

# Key Points Considering The Investor's Point of View

Tokyo Stock Exchange, Inc.

December 26, 2025 3rd edition



This document is intended to be a reference for listed companies that are considering Action to Implement Management That is Conscious of Cost of Capital and Stock Price, and also to help listed companies that have already disclosed information related to these efforts update their information in the future. **This report is based on interviews with many investors in Japan and overseas, and includes a summary of the key points of initiatives that investors expect from companies, examples of initiatives that investors deemed as fulfilling these expectations.**

Note: The examples in this material are provided solely for informational purposes as a reference for listed companies that are considering management that is conscious of cost of capital and stock price, and are not intended as a solicitation to invest in specific stocks or for any other purpose.

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# Revision History

Version number	Issue date	Content of revisions
1st edition	February 1, 2024	—
2nd edition	November 21, 2024	<ul style="list-style-type: none"><li>✓ Case studies of initiatives by listed companies for each point have been updated.</li><li>✓ Point 1 (“Setting goals based on the expectations of shareholders and investors”) has been added to Section II: Consideration and Disclosure of Initiatives.</li><li>✓ Point 4 (“Revision of goals and initiatives on an ongoing basis”) has been added to Section III: Dialogue and Updates.</li></ul>
3rd edition	December 26, 2025	<ul style="list-style-type: none"><li>✓ Case studies of initiatives by listed companies for each point have been updated.</li><li>✓ The heading and explanation for Point 4 (“Aligning the perspectives of management and employees on enhancing corporate value in the medium to long term”) in Section II: Consideration and Disclosure of Initiatives have been updated.</li><li>✓ The explanation for Point 5 (“Explanation of efforts in relation to medium- to long-term goals”) in Section II: Consideration and Disclosure of Initiatives has been updated.</li></ul>

# Introduction

I. Analysis and Evaluation of the Current Situation

II. Consideration and Disclosure of Initiatives

III. Dialogue and Updates

- ◆ In March 2023, Tokyo Stock Exchange requested all listed companies on the Prime and Standard Markets to take **action to implement management conscious of cost of capital and stock price**. Since then, many listed companies have been implementing initiatives, and **many shareholders and investors in Japan and overseas have expressed their expectations for further progress in these efforts by their respective companies**.
- ◆ This document is intended to be a reference for listed companies that are considering taking action, and also for listed companies that have already disclosed their information, to help them update their information in the future. **This report is based on interviews with many investors\* in Japan and overseas**, and includes **a summary of the key points of initiatives that investors expect from companies, examples of initiatives that investors deemed as fulfilling these expectations**.
  - \* TSE has held meetings with many investors who place importance on medium- to long-term enhancement of corporate value (such as active funds, totaling over 400) and has incorporated the latest case studies and feedback received from investors in 2025.
- ◆ **We would like to ask all listed companies to take the current situation**, in which the expectations of shareholders and investors in Japan and abroad are rising, **as a good opportunity to respond proactively and promote corporate reform**, rather than simply responding to requests.

# Structure of this Document

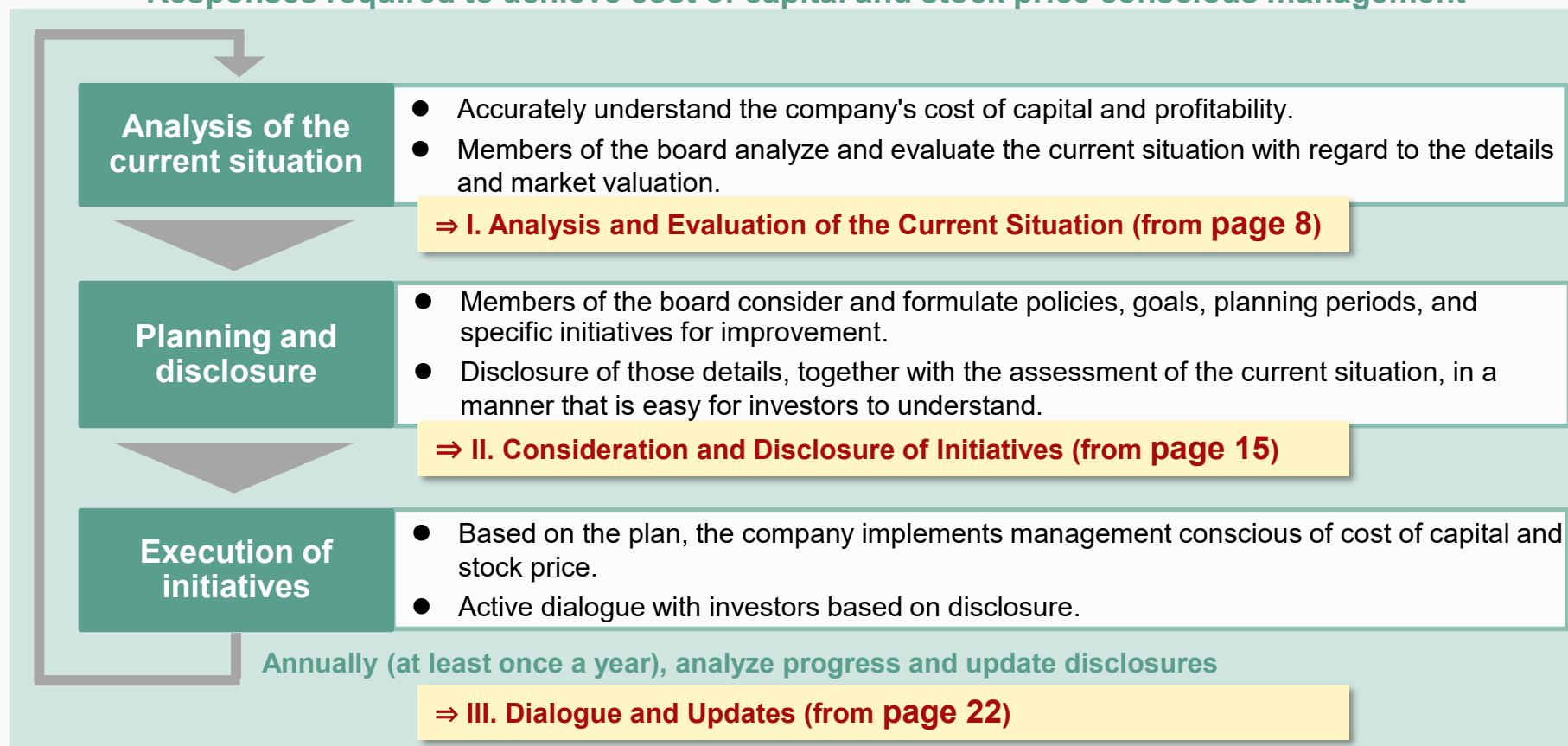
- ◆ This document describes, for each step in the series of initiatives we are requesting companies to utilize to implement management that is conscious of cost of capital and stock price, the key points of the initiatives that investors expect from companies, and examples of initiatives that investors deemed as fulfilling these expectations.

- Details of each case study are compiled in Document 4 (“2025 Case Studies: Prime Market”) and Document 5 (“2025 Case Studies: Standard Market”), so please also see these.

**Note:** The case studies published in November 2024 are available at the link below. Please refer to them as needed.

<https://www.jpx.co.jp/english/news/1020/20241121-01.html>

## Responses required to achieve cost of capital and stock price conscious management



## Introduction

### I. Analysis and Evaluation of the Current Situation

### II. Consideration and Disclosure of Initiatives

### III. Dialogue and Updates

The main purpose of **management that is conscious of cost of capital and stock price** is to **achieve medium- to long-term enhancement of corporate value and sustainable growth** by promoting fundamental initiatives such as investment for growth and review of business portfolio with full awareness of cost of capital and return on capital, and the first step toward realization is to **analyze and evaluate the current situation**.

- ◆ In analyzing and evaluating the cost of capital, it is first expected that companies **properly ascertain the cost of capital** which is needed to evaluate profitability, and in doing so, it is important to **consider the cost of capital from the investors' perspective (Point 1 on page 9)**.
- ◆ Then, the **board of directors is expected to analyze and evaluate the company's** profitability and market valuation, not merely whether the current P/B ratio exceeds 1 or whether the ROE exceeds 8%, but to analyze and evaluate **the company from multiple perspectives with regard to profitability and market valuation (Point 2 on page 11)**.
- ◆ The key to management that is conscious of cost of capital and stock price is **appropriate allocation of management resources** to improve corporate value over the medium to long term, and in conjunction with the above analysis and evaluation, companies are also expected to **check whether their balance sheet is in an efficient state** for value creation **(Point 3 on page 13)**.



## Point 1

### Considering the cost of capital/equity in regard to the investor's perspective

#### Explanation

- ◆ Many companies use the CAPM (Capital Asset Pricing Model) as a method for estimating the cost of equity, but its calculated value is **only one estimate**.
- ◆ **Considering that the cost of capital is the investors' expected rate of return**, it is not necessarily enough to calculate it by a model such as CAPM, but it is **of importance to align perceptions with shareholders and investors about the level of the cost of capital**.
- ◆ **Effective efforts to foster such a common understanding with shareholders and investors may include,**
  - **Disclosure of the model parameters used in the calculation, along with the level of the cost of capital recognized by the company.**
  - **Analysis with multiple models and parameters**
  - **Asking shareholders and investors about the company's level of the cost of capital through information meetings and interviews.**

#### Initiative Examples

##### Itoki (7972, Prime)

Interviews were conducted with major institutional investors regarding the cost of shareholders' equity, as well as calculating it using CAPM, and a more stringent range was adopted to meet investor expectations. (Document 3 – page 5)

##### FinTech Global Incorporated (8789 · Standard)

Multifaceted analysis is done on cost of shareholders' equity, including using CAPM and dividend yield, and detailed disclosure is given of this. Trends in equity spread and the ROIC-WACC spread are presented (Document 5 – page 33)

##### SHOEI YAKUHI (3537 · Standard)

Cost of shareholders' equity is calculated with a multifaceted approach, using equity beta derived from multiple scenarios based on the CAPM. (Document 5 – page 7)

##### DMS (9782 · Standard)

Understanding of cost of shareholders' equity is revised after identification of a gap in thinking through dialogue with investors (Document 5 – page 36)

##### FUKUJI CHEMICAL INDUSTRY (7871 · Standard)

Cost of shareholder's equity is calculated using CAPM and then adjusted upwards to account for business factors, financial factors, and market factors (Document 5 – page 25)

##### CHANGE Holdings (3962, Prime)

The cost of shareholders' equity was calculated accounting for a size premium (an additional risk premium applied to the stocks of small companies) ( [2024 Case Studies] Document 4 – page 81)

# Reference: Corporate Value Enhancement Management Seminar, Corporate Value Enhancement Management e-Learning

- ◆ TSE provides materials and transcripts of past **Corporate Value Enhancement Management Seminars** and **Corporate Value Enhancement Management e-Learning** (both are available in Japanese only) for listed companies to deepen understanding of knowledge and information fundamental to corporate value enhancement management from the investor's perspective, such as cost of capital.

## Corporate Value Enhancement Management Seminar

<https://www.jpx.co.jp/equities/listed-co/co-value/03.html> (No English page available)

### ◆ FY 2018 Corporate Value Improvement Award

Lecture Contents	Speaker
What is cost of capital? - The Strategic Significance of Recognizing the Cost of Capital.	Ryohei Yanagi (Visiting Professor, Graduate School of Accounting, Waseda University / Managing Executive Officer and CFO, Eisai Co.)
Revised Code 5-2 and purpose of Dialogue Guideline 2-2.	Mr. Hiroki Sampei, Head of Engagement, Fidelity Investment Trust Co.

### ◆ FY 2019 Cost of Capital - from the Basics

Lecture Contents	Speaker
Corporate value enhancement and the cost of capital - The fundamentals and practices for management application	Tetsuyuki Kagaya, Associate Professor, Graduate School of Business Administration, Hitotsubashi University
Investors' desire to increase corporate value and awareness of cost of capital - Expectations from real dialogue.	Mr. Yasunori Nakagami (Representative director / board member / member of the board], Misaki Investment Co.
Progress in deepening and proliferation within the company of "management by ratio" (management with awareness of cost of capital)	Mr. Koichi Takahashi, [director / executive officer / statutory auditor / officer], General Manager, Accounting & Finance Division, Daikin Industries, Ltd.

## Corporate Value Enhancement Management e-Learning

<https://www.jpx.co.jp/equities/listed-co/seminar/e-learning/index.html> (No English page available)

### ◆ Basic Course Series

The Significance of Corporate Value Enhancement Management and its Practice	<ol style="list-style-type: none"> <li>1. Significance and necessity of corporate value enhancement management</li> <li>2. What is the required capital and cost of capital?</li> <li>3. Current situation and initiatives of corporate value enhancement management of TSE-listed companies</li> </ol>
Capital Markets and Corporate Management	<ol style="list-style-type: none"> <li>1. What is listing?</li> <li>2. What is a shareholder?</li> <li>3. Minority shareholders (institutional investors) in brief</li> <li>4. Changes in the presence of minority shareholders</li> <li>5. Challenges facing Japanese Companies</li> <li>6. Aiming for sustainable growth and enhancement of corporate value over the medium to long term - Corporate Governance Code and ESG Information</li> </ol>
Tasks for Independent Directors	<p>Case 1: What would you think about a proposal to enter a new business?</p> <p>Case 2: What are your thoughts on the handling of surplus?</p> <p>Case 3: What would you think if you were the target of a TOB?</p>

### ◆ Best Practices in Corporate Value Enhancement Management Series

Series 1	Initiatives of OMRON Corporation
Series 2	Initiatives of Marubeni Corporation
Series 3	Initiatives of UNITED ARROWS LTD.
Series 4	Initiatives of PIGEON CORPORATION

## Point 2

### Multifaceted analysis and evaluation based on the investor's perspective

#### Explanation

- ◆ It is not enough to merely check whether the current **P/B ratio is above 1 or ROE is above 8%** for a convincing analysis and evaluation from an investor's perspective.
- ◆ For example, companies are expected to conduct an analysis of the **factors that may be contributing to profitability and market valuation** after confirming the company's position with a **matrix analysis of profitability and market valuation** (see next page.)
- ◆ In doing so, companies are also expected to **adjust indicators based on their specific situation and conduct comparisons with other companies and time-series analysis** of indicators such as P/B ratio and ROE since the average levels of such indicators vary by sector and business category and there may be cases where they do not adequately reflect the real situation or cases of significant temporary fluctuations due to accounting factors, etc.
- ◆ It would also be useful to **analyze cost of capital and profitability by segment** if the company has businesses with very different expected risk/return ratios.

#### Initiative Examples

##### Dai-ichi Life Holdings (8750, Prime)

Even with ROE reaching a certain level, by comparing themselves with global peers in the same industry, the company realized that they are not where they should be and revised their ROE and profit targets.  
(Document 4 – page 11)

##### VIS (5071, Standard)

While the PBR exceeds 1 on the back of high ROE, issues are identified with the PER after a comparative analysis with industry peers. (Document 5 – page 11)

##### FinTech Global Incorporated (8789, Standard)

The market valuation is examined from several angles, including time-series analysis of market capitalization, PBR, and PER and comparative analysis with indices such as TOPIX.  
(Document 5 – page 33)

##### FUKUJI CHEMICAL INDUSTRY (7871 · Standard)

After breaking ROE down into three components, detailed analysis is conducted using time series and industry average comparisons.  
(Document 5 – page 25)

##### SEIBU HOLDINGS (9024, Prime)

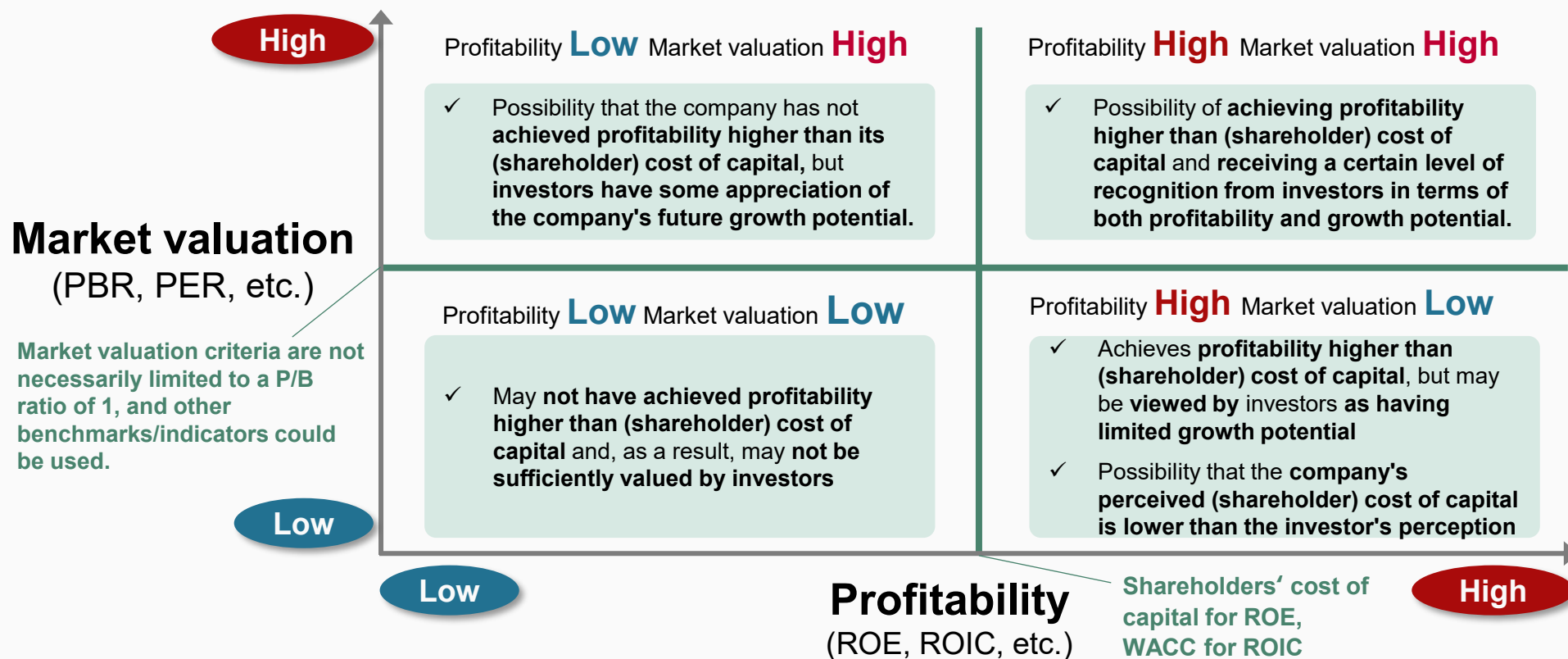
In addition to the usual PBR, the company calculated a “revised PBR” that takes into account the unrealized gains on rented real estate to analyze market valuations. ( [2024 Case Studies] Document 4 – page 73)

##### EBARA CORPORATION (6361, Prime)

ROIC-WACC spread is analyzed and evaluated by segment, and measures to increase ROIC spread by segment were announced. ( [2024 Case Studies] Document 4 – page 53)

# Reference: Matrix analysis on profitability and market valuation

- ◆ In analyzing a company's current situation and considering priority actions, it may be useful to **check the company's position in the following matrix of profitability and market valuation** (and if necessary, compare your company with other companies and analyze time series).



Results of the above analysis,

- If profitability and growth are **not at a sufficient level or have not been evaluated**, it is expected that an **analysis of the contributing factors will be conducted and remedial measures will be considered**.
- However, even if a **certain level and evaluation of profitability and growth potential has been obtained**, it is **expected that efforts to further improve them will be considered based on investors' expectations**.

## Point 3

### Inspection of balance sheets to ensure their efficacy

#### Explanation

- ◆ It is not enough to merely check whether the current **P/B ratio is above 1 or ROE is above 8%** for a convincing analysis and evaluation from an investor's perspective.
- ◆ For example, companies are expected to conduct an analysis of the **factors that may be contributing to profitability and market valuation** after confirming the company's position with a **matrix analysis of profitability and market valuation** (see next page.)
- ◆ In doing so, companies are also expected to **adjust indicators based on their specific situation and conduct comparisons with other companies and time-series analysis** of indicators such as P/B ratio and ROE since the average levels of such indicators vary by sector and business category and there may be cases where they do not adequately reflect the real situation or cases of significant temporary fluctuations due to accounting factors, etc.
- ◆ It would also be useful to **analyze cost of capital and profitability by segment** if the company has businesses with very different expected risk/return ratios.

#### Initiative Examples

##### VIS (5071, Standard)

A review of the balance sheet identifies an issue with excess cash and deposits. A policy is stated to redirect funds generated through optimizing cash and deposit levels to growth investments and shareholder returns.

(Document 5 – page 12,13)

##### THK (6481, Prime)

To enhance capital efficiency, the company discloses specific policies on balance sheet management and capital allocation, detailing how current and future cash flows will be allocated between growth investments and shareholder returns.

(Document 4 – page 19)

##### SANKYU (9065, Prime)

To achieve an optimal balance sheet, the company discloses their target equity level while promoting balance sheet streamlining through the sale of strategically held shares and the securitization of accounts receivable.

(Document 4 – page 36)

##### Takara Standard (7981, Prime)

The company has clearly stated its cash allocation policy: while promoting the sale of non-operating assets such as strategically held shares and idle real estate, they will strengthen growth investments and shareholder returns.

(Document 4 – page 63)

##### Aoyama Trading (8219, Prime)

The company indicates its ideal balance sheet and has begun work to achieve it through measures such as reviewing held assets, compressing inventory, and optimizing liquidity on hand.

(Document 4 – page 71)

##### ASICS Corporation (7936, Prime)

In order to improve capital efficiency, the company disclosed its plan to sell all cross-shareholdings and allocate the resulting cash for investment in growth and shareholder returns. ( [2024 Case Studies] Document 4 – page 66)

# Introduction

## I. Analysis and Evaluation of the Current Situation

## II. Consideration and Disclosure of Initiatives

## III. Dialogue and Updates



After analyzing and evaluating the current situation and clarifying the company's priority issues and medium- to long-term goals, **board members are expected to discuss specific measures to resolve these issues and realize the goals, and disclose the details of these measures, along with an evaluation of the current situation, in a manner that is easy for investors to understand.**

- ◆ Firstly, in setting medium- to long-term goals, companies are expected not just to think in terms of an extension of the present, but to **base goals on the expectations of shareholders and investors (point 1 on page 16)**
- ◆ In considering specific initiatives, it is expected that companies will not take technical measures to improve capital profitability and stock price in the short term, but will **implement fundamental initiatives** from a medium- to long-term perspective, such as **promoting investments to achieve growth and reviewing the business portfolio, with an awareness of the appropriate allocation of management resources (point 2 on page 17).**
- ◆ In addition, to realize medium- to long-term corporate value, companies are expected not only to work on improving profitability, but also to be **aware of the need to reduce cost of capital (point 3 on page 18).** To do so, it is important to **reduce information asymmetry through effective information disclosure**, and to increase **investor confidence in corporate profitability and growth potential.**
- ◆ Along with the efforts above, in order to **strengthen the commitment of management, the board, and employees to ongoing corporate value improvement and gaining the confidence of shareholders and investors**, companies are also expected to **align the perspectives of management and employees on enhancing corporate value in the medium to long term (point 4 on page 19)** by designing strong incentive systems and initiatives to embed this thinking within the organization.
- ◆ When disclosing initiatives, rather than simply listing them, it is important to **explain what the company intends to do**, how it will solve problems, and how it is **tied to the company's medium- to long-term goals (point 5 on page 20).** This will deepen the understanding of shareholders and investors and lead to deeper dialogue.

### Point 1

## Setting goals based on the expectations of shareholders and investors

### Explanation

- ◆ In order to gain adequate evaluations from investors that focus on the medium to long term, it is important not just to think in terms of an extension of the present, but **set goals based on the expectations of shareholders and investors**.
- ◆ When choosing indicators for the goal setting, companies are expected to use not just PL-based indicators such as profit levels, but to **combine these appropriately with indicators that are valued by investors, such as profitability-related ones like ROE or ROIC based on the balance sheet, and market evaluation-related ones like PBR, PER, and TSR**.
- ◆ When setting goals for profitability-related indicators, **companies need to also consider the relationship with cost of capital (whether the goal reaches the level of cost of capital)**. Also, rather than thinking that it's fine if profitability is above cost of capital or the P/B ratio is above 1, companies are expected to set goals reaching for further improvements based on the expectations of shareholders and investors.

### Initiative Examples

#### Yokohama Financial Group (7186, Prime)

The company reviewed the previous medium-term management plan to identify issues, and in the new plan, disclosed a higher ROE target along with initiatives to achieve it. The company presented target values based on scenarios for policy rates, which have a significant impact on performance. (Document 4 – page 24)

#### Aichi Steel (5482, Prime)

Issues are identified through careful analysis of the situation one year into the medium-term management plan. A long-term target is set of ROE exceeding the cost of capital and target profits are revised upward. Each initiative is refined accordingly.  
(Document 4 – page 54)

#### Dai-ichi Life Holdings (8750, Prime)

Even with ROE reaching a certain level, by comparing themselves with global peers in the same industry, the company realized that they are not where they should be and revised their ROE and profit targets. (Document 4 – page 11)

#### Takara Standard (7981, Prime)

Based on discussions with investors and shareholders, the company revises upward their target setting during their mid-term management plan period.  
(Document 4 – page 62)

#### OBAYASHI CORPORATION (1802, Prime)

In regards to cost of shareholders' equity, the company raised its ROE target in recognition of the fact that the level demanded by the market exceeded the level recognized as such by the company (calculated using CAPM) ( [2024 Case Studies] Document 4 – page 26)

#### WILLPLUS Holdings Corporation (3538, Standard)

Even achieving ROE exceeding its cost of capital and a PBR above 1x, the company decided there was still room for improvement and moved forward initiatives to further improve performance. ( [2024 Case Studies] Document 5 – page 7)



### Point 2

## Implementing fundamental initiatives with an awareness of the appropriate allocation of management resources

### Explanation

- ◆ What shareholders and investors with a medium- to long-term perspective expect from a company is not technical efforts to improve profitability or stock price in the short term, but rather to **promote fundamental initiatives and realize appropriate allocation of management resources**. Specifically, companies are expected, **with sufficient consideration of cost of capital and profitability**, to push forward initiatives such as **investment in R&D and human capital that leads to the creation of intellectual property and intangible assets that contribute to sustainable growth, investment in equipment and facilities, and business portfolio restructuring**.
- ◆ In addition, as an **effort to ensure the appropriate allocation of management resources**, the future form of balance sheets should be considered (see point 3 in I. Analysis and Evaluation of Current Situation), and a **plan should be formulated to achieve that vision**, as well as a **cash allocation policy to determine how capital**, including future cash flows, **will be allocated for investment in growth and shareholder returns**.
- ◆ **Strengthening of shareholder returns, such as share buybacks and dividend increases**, should be implemented according to the situation, based on an analysis of whether the balance sheet is effectively contributing to value creation; it is not expected to be done as a one-time or transitory response only to share buybacks (through recap CBs, etc.) and dividend increases.

### Initiative Examples

#### KURIYAMA HOLDINGS CORPORATION (7259, Standard)

The capital allocation policy is disclosed in detail, together with a specific explanation of the anticipated outcomes from growth investments. (Document 5 – page 6)

#### Kanro (2216, Standard)

A detailed cash flow allocation policy is explained which aims to create a virtuous cycle of maximization of operating cash flow through leverage of strategic investments and acceleration of further growth investment. (Document 5 – page 2)

#### FUKUJI CHEMICAL INDUSTRY (7871, Standard)

Regarding capital allocation, specific plans are disclosed for increasing cash reserves through optimizing CCC and selling strategic shareholdings, as well as utilizing these assets mostly for growth investment. (Document 5 – page 27)

#### VIS (5071, Standard)

A policy to allocate funds generated through the optimization of cash and deposit levels to growth investments and other areas is clearly articulated, along with a policy to carry out M&As and human capital investments as growth investment themes. (Document 5 – page 13)

#### Itoki (7972, Prime)

As part of their management strategy to enhance corporate value, the company is advancing their intellectual property strategy and explain the results of this initiative in detail. (Document 4 – page 59)

#### RYODEN (8084, Prime)

A policy for business portfolio transformation through proactive investment in growth businesses is clearly indicated, and specific goals and strategies are disclosed for each segment. (Document 4 – page 68,69)

#### Mitsubishi Electric (6503, Prime)

Along with advancing the business portfolio strategy, including withdrawal and divestiture, the underlying approach and future direction are explained to investors in an easy-to-understand Q&A format. (Document 4 – page 5,6)

#### SEIBU HOLDINGS (9024, Prime)

The company calculated its proprietary ROIC indicators and business-specific hurdle rates and used them to optimize resource allocation, such as in decisions on real estate liquidation and new investments as well as the utilization of site monitoring. (Document 4 – page 32)

### Point 3

## Being aware of the need to reduce cost of capital

### Explanation

- ◆ In order to realize medium- to long-term improvement in corporate value, it is necessary to **achieve capital returns that exceed the cost of capital and then to increase the difference\* between the two**. From this perspective, companies are expected not only to improve profitability but also to **reduce the cost of capital**.  
\* The difference between ROE and the cost of shareholders' equity is called the "**equity spread**" and the difference between ROIC and WACC is called the "**economic value added (EVA) spread**".
- ◆ Although there are various factors that determine the cost of capital and it is difficult to make a general statement, for example, if the **disclosure of information** necessary for investment decisions is **inadequate, the uncertainty of management** becomes a source of **anxiety for investors**, which **increases the cost of capital**. In such cases, it is considered effective to reduce the cost of shareholders' capital by **eliminating information asymmetry** through **enhanced disclosure information** and **effective dialogue with investors**.
- ◆ In addition, to **increase investor confidence in management and in the stability and sustainability of earnings, strengthening corporate governance** and other measures are also considered effective means of reducing the cost of shareholder capital.

### Initiative Examples

#### Yokohama Financial Group (7186, Prime)

The company used a logic tree to show the impact of each initiative on reducing the cost of capital, followed by a detailed explanation of individual measures. (Document 4 – page 26)

#### FinTech Global (8789, Standard)

Initiatives are set out to reduce the cost of shareholders' equity through reduction of earnings volatility and proactive IR activities and disclosure. (Document 5 – page 35)

#### Daiichi Life Holdings (8750, Prime)

After presenting the ideal level of cost of capital, the company advances initiatives to reduce cost of capital such as the continued reduction of interest and equity risks. (Document 4 – page 12)

#### NISHIKAWA RUBBER (5161, Standard)

Initiatives such as sustainable management and clear IR/SR activities are carried out to reduce cost of capital, and the status of their implementation is disclosed along with an evaluation. (Document 5 – page 16)

#### Kanro (2216, Standard)

IR/SR related to reducing cost of capital are strengthened. Helpful disclosure is provided on what dialogue has been carried out with investors, the main questions asked and their answers, and demands from the capital markets (Document 5 – page 3)

### Point 4

## Aligning the perspectives of management and employees on enhancing corporate value in the medium to long term

### Explanation

- ◆ To achieve medium- to long-term enhancement of corporate value, **it is important for both management and general employees to regard corporate value improvement as a personal objective.** Companies are expected to establish mechanisms to raise awareness of capital efficiency and the importance of enhancing corporate value throughout the organization.
- ◆ Specifically, **compensation schemes for management should be designed to function as strong incentives for sustainable growth, such as introducing or expanding performance-linked or stock-based compensation tied to indicators that are important to investors (e.g., TSR, EPS, equity spread).**
- ◆ Furthermore, **providing incentives aimed at enhancing corporate value not only to executives but also to middle management and general employees, such as granting company shares or stock options, is considered an effective means of fostering an understanding and permeation of the shareholder and investor viewpoint among a wide range of employees.**
- ◆ In addition, **holding study sessions and briefings for management and general employees, as well as breaking company-wide goals down to the departmental level and linking them to day-to-day activities, are also regarded as effective measures to embed management practices that are conscious of cost of capital and share price within the organization.**

### Initiative Examples

#### Fujitsu Limited (6702, Prime)

With the aim of deepening the sharing of value with shareholders, the company increased the ratio of performance-linked shareholder remuneration, removed consolidated revenue from the evaluation index, and newly added TSR. ( [2024 Case Studies] Document 4 – page 13)

#### Sumitomo Forestry (1911, Prime)

To make an executive compensation system with strong links to mid- to long-term performance and corporate value improvement, the company introduced compensation by restricted shares based on the degree of stock price growth and the rate of achievement or sustainability indicators. ( [2024 Case Studies] Document 4 – page 31)

#### Mitsui Chemicals (4183, Prime)

The company introduced a stock ownership incentive program for employees to motivate them to work toward achieving the company's medium- to long-term targets and enhancing corporate value. (Document 4 – page 16)

#### Ajinomoto (2802, Prime)

Efforts are made to instill capital efficiency-conscious management within the company, such as study sessions for executives and business division heads, as well as dialogue sessions and workshops between management and frontline employees. (Document 3 – page 11)

#### Kanro (2216, Standard)

An ROIC tree is developed to embed ROIC improvement into operational-level targets. By establishing KPIs that reflect the reality of operations, improving ROIC is connected to operational-level improvement efforts. (Document 3 – page 19)

#### Itoki (7972, Prime)

Ongoing study sessions on “management that is conscious of cost of capital and share price” are held for executives, while internal awareness activities are conducted through town hall meetings and company newsletters. (Document 3 – page 4)

### Point 5

## Explanation of efforts in relation to medium- to long-term goals

### Explanation

- ◆ Rather than disclosures that simply list initiatives, **easy-to-understand disclosures that explain how each initiative is intended to achieve the medium- to long-term vision and how each initiative will lead to the resolution of issues will deepen the understanding of shareholders and investors and lead to deeper dialogue.**
- ◆ For example, companies are expected to:
  - **break down management indicators (such as PBR and ROE) into their components, with initiatives for improvement shown for each element**
  - **clearly present the path by which each initiative leads to the achievement of targets using tools such as logic trees**
  - **break down company-wide targets by segment, with the respective goals and initiatives for each segment clearly indicated.**
- ◆ **To increase the confidence of shareholders and investors in the company's future growth potential, it is effective to present a policy and route toward achieving growth over a long-term time span (equity story) and explain each initiative as part of that story.**

### Initiative Examples

#### Yokohama Financial Group (7186, Prime)

The company presented a full overview using a logic tree to illustrate how each initiative contributes to enhancing corporate value, followed by detailed explanations of individual initiatives. (Document 4 – page 25)

#### DMS (9782 · Standard)

Understanding of cost of shareholders' equity is revised after identification of a gap in thinking through dialogue with investors. (Document 5 – page 36)

#### THK (6481, Prime)

To improve ROE, the company discloses their future initiatives chronologically, focusing on both improving operating profit and streamlining equity capital. (Document 4 – page 17)

#### Mitsui Chemicals (4183, Prime)

The company presented the direction of its business portfolio reform and provided a detailed explanation of each segment's medium- to long-term targets, KPIs, and business strategies. (Document 4 – page 15)

#### Mitsubishi Electric (6503, Prime)

For each segment, the company presents quantitative outlooks such as ROIC, while also carefully explaining initiatives to improve ROIC and growth strategies. (Document 4 – page 7)

#### Kyushu Electric Power (9508, Prime)

Regarding non-financial initiatives, the company created an ROIC tree to clearly explain how they contribute to enhancing corporate value. (Document 4 – page 43)

#### SANYO SHOKAI (8011, Prime)

The company provided a detailed explanation of how non-financial value (human capital) contributes to achieving its long-term targets. It also described concrete initiatives to strengthen investment in human capital. (Document 4 – page 66)

#### ASAHI KASEI CORPORATION (3407, Prime)

The company explained their policies and initiatives in an easily digestible story format by setting out questions from the perspective of stakeholders, beginning with measures to improve PBR, and having the management team respond to those questions. ([2024 Case Studies] Document 4 – page 5)

# Introduction

I. Analysis and Evaluation of the Current Situation

II. Consideration and Disclosure of Initiatives

III. Dialogue and Updates

After disclosing “Action to Implement Management That is Conscious of Cost of Capital and Stock Price,” companies are expected to proceed with initiatives based on the plan, **engage in constructive dialogue with shareholders and investors based on the content of the disclosure** with the spirit of fair disclosure, and **continue revising the initiatives and updating the disclosure while receiving evaluation and feedback from shareholders and investors.**

- ◆ In order to achieve effective dialogue to enhance corporate value over the medium to long term, it is of importance to build a relationship **of trust with shareholders and investors on an ongoing basis. The management team and board are expected to be proactively involved (Point 1 on page 23)** for example, by establishing a system to share feedback obtained from the dialogue with the management team and board of directors.
- ◆ In addition, effective dialogue can be achieved by fully understanding the **profile of the counterparties** and what is important to them, and by **taking an approach based on that (Point 2 on page 24)**
- ◆ Furthermore, in order to further increase the effectiveness of dialogue, linking **disclosure of the dialogue with further dialogue and engagement (Point 3 on page 25)** is also considered to be an effective means.
- ◆ When updating disclosure, companies are expected not just to write about their progress, but to **analyze gaps between the original plan and the actual situation, and to revise their goals and initiatives on an ongoing basis** taking into account feedback from shareholders and investors. **(Point 4 on page 27)**



## Point 1

### Proactive involvement of management and board

#### Explanation

- ◆ A challenge for companies is many investors feeling that the **content of the dialogue is not reaching management**. In order to build an ongoing trusting relationship with shareholders and investors and to make the dialogue effective, **management and the board are expected to be proactively involved, as well as fully understanding the importance of the dialogue**.
- ◆ Specifically, **IR and SR should be viewed as a driver of growth and internal resources should be appropriately allocated to this area**. In addition, to build a relationship of trust with investors, it is also effective to have **active participation in dialogue and direct communication with shareholders and investors by the management itself**.
- ◆ In addition, it can be an effective means for shareholders and investors to understand and evaluate the corporate governance system and its effectiveness by **having independent directors, as monitors of management, participate in dialogue at the request of shareholders and investors, and by discussing the current status of governance and recognition of issues**.
- ◆ Also, it is expected that **efforts will be made to link the dialogue to decision-making aimed at enhancing corporate value**, such as by **sharing feedback obtained through the dialogue with management and the board**.

#### Initiative Examples

##### TDK (6762, Prime)

Management and directors take the lead in promoting dialogue with shareholders. Based on feedback obtained through dialogue, the company enhances dialogue and information disclosure, while also disclosing the status of these efforts. (Document 4 – page 10)

##### TOA CORPORATION (1885, Prime)

Aiming to further strengthen IR activities, the company reorganized the dedicated IR department, which was established in FY2023. This established a structure that makes it easier to reflect requests from the capital markets in management measures. (Document 4 – page 48)

##### Kyushu Electric Power (9508, Prime)

To promote constructive dialogue with investors, the company has created opportunities for discussion between outside directors and investors. Comments from these dialogues, including progress on initiatives to improve PBR, are disclosed in the integrated report. (Document 4 – page 44)

##### KONICA MINOLTA (4902, Prime)

The company aimed to maximize corporate value through two-way communication with the capital market, with one method being to hold dialogues between outside directors/executive officers and institutional investors, and disclosed the content of those dialogues in an integrated report. ( [2024 Case Studies] Document 4 – page 37)

##### ARAYA INDUSTRIAL (7305, Standard)

Along with strengthening dialogue with shareholders and investors, the contents of such dialogue are shared with the board of directors and incorporated in discussions on management strategy. (Document 5 – page 24)

##### Itoki (7972, Prime)

The company strengthened its IR system and developed a system/environment that made it easier for the knowledge gained through IR to be shared with management. (Document 3 – page 4)

## Point 2

## Taking a tailored approach to shareholders and investors

### Explanation

- ◆ **The investment behavior of investors and their stance on dialogue and engagement with companies differ** depending on whether they are domestic or foreign investors, active or passive investors, growth/value/dividend oriented investors, and on the areas they are in charge of (fund manager, analyst, ESG manager, voting member, etc.)
- ◆ To improve the effectiveness of dialogue with shareholders and investors, companies are expected to **fully understand the profile of the counterparties, what is important to them, and to take a tailored approach.**
- ◆ In addition, dialogue and engagement are generally initiated by investors, but if it is believed that investors do not have sufficient recognition of the company, the **company may target investors who understand the company's business well and are willing to accompany the company's growth, and actively approach them.**

### Initiative Examples

#### Investor targeting approach by SHIFT (3697)

Initial Public Offering (Initial listing to end of 2015)	Market capitalization: <b>Low</b>  Domestic recognition: <b>Low</b>	<b>Approach funds that invest in peer companies</b> <ul style="list-style-type: none"> <li>• <b>Approaching fund managers</b>, not analysts, while market capitalization is small</li> <li>• Easy to narrow down the target fund and selling points are clear</li> <li>• No need to explain the industry to which the company belongs</li> <li>• <b>Emphasis on differentiation and superiority over competitors</b></li> </ul>
Path to No. 1 in the Testing Industry (End of 2016 - 2018)	Market capitalization: <b>- JPY 50 billion</b>  Increase in domestic recognition	<b>Selection based on investment style and investment size</b> <ul style="list-style-type: none"> <li>• Increased visibility allowing a wider target setting</li> <li>• <b>Proactively holding small meetings</b> to connect with many investors</li> <li>• <b>Promoting growth potential and its support</b></li> <li>• Focused approach to fund managers</li> </ul>
Aiming to be No. 1 in the Domestic Sector (2018-2020)	Market capitalization: <b>JPY 50 billion and up</b>  Overseas recognition: <b>Low</b>	<b>Started dialogue with overseas investors and approaching analysts</b> <ul style="list-style-type: none"> <li>• <b>Contacts from overseas investors increase</b> as market capitalization exceeds JPY 50 billion</li> <li>• <b>Mainly targeting long-term blue-chip investors</b></li> <li>• Approaching analysts</li> </ul>
Increasing Recognition for Japanese Stocks (from 2020)	Market capitalization: <b>Over JPY 300 billion</b>  Overseas recognition: <b>Medium</b>	<b>Focus on turning long-term overseas investors into shareholders</b> <ul style="list-style-type: none"> <li>• Created investor DB, <b>categorized by investor</b></li> <li>• Progress visualization for each</li> <li>• Continuing to approach analysts</li> <li>• <b>Simultaneous disclosure in English and Japanese, and enhanced disclosures</b></li> <li>• <b>Approach to ESG Funds</b></li> </ul>

Source: IR Improvement Committee, December 2022, "SHIFT's Endless Dreams - IR's Kiseki to Support Growth.



## Point 3

### Disclosure of dialogue and further dialogue and engagement

#### Explanation

- ◆ **In order to create a virtuous cycle of accelerating and refining initiatives while receiving evaluation and feedback from shareholders and investors through dialogue**, it would be effective to further deepen dialogue and engagement by providing information **to shareholders and investors on the dialogue, real examples, and how the input obtained from the dialogue is incorporated into management decision-making.**
- ◆ For this purpose, in March 2023, **TSE issued a request to all listed companies in the Prime Market to promote and disclose dialogue with shareholders** (details on the next page), and it is **expected that they will disclose the items indicated therein, etc., depending on their own situation.**

#### Initiative Examples

##### KYUSHU LEASING SERVICE (8596 · Standard)

Proactive dialogue is sought with investors with the aims of more sophisticated management and improving corporate value. Specific disclosure is given of actual dialogue held and responses to investor feedback (Document 5 – page 32)

##### Lacto Japan (3139 · Prime)

In addition to the main themes of investor dialogue, they clearly disclose key examples of dialogue along with perspectives and implementation status.  
(Document 4 – page 52)

##### SANYO SHOKAI (8011 · Prime)

The CEO took the lead in active dialogue with investors. Based on the input received, the company refined initiatives and disclosures, including formulating new growth strategies and clarifying cash allocation, and disclosed progress.  
(Document 4 – page 64)

##### AISIN CORPORATION (7259 · Prime)

Feedback obtained through dialogue with shareholders and investors has been shared with management and across the organization. The company refined its initiatives and disclosures including through better disclosure of progress of the business strategy, increasing the proportion of stock-based compensation in executive remuneration, and further clarifying the direction of growth investments and shareholder returns, and disclosed progress.  
(Document 4 – page 28)

##### Ushio Electric (6925 · Prime)

Provides a detailed explanation of the status and content of responses to requests and matters of interest raised by investors and shareholders. (Document 4 – page 23)

##### Kanro (2216, Standard)

Helpful disclosure is provided on what dialogue has been carried out with investors, the main questions asked and their answers, and demands from the capital markets.  
(Document 5 – page 3)

## Companies Subject to Request

- All companies listed on the Prime Market

## Outline of Disclosure

- Please disclose information about dialogue with shareholders during the most recent business year.

### Suggested disclosure items:

- ✓ Main personnel carrying out dialogue with shareholders
- ✓ Overview of shareholders with whom dialogue was held (e.g. domestic/foreign, active/passive, investment style such as growth/value/dividend oriented, areas of responsibility of counterparties (fund manager, analyst, ESG, voting, etc.))
- ✓ Main topics of dialogue and items of interest to shareholders
  - Especially, cases of dialogue that was insightful for the company or dialogue where shareholder understanding was gained through explanation from the company management
- ✓ Whether feedback was given to management or the board on shareholders' views and concerns learned through dialogue
- ✓ Actions taken based on the dialogue and later feedback, if any etc.

**Note 1:** The items listed above are examples of items that could be appropriate for disclosure as part of measures to improve the effectiveness of dialogue with shareholders, based on the contents of Japan's Corporate Governance Code. Regardless of the above, companies are not necessarily required to disclose all of the above items, and should disclose other information where this is considered necessary.

**Note 2:** Companies that have not carried out dialogue with shareholders during the most recent business year may disclose on the progress of measures and organizational structures aimed at promoting constructive dialogue with shareholders.

**Note 3:** If a company engages in dialogue with investors regarding its efforts to improve profitability based on the balance sheet and stock price, based on the request for "Action to Implement Management that is Conscious of Cost of Capital and Stock Price," it is expected to also disclose about this dialogue.

⇒ For details, please refer to "Promotion and Disclosure of Dialogue with Shareholders" published by TSE in March 31.

<https://www.jpx.co.jp/english/equities/follow-up/uorii50000004s73-att/uorii50000004sri.pdf>

## Point 4

### Revision of goals and initiatives on an ongoing basis

#### Explanation

- ◆ TSE is asking that after making disclosure on "Action to Implement Management That is Conscious of Cost of Capital and Stock Price," **companies continue to analyze their progress and brush up their disclosure every year (at least once a year).**
- ◆ When doing this, rather than simply disclosing progress and updating the figures, **companies are expected to both analyze the reasons for any gaps between the original plan and the actual situation, and revise their goals and initiatives on an ongoing basis taking into account feedback from investors and changes to the external environment.**
- ◆ Where a discrepancy is found between the disclosed information and investor expectations or where there is a change in the external environment, for example, and a company becomes aware of a need for improvement, **it is expected to carry out revisions flexibly without being bound by regular revision schedules such as the formulation/update of medium-term management plans.**

#### Initiative Examples

##### Nippon Express Holdings (9147, Prime)

Given that the PBR has remained below 1x even one year after the management plan was formulated, the company refined their targets and initiatives to accelerate efforts aimed at enhancing corporate value. **(Document 4 – page 37)**

##### SANKYU (9065, Prime)

Given the current stagnation and maturity of PBR and ROE levels, they aim to become a "re-growth company." Although they are currently in the mid-term plan period, they will review mid-term measures with a focus on capital profitability. **(Document 4 – page 34)**

##### NISHIKAWA RUBBER (5161, Standard)

With PBR still below 1 even after formulation of the medium-term management plan, disclosure content and initiatives have been refined to clarify the growth strategy narrative. Capital policy has been revised from the perspectives of reducing excessive shareholders' equity and expanding growth investments. **(Document 5 – page 18)**

##### Ushio Electric (6925, Prime)

Progress and issues related to the business and financial strategies outlined in the growth strategy are disclosed in an easy-to-understand manner. The allocation of investment areas is reviewed on an ongoing basis, and investment amounts are dynamically rebalanced based on the future potential of each business.. **(Document 4 – page 22)**

##### Hochiki (6745, Prime)

The progress of and issues around optimizing the business portfolio are carefully explained, and, based on these, the future direction of initiatives is presented. **(Document 4 – page 56)**

##### TOLI Corporation (7971, Standard)

Business segments were revised to clarify growth strategy in response to investor feedback. New targets are set for each segment and the growth strategy toward achieving those targets is carefully explained. **(Document 5 – page 29)**



## Cautionary statement regarding this material

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