

Case Study Update for “Management That is Conscious of Cost of Capital and Stock Price”



Listing Department
Tokyo Stock Exchange
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Case Study Update and Examples of Companies' Initiatives to Address Issues

(to be published in Dec., 2025)

Cases Where Companies Are Not Aligned With Investors' Perspectives



Compare the misalignments likely to occur depending on your company's situation and use them to analyze your company's initiatives.

Level 1

- Analysis and evaluation of the current situation is only superficial
- Disclosures are just a list of initiatives
- Requests for dialogue are denied without legitimate reason

Level 2

- Misalignments in companies' evaluation of their current situation
- Insufficient consideration given to ideal balance sheets and capital allocation policies
- Target setting is not in line with investors' perspectives
- Analysis of issues and consideration of additional responses are not considered flexibly

Level 3

- Insufficient focus is given to downsizing or withdrawing from unprofitable business
- Performance-linked executive compensation is not necessarily an incentive for medium- to long-term improvements in corporate value
- Disclosure regarding how much dialogue is taking place is not specific enough

(1) Update with examples of recent initiatives (based on company size)

Key Points and Case Studies Considering The Investor's Point of View



Use the key points and examples provided to promote initiatives that take into consideration investors' perspectives.

Explanation of Key Points Considering The Investor's Point of View

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Case Studies

Examples of Companies' Initiatives to Address Issues

(2) Interviewing companies who have successfully addressed common issues faced by many other companies, to compile how they overcame issues and introduce their approaches

→ **Planning to hold seminars and roundtable discussions to share knowledge and experiences**

Examples of Companies' Initiatives to Address Issues (Outline)

Provide companies' specific examples in Dec.

Issues faced by many companies

(i) Changing mindsets/ spreading awareness within the company

- **Management** still fixed on **prioritizing only P&L**, so difficult to get their understanding and support
- **Insufficient awareness of issues and lack of urgency** within **management and the board of directors**, so no discussion on initiatives
- **Difficult to spread awareness throughout the company due to lack of balance sheet awareness** at departments not working closely with shareholders and investors

(ii) Identifying/ effectively using cost of capital

- **Cost of capital calculated using CAPM**, but investors say it is too low
- **Cost of capital identified**, but **not being used for management decisions**, such as investment decisions and allocating management resources

(iii) Setting medium- to long-term capital policy

- Do not know what investors expect or what criteria to use when making decisions on the balance between **growth investment, shareholder returns and retained earnings**
- **Coordination is difficult because many directors and departments are involved**, not only finance, but corporate planning and others

(iv) Other

- Unclear whether targets and initiatives under consideration **will meet investors' expectations**, so **hesitant to disclose them**
- **Difficult to present a convincing narrative to investors** regarding initiatives and capital policies

Examples of how issues have been successfully addressed

- **Fostering awareness of issues and initiating discussions** by approaching management and the board of directors **with feedback from external sources (TSE requests and comments/suggestions from investors, etc.)**
- **Introducing systems that enable IR insights to be passed on directly to management**, by optimizing reporting structures and, for example, placing IR officers directly under the CEO
- **Delivering clear messages from top management while conducting training sessions for directors and briefings/public relations activities for other employees**, so awareness spreads through the entire organization
- **Introducing an organizational structure that enables management policy to be communicated promptly and appropriately**, and that supports business operations, for example, **dispatching finance officers to other departments**
- Calculating cost of capital internally but also **consulting others such as institutional investors and securities companies** and then **deliberately setting cost of capital on the conservative side**
- **Making portfolio management more standardized**, rather than dependent on specific individuals or departments, thereby encouraging **businesses to be selected and focused on with cost of capital in mind**
- Promoting growth investment which investors support, by **having ongoing discussions with and providing clear explanations to investors about resource allocation** toward improving corporate value
- **Regularly discussing balance sheets and growth investment with relevant departments** to align perspectives. Also, routinely **discussing how to deal with possible fluctuations in profit** to adapt flexibly to future changes in business environment.
- **Not aiming for perfection from the start**. First disclosing your current policies and initiatives, then **gradually refining them through dialogue with investors**
- **Create a rationale for improving PBR through dialogue with investors**. Present specific KPIs and progress to **gain investor trust**.

Ref. Summary of Survey Results

Reprint from the 21st Meeting Council
(Held April 22, 2025)

- ◆ 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%)