



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

Earnings Conference for Q2 FY2023

October 27, 2023 11 : 00~11 : 40

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

Tabata Atsushi, Senior Executive Officer & CFO

## Presentation

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**Yaguchi:** Thank you for joining us today despite your busy schedules. As it's time to begin, we will now commence the Japan Exchange Group's earnings conference for Q2 FY2023. We are holding this session in a hybrid format, combining an on-site event with a live webinar.

First, let me outline today's agenda. We will begin with our presentation, followed by a Q&A session.

Please note that SCRIPTS Asia, a subsidiary of our group, will produce and distribute a transcript and English translation of both the presentation and the Q&A. These will also be made available on our website. We kindly ask for your understanding in this regard.

Now, let me introduce the participants from our side. With us is Hiromi Yamaji, our Director & Representative Executive Officer, Group CEO.

**Yamaji:** Hi, I'm Yamaji. Thank you.

**Yaguchi:** Next, we have Atsushi Tabata, our Senior Executive Officer and CFO.

**Tabata:** I'm Tabata. Thank you.

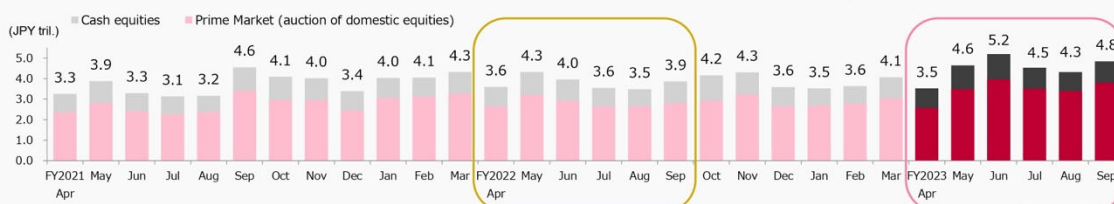
**Yaguchi:** And I am the moderator, from the Public Relations and Investor Relations Department, Yaguchi. Thank you.

To start, Yamaji will give an overview of the Q2 financial results for FY2023.

## Market Trends (Cash Equities)



### Cash Equities Average Daily Trading Value (April 2021 – September 2023)



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

		FY2021	FY2022	FY2023		
		Annual Ave.	Annual Ave.	Q2 Ave.	Q2 FY2022 Ave.	y/y
Auction	Prime Market (prev. 1st Sec.) Domestic Stocks <sup>*1</sup>	2.78 tril.	2.85 tril.	3.46 tril.	2.81 tril.	+23.2 %
	Standard Market (prev. 2nd Sec. + JQ Standard) <sup>*1</sup>	77.2 bil.	85.1 bil.	124.6 bil.	82.6 bil.	+50.9 %
	Growth Market (prev. Mothers + JQ Growth) <sup>*1</sup>	160.9 bil.	142.5 bil.	164.8 bil.	122.1 bil.	+35.0 %
	ETFs / ETNs	261.1 bil.	251.9 bil.	226.7 bil.	268.3 bil.	(15.5 %)
Off-auction		425.4 bil.	463.8 bil.	500.6 bil.	459.9 bil.	+8.8 %
Cash Equities (auction/off-auction) Total <sup>*2</sup>		3.76 tril.	3.84 tril.	4.52 tril.	3.79 tril.	+19.3 %

<sup>\*1</sup> Trading value from before April 1, 2022 has been reclassified to match the new market segments.

<sup>\*2</sup> Average daily trading value of auction and off-auction trades of common stock on the Prime, Standard, and Growth Markets (1st/2nd Sections, Mothers, and JASDAQ up to FY2021) and TOKYO PRO Market, as well as ETFs/ETNs/REITs, etc.

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**Yamaji:** Today, I would like to discuss the overview of the Q2 financial results for FY2023 and our future initiatives regarding the request we made to listed companies in March regarding the realization of management conscious of capital costs and stock prices.

Let me first provide an overview of the Q2 financial results for FY2023. Please refer to page four of the materials.

Regarding the trends in the cash equities market, from April 2023 to September 2023, the trading value was buoyant throughout the period, with the average daily trading value of stocks and other securities rising by 19.3% YoY (year-on-year), reaching JPY4.52 trillion. This marks a significant increase and the highest value for the first half (H1) in our history.

I believe there are various backgrounds and factors contributing to this increase in trading. One is the shift in focus among traditional Western investors in Asia. While they have primarily emphasized investments in China, the rising geopolitical risks have brought the Japanese market to the forefront as a prominent investment destination in Asia.

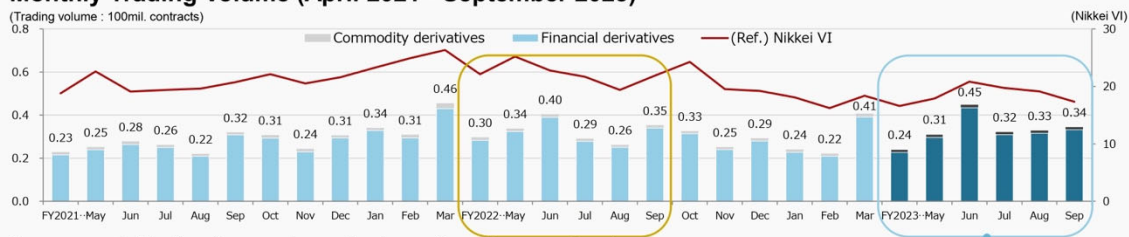
Additionally, the Japanese economy is expected to grow, driven by robust corporate performance, normalization of economic activities following the pandemic, recovery of inbound demand, an increase in personal consumption due to wage hikes, and other factors contributing to growth led by domestic demand. This anticipated economic recovery in Japan is also a contributing factor.

Furthermore, next year will mark a significant turning point with the substantial expansion and potential permanence of the NISA, Japan's tax exemption program, which we believe will encourage a major shift of personal financial assets from savings to investments. At JPX, we are committed to working towards the long-term and sustainable growth of the market. I will elaborate on this further later on.

## Market Trends (Derivatives)



### Monthly Trading Volume (April 2021 - September 2023)



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

(Trading volume : 10,000 contracts)

	FY2021	FY2022	FY2023		
	Annual Ave.	Annual Ave.	Q2 Ave.	Q2 FY2022 Ave.	y/y
TOPIX Futures	9.6	10.4	11.1	10.6	+4.3 %
Nikkei 225 Futures (Large)	7.6	8.8	8.8	9.1	(3.6 %)
Nikkei 225 mini	98.9	104.6	103.6	111.7	(7.3 %)
Nikkei 225 Options *Excluding Weekly Options.	JPY 23.6 bil.	JPY 25.7 bil.	JPY 26.7 bil.	JPY 26.2 bil.	+2.1 %
10-year JGB Futures	3.3	3.2	3.5	3.2	+8.9 %
<b>Total Trading Volume for Financial Derivatives</b>	335 mil. contracts	352 mil. contracts	191 mil. contracts	186 mil. contracts	+2.7 %
Gold Futures (standard)	2.7	2.9	3.0	2.8	+4.6 %
Platts Dubai Crude Oil	1.5	0.9	0.7	0.9	(16.6 %)
<b>Total Trading Volume for Commodity Derivatives</b>	1,692	1,583	810	791	+2.4 %

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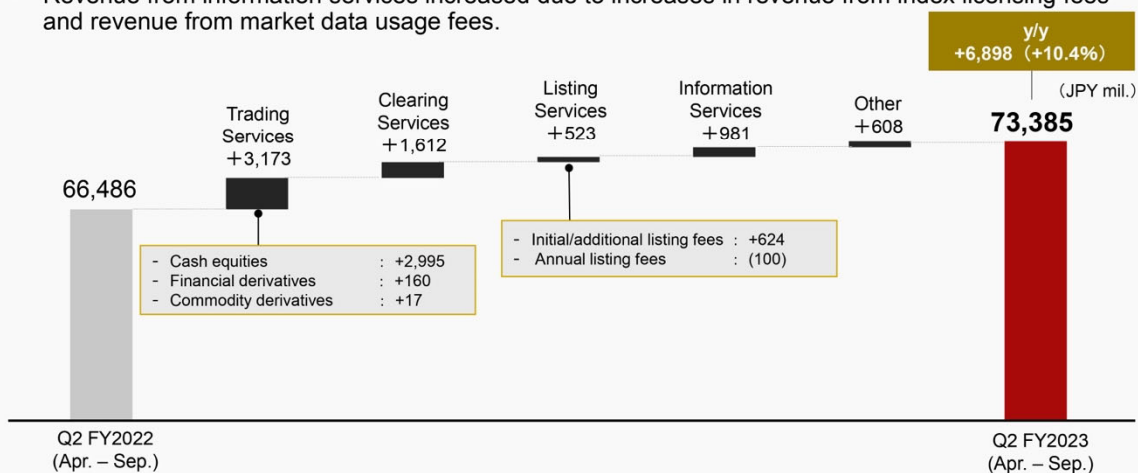
Please turn to page five to view the trends in the derivatives market. While trading volumes in financial derivatives such as Nikkei 225 mini futures faced some challenges, increased transactions in JGB futures led to a 2.7% YoY increase, reaching 190 million contracts.

On the other hand, the trading volume of commodity derivatives saw a decrease in crude oil futures. However, the robust performance of gold futures led to an overall increase of 2.4% YoY, reaching 8.10 million contracts.

## Operating Revenue



- Revenue from trading services and clearing services increased in line with a sharp increase in trading, especially of cash equities.
- Revenue from listing services increased due mainly to an increase in listed company fundraising.
- Revenue from information services increased due to increases in revenue from index licensing fees and revenue from market data usage fees.



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Please refer to page six for the operating revenue situation, considering the market trends I just discussed. As I mentioned earlier, the rapid increase in stock trading has led to higher trading-related and clearing-related revenues.

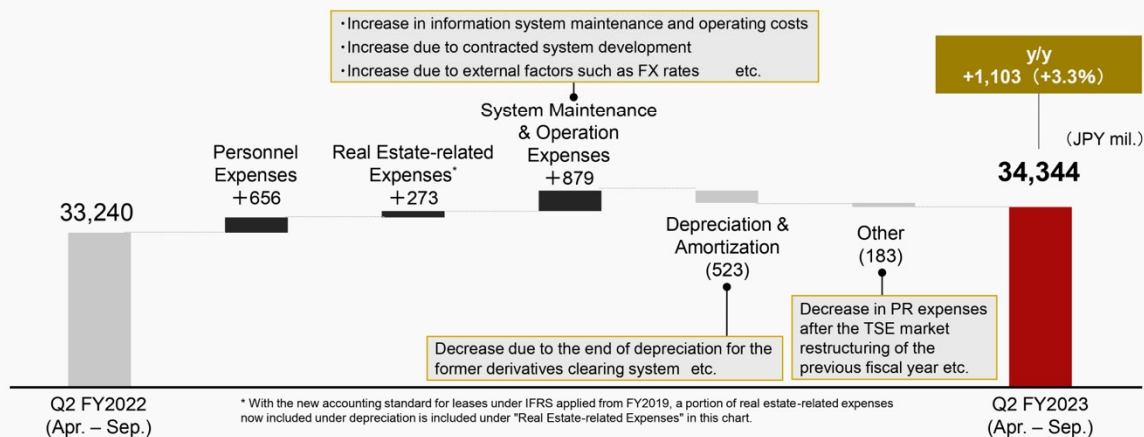
Additionally, an increase in capital raised by listed companies has resulted in higher listing-related revenues. Furthermore, revenues related to information services, such as index licensing fees and market data usage fees, have also increased. Lastly, other operating revenues have increased as well.

As a result of all these factors, total operating revenue is up by approximately JPY6.9 billion, a 10.4% increase YoY, amounting to JPY73.3 billion.

## Operating Expenses



- System maintenance and operation expenses increased due to an increase in maintenance and operation expenses for information systems, as well as contracted system development and external factors such as FX rates.
- On the other hand, depreciation & amortization decreased due to the end of depreciation for the former derivatives clearing system.



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Now, please look at page seven, where we discuss the situation regarding operating expenses. Firstly, system-related expenses have increased due to higher maintenance and operation costs for information systems. Additionally, system maintenance and operation expenses have increased due to factors such as system development outsourcing and foreign exchange impacts.

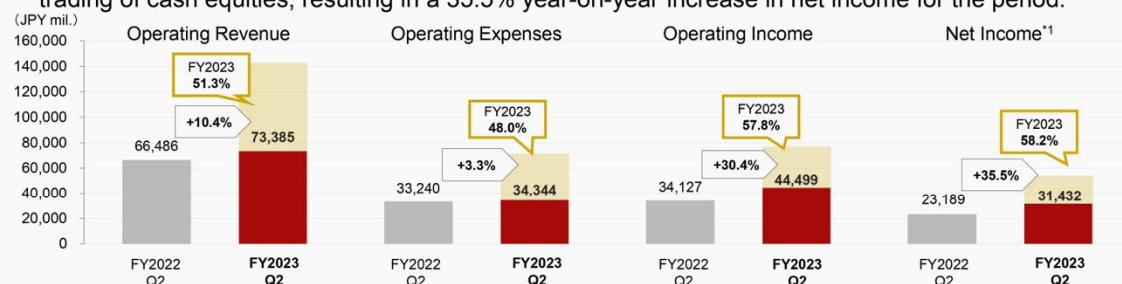
On the other hand, the depreciation and amortization expenses have decreased following the end of the depreciation of the former derivatives clearing system.

As a result, total operating expenses have increased by JPY1.1 billion, representing a 3.3% increase YoY, amounting to JPY34.3 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 35.5% year-on-year increase in net income for the period.



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

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

	Q2 FY2022	Q2 FY2023	
			y/y
Cash Equities <sup>*1</sup> (trading value)	JPY 3,790.4 bil.	JPY 4,520.2 bil.	+19.3 %
TOPIX Futures (trading volume)	106,354 contracts	110,945 contracts	+4.3 %
Nikkei 225 Futures <sup>*2</sup> (trading volume)	202,975 contracts	191,561 contracts	(5.6 %)
Nikkei 225 Options <sup>*3</sup> (trading value)	JPY 26.2 bil.	JPY 26.7 bil.	+2.1 %
10-year JGB Futures (trading volume)	32,377 contracts	35,261 contracts	+8.9 %

\*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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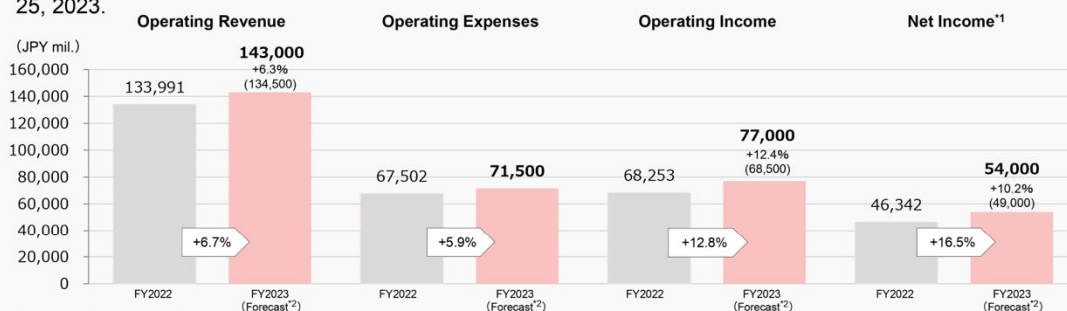
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Please turn to page eight for the performance highlights. As mentioned earlier, despite the increase in operating expenses, such as system maintenance and operation expenses, the increase in operating revenue, primarily driven by the increase in cash equities trading, has surpassed these costs. Consequently, net income for the period was JPY31.4 billion, representing a 35.5% increase YoY, with an increase of JPY8.2 billion.

## FY2023 Forecast



- No change from the "Notice of Revisions to Earnings Forecast and Dividend Forecast" released on September 25, 2023.



<sup>1</sup> Net Income attributable to owners of the parent company.  
<sup>2</sup> These values were modified on Sep. 25, 2023. Values in parentheses were the initial forecasts.

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

	FY2022	FY2023 (Forecast)			
		(Initial)	(Revised on Sep. 25)	y/y	Change from Initial
Cash Equities (trading value) *1	JPY 3,836.9 bil.	JPY 3,800.0 bil.	JPY 4,300.0 bil.	+12.1 %	+13.2 %
TOPIX Futures (trading volume)	104,415 contracts	104,000 contracts	106,000 contracts	+1.5 %	+1.9 %
Nikkei 225 Futures (trading volume) *2	192,187 contracts	196,000 contracts	194,000 contracts	+0.9 %	(1.0 %)
Nikkei 225 Options (trading value) *3	JPY 25.7 bil.	JPY 26.5 bil.	JPY 27.0 bil.	+5.1 %	+1.9 %
10-year JGB Futures (trading volume)	32,191 contracts	31,000 contracts	33,000 contracts	+2.5 %	+6.5 %

\*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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Please refer to at page nine for our performance forecast for FY2023. Due to the trading volume, especially in cash equities, significantly surpassing our initial forecast for this fiscal year, we announced a revision on September 25.

Specifically, when compared to the initial forecast announced in April, we now anticipate operating revenue to be JPY143 billion, a 6.3% increase of JPY8.5 billion, and the net income to be JPY54 billion, a 10.2% increase of JPY5 billion.

In line with our basic policy of maintaining a dividend payout ratio of 60%, we expect the regular dividend per share for the full fiscal year to be JPY63, an increase of JPY6 from our initial forecast.

Additionally, I would like to mention, as a matter of note, that we have also announced the discontinuation of JPX's shareholder benefit plan along with our earnings release yesterday.



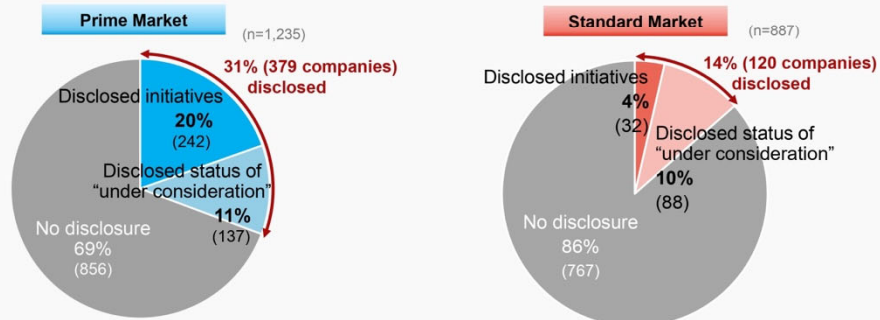
## Status of Disclosure on “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”

- ◆ As of mid-July, **31% (379 companies)** of Prime Market listed companies and **14% (120 companies)** of Standard Market listed companies have already disclosed information (based on data for companies whose fiscal year ends in March).

Note: Among companies with fiscal years that do not end in March, 20 companies in the Prime Market and 28 companies in the Standard Market disclosed information.

- Of these, a certain number of companies disclosed a status of “under consideration (TBA)” (about one-third in the Prime Market and two-thirds in the Standard Market of those that disclosed).

Status of disclosure in response to the request for “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”



Note: Based on corporate governance reports and other information as of July 14, 2023 for Prime Market listed companies with fiscal years ending in March.

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Next, I'd like to discuss our future initiatives related to action to implement management that is conscious of cost of capital and stock price.

As you are aware, in March of this year, the Tokyo Stock Exchange requested that all listed companies on the Prime and Standard markets take action to implement management that conscious of cost of capital and stock price.

Regarding the disclosure status of listed companies, as of mid-July, 31% of the companies listed on the Prime market for the March period have made disclosures in line with this request. Each company is making efforts to comply. Additionally, we've received numerous expressions of hope from both domestic and international shareholders and investors, eagerly anticipating further progress in these initiatives.

## Future Initiatives Related to “Action to Implement Management that is Conscious of Cost of Capital and Stock Price”

Publication of a list of companies that have disclosed + Reiterating the purpose of the request	<ul style="list-style-type: none"><li>◆ Publish a list of companies that have disclosed information in accordance with the request to inform investors of who is taking action, thereby encouraging companies to make a proactive effort (to be started on January 15, 2024 and updated monthly).</li><li>◆ Before publication, listed companies will be reminded of the purpose of the request and points to keep in mind, as well as the fact that the list is to be published (notified to listed companies on October 26, 2023).</li></ul>
Publication of key points from responses/ examples of initiatives	<ul style="list-style-type: none"><li>◆ Compile and publish several key points based on responses from investors and examples of initiatives that have been praised by investors for companies of several different sizes and situations. (By January 2024)</li></ul>
Compilation and distribution of companies' response statuses	<ul style="list-style-type: none"><li>◆ Compile corporate disclosures and feedback from investors, etc., approximately once every six months. (The next one is scheduled for January 2024)</li></ul>

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Please refer to page 12. Considering this situation, the Tokyo Stock Exchange will further promote and enhance initiatives related to action to implement management that is conscious of cost of capital and stock price among listed companies. We will proceed with various measures from this perspective.

Firstly, from January 15 next year, we will begin publishing a list of companies that have made disclosures in accordance with the request to inform investors of who is taking action, thereby encouraging companies to make proactive effort. This list will be updated monthly.

In line with this, yesterday, we informed listed companies about the publication of this list. We also reiterated the purpose and key points of this recent request, emphasizing that even companies with a Price-to-Book Ratio (P/B Ratio) exceeding 1x should consider shareholder and investor expectations and continue striving for further improvement.

Secondly, we plan to compile and publish, by next January, several patterns of key points based on responses from investors and examples of initiatives that have received strong investor support, tailored to the size and situation of each company.

Thirdly, we intend to compile and disseminate information about companies' disclosure status and feedback from investors approximately every six months. The next update is targeted for January next year.

Through these initiatives, we aim to further encourage and promote action to implement management practices among listed companies that are conscious of cost of capital and stock price, as well as their disclosure.

We hope that investors will actively engage in dialogue, using these disclosures from listed companies as a basis, to contribute to the sustainable growth and the long-term enhancement of corporate value of the companies.

This concludes my presentation.

## Question & Answer

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Yaguchi : Let's move on to the Q&A session. Please feel free to ask your questions.

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

**Firstly, regarding operating expenses. There was a significant increase in personnel expenses from July to September. Could you explain the reasons behind this? Also, on page eight, you've shown the progress compared to the full-year plan. Operating expenses are at 48% progress, which seems to leave some leeway. Are there any planned expenditures for H2, or is this just considered a buffer? I would appreciate your insight.**

Tabata : Regarding the increase in personnel expenses from July to September, it is related to the fact that we have revised our performance forecast upwards. In our company, employees receive bonuses twice a year. The bonus in December is based on the operating results of H1, as the performance being quite strong and considering our expected performance for the full year, we've revised bonuses upwards, and that's why we've allocated more for personnel expenses.

As for the second point, regarding the progress of operating expenses, in H1, there were a few expenses that were not executed due to the timing of the execution being pushed back, so that's included in the calculation. For the annual expenses, unless there are some unexpected events, we intend not to exceed the planned amount. So, we are aiming to keep it at a maximum of JPY71.5 billion.

**Watanabe: Thank you for your response.**

**My second question is regarding JPX's own capital policy. Based on reverse calculations, it seems that there is a surplus capital of over JPY70 billion. At the recent Investor Day, it was indicated that large-scale M&A deals might be difficult due to regulatory constraints. Has there been any change in this view? Also, for how long do you think it is appropriate to keep these surplus funds as standby capital for growth investments? Could you also share your thoughts on the timeline?**

Yamaji [A]: We are aware of the surplus capital. As we have been saying for some time, we do have a list of various potential M&A deals and candidates, but as these things involve other parties, they can't always be realized immediately. We are preparing for such opportunities.

Some M&A deals, like last year's acquisition of SCRIPTS Asia, are now allowed for 100% ownership, so the environment is changing. We continue to be constrained to exchange-related businesses, but we are actively considering deals that fit within those parameters.

However, we also feel the market's scrutiny on how long we should hold onto capital for deals that are uncertain as to when they will be executed. With that in mind, we think it's possible to consider returning some of these funds to shareholders, depending on new considerations.

**Watanabe : Regarding the timeline, could you specify how long you are considering?**

Yamaji : I can't give a specific time yet, but it's something we want to think about going forward.

**Watanabe : Thank you.**

**One additional question, regarding shareholder returns. Currently, I believe your company's valuation is well above a P/B ratio of 1x. In this context, do you have any opinions on the preference between share buybacks and dividends that you could share with us?**

**Tabata :** That question relates to how the management perceives our stock price, whether we consider it overvalued or undervalued, and the evaluation can have a variety of impacts. So, it's difficult for the management to comment on the current valuation of the stock. From that perspective, I think it's hard to give a clear answer to your question, and I believe investors would understand that.

**Yamaji:** As I mentioned in my presentation, we will offer the shareholder benefit plan by the end of March 2025 when the current medium-term management plan ends.

We want to consider for the next medium-term management plan, including how to approach shareholder returns.

**Watanabe: Understood, thank you very much.**

**Yaguchi:** Thank you. Could the person on the right side of the venue please proceed?

**Niwa: I'm Niwa from Citigroup Global Markets Japan. I have two questions.**

**First, about the expectation for individual investors in the cash equity market. In your presentation, you mentioned that with the upcoming NISA and systemic responses, there's potential for optimism. However, various surveys indicate concerns, such as a preference for foreign stocks and a lack of awareness about the new NISA system.**

**I think efforts towards various governance reforms have accelerated on the corporate side, but I'd like to know your thoughts on directly stimulating individual trading activity and, in a sense, capturing growth capital. Also, it might be a bit early, but do you have any projection on how much scope there is for individual investors to contribute to raising trading values?**

**Yamaji:** As you mentioned, various statistics, especially among younger generations, show an increase in accounts for foreign stocks, which I'm aware of. On the other hand, looking at the number of our shareholders, it has increased from around 65,000 at the end of March last year to about 135,000 at the end of this March. Incidentally, last year's 65,000 was the highest number of individual shareholders we've had since JPX listed in 2013, and this number has more than doubled without changing our dividend policy.

This suggests that individual investors, amidst inflation concerns, have certainly felt the urgency to hedge against inflation. Previously, during deflation, holding cash was sufficient, but now the situation has changed. I think this is the primary reason for the doubling of individual shareholders.

In our view, there seems to be a new generation emerging that doesn't have an aversion to fluctuating assets like stocks. After the bubble burst, a generation grew up with a long-term downturn in stock prices and developed a sort of trauma. In contrast, there's a generation now that doesn't have this trauma. For instance, they're interested in buying stocks of companies like GAFAM, and indeed, if you look at the past five years, the performance has been very good, especially in JPY terms. Getting interested in foreign stocks like this and accustomed to fluctuating assets is not a bad thing for us.

Regarding the demographic unaware of NISA you mentioned as a concern, both JPX and the Japan Securities Dealers Association are very aware of this significant issue. How to overcome this is a challenge. The financial and economic education promotion agency is set to be established, so cooperating with them and how to respond to this issue is something we're considering.

Not just face-to-face awareness-raising but also using the internet for education is becoming increasingly important. In that regard, JPX has been using the Tokyo Stock Exchange website, with initiatives like “TSE Money-Bu!” and “JPX Money-Bu! lab” sites, trying to approach broad range of age groups. Also, since our website has an average monthly access of around 1.4 million, we aim to deepen education and awareness through such channels.

Regarding the trading value, I apologize, but it's quite challenging to have an exact image. We do not intend for individual investors to buy and sell stocks, but rather to hold them as assets. So, it is difficult to give a figure.

**Niwa: Thank you.**

**My next question is quite different. I'm interested in understanding how external environmental changes might impact your company's performance and profitability. There might come a time when Japan experiences stable inflation, with the CPI reaching 2%. If that happens, do you anticipate any changes in your company's ROE or profit growth rate?**

**In particular, I believe there's a high expectation for derivatives to be one of the future growth engines. But I wonder if it's not something we should be too hopeful about based on the changes in the external environment. Or, if we enter a 2% inflation world, do you think your company's ROE could aim significantly higher than the current target of 15%? I'd appreciate your thoughts on this.**

**Yamaji:** First, as for our main products, equities and derivatives, we believe that if inflation becomes entrenched, equities, as I mentioned earlier, will attract attention and we can expect increased buying.

Another aspect to consider is that with escalating inflation, it's conceivable that we'll enter an era with interest rates. As you know, the current interest rate benchmark in Japan is the JGB. However, the cash government bond market, as you are aware, is predominantly held by the Bank of Japan, with more than half of the bonds in their possession. Looking back over the past five years or so, the benchmark for interest rate products has actually been our JGB futures. Currently, there are about 40,000 contracts, with an assumed principal of JPY100 million per contract, so that transactions to around JPY4 trillion.

Before we entered an era of low interest rates, zero interest rates, or negative interest rates, the average daily volume (ADV) for these contracts was about 70,000. The peak year saw about 17 million contracts traded, which is nearly double the current volume. However, at that time, the outstanding amount of JGBs was only about half of what it is now. Also, this was around FY2007, and high-frequency trading (HFT) was not participating at all in the Japanese market, especially in JGB futures.

Currently, high-frequency traders are actively trading JGB futures on our Osaka Exchange. The reason we have a volume of about 40,000 contracts now is largely due to their participation. They are actively participating, more for market-making rather than speculation. Considering this situation and thinking about the outstanding amount or the benchmark status, or a scenario where we have significant interest rates, I think that the volume could surpass the peak of 70,000 contracts per day we saw in the past.

Additionally, there were no Tokyo Overnight Average rate (TONA) short-term interest futures at that time, but TFX was trading short-term interest futures, and the trading was very active. At that time, the revenue from government bond futures and others in our derivatives market was around JPY 5 billion.

Furthermore, about JGBs, Japan Securities Clearing Corporation (JSCC) now clears not just futures but also the cash transactions in the OTC market. Initially, there was a clearing house called Japan Government Bond Clearing Corporation (JGBCC), which JSCC acquired in 2013, and it is now a part of JSCC. Therefore, we are considering the most benchmarked JGB futures market, short-term interest futures, clearing of cash JGB

transactions in the OTC market, plus, as of now, JGB futures and interest rate swaps (IRS) are already subject to cross margining that allows risk offsetting, and we are thinking of expanding this to include TONA.

Therefore, I think that the more active the JGB market becomes, the more beneficial it will be for our company. Compared to the situation in FY2007, the market will likely become even more active. We expect that our trading system at the Osaka Exchange and the clearing system at JSCC will require almost no additional investment as they become more active. We think that the existing systems can be used as they are, and the trading and clearing volume will increase.

As you know, if the secondary market is not solid, it can adversely affect the primary market. Therefore, in order to maintain a healthy primary market for JGBs in the future, we have a very important mission to properly manage the secondary market. At the same time, I think there are a lot of things for us to look forward to

**Yaguchi:** Thank you very much. It seems that all the questions have been addressed, so we will now conclude the Q&A session.

This concludes today's earnings briefing. Thank you very much for your participation today.

[END]

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