



Status of Dissemination of “Action on Cost of Capital-Conscious Management and Other Requests”

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

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

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- TSE has been circulating the “Action on Cost of Capital-Conscious Management and Other Requests” published on March 31, in order to carefully communicate the purpose and specifics of the request to listed companies, domestic and foreign investors, and other market participants. This has been done by methods including presentations at seminars for listed companies and domestic and foreign investors, individual meetings with domestic and foreign investors, lectures for media, media interviews, and articles in magazines, etc.
- After the announcement, many investors, including overseas investors, have expressed their expectations for changes in listed companies in response to this request, while requesting continuous follow-up so that initiatives will not end with formal disclosure or a one-time response.

Opinions and questions received so far (“Action on Cost of Capital-Conscious Management and Stock Price”)

- Necessity of follow-up on listed companies’ response
- Stance on share buybacks and dividend increases in response to this request
- Stance on PBR (1x)
- Stance on trends by industry (regarding PBR, ROE, etc.)
- Issues and future initiatives regarding the Growth Market

- ⇒ TSE and this follow-up council will continue to monitor the status of listed companies' responses to this request.
- ✓ Firstly, TSE expects to review and discuss these responses in the autumn, taking into account the contents of the corporate governance reports to be submitted after annual general shareholders meetings are held for companies whose fiscal year ends in March.

Note: Listed companies’ responses to the “Better Dialogue with Shareholders and Related Disclosure” and “Using “Explanations” to Contribute to Constructive Dialogue” will also be reviewed.

Necessity of follow-up on listed companies' responses

- While we see this request as a favorable initiative, it is important to encourage companies to take action in the future so that this does not end with just a formal disclosure. (Foreign investor and others)
- Do you expect that the details of this request will be stipulated in the listing rules, etc. in the future? (Foreign investor and others)
- Investor engagement is key in preventing this request from becoming a formality. It is also important that the number of companies willing to engage in dialogue with investors increases. (Securities Company)

Stance on share buybacks and dividend increases in response to this request

- Many listed companies have asked for advice on how to respond to this request. However, since there is a tendency to take "one-time measures" such as share buybacks, it is necessary to fully inform the public of the purpose of the request. (Securities Company)
- For companies with investment opportunities that exceed their cost of capital, investments should be prioritized, but for companies without such opportunities, the best course of action may be to prioritize shareholder returns over investment in growth. It is important that this perspective be clarified. (Domestic Investor)

Stance on PBR (1x)

- Why did you focus on companies having a PBR of 1x, understanding that it is not just a matter of exceeding 1x? (Foreign investor)
- There are concerns that companies will be short-sighted and think that it is enough to meet a PBR of 1x as a mere formality. A PBR of 1x is only an indicator, and investors are expecting companies to reconsider their sustainable business plans. (Foreign investor)

Stance on trends by industry (regarding PBR, ROE, etc.)

- How should we consider and respond to industry trends with respect to PBR and ROE? (Listed company)

Issues and future initiatives regarding the Growth Market

- This request is for companies listed in the Prime and Standard Markets, but what initiatives will be taken for those in the Growth Market in the future? (Domestic Investor)