

Future Initiatives Regarding “Management That is Conscious of Cost of Capital and Stock Price”

Listing Department
Tokyo Stock Exchange
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Feedback from Institutional Investors (1)

- ◆ Below is the main feedback from mostly active international and domestic institutional investors (about 120 investors), with whom we have exchanged opinions since the beginning of the year.

<Overall>

(Positive feedback regarding changes at companies)

- I **sense a change in management's awareness**. It has better understanding of not only the cost of capital but also the concepts of ROIC and WACC. It is commendable that **a common protocol between shareholders and companies has been formed**. (Domestic investor)
- Interest in cost of capital and stock prices among Japanese companies has increased to a level that was unimaginable a few years ago. In addition, **many companies are placing more emphasis on dialogue with investors, and the quality of IR and dialogue is steadily improving**. (Overseas investor)
- **When the request was first announced, I thought the enthusiasm would die down after about a year, but actually I feel that sustained change is occurring**. Japanese stocks have been undervalued for some time, **but now I have the impression that the quality of companies is improving**. (Overseas investor)
- Since **improvement of capital efficiency and governance reform are positive stories unique to Japan and are independent of global macroeconomics**, I hope that TSE will persistently push companies in their efforts and encourage reform in management's awareness. (Overseas investor)

(Opinions on effectiveness of initiatives)

- **The market is moving in the right direction, but it will take more time to improve**. In order for Japanese markets to become more attractive to foreign investors, **there should be more active engagement and M&A. Investors are looking for quick corporate changes, M&A, and business portfolio revisions, and companies are becoming more proactive**. (Overseas investor)
- Positive changes include **companies disclosing ROE targets, capital allocation policies, and efforts to improve balance sheet efficiency**. **The issue going forward is the feasibility of these plans**, and we would like to see a concrete roadmap for the next five years that outlines how to enhance corporate value. (Domestic investor)
- In order to increase allocation to Japanese stocks, **it is necessary not only to disclose efforts to improve capital efficiency, but also to confirm that ROE and ROIC are actually improving**. (Overseas investor)

Feedback from Institutional Investors (2)

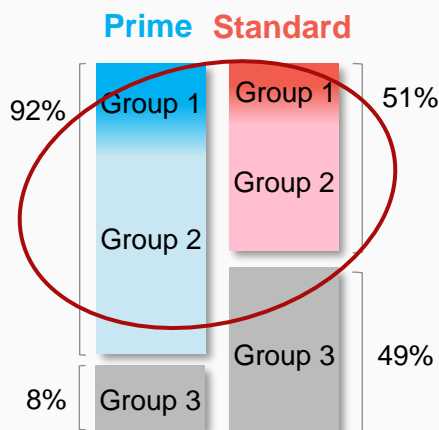
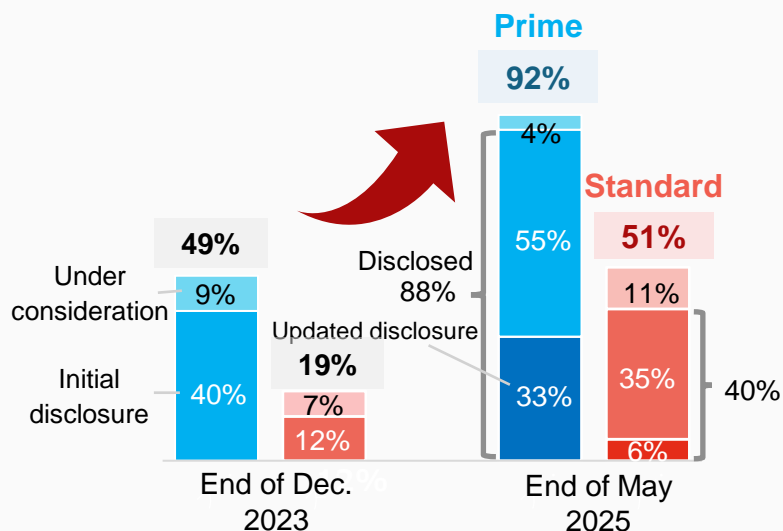
<Challenges and suggestions for the future>

- Through our dialogue with corporate managements, we feel that **while managements' understanding of the cost of capital has improved, their awareness of how to reflect this in their management is still weak.** For example, **drastic management decisions, such as withdrawing from unprofitable businesses using ROIC or allocating resources to growing businesses, have not been made.** The key is how management acts, so please continue to encourage them to implement drastic measures. (Domestic investor)
- Many companies are considering shareholder returns the starting point for improving capital efficiency, and **share buybacks seem to be on the rise.** While good as a means of paying out surplus cash, **ad hoc shareholder return measures no longer make sense in the context of share price.** I would like to see companies **continue to invest in their core business to enhance corporate value over the medium to long term, and be aware that they should start by carefully considering the balance sheet they are aiming for and their cash allocation policy.** (Overseas investor)
- There are still companies that cite a reason and refuse to even have IR meetings with their shareholders. **Something must be done about companies that are listed, but do not engage in dialogue at all.** Outside directors should also actively engage in dialogue with shareholders. I hope that Japanese investors will naturally come to demand such actions. (Overseas investor)
- We believe that companies have been successful to the extent that they have begun to set capital allocation policies and ROE targets, but we believe that **performance-linked executive compensation is the key to inducing action to achieve these company's goals.** For **Japanese companies in particular, stock-based or other performance-related compensation counts for only a small percentage or small fixed amount of total executive compensation.** (Overseas investor)
- Two years have passed since the request was made, and **it should be possible to compare how individual companies have changed.** **Highlighting in some way companies that have made improvements would be a positive message to Japanese companies and institutional investors.** (Overseas investor)
- **Gap case studies provide a summary of the key issues, and we use them in our engagements. What was previously viewed as the sole opinion of our company is now understood by companies as something that other investors are thinking about as well.** Now there is wide recognition that good case studies are being published, the next step would be to **provide incentives for companies to aim for inclusion in them.** (Overseas investor)

Current Status and Future Direction

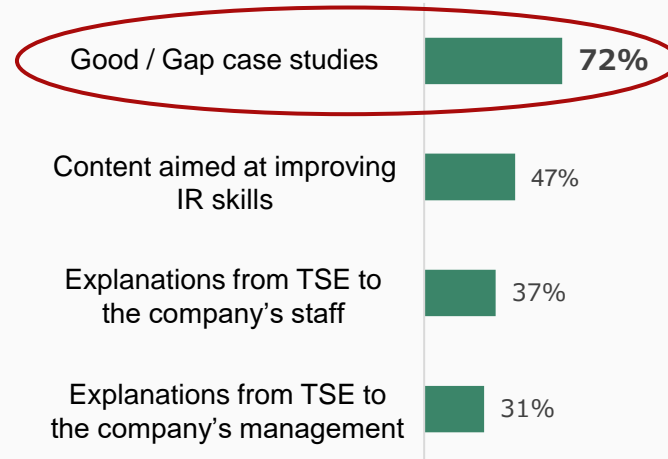
- ◆ In the two years since the request, not only have **many companies begun to take initiatives**, with the disclosure rate in the prime market now exceeding 90%, but **the quality of IR and dialogue with investors has improved, and there is more active disclosure of initiatives**. These actual corporate changes have been evaluated positively by domestic and overseas institutional investors.
- ◆ On the other hand, institutional investors are trying to determine **whether these changes in Japanese companies will actually lead to improved capital efficiency**. **The phase has shifted so that now implementation of drastic initiatives and improvement of initiatives are more important than disclosure itself**.
- ⇒ With **companies now operating in cycles of disclosing their initiatives and improving them through dialogue with investors**, TSE will **continue to promote measures to support companies that are proactive in their efforts**, such as by updating the key points and case studies.

Status of company response



* Based on feedback from investors

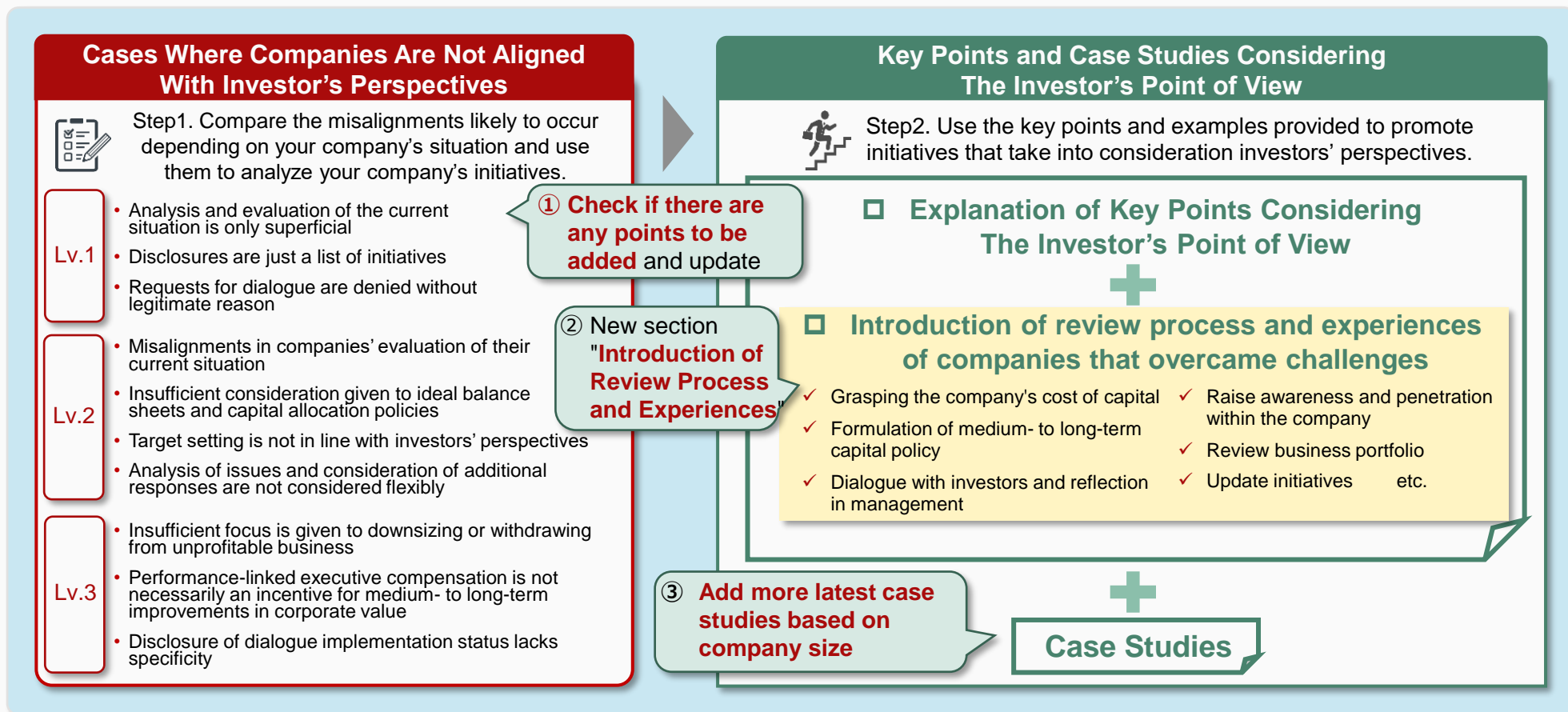
Measures that companies expect TSE to provide or expand



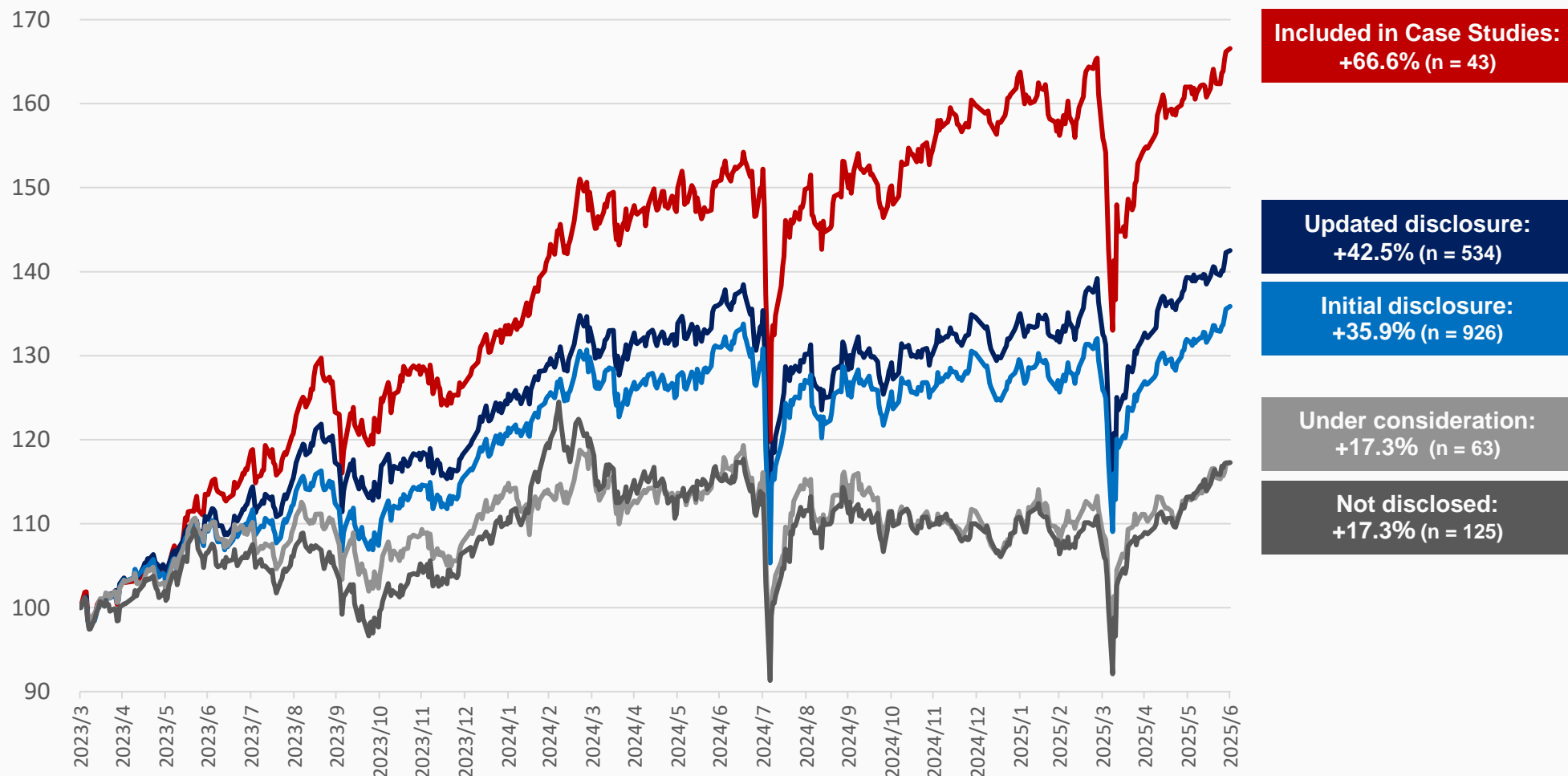
* Excerpts from a survey for listed companies (March 2025)

How to Proceed With Specific Measures

- ◆ Plan to **add the review process and update key points and case studies** from the following perspectives.
- ◆ In addition, TSE will **continue to consider measures to support and encourage companies that have disclosed their initiatives**.



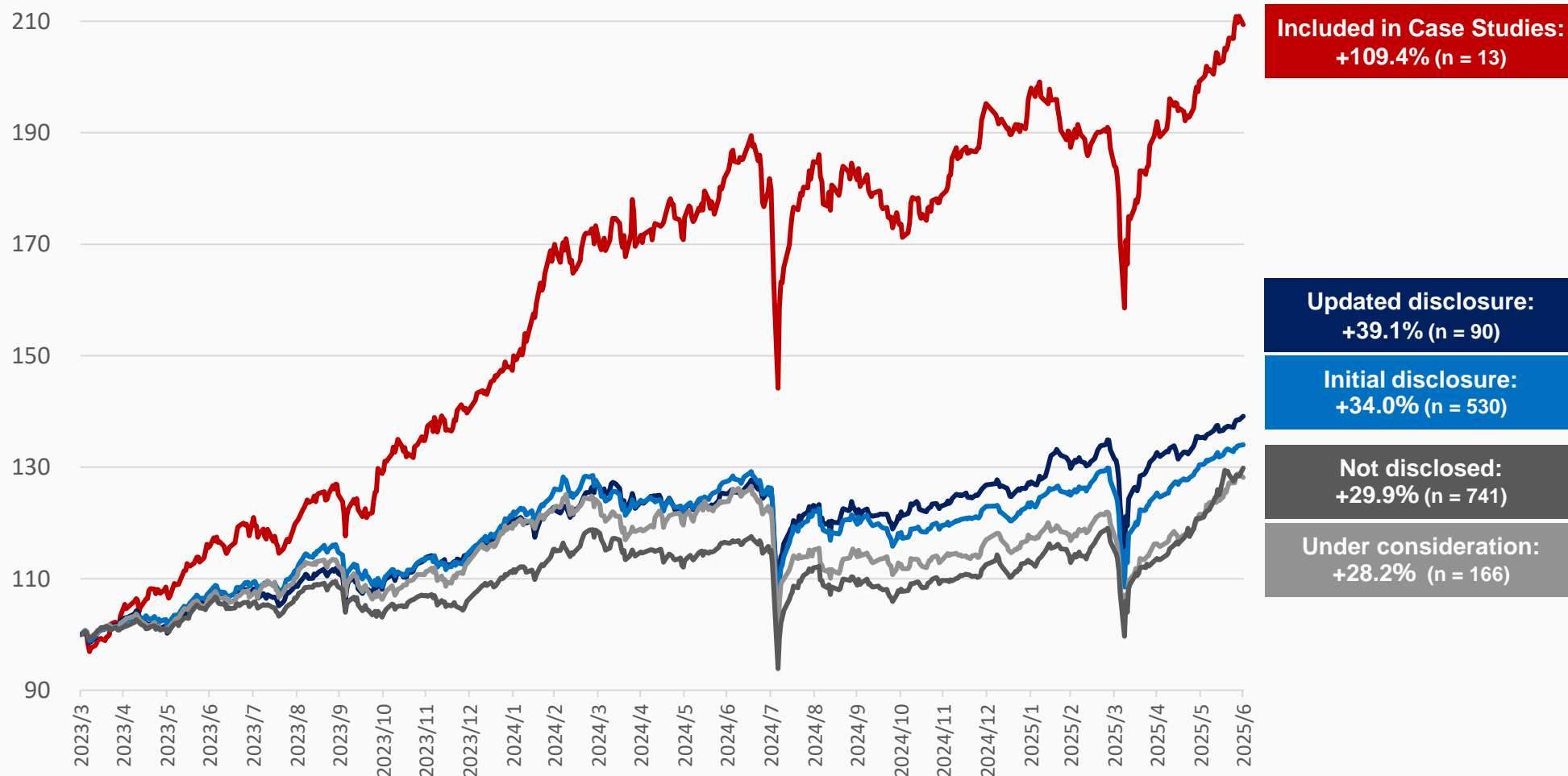
Ref. Stock Prices After the Request (Prime)



* Estimations of stock price trends for each category (equal weightings) where prices as of 2023/3/31 are converted to 100.

* Disclosure status is based on the list of companies that have disclosed information as of June 30, 2025.

Ref. Stock Prices After the Request (Standard)



* Estimations of stock price trends for each category (equal weightings) where prices as of 2023/3/31 are converted to 100.

* Disclosure status is based on the list of companies that have disclosed information as of June 30, 2025.

Summary of Survey Results

Reprinted from the 21st
council materials

- ◆ The results of the survey showed that **the following were frequently raised as issues when considering and making initiatives**

Organizational and Structural Aspects	Contents of the Initiatives
<ul style="list-style-type: none">✓ Lack of resources and systems for making considerations (49%)✓ Internal considerations and coordination take time (35%)✓ Considerations are limited to staff, and no progress is being made at the board level (17%)	<ul style="list-style-type: none">✓ It is difficult to formulate a medium- to long-term capital policy (49%)✓ It is difficult to figure out the company's cost of capital (26%)✓ No progress is being made in reviewing the company's business portfolio (20%)✓ It is difficult to find growth opportunities that exceed the cost of capital (22%)
Dialogue with Investors	Other
<ul style="list-style-type: none">✓ Lack of contact with institutional investors (38%)✓ Institutional investors lack an understanding of the business models of and issues facing the company and the industry (27%)✓ Questions from institutional investors are limited to short-term matters and do not give rise to discussions from a long-term perspective (26%)	<ul style="list-style-type: none">✓ Do not know how to disclose information so that it is properly conveyed to investors (38%)✓ Initiatives are not rewarded or reflected in the stock price (29%)✓ Do not know how to update initiatives and disclosures (21%)

* Figures in parentheses indicate the selection rate of all survey respondents

- ◆ **The following were frequently mentioned as measures and support expected from TSE**

Measures That Companies Expect TSE to Provide or Expand
<ul style="list-style-type: none">✓ Examples of other companies' initiatives (good case studies / examples of misalignment) (72%)✓ Explanations from TSE to the company's management (31%)✓ Explanations from TSE to the company's staff (37%)✓ Content aimed at improving IR skills (47%)