



## **Japan Exchange Group, Inc.**

Earnings Conference for Q2 FY2024

October 30, 2024 11:00 – 11:22

Speaker: Yamaji Hiromi, Director & Representative Executive Officer, Group CEO

Tabata Atsushi, Senior Executive Officer & CFO

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**Takahashi:** Thank you very much for joining us today despite your busy schedules. It is now the scheduled start time, so we will begin Japan Exchange Group's Earnings Conference for Q2 FY2024. This session is being conducted in a hybrid format, with both an in-person venue and a live webinar broadcast.

First, let me explain the agenda for today. We will begin with a presentation from our side, followed by a Q&A session. As in previous sessions, the content of both the presentation and Q&A will be transcribed and translated into English by our group company, SCRIPTS Asia, and will be made available. It will also be posted on our company website. We appreciate your understanding.

Next, let me introduce today's participants. We have Yamaji Hiromi, Director and Representative Executive Officer, Group CEO, and Tabata Atsushi, Senior Executive Officer and CFO. I am Takahashi from the Corporate Communications Department, and I will be your moderator. Thank you for your attention.

First, Yamaji will provide an overview of the Q2 financial results for FY2024.

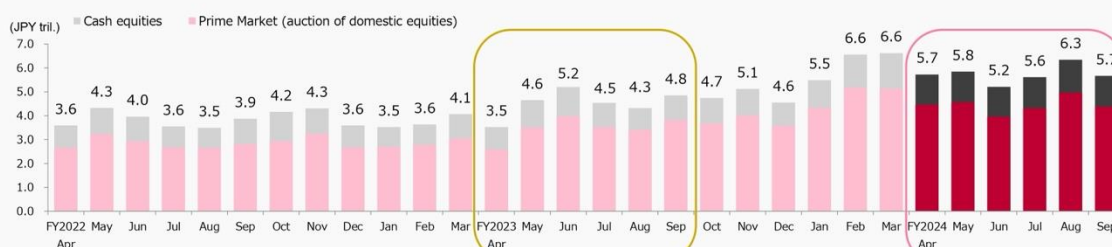
**Yamaji:** First, I would like to address recent media reports regarding an investigation by the Securities and Exchange Surveillance Commission (SESC) into a suspected insider trading violation involving an employee of the Tokyo Stock Exchange, which is part of our group. I deeply apologize for the significant concern and inconvenience this has caused listed companies and other stakeholders.

It is indeed true that an employee of the Tokyo Stock Exchange is under investigation by the SESC. As a group, we will continue to fully cooperate with the investigation.

## Market Trends (Cash Equities)



### Cash Equities Average Daily Trading Value (April 2022 – September 2024)



### Daily Average Trading Value by Market Division (JPY)

		FY2022	FY2023	FY2024		
		Annual Ave.	Annual Ave.	Q2 Ave.	Q2 FY2023 Ave.	y/y
Auction	Prime Market Domestic Stocks	2.85 tril.	3.87 tril.	4.44 tril.	3.46 tril.	+28.2 %
	Standard Market	85.1 bil.	132.0 bil.	133.4 bil.	124.6 bil.	+7.1 %
	Growth Market	142.5 bil.	152.0 bil.	127.6 bil.	164.8 bil.	(22.6 %)
	ETFs / ETNs	251.9 bil.	244.6 bil.	302.1 bil.	226.7 bil.	+33.3 %
Off-auction		463.8 bil.	556.4 bil.	690.0 bil.	500.6 bil.	+37.8 %
Cash Equities (auction/off-auction) Total*		3.84 tril.	5.00 tril.	5.74 tril.	4.52 tril.	+26.9 %

\* Average daily trading value of auction and off-auction trades of common stock on the Prime, Standard, and Growth Markets and TOKYO PRO Market, as well as ETFs/ETNs/REITs, etc.

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Now, I will provide an overview of earnings for Q2 FY2024.

Starting with the cash equity market conditions, there was a sudden market fluctuation in early August but trading activity has remained robust, with stock prices nearing the JPY40,000 level, continuing the trend from Q1.

The daily average trading value for equities from April to September 2024 was JPY5.74 trillion, a 26.9% increase YoY, setting a new record for volume over a half-year period.

## Market Trends (Derivatives)



### Monthly Trading Volume (April 2022 - September 2024)



### Average daily trading volume/value of major products

(Trading volume: 10,000 contracts)

	FY2022	FY2023	FY2024		
	Annual Ave.	Annual Ave.	Q2 Ave.	Q2 FY2023 Ave.	y/y
TOPIX Futures	10.4	11.1	9.6	11.1	(13.3 %)
Nikkei 225 Futures (Large)	8.8	8.7	8.1	8.8	(8.2 %)
Nikkei 225 mini	104.6	104.6	99.1	103.6	(4.3 %)
Nikkei 225 Options (Excluding Weekly Options.)	JPY 25.7 bil.	JPY 26.3 bil.	JPY 25.1 bil.	JPY 26.7 bil.	(6.0 %)
10-year JGB Futures	3.2	4.2	5.0	3.5	+41.0 %
<b>Total Trading Volume for Financial Derivatives</b>	352 mil. contracts	402 mil. contracts	244 mil. contracts	191 mil. contracts	+27.6 %
<b>Converted into large-sized contracts</b> (In line with the contract unit of each, the trading volumes of mini contracts and micro contracts are calculated using factors of 1/10 and 1/100, respectively.)	116 mil. contracts	120 mil. contracts	57 mil. contracts	60 mil. contracts	(6.5 %)
Gold Futures (standard)	2.9	3.3	4.5	3.0	+51.4 %
Platts Dubai Crude Oil Futures	0.9	0.7	0.6	0.7	(21.6 %)
<b>Total Trading Volume for Commodity Derivatives</b>	1,583	1,772	1,127	810	+39.2 %

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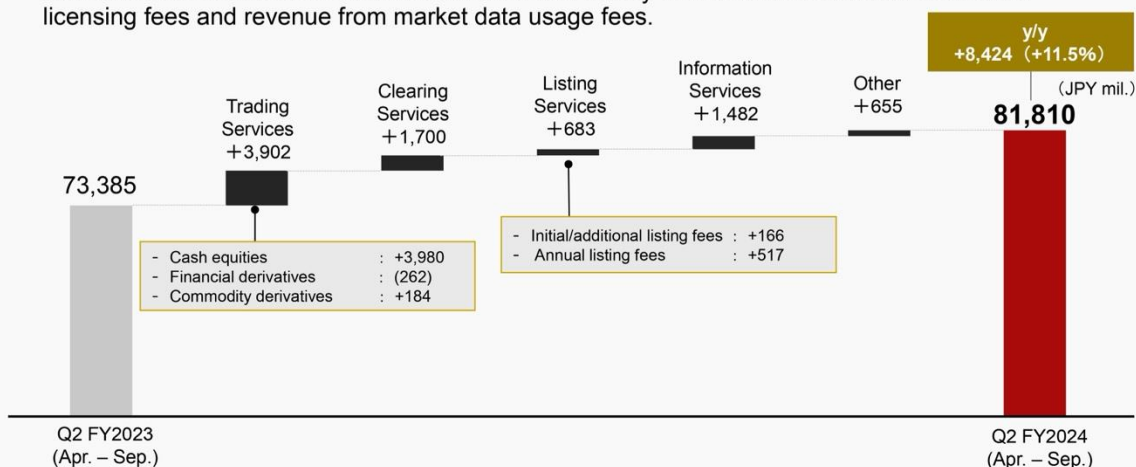
Turning to the derivatives market, the trading volume for financial derivatives saw a mixed trend: while trading in JGB futures increased, equity-related futures stagnated. As a result, after conversion to standardized trading units, the total trading volume declined by 6.5% YoY to 57 million contracts.

In the commodity derivatives, crude oil futures decreased, but gold futures performed strongly, leading to an overall increase in trading volume of 39.2% YoY to 11.27 million contracts.

## Operating Revenue



- Revenue from trading services and clearing services increased due mainly to an increase in cash equity trading.
- Revenue from listing services increased due mainly to an increase in the AUM of ETFs.
- Revenue from information services increased due mainly to increases in revenue from index licensing fees and revenue from market data usage fees.



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As for operating revenue, the increase in trading volumes, particularly in equities, led to growth in revenue from trading and clearing services.

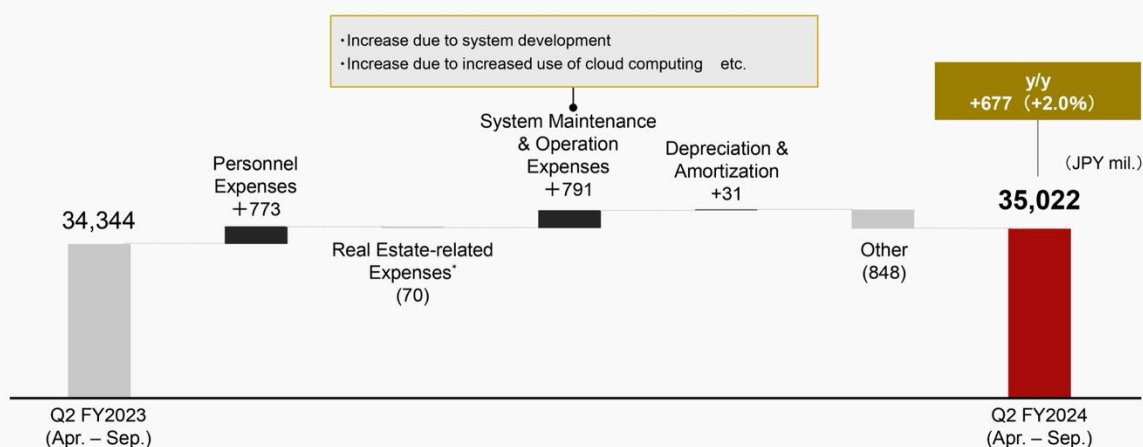
Additionally, the increase in the AUM of ETFs contributed to a rise in revenue from listing services. Furthermore, revenues related to information services increased due to higher revenue from index licensing fees and market data usage fees. Other operating revenues also rose.

As a result, total operating revenue increased by JPY8.4 billion, or 11.5% YoY, reaching JPY81.8 billion.

## Operating Expenses



- Personnel expenses increased due to factors such as wage increases.
- System maintenance and operation expenses increased due to system development and increased use of cloud computing.



\* A portion of real estate-related expenses, which are reported under depreciation in line with IFRS 16, Leases, is included under "Real Estate-related Expenses" in this chart.

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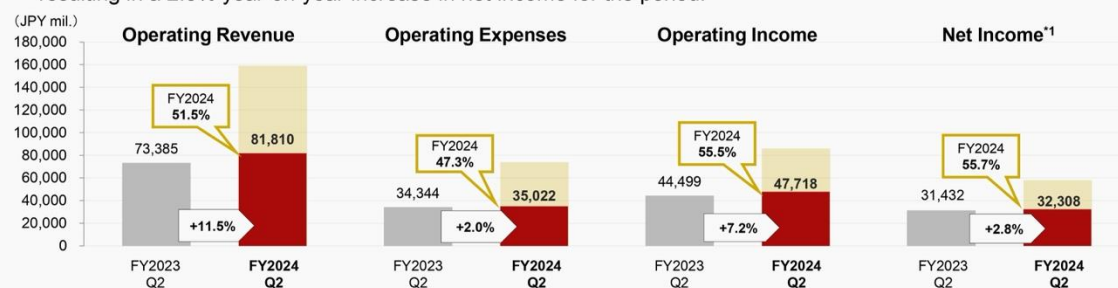
Now, regarding operating expenses. Personnel expenses increased due to wage increases, and system maintenance and operation expenses also rose due to higher costs for system development outsourcing and increased use of cloud computing for various systems.

Consequently, total operating expenses increased by JPY600 million, or 2% YoY, to JPY35 billion.

## Highlights



- While there was an increase in operating expenses such as system maintenance and operation expenses, this was more than offset by an increase in operating revenue due mainly to increases in trading of cash equities, resulting in a 2.8% year-on-year increase in net income for the period.



<sup>\*1</sup> Net Income attributable to owners of the parent company.

### ■Average Daily Trading Volume/Value of Major Products

	Q2 FY2023	Q2 FY2024	
			y/y
Cash Equities <sup>*1</sup> (trading value)	JPY 4,520.2 bil.	JPY 5,738.0 bil.	+26.9 %
TOPIX Futures (trading volume)	110,945 contracts	96,233 contracts	(13.3 %)
Nikkei 225 Futures <sup>*2</sup> (trading volume)	191,561 contracts	179,903 contracts	(6.1 %)
Nikkei 225 Options <sup>*3</sup> (trading value)	JPY 26.7 bil.	JPY 25.1 bil.	(6.0 %)
10-year JGB Futures (trading volume)	35,261 contracts	49,728 contracts	+41.0 %

<sup>\*1</sup> Average daily trading value of auction and off-auction trades of common stock on the Prime, Standard, and Growth Markets and the TOKYO PRO Market, as well as ETFs/ETNs/REITs, etc.

<sup>\*2</sup> Contracts of Nikkei 225 mini are calculated using a factor of 1/10.

<sup>\*3</sup> Excluding Weekly Options.

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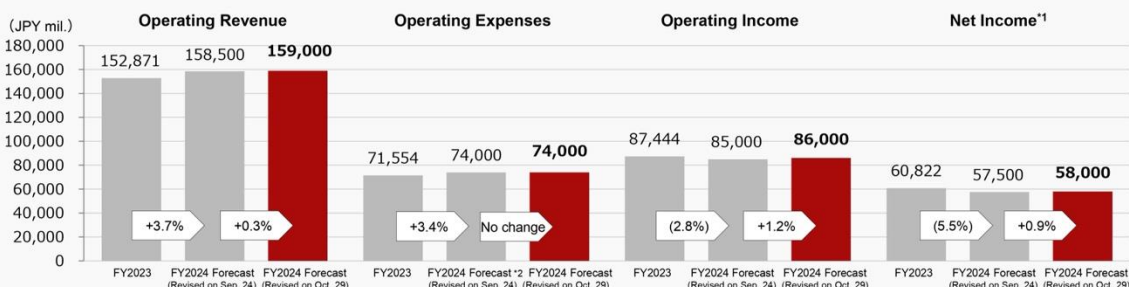
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Finally, the performance highlights. As mentioned, while operating expenses rose due to increases in personnel expenses and system maintenance and operation expenses, the growth in operating revenue, driven by higher equity trading volumes, more than offset these increases. Net income for the period was JPY32.3 billion, up JPY800 million, or 2.8% YoY.

## FY2024 Forecast



- As operating revenue, operating income, and net income for the period are expected to exceed those in the earnings forecast announced on September 24, 2024, the earnings forecast has been revised as follows.



\*1 Net Income attributable to owners of the parent company.

\*2 Revised from JPY 73,500 million as announced on April 30, 2024, to JPY 74,000 million.

### ■Average Daily Trading Volume/Value of Major Products

	FY2023	FY2024 (Forecast)			
		(Revised on Sep. 24)	Revised on Oct. 29	y/y	Change from the Sep. 24 forecast
Cash Equities (trading value) *1	JPY 4,997.3 bil.	JPY 5,300.0 bil.	JPY 5,400.0 bil.	+8.1 %	+1.9 %
TOPIX Futures (trading volume)	111,051 contracts	102,000 contracts	103,000 contracts	(7.2 %)	+1.0 %
Nikkei 225 Futures (trading volume) *2	192,001 contracts	186,000 contracts	185,000 contracts	(3.6 %)	(0.5 %)
Nikkei 225 Options (trading value) *3	JPY 26.3 bil.	JPY 24.5 bil.	JPY 25.0 bil.	(5.1 %)	+2.0 %
10-year JGB Futures (trading volume)	41,737 contracts	48,000 contracts	50,000 contracts	+19.8 %	+4.2 %

\*1 Average daily trading value of auction and off-auction trades of common stock on the Prime, Standard, and Growth Markets and the TOKYO PRO Market, as well as ETFs/ETNs/REITs, etc.

\*2 Contracts of Nikkei 225 mini are calculated using a factor of 1/10. \*3 Excluding Weekly Options.

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For the FY2024 earnings forecast, due to trading volumes—particularly in equities—significantly exceeding our initial expectations, we announced a second upward revision on October 29, following the one in September.

Specifically, the October forecast raises the September estimates by JPY500 million (+0.3%) for operating revenue, bringing it to JPY159 billion, and by JPY500 million (+0.9%) for net income, bringing it to JPY58 billion.

This concludes my explanation.

## Question & Answer

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**Takahashi:** We will now begin the Q&A session. Please feel free to ask your questions.

**Watanabe: This is Watanabe from Daiwa Securities. Thank you for the presentation. I have two main questions.**

**First, could you provide an update on the management policy for collateral deposited with JSCC, including the expected timeline for negotiations?**

**Additionally, regarding the distribution of investment returns with the exchange, are there scenarios in place that would allow for returns to be effectively captured as interest rates rise?**

**Yamaji:** Thank you.

As you mentioned, short-term interest rates in Japan have risen from negative to zero, and are now slightly above zero. In this context, we have partially resumed the management of collateral in the OTC derivatives division.

However, as you may know, in Japan, this collateral can only be invested in extremely safe assets due to its nature, which mainly means deposits with central banks or overnight instruments. However, in Japan, no interest is paid on deposits held with the central bank.

This situation varies by country. For example, at Eurex, about 95% to 98% of deposits are similarly held with the central bank, and interest is paid on those deposits. In Japan, however, even if we deposit funds with the Bank of Japan, no interest is paid. This reflects the same mechanism that, when rates were negative, we did not receive interest. I hope you understand that there is a significant difference in the system here.

As for your second question, as I mentioned earlier, the funds in question are not our own but are funds held under custody, so we are compelled to invest them in safe assets.

As such, while the shift from negative to positive interest rates is indeed happening, the safe nature of the investments means that returns are low. So, the gains are not yet substantial enough to impact our overall performance significantly. However, it is true that there has been a gradual increase.

Regarding the method of distributing returns with clearing participants, as you know, different participants are involved depending on the product, so it is necessary to negotiate with each group of clearing participants per product. We are actively discussing this with various parties, but there are still some products where a conclusion has not yet been reached.

Therefore, while there are some products (the OTC derivatives division) for which an agreement has been reached, please understand that there is not yet enough progress to make any major announcements at this time.

**Watanabe: Regarding the timeline, would it be possible to give an indication of whether a conclusion might be reached within this fiscal year?**

**Yamaji:** Reaching an agreement will depend on the discussions with participants, and both sides need to be in consensus. Therefore, I don't think we have set a goal to finalize this within the fiscal year.

**Watanabe: My second major question is about the use of surplus capital. This time, there was no announcement of a buyback or major investment. Could you explain the reason for not providing additional shareholder returns? Given that sticking to just a 60% dividend payout ratio would lead to further capital accumulation, should we expect a special dividend to be the baseline approach for this fiscal year as well?**

**Tabata:** I'll address that question.

As you pointed out, the use of surplus capital and excess funds is indeed a topic of discussion at the Board of Directors level. Naturally, we are discussing options including growth investments such as M&A, as well as shareholder returns. However, we haven't reached a conclusion yet on how to proceed, so there are no new measures to announce at this time.

That said, if a direction is decided at some point, we may be able to present a strategy in some form, but as of now, no decisions have been made. So, this response is only an update on the current status.

**Watanabe: Understood. Thank you very much.**

**Takahashi :** Thank you. Next question, please.

**Niwa: My name is Niwa from Citigroup Securities. My question is mainly about the next mid-term management plan. I would like to understand the overall direction of management for the Group. Specifically, my question is whether profit growth or EPS growth will be achievable in the next mid-term management plan.**

**In the current mid-term management plan, substantial profit growth was achieved by subsidiaries, and the result was an impressive annual profit growth in the high single digits. However, profits are already at a high level this year, and growth seems challenging. From the perspective of the entire group, how should we interpret this situation?**

**Yamaji:** Thank you.

This fiscal year is the final year of our current mid-term management plan, and we have now passed the halfway mark. At this point, we are evaluating our performance under the mid-term management plan 2024 and have just begun discussions for the next mid-term management plan.

This plan included various targets, including profit growth. The current mid-term management plan 2024 represents the first stage of our broader medium-term targets leading up to 2030, with the next stage being the second.

In the first stage, I believe we largely achieved what we aimed for. For example, we made progress in creating an environment that supports sustainable growth for companies, expanding our product lineup with fractional investment products and interest rate derivatives, and expanding our service areas through M&A, such as the acquisition of SCRIPTS Asia. Overall, I believe we accomplished what we set out to achieve in the first stage.

As for the next mid-term management plan, discussions have just started, so I cannot yet say definitively what direction we will take. However, as you mentioned, it will be necessary to address how we approach profit growth in the next mid-term management plan.

The environment has also changed considerably. For example, interest rates are beginning to rise, and 10-year government bonds are now moving around the 1% mark, creating a potentially different environment compared to the current mid-term management plan. We will need to take these new environmental changes into full consideration as we consider the next medium-term management plan..

As a publicly listed company, we are facing a slight but inevitable increase in costs due to various factors. Given our commitment to sustainable growth, finding ways to grow the top line will always be a challenge. Our goal is to present a plan that is as clear and understandable as possible.

**Niwa: Just to clarify, does this mean that we should expect the new mid-term management plan to focus more on growth rather than on distribution of profits?**

**Looking at the stock price, the valuation seems extremely high compared to global exchanges, possibly due to expectations for growth. Could you share some qualitative insights into what might drive your profit growth?**

**Yamaji:** Specifically, we have been focusing on diversifying our information services. Currently, there is still a large amount of data within our company that has yet to be monetized, and we may also start providing new types of data in the future. We constantly need to think about activating these untapped areas.

We have established JPX Market Innovation & Research and are actively pursuing various approaches. We are noticing a demand for data, such as statistics and other information. I do not think it will become profitable immediately, but, I believe it is essential to create and nurture these growth opportunities.

On the other hand, there are areas we must pursue that will not generate immediate returns, such as digital securities and carbon credits. These initiatives align with our mission as a market operator but they will require sustained investment over time, which will incur costs.

Therefore, to make these initiatives sustainable, we must constantly focus on the top line. As for whether we prioritize growth or distribution, I believe we need to pursue both rather than choosing one over the other.

**Takahashi:** It appears that we have received all questions, so this concludes the Q&A session. With that, we will wrap up today's earnings presentation.

Thank you very much for your participation today.

**Yamaji :** Thank you.

[END]