

Summary of Q&A at JPX FY2019 Q2 Financial Results Briefing

(held on October 31, 2019)

(1)

Q: You revised upward the operating expenses forecast for the full FY2019 by JPY 1.5 billion. Could you provide the breakdown for those expenses, including cost containment? In addition, what are your estimates for one-time expenses that may be incurred at the time of product transfer from Tokyo Commodity Exchange (TOCOM) to Osaka Exchange (OSE) and the merger of the clearing organizations, which are scheduled for FY2020?

A: We have curbed expenses, particularly variable expenses, by approximately JPY 1.5 billion while we have estimated that one-time expenses associated with the merger with TOCOM will be around JPY 1.5 billion and expenses will increase by around JPY 1.5 billion in consolidating expenses of TOCOM for H2 FY2019. As a result, we have increased full-year operating expenses by JPY 1.5 billion. With respect to expenses for FY2020, as we are currently considering schemes, etc. for the product transfer and the merger of the clearing organizations, it is difficult to present an estimate at the moment.

(2)

Q: You have lowered the earnings forecast due to merger expenses and market conditions and also revised downward the dividend forecast. Meanwhile, you have been steadily increasing shareholder returns in recent years. Are you going to consider ways to prevent the amount of shareholder returns for FY2019 from falling below that for FY2018?

A: Our policy for shareholder returns is based on a dividend payout ratio of approximately 60%. Further shareholder returns will be flexibly made if there are extra cash, deposits, and capital, considering future M&As, other investments, etc. This policy remains unchanged for the current fiscal year.

(3)

Q: With respect to effects of the merger with TOCOM, Group CEO Kiyota commented before the tender offer that he expected TOCOM's revenues to double due to the merger. Is there any change in this view? Moreover, as trading activity of electricity futures is sluggish, it seems better to transfer energy-related products to OSE as well. Is there any internal discussion about it?

A : I believe the way he predicated that comment was by saying that it would partially depend on market conditions. At the moment, our outlook for TOCOM's revenues remains unchanged.

From November 1, 2019, staff members of sales and marketing divisions at OSE and TOCOM will be serving concurrently at both companies. We are reviewing per-product sales and marketing strategies that TOCOM has thus far implemented and analyzing effective approaches for different types of customers. We will formulate a sales and marketing plan within this year and start sales and marketing activities from early next year. Based on responses to such activities, we may be able to present more specific data for the earnings forecast for next year.

It will take time to boost activity in the electricity futures market. However, in consideration of the cases in Europe and the fact that electricity futures are based on electricity generated domestically, we expect their trading volume to increase in the future. Now that the electricity market has been liberalized and there are wild ups and downs of prices at Japan Electric Power Exchange, there is a need for electricity futures. However, figuring out how to encourage major power companies to participate in the market will be a key to expanding the market. We will work on this matter in cooperation with administrative authorities.

(4)

Q: London Stock Exchange Group has a policy of enhancing data business via a takeover of Refinitiv, etc. What is JPX's inorganic growth strategy for enhancing data business?

A: We are conducting various Proof of Concept testing programs for our data business and implementing initiatives for monetizing services that have received favorable responses. In fact, we are selling derivatives system-related data to institutional investors and expecting annual revenue of several tens of millions of yen. Moreover, we are considering provision of margin transaction-related data to securities companies and investors and distribution of IR briefing session manuscripts of listed companies in English.

(5)

Q: Some online brokers have started to abolish brokerage commissions. What impact do you think this move will have on fees of and trading volume at JPX?

A: So far there has been no particular impact. However, we have concerns over the possibility that the business model of securities companies and that of JPX may conflict with each other in the medium- to long-term.

(6)

Q: In connection with the merger with TOCOM, when do you expect to accelerate efforts to reshore the investor money flow?

A : We have data regarding TOCOM's approaches to customers for each product, their reactions or responses to said approaches. We are reviewing the related data and analyzing how we can most efficiently reshore money flow in terms of types of products, approaches, and customers. We will complete analysis within this year and devise an action plan. We hope to engage in sales and marketing activities from early next year.

At the moment, it is difficult to determine when such efforts will bear fruit and show up in figures, but we want to produce outcomes as soon as possible.

(7)

Q: It seems that there has been little increase in the amount of financing by listed companies. What are your thoughts about the reasons for this?

A: One reason could be that, so far, the number of IPOs has decreased year on year. However, we expect that the number of IPOs will reach the same level as last year. Meanwhile, the amount raised via third-party allotments has increased slightly in the current fiscal year. Such allotments include not only those for pure financing but also those aimed at corporate group reorganizations. In this current low interest rates environment, not only equity financing but also debt financing will be an option to be considered. Moreover, in the U.S. there have emerged direct listings that entail raising capital from private equity funds or venture funds before going public without raising any capital at the time of actual listing. We are observing such movements with great interest.