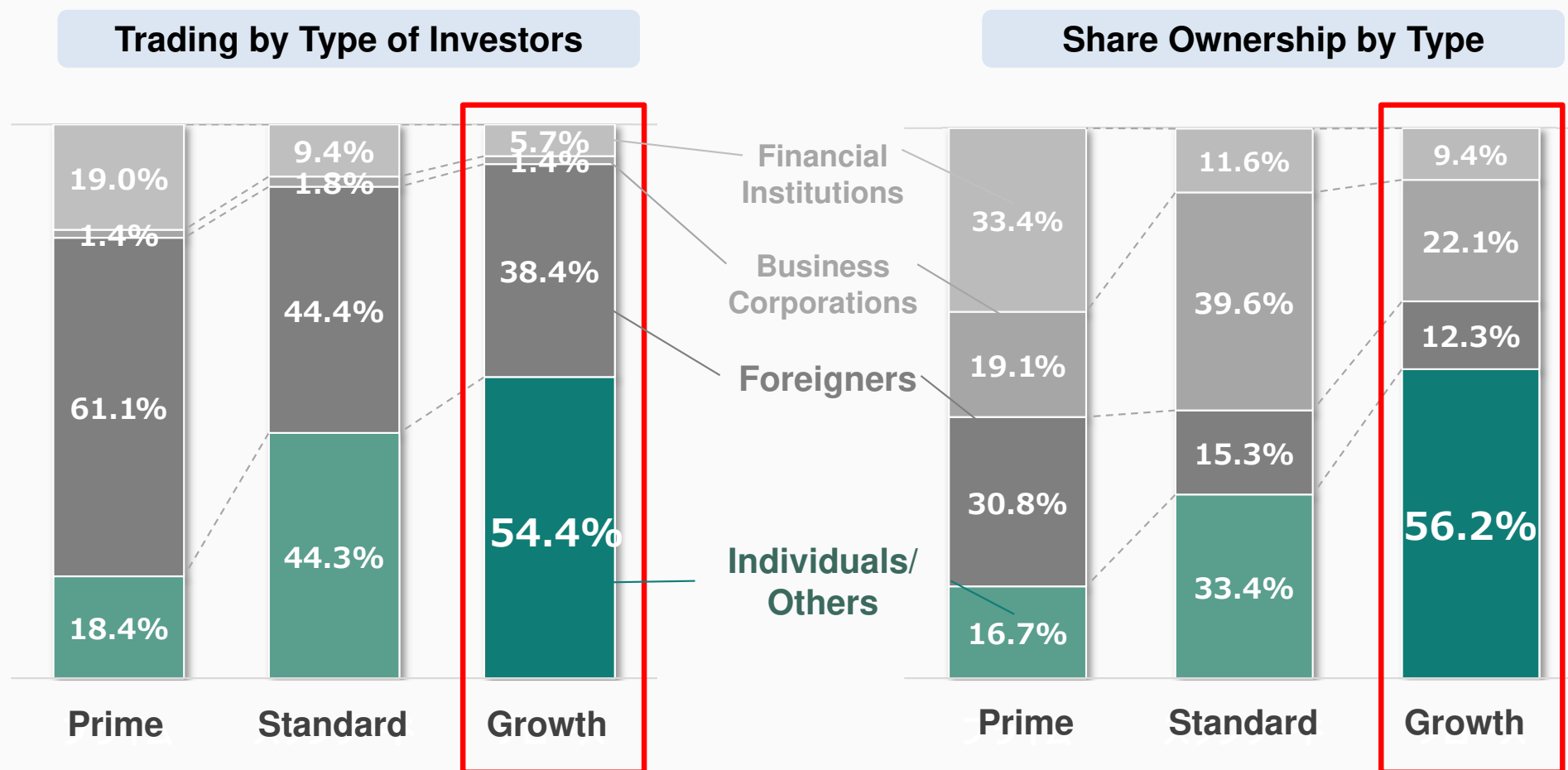


Note:

- Companies listed on Mothers since 2010 are scored on market capitalization after X years from listing where the market capitalization at the end of the listing month is 100.
- Companies delisted X years after listing are excluded from the calculation at the point of delisting.
- “p75” indicates companies in the 75th percentile from bottom, and “p25” indicates companies in the 25th percentile from bottom.

Reference: Trading and Share Ownership by Type

- In the Growth Market (formerly Mothers), **individuals account for the majority of trading and share ownership of listed companies.**



Note: Survey results in 2022 (data after transition to the new market segments)
 Note: Financial institutions include ordinary banks, trust banks, life and non-life insurance companies, securities companies, etc.

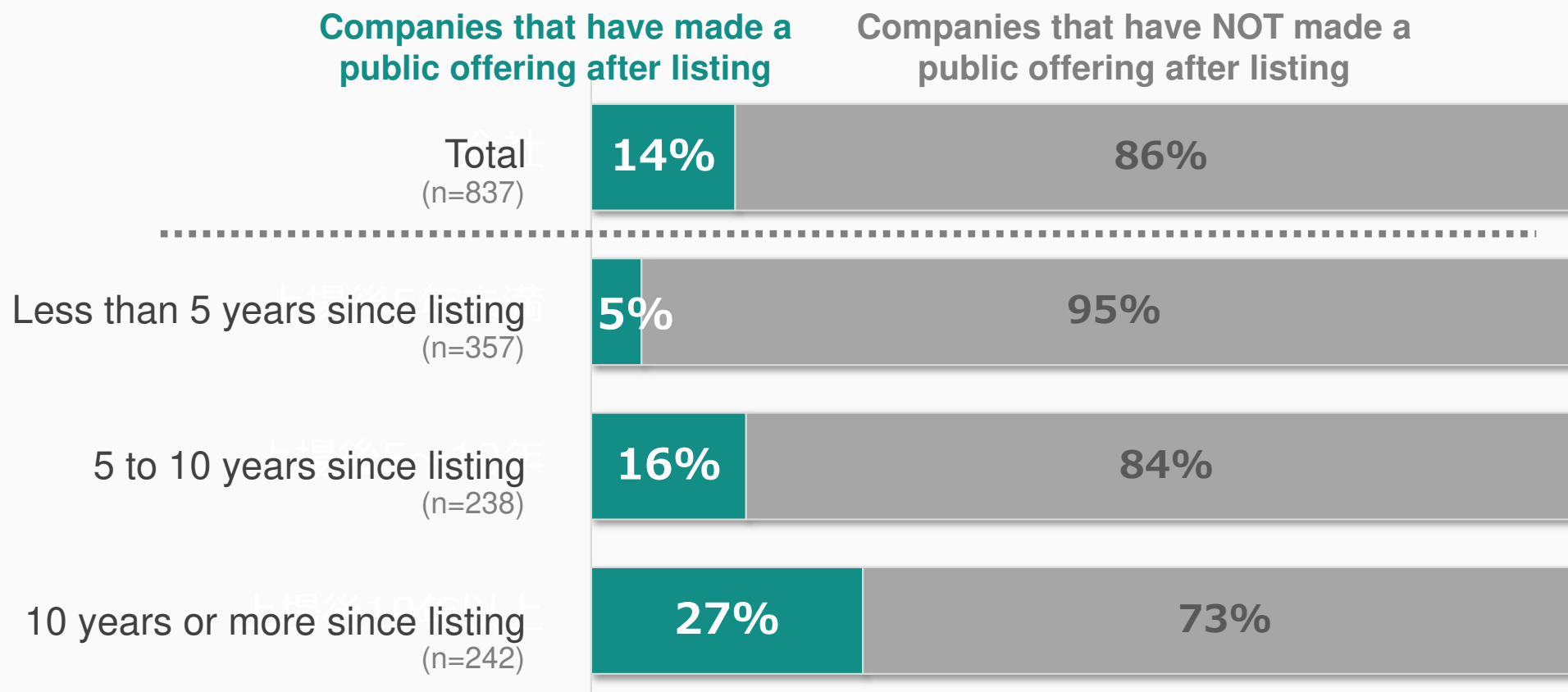
Note: Survey results in FY2022
 Note: Financial institutions include ordinary banks, trust banks, life and non-life insurance companies, securities companies, etc.

Reference: Ratio of Companies that Made a Public Offering After Listing

- Only about 14% of companies listed on Mothers/the Growth Market have raised capital through a public offering after their listing.

Note: Even among companies that have been listed for more than 10 years (listed before 2012), only about 27% have made a public offering.

Ratio of Companies That Made a Public Offering After Listing

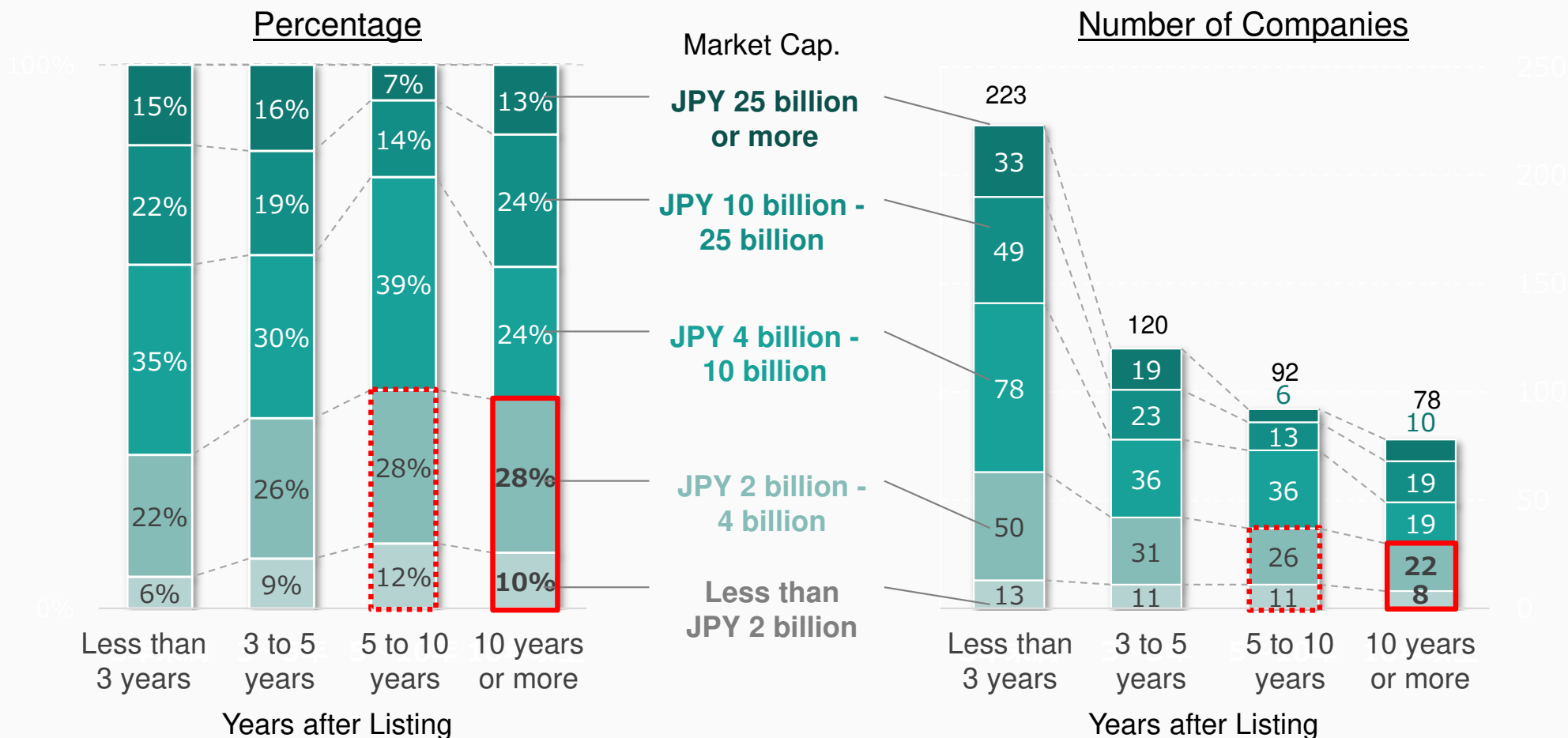


Note: Compiled for 837 companies listed on the Mothers/the Growth Market since 2003.

Reference: Distribution of Market Capitalization by Years after Listing

- There are **some cases where high growth could not be achieved even after a certain period of time after listing**. (30 companies with market capitalization of less than JPY 4 billion after 10 years or more since listing.)

Distribution of Market Cap. by Years after Listing



Note: Covering 513 Growth Market listed companies as of the end of 2022.

Note: Market capitalization is based on the average closing price from October to December 2022.

Reference: Investor Evaluation of Disclosure of Growth Market Listed Companies

- Investors and analysts have commented on **the progress made in disclosing information on business models, competitive advantages, growth potential**, etc., through the newly instituted disclosure of “Business Plans and Matters Related to High Growth Potential” etc.
 - Some pointed out **the importance of continuous disclosure of the progress of business plans**, etc., and **called for further enhancement of disclosure on points that are important for investment decision making**.

Investors and Analysts Opinions

General Comments

- **Disclosure is improving**, including in explanatory materials at the time of listing and in financial results presentation materials.
- **Business models and sources of competitiveness are being explained in an easy-to-understand manner**, and third-party data is being used as evidence. In addition, **the connection between the sources of competitiveness and the business plan, and the explanation of why the company will grow are becoming better organized**.
- Some companies are imitating other companies' disclosure practices that are highly rated by investors, **resulting in more uniformity in disclosure formats**. It is good to imitate good examples, but we would like to see companies differentiate their disclosures, as they may have different perceptions of the issues they face.

Disclosure of “Business Plans and Matters Related to High Growth Potential”

- Investors have a limited understanding of companies that have just been listed, and this disclosure format is **a useful tool to improve the efficiency of their investigations**.
- In some cases, **companies with insufficient disclosure practices have improved by this disclosure format**.
- **The disclosure of such information enables periodic observation** of the market environment, competitive advantages, growth strategies, investment plans, and so on. Particularly for startup companies, the business environment can change significantly in a short period of time, so **regular updates are important**.
- Since **descriptions are sometimes superficial**, more detailed explanations would be helpful.

Note: Excerpts from responses at TSE hearings with institutional investors and analysts conducted in 2022 (see Document 2 for the most recent interviews.)