

# Future Measures in the Growth Market

Listing Department,  
Tokyo Stock Exchange, Inc.

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# Introduction: Executives' Reaction to Growth Market Reforms

- ◆ Since TSE announced its measures in April, it has worked to communicate the purpose and overview of Growth Market reforms through seminars and other means and has **exchanged opinions with market stakeholders, including many listed companies (over 100 companies; primarily CEOs, CFOs, and other executives) and institutional investors (approx. 70 companies)**.
- ◆ **Many executives have expressed support** for the direction of reforms to define the Growth Market as “**a market where companies aiming for high growth come together,**” and **take a positive stance** toward the revision of the continued listing criteria. On the other hand, TSE has also received the following **requests and expectations**.

Requests/expectations for TSE from executives

1. Ideal Growth Market-Listed Company	<ul style="list-style-type: none"><li>● When reviewing and considering growth strategies, <b>please provide examples of characteristics you want to see in the ideal Growth Market-listed company, such as your idea of “high growth” and promising initiatives.</b></li></ul>
2. Thoughts Regarding Selection of Growth Market	<ul style="list-style-type: none"><li>● As a company grows, we debate <b>whether to remain listed on the Growth Market or move to the Prime Market.</b> As a resource to use when considering which market segment to select, <b>we want to know TSE’s thoughts on this.</b></li></ul>
3. Support for Companies Listed on the Growth Market	<ul style="list-style-type: none"><li>● Similar to “Action to Implement Management That is Conscious of Cost of Capital and Stock Price,” please compile key <b>points to consider</b> and <b>good examples</b> in order to gain the understanding and support of investors, and then share this information through <b>seminars and other means.</b></li><li>● We would appreciate your active <b>support in establishing contact with institutional investors.</b></li></ul>

- ◆ **We would like to hear your opinions on our announcements and specific initiatives** that pertain to the matters above. We would also like to hear your opinions on the handling of transitional measures following the tightening of the continued listing criteria and on our draft for initiatives to promote “management that strives for high growth.”

## [Ideal Growth Market-listed company]

- Based on the proposed reforms for the Growth Market, we are reviewing our growth strategies and targets. However, as we advance our deliberations, **we wish to understand the level of “high growth” expected in the Growth Market.**
- We want to actively work toward high growth, so **we would like you to outline** promising initiatives and **the ideal vision for growth companies.**

## [Thoughts regarding selection of Growth Market]

- As a company grows, **we debate whether it is better to remain listed on the Growth Market or move to the Prime Market.** Many imagine the era of Mothers and the First Section and believe that it is normal to move to the Prime Market once a company has grown. However, looking at the recent revisions proposed for the Growth Market, **there are others who believe that remaining in the Growth Market and continuing to aim for high growth could be a good option. As a resource to use when considering which market segment to select, we want to know what TSE thinks about this.**

## [Support for companies listed on the Growth Market]

- I would like to see key **points to consider in order to gain investors’ understanding** when considering and disclosing growth strategies, as well as **examples of successful cases where companies have actively raised funds and made growth investments** while gaining investors' understanding and achieved growth.
- I would like **seminars to be held for executives and others on “Management That Strives for High Growth,”** which is expected in the Growth Market, similar to “Action to Implement Management That is Conscious of Cost of Capital and Stock Price.”
- **I currently lack contact points with institutional investors and am constantly struggling to find an effective way to approach them.** I would greatly appreciate your active **support in helping to connect institutional investors and companies listed on the Growth Market.**
- Smaller companies often find themselves **without analyst coverage**, feeling **the need to proactively disseminate information themselves.** However, **they struggle to grasp the nuances of how to do this well since investor types change after going public. We would appreciate opportunities to learn effective methods for information dissemination and IR, as well as to gain a deeper understanding of investors.**
- **If we understand the management policy, amount, and screening criteria,** we can develop strategies and approaches aligned with institutional investor perspectives, so we would like to receive such support.

## [Benefits of listing on the Growth Market]

- If there was an **index composed of companies achieving high growth**, listed companies could more easily attract investments from institutional investors and be motivated to aim for high growth. For investors, it would also become easier to invest in attractive companies.
- To make the Growth Market a place where startups can take on bold challenges, it might be worth considering a **system that allows concentrated authority for executives through preferred shares, as long as there is still growth, but that encourages dissolution of that concentration if growth stagnates**.
- The **“25% Rule” during capital increases allotted to third parties** (requiring specific responses and procedures when the dilution rate exceeds 25%) **significantly hinders fund raising** for companies listed on the Growth Market. For example, would you consider **easing the restrictions when it is confirmed that the fund raising is for growth investment?**
- Regarding the **continued listing criteria for net assets (positive net assets)**, exceptions are currently permitted for a certain period after listing or when market capitalization exceeds a certain threshold. However, since this can sometimes hinder flexible capital policies, **it might be worth considering making it so that negative net assets do not violate the continued listing criteria if they result from capital policies for growth investment**.
- Even when positive news drives up stock prices, companies are often hit with a massive wave of short selling, which causes prices to revert to their original levels over time, resulting in a lack of long-term growth in corporate value. We request the **introduction of measures to regulate or prohibit short selling** under certain conditions.

## [Engagement with investors]

- The Growth Market does not yet have enough investors with a medium- to long-term perspective. **Expanding the investor base that properly understands and evaluates corporate growth potential is a critical challenge**. To avoid a bias toward short-term trading driven solely by publicity or benefits, we urge efforts to educate investors and enhance their discernment and perspectives.
- Companies wish to **raise funds for growth**, but investors **harbor strong concerns about dilution, causing stock prices to fall and hindering companies’ ability to do as they desire**. Regarding **growth investments**, one challenge is that **it is difficult to gain investor understanding about losses, which also leads to falling stock prices**. Efforts should be made to engage with investors so that fund raising and growth investments are **not uniformly viewed negatively**.
- Under the frameworks and platforms provided by Tokyo Stock Exchange, **we hope opportunities will be created for companies to communicate their intrinsic corporate value, which appropriately reflects their envisioned future growth potential, to retail investors and institutional investors**, such as being able to express how they want their corporate value to be evaluated.

# 1. Ideal Growth Market-Listed Company

# Ideal Growth Market-Listed Company

## ◆ We plan to **present a summary of investors' expectations to companies.**

- \* This is because it is difficult for TSE to set quantitative definitions and indices/KPIs across the board as the benchmark for “high growth potential” varies depending on industry and business environment.

### Investors' Expectations (Draft)

\*Prepared based on feedback from institutional investors with a medium- to long-term perspective who mainly invest in growth and small- and mid- cap stocks

	Executives' mindset that is not aligned with investors' expectations		Investors' expectations for Growth Market-listed companies
# 1	Sales and profits are steadily growing, but this is not reflected in the stock price and investors are not being rewarded	▶	We want companies to present a vision and strategy that inspires confidence in the sustainability and acceleration of growth ...Page 6
# 2	Investors perceive capital increases as dilution, so fund raising causes the stock price to fall	▶	We want companies to present a concrete and compelling equity story ...Page 7
# 3	Investors demand shareholder returns, so if dividends are not increased, they will not invest	▶	At this stage of growth, what we expect from companies is growth investment rather than dividends ...Page 8
# 4	Since losses are not well-received by investors, companies hesitate to invest make growth investments	▶	We want companies to make growth investments without being overly concerned about short-term losses ...Page 9
# 5	Growth has stalled, so we will aim for a path toward expansion in the same manner as usual	▶	We want companies to rebuild their growth strategies, including inorganic growth strategies such as M&A ...Page 10
# 6	Since there are few institutional investors in the Growth Market, putting effort into disclosures is pointless	▶	We want companies to target investors suited to their growth stage and conduct effective information disclosure and IR activities ...Page 11
# 7	Investors dislike downward revisions, so it is better to avoid disclosing earnings forecasts if possible	▶	Continuous disclosure of growth targets, KPIs, and their progress will build investors' trust ...Page 12

# Investors' Expectations #1

Executives' mindset that is not aligned with investors' expectations

**Sales and profits are steadily growing, but this is not reflected in the stock price and investors are not being rewarded**

Investors' expectations for Growth Market-listed companies #1

**We want companies to present a vision and strategy that inspires confidence in the sustainability and acceleration of growth**

- In the case of growth companies, especially small- and mid-cap stocks, investors seek **higher growth rates (in terms of sales, profits, etc.) than for large-cap stocks**, and are not interested in growth rates that are comparable to those of large-cap stocks. For example, **if a company can maintain an annual growth rate of 20–30%, it will double in size in 3–5 years. Institutional investors will inevitably take notice of companies with such a track record of growth.**
- However, even if a company has a track record of growth, investors assess whether that growth is **temporary or if it will continue/accelerate in the future** (based on **characteristics such as the uniqueness of its products/services and strategies, its strengths in niche markets, and its ability to develop new markets**). It is important for **executives to take the initiative in communicating this information to investors to raise their confidence in the company's ability to achieve high growth.**
- **Market capitalization of JPY 10 billion is merely a milestone, and we expect companies to compete using a business model and market scale that enable high growth, with their sights set on further growth beyond that point.**

# Investors' Expectations #2

Executives' mindset that is not aligned with investors' expectations

**Investors perceive capital increases as dilution, so fund raising causes the stock price to fall**

Investors' expectations for Growth Market-listed companies #2

## **We want companies to present a concrete and compelling equity story**

- When raising funds through new share issuances, investors focus on whether the funds raised can be used to achieve growth and enhance shareholder value, i.e., whether the capital increase is “accretive” or “dilutive.” **If investors consider the capital increase to be accretive, the stock price will not decline.**
- While it is true that some investors tend to simply view capital increases as “dilution,” **the fundamental issue is that companies are unable to clearly outline their path to growth or communicate it to investors.** When engaging in fund raising, **we expect companies to present a concrete and compelling equity story** that explains how the funds will be invested, the timeframe for achieving results, and the expected results.
- The true **purpose of a company's listing** is not to enhance brand recognition or attract talent, but to **accelerate growth by securing risk capital** that is difficult to raise as a non-listed company. Of course, companies should consider appropriate capital policies based on their growth stage and growth strategy. However, especially for **growth-stage companies listed on the Growth Market, we want them to actively secure risk capital with the understanding and support of investors and pursue bold growth investments to achieve high growth.**



# Investors' Expectations #3

Executives' mindset that is not aligned with investors' expectations

**Investors demand shareholder returns, so if dividends are not increased, they will not invest**

Investors' expectations for Growth Market-listed companies #3

**At this stage of growth, what we expect from companies is growth investment rather than dividends**

- What investors want from listed companies differs depending on the company's growth stage and business environment. They expect shareholder returns, such as dividends, from companies that have established stable businesses, but expect **companies in the growth stage that have not sufficiently established a business model to fully leverage the risk capital they have secured to advance bold growth strategies and growth investments rather than expecting short-term dividends.**
- To gain the understanding and support of investors regarding growth investments, **companies should clearly present specific policies and the approach behind their medium- to long-term capital policy** along with their future growth targets.
- **Investors** also need to **take a medium- to long-term perspective and support growth companies' efforts toward growth.**

# Investors' Expectations #4

Executives' mindset that is not aligned with investors' expectations

Since losses are not well-received by investors, companies hesitate to invest in growth

Investors' expectations for Growth Market-listed companies #4

**We want companies to make growth investments without being overly concerned about short-term losses**

- Even in the case of losses or minimal profits, if the reason is planting seeds for future growth, **investors will still invest if they believe that there will eventually be significant returns due to future sales growth**. An example of this is Amazon, whose stock price continued to rise despite continual losses after listing.
- Some believe that once a company lists, it can no longer afford to operate at a loss and is unable to make growth investments. However, this simply shows that **executives are not communicating effectively with investors and have failed to gain their trust and support**.
- For growth companies, **executives should take the initiative in communicating the reasons for their losses or minimal profits along with a clear vision and path toward future growth** in order to **gain the trust and support of investors and proceed with growth investments without excessive concern about short-term losses or declines in profits**.

# Investors' Expectations #5

Executives' mindset that is not aligned with investors' expectations

**Growth has stalled, so we will aim for a path toward expansion in the same manner as usual**

Investors' expectations for Growth Market-listed companies #5

**We want companies to rebuild their growth strategies, including inorganic growth strategies such as M&A**

- There are many cases in which companies did not achieve the growth they envisioned previously, such as during their IPO, but **did not sufficiently analyze the reasons why and consider measures for the future**. If a company has not achieved growth, **it should analyze its current situation, including the possibility that the current business model is not effective, and rebuild its growth strategy**.
- There are cases where, in smaller markets, many startups are competing for a piece of the pie, but there is a limit to growth through independent efforts alone. Companies should not only aim for growth independently but **should also consider inorganic growth strategies, such as collaboration with other companies and M&A**.
- However, **it is necessary to properly communicate that you are not haphazardly recommending an M&A**. In the U.S., if there are no prospects for growth, executives exit through M&A and establish new companies, but this practice is not common in Japan. Executives should recognize that **being bought out by another company is not a bad thing but a positive option for them**.

# Investors' Expectations #6

Executives' mindset that is not aligned with investors' expectations

**Since there are few institutional investors in the Growth Market, putting effort into disclosures is pointless**

Investors' expectations for Growth Market-listed companies #6

**We want companies to target investors suited to their growth stage and conduct effective information disclosure and IR activities**

- **Companies at a relatively smaller stage**, such as those with a market capitalization of less than JPY 10 billion, should first make efforts **with retail investors as their main targets** and **create a foundation (liquidity) where it is easy for institutional investors to invest**.
- Many executives **claim that retail investors focus on the short term**, but **this is not the case at all**. Many retail investors **diligently analyze and research companies**, so companies should **communicate information in ways that are easy for retail investors to understand**.
- To attract retail investors, it is first **important for companies to increase their brand recognition**. It is advisable for companies to increase exposure through efforts such as **briefings and IR events for retail investors** and to provide **easy-to-understand IR materials (graphs, videos, Q&A-style documents, etc.)** in order to enhance retail investors' level of understanding.
- In addition, **disclosures and IR that take into consideration the gradual incorporation of institutional investors are also important**. In the case of small- and mid- cap stocks where there is not much coverage by analysts, and particularly those with new products, services, or strategies, companies **should convey their medium- to long-term growth vision, path toward growth, unique strengths, and other matters as clearly as possible** as even professional institutional investors find it difficult to understand. **It is not the appearance of the materials that is important but rather the content and quality**.
- Furthermore, since institutional investors' capacity to attend briefings in person is limited, **it is also necessary for companies to make efforts to ensure that institutional investors can easily find information when they are interested, such as by uploading briefing videos and FAQs to their websites**.

# Investors' Expectations #7

Executives' mindset that is not aligned with investors' expectations

**Investors dislike downward revisions, so it is better to avoid issuing earnings forecasts if possible**

Investors' expectations for Growth Market-listed companies #7

## Continuous disclosure of growth targets, KPIs, and their progress will build investors' trust

- The issue is not downward revisions themselves but the fact that no analysis of the factors that caused results to fall under the forecast and no improvement measures have been presented. **When things are not going well, it is necessary to provide sincere and detailed explanations**, and executives and companies that are able to do so will **build investors' trust, leading to medium- to long-term investment**.
- We have heard of companies that do not wish to disclose earnings forecasts and medium-to long-term targets because they are afraid of not being able to meet them. However, as it is necessary to evaluate future medium- to long-term results after investing in a growth company, even if it is not in the format of earnings forecasts, **we want to see a medium- to long-term growth vision and targets as well as KPIs for achieving them with as much specificity as possible**.
- It is natural that there will be uncertainties in the external environment, so if the situation changes from the time the plan was formulated, the plan should be revised. **It is important to set goals, continuously implement the PDCA cycle, and promptly disclose the situation to investors**.
- It is disingenuous to leave KPIs that were set in the past unaddressed and not show what progress has been made, which makes it impossible to gain the trust of investors. **Progress on KPIs that have been disclosed should be subject to ongoing disclosure, and if KPIs have been changed, the reasons should be clearly stated**.

## 2. Thoughts Regarding Selection of Growth Market

# Thoughts Regarding Selection of Growth Market

◆ TSE's thoughts regarding the selection of the Growth Market are as follows.

- Each of TSE's three market segments have their own concepts and have established listing criteria, such as liquidity and governance, in line with them, so listed companies should **independently select the most appropriate market segment** based on their circumstances and growth strategies.
- From this perspective, if a listed company (or executive) **achieves growth in the Growth Market and aims even higher as a growth company**, then **it should remain in the Growth Market and fully take on that challenge**.
  - \* In the old market segments, one benefit of transferring from Mothers to the First Section was being incorporated into TOPIX, but **from October 2026, companies listed on the Growth Market with a certain level of liquidity will be incorporated into TOPIX**.
  - \* On the other hand, **companies that are listed on the Prime or Standard Markets are also welcome to transfer to the Growth Market** based on their circumstances and growth strategies.
- **As the Growth Market is a market for securing risk capital**, we hope that listed companies will **utilize it to actively procure growth capital to accelerate growth**. TSE will work to establish an environment that enables listed companies to achieve this.
- To make the Growth Market a market selected by companies aiming for high growth, TSE will advance measures that pursue the characteristic of "growth," **support companies aiming for high growth, and provide benefits for listing on the Growth Market**.

### 3. Support for Companies Listed on the Growth Market



# Support for Companies Listed on the Growth Market (Update)

- ◆ Around late September, we will initiate a public comment process regarding the revision of continued listing criteria and carry out **initiatives to promote “Management That Strives for High Growth”** for all companies listed on the Growth Market.
  - Present final version of “Investors’ expectations for Growth Market-listed companies” (→Pages 4 to 12)
  - Request analysis and evaluation of growth status and update of disclosure of growth strategy based on investors’ expectations (→Page 17)
- ◆ We will also **provide materials to use when considering initiatives** and **provide support for connecting with institutional investors**.
  - From **November to the beginning of December**, provide **good examples of initiatives by companies listed on the Growth Market that were well received by investors**
  - From the **beginning of the year**, begin to **spotlight** (list up) **investors of companies that are actively advancing initiatives**
  - **Begin to hold seminars that focus on companies listed on the Growth Market and small meetings with institutional investors**
- ◆ In order to **support companies making active efforts and create benefits for listing on the Growth Market**, we will advance various measures while **continuously exchanging opinions with startup executives** and collaborating and cooperating with market stakeholders.

# Initiatives to Promote Action to Achieve “Management That Strives for High Growth” (Draft)

- ◆ Based on investors’ expectations for Growth Market-listed companies, companies are again requested to **analyze and evaluate their growth status** thus far, **examine and update their growth strategies**, and **update their disclosed “Matters Relating to Business Plans and Growth Potential.”**

## Analyzing and Evaluating Growth

- **Use quantitative indicators to analyze and evaluate growth thus far**
  - ✓ Indicators for analysis and evaluation should be set based on the individual company’s situation and investor needs, and can include market capitalization, share price, sales, income, PSR, and PER, as well as other more detailed indicators (like customer numbers and spending per head)
- **Analyze and evaluate factors that contribute or do not contribute to growth**
  - ✓ Examine, for example, how big of a market and competitive advantage your company can get, and analyze and evaluate whether your planned business model is functioning as expected

## Updating Growth Strategy

- **Examine and update growth targets and measures based on the above analysis and evaluation**
  - ✓ Examine and update medium- to long-term growth goals, quantitative KPIs and target figures for measuring progress, and measures for achieving these goals.

## Disclosing Information to Investors

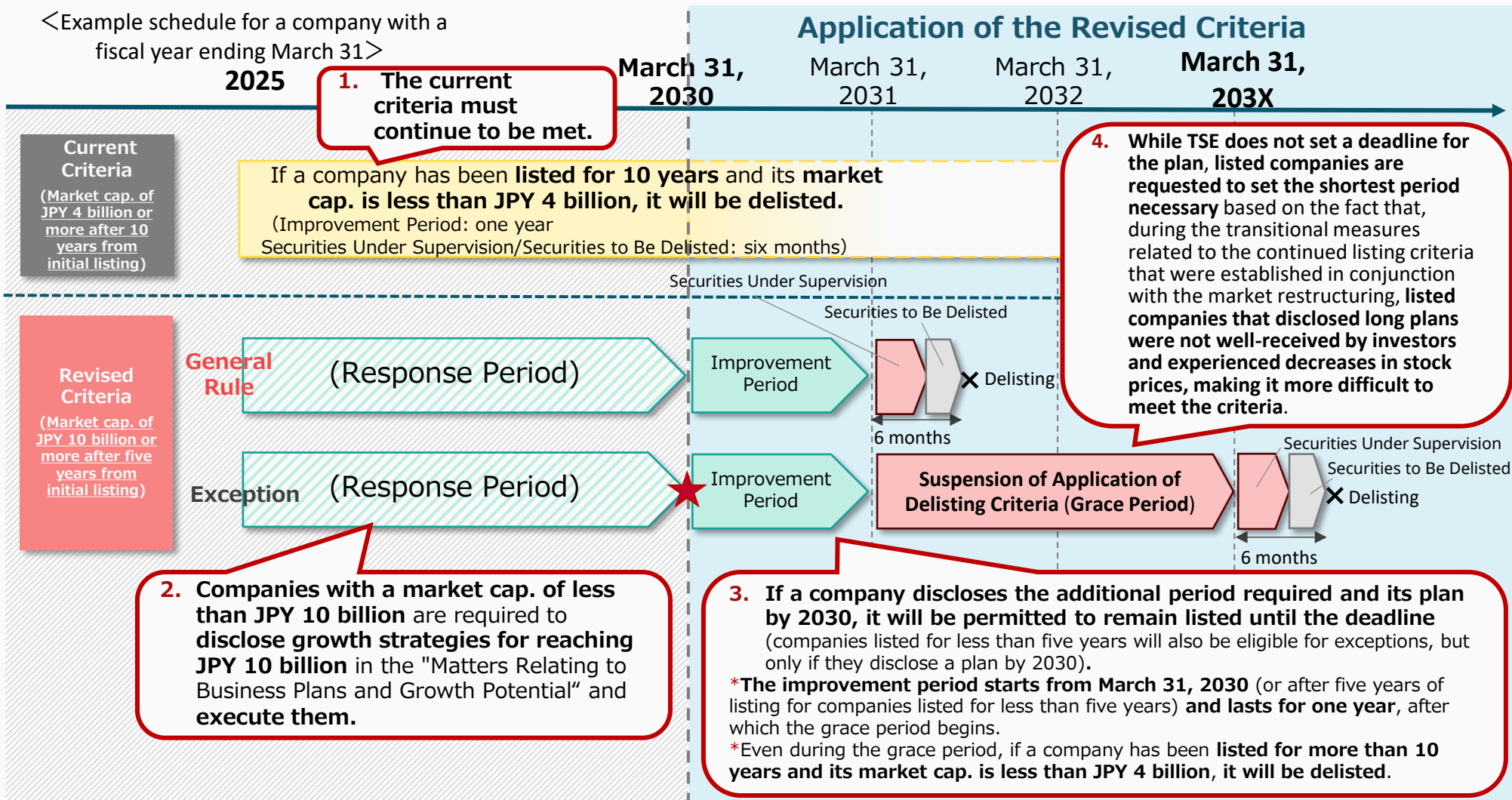
- **Disclose specific information regarding analysis and evaluation of the company’s current status, and updated growth targets and measures**
  - ✓ When disclosing “Matters Relating to Business Plans and Growth Potential,” disclose details of the above analysis and evaluation, and updated growth targets and measures, along with quantitative KPIs.

- \* **Analysis and evaluation of growth and updates to growth strategy should be carried out and disclosed to investors on an ongoing basis (at least once a year)**

# Revision of Continued Listing Criteria

- ◆ Although, as a general rule, the application of the new criteria will begin in 2030, if a company aims for compliance within a set period extending beyond that, and discloses its plan to investors, listing on the Growth Market will be allowed as an exception during the planned period (TSE will publish an outline by September 2025).

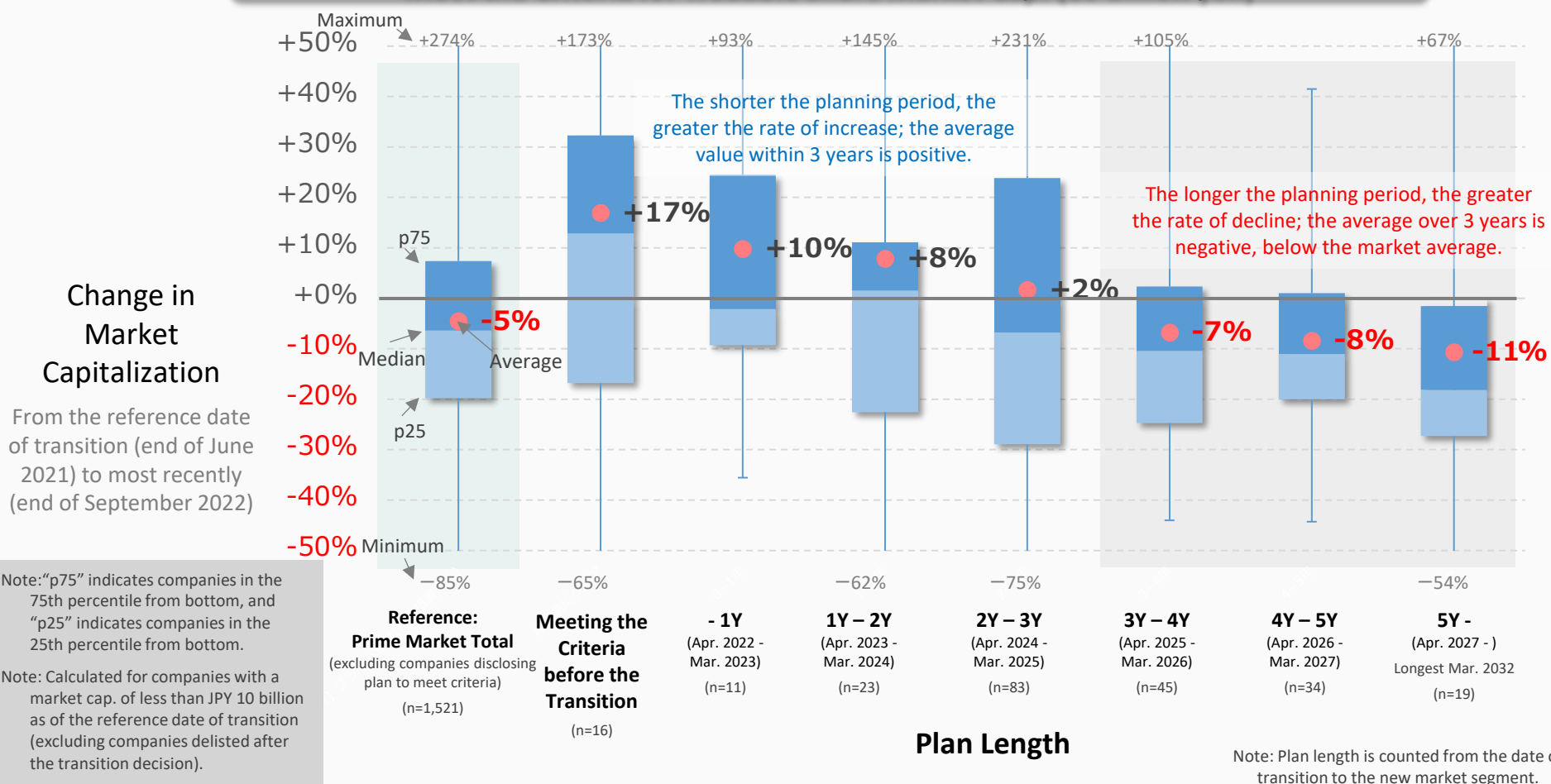
<Example schedule for a company with a fiscal year ending March 31>



## Reference: Market Evaluation of Companies that Disclosed Plans to Meet the Criteria

- During the transitional measures related to the continued listing criteria that were established in conjunction with the market restructuring, **listed companies that disclosed long plans were not well-received by investors and experienced decreases in stock prices.**

### Change in Market Cap. of Companies in the Prime Market that do not Meet the Criteria for Tradable Share Market Cap. (10 billion yen)



Source: Excerpt from TSE Explanatory Material: The Fourth Council of Experts Concerning the Follow-up of Market Restructuring