

Future Approaches in the Standard Market

Listing Department
Tokyo Stock Exchange

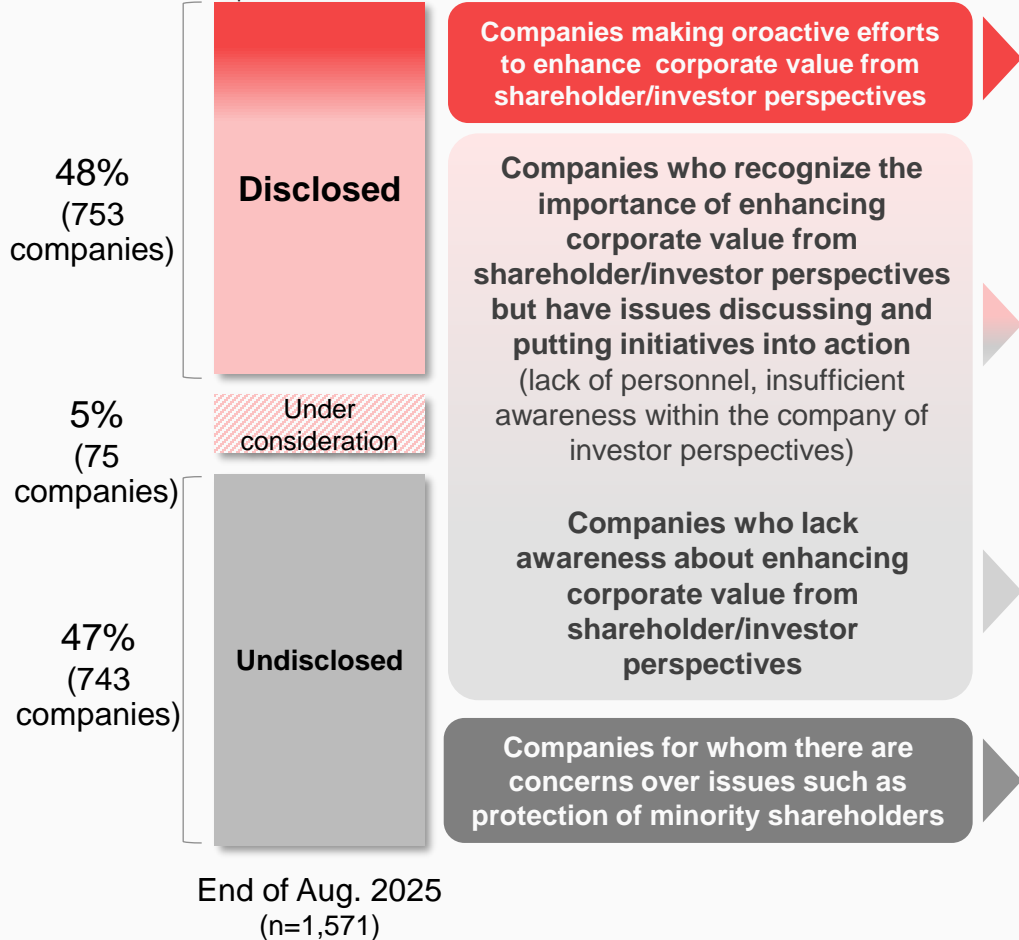
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Future Approaches (Overview)

Company Categorization

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



Future Approaches

- **Create settings for companies making proactive efforts to receive appropriate recognition** (make their efforts visible through case studies, etc.)
 - **Provide case studies of other companies who have overcome these issues** (update key points and case studies relating to the cost of capital request)
 - **Promote communication with institutional investors** (provide opportunities to further advance companies' understanding of institutional investors, etc.)
 - **Training for management and independent outside directors** (seminars for top management and outside directors, and promoting dialogue with investors, etc.)
- (Also follow up on status after making IR system development mandatory)
- **Ensure the necessary liquidity (public availability of shares) required to enhance corporate value from shareholder/investor perspectives**
 - **Address specific areas** (same for other markets too)
 - ✓ Impairment on minority shareholders interests in listed subsidiaries/affiliates (Also follow up on minority shareholder protection in management buyout and other privatization scenarios after regulatory amendments are made)
 - ✓ Issues with family-run/owner-run companies (prioritizing continuity over growth, and not raising share price to minimize inheritance tax, etc.)
 - ✓ Significant changes in business operations after listing (shifting to high-risk business, etc.)

Ref: Breakdown of Companies Not Disclosing

- ◆ Many of the companies not disclosing have a small market capitalization and/or major shareholders, such as parent companies or controlling shareholders

Disclosure Rate on “Implement Management that is Conscious of Cost of Capital and Stock Price”

Type of major shareholder	Market cap.				
	Less than JPY 4 bil.	JPY 4 bil. to less than JPY 7 bil.	JPY 7 bil. to less than JPY 10 bil.	JPY 10 bil. to less than JPY 25 bil.	JPY 25 bil. or more
Parent company (listed)	8% n=13	64% n=11	43% n=14	52% n=33	68% n=34
Parent company (not listed)	9% n=11	20% n=10	38% n=8	13% n=8	60% n=10
Controlling shareholder	24% n=34	28% n=29	27% n=15	46% n=26	67% n=12
Other related company	33% n=69	39% n=67	50% n=52	45% n=85	66% n=53
Other	35% n=233	45% n=203	53% n=146	59% n=275	70% n=120

Has major shareholder

Market stakeholder comments

- Compared to parent companies, the ROE of subsidiaries is lower and there has been less progress in management conscious of cost of capital
- Family-run companies prioritize continuity over growth, leading to potential misalignment with capital market expectations
- Institutional investors have no way to invest in companies with low public availability of shares. Ensuring public availability of shares is essential.

Small market cap.

Market stakeholder comments

- Companies with low liquidity and little market attention tend to lack a sense of urgency
- Institutional investors do not really invest in companies with a market capitalization in single-digit billions of yen, so these companies often **do not feel the need to engage with the capital market**. They are satisfied not to be lagging behind competitors in the same industry, and thus are **not implementing essential initiatives to improve corporate value**

(Note) The population consists of companies listed on the Standard Market. The number of companies with parent companies and the number of those with controlling shareholders have been calculated based on each company's CG report.

The number of companies with other associated companies, etc. have been estimated based on the disclosure status of each company's "Matters Concerning Controlling Shareholders, etc." (excluding companies that have parent companies or controlling shareholders).

Ref: Previous Discussion (September 2025)

- With the Standard Market being a place where a diverse range of companies converge, we should consider **categorizing the companies listed on it according to, for example, company size or shareholder structure, and use a specific approach for each category**

Companies making proactive efforts

- We see some companies seriously struggling as they strive to improve their corporate value. **It is crucial to identify the challenges and obstacles they are facing, and provide support for them**
- **As included in the good practices materials, there are companies proactively aiming for growth** on the Standard Market too. This market is where medium-sized companies that support the Japanese economy converge, so we **should clearly highlight the companies that are making proactive efforts**
- On the Standard Market in recent years, there are **companies that are proactive in engaging with investors and have sufficient potential to attract small and medium-sized institutional investors**, so we must not allow those excellent companies to go unnoticed

Companies for whom there are concerns over issues such as protection of minority shareholders

- As the Standard Market is at present, there are **concerns that some companies are not fulfilling their responsibilities as listed companies**. As the market operator, we must do something about this issue to protect general shareholders and investors
- **Protecting minority shareholders is a fundamental principal and a minimum obligation**, and **TSE needs to carry out rigorous quality control** to check if it is being adhered to. More problematic than liquidity and share distribution themselves is the fact that **low liquidity and disproportionate share distribution end up hindering efforts to protect minority shareholders and improve other problems**
- **Focusing on the fact that minimum requirement for listed companies is to protect minority shareholders**, particular emphasis should be placed on the important **role of independent outside directors** and the **ensuring liquidity**, and **if necessary, revise standards**