Document 2

Results of the Growth Market Survey and Future Direction

Listing Department, Tokyo Stock Exchange

June 4, 2026

Results of Growth Market Survey (Overview)

◆ To inform future policy, we conducted a survey of **Growth Market listed companies and startups considering listing**, asking about the **challenges they currently face and the support they would like to have**.

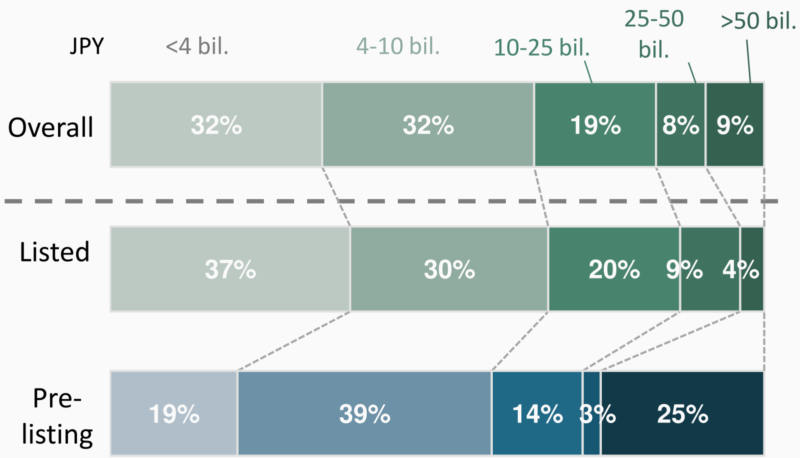
⇒ A total of **<u>145</u>** companies (109 listed, 36 pre-listing) responded. Individual interviews were conducted with some of these.

- ✓ Opinions were gathered from companies of a **wide range of sizes** (market capitalization from less than JPY 10 billion to more than JPY 100 billion), **growth phases** (listed: from 0 to 10 years since listing; pre-listing: early stages of consideration to just before listing), and **sectors** (including deep tech sectors such as biotechnology and aerospace), among both listed and pre-listing respondents.

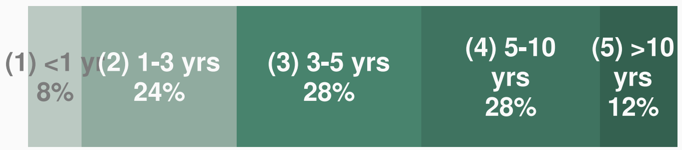
Attributes of Responding Companies

Distribution of Market Cap

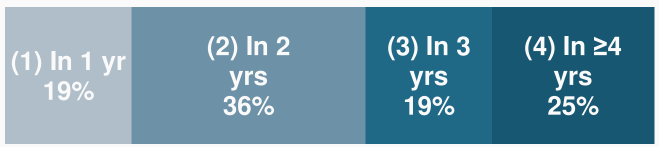
(Current estimated market cap for pre-listing companies)



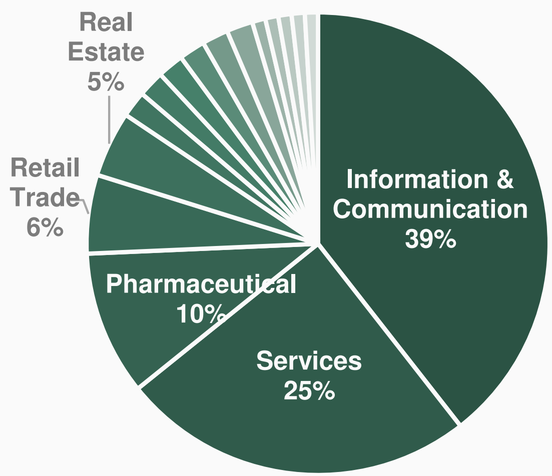
Years Since Listing (listed comps.)



Desired Timing of Listing (pre-listing comps.)



Sector (listed comps. only)



I. Responses from Listed Companies

Current Challenges (Overview)

◆ In addition to business-related challenges like **formulating and executing growth strategies** and a **lack of human, capital, or other resources**, many companies were facing challenges around IR, such as a **lack of opportunities to meet with institutional and individual investors**, and issues with **low liquidity and stock price formation**.

Frequently Cited Issues

(Total responses: 109)

- ✓ **Focus on short-term performance** ("we never get so far as considering a mid- to long-term growth strategy")
- ✓ **Difficulty in formulating growth strategy** ("we haven't been able to build a compelling growth story," "we lack a clear direction," etc.)

- ✓ **Lack of human resources** (for business divisions, M&A, IR/disclosure, etc.)
- ✓ **Difficulty obtaining finance** (low stock price, concerns about dilution, etc.)

- ✓ **Not knowing how to reach out to individual investors**
- ✓ **Lack of opportunities to make contact with institutional investors** (domestic, overseas)
- ✓ **Management's understanding of and measurement of effectiveness of IR**

- ✓ **Low liquidity** (institutional investors find it hard to invest)
- ✓ **Dissatisfaction with stock price formation** ("our growth isn't reflected in the price," "growth expectations never increase," "our stock gets shorted")

Current Challenges (1)

Growth Strategy

* The figure in parentheses at the end of each comment indicates the market capitalization size of the responding company. The same applies on the following pages.

(Formulation/execution of growth strategies)

- ✓ We are **too preoccupied with securing short-term results and attaining forecasted results**, meaning we **never get so far as debating the direction of growth in the medium to long term**. (multiple, ¥4–25bn)
- ✓ Since **management prioritizes returns on investment within 2-3 years**, we **can't commit to bold growth investments**. While those on the ground understand the necessity of growth investments, it will be difficult to properly solve the problem unless management changes its intentions and mindset. (¥10–25bn)
- ✓ In the time after listing, a company must be aware of cost of capital and capital efficiency, meaning it is hard to gain support for bold investment either internally or externally. For this reason, **having only a 5-year business plan at the time of listing leads the company to lose direction for its post-listing growth strategy, defeating the very purpose of listing on the Growth Market.** I strongly feel the need to **establish an ultra-long-term business plan before listing**. (¥10–25bn)
- ✓ While we have set future targets, the **growth scenarios for achieving them lack specificity and feasibility, and the design of the KPIs and progress management are lacking, even though these form the foundation of the growth strategy**. Given this, issues remain with our ability to execute the strategy. (multiple, up to ¥25bn)
- ✓ **We haven't yet decided our strategic direction, i.e., whether to pursue growth with only existing businesses or whether to aim for inorganic growth including M&As**. (up to ¥4bn)
- ✓ **Our company's challenge is fundamental, in that we haven't yet decided what kind of growth strategy to build**; as of yet, we haven't even discussed M&As. (¥10–25bn)
- ✓ The continued listing criteria will change in 2030, but we **haven't yet been able to develop a concrete strategy for growing our market capitalization to JPY 10 billion or more**. (multiple, up to ¥4bn)
- ✓ The company, including management, is **overly focused on managing profit and loss indicators such as sales and operating profit, so awareness of capital efficiency and capital policy has not sufficiently permeated**. (¥10–25bn)
- ✓ The **majority of Growth Market companies cannot sustain growth for more than the short term**. This can be attributed to the following: a) **many of their businesses target niche markets**, so even if they can boast a high growth rate with a high market share at the time of listing, **growth stops as soon as they have virtually covered the market**; and b) many of them have **easily imitable business models**, so even if they list while they still have the first-mover advantage, once the business becomes widely known, a large number of competitors will soon emerge to imitate it, **eroding the first-mover advantage** and leading to declining sales growth rates and profit margins. (¥25–50bn)

(Issues around M&As)

- ✓ While we get many M&A offers from brokers, **there are very few that promise synergies**. Ideally, we should be actively and strategically seeking out deals, but **given our lack of resources, we tend to end up with a passive approach**. (¥4–10bn)
- ✓ We find it hard to commit to M&As as there is a significant risk that increased costs and goodwill amortization will **put pressure on the profit and loss statement in the short term**. (up to ¥4bn)
- ✓ It is difficult to act on pursuing M&As more aggressively, as we **would need to secure a certain level of net assets to prepare for potential goodwill impairment**. (¥4–10bn)

Current Challenges (2)

Listed | **Current Challenges** | Desired Support

Lack of Resources (Human/Capital)

(Lack of human resources)

- ✓ We face challenges in **securing talented and specialized personnel to support business expansion, as well as in retaining them and enabling them to become effective quickly, which is constraining the execution of our growth strategy and the acceleration of our growth. (Multiple responses)**
- ✓ Competition for talent in the IT industry is intensifying, and **we are struggling to hire employees (both new graduates and mid-career).** (¥10–25bn)
- ✓ Although we have many opportunities for growth, our **headquarters are in a regional area, creating barriers to recruitment**, so our staffing situation is strained. (multiple, ¥25–50bn)
- ✓ We have not made enough progress in **securing the talent needed to expand our overseas operations**, so strengthening recruitment and creating a training framework are becoming urgent. (up to ¥4bn)
- ✓ We are moving forward with our growth strategy, which involves M&As, expansion into new business areas, and entering overseas markets in addition to strengthening the revenue base of existing businesses. However, **with limited management resources, we face challenges in simultaneously working on growth investments, business operations, and strengthening disclosure/IR systems**. (multiple, ¥4–25bn)
- ✓ We would like to look at M&As as part of our growth strategy, but we **need resources and expertise to choose the right deals and for post-merger integration**, so we haven't made progress. (up to ¥4bn)
- ✓ **We lack sufficient IR staff and expertise**. A key challenge is **how to conduct IR activities efficiently and effectively** while in charge of multiple duties. **(Multiple responses)**
- ✓ **Investors evaluate companies based on their governance structures and IR responsiveness, regardless of market segment**, so the challenge lies in how to enhance these areas with limited resources. (¥4–10bn)
- ✓ While managing disclosure activities with limited resources, we have to **prepare multiple disclosure documents in a timely manner, some of which have overlapping content**, which creates a significant burden. We would like to be able to reduce the resources spent on IR activities and **redirect them towards the strategic tasks we should be focusing on**. (¥25–50bn)
- ✓ Due to budget and staffing shortages, we have not been able to handle English-language communications and overseas IR, or disclose sustainability/non-financial information and an integrated report. (¥10–25bn)

(Lack of capital)

- ✓ We have not been able to raise our stock price since listing, so **extra financing is not coming in**. Due to **this lack of funds**, we are forced to move carefully on M&As as well. (up to ¥4bn)
- ✓ With a **market capitalization of only a few billion yen, we struggle to raise funds in the market**, and we have not been able to secure financing methods that react to events. (up to ¥4bn)
- ✓ **Concerns about dilution mean it is difficult to raise funds through new share issuances**. (up to ¥4bn)
- ✓ We conduct pharmaceutical development and have **several development projects that could lead to future growth, but our lack of financial resources is forcing us to halt some of them.** (¥4–10bn)

Current Challenges (3)

Lack of Opportunities to Make Contact With Investors, IR Activities

(Reaching out to individual investors)

- ✓ Since we have little name recognition among individual investors, we have to **communicate information tailored to them and conduct IR activities aimed at increasing awareness**. (up to ¥4bn)
- ✓ Since we lack name recognition among investors, **even if we put out disclosure and press releases that should interest them, we don't get much of a response**. (¥4–10bn)
- ✓ We are looking at strengthening our information provision to individual investors, but there are **so many similar events and services from securities companies** and others that it is hard to compare and evaluate the pros and cons of each option. (¥10–25bn)
- ✓ We understand that it is better to prioritize growth investment over dividends, but it is **hard to attract investor interest without paying dividends**. (¥4–10bn)

(Lack of opportunities to contact institutional investors)

- ✓ We have **limited opportunities to meet with institutional investors, and stabilizing/diversifying our investor base is a challenge**. We would like to shift from an individual-centered investor base to increasing the proportion of institutional investors, but **there are limits to the investor base we can reach with our own IR activities**. (multiple, ¥10–50bn)
- ✓ With an eye on transferring to the Prime Market, we would like to gradually widen our opportunities to meet with institutional/mid- to long-term investors both domestic and overseas, but there are **only so many opportunities a Growth Market company can access on its own**. (¥25–50bn)
- ✓ We would like to grow big enough to be an investment target for overseas institutional investors, but when we apply to participate in conferences in order to increase our market capitalization, **we are refused participation because our market capitalization is too small, so this is a huge barrier**. (multiple, ¥10bn and above)
- ✓ Even though we have reached a market capitalization of JPY 50 billion, we still have **limited formal analyst coverage** from securities companies, making it **difficult to become a target for screening by domestic or overseas institutional investors**. (¥50bn and above)

(IR activities)

- ✓ I am the only person dealing with IR, but management will not allocate additional staff as they **lack understanding of the importance of IR**. (¥4–10bn)
- ✓ We feel there are **challenges with IR activities in setting appropriate KPIs and measuring its effectiveness**. I would like to implement a PDCA cycle for IR initiatives, but it is difficult to track institutional investors' purchases and holdings, and we do not have the budget to invest in shareholder identification surveys. As a result, **ROI is unclear, making it difficult to make decisions on IR initiatives**. There are also challenges in improving the accuracy of investor targeting. (multiple, up to ¥10bn)
- ✓ Since investors place importance not just on growth potential and future prospects but also profitability, capital efficiency, governance, and information disclosure, there are challenges in **communicating not only financial results, but also the growth story, our approach to return on investment, and the direction of the business portfolio in a more understandable manner**. (¥10–25bn)
- ✓ We recognize the key challenges to be figuring out **how to conduct effective IR activities tailored to our growth phase and identifying the optimal way to reach out to investors**. (¥4–10bn)

Current Challenges (4)

Low Liquidity, Stock Price Formation (Market Valuations)

- ✓ Since the **trading value of our stock remains low**, and **liquidity is poor, it is difficult for institutional investors to invest**. **(Multiple responses)**
- ✓ Growth Market companies are **highly susceptible to external environmental factors due to the novelty of their businesses. It is difficult to get investors (particularly individuals) to understand this uncertainty.** (¥4–10bn)
- ✓ As a whole, the Growth Market tends to see a lot of **short-term-focused trading, with limited inflows from institutional investors and low liquidity**. For this reason, it is **difficult for a company's intrinsic value to be reflected in its stock price**. (¥4–10bn)
- ✓ Since we listed, **even though our sales and profits have been growing steadily and we have paid dividends, this has not led to a rise in our stock price**. We see similar situations at other companies. We suspect this is partly because valuations in the Growth Market are lower compared to the Prime and Standard Markets. (multiple, ¥4–25bn)
- ✓ **Despite growth in our business, we feel that the stock price has been left undervalued**. We carry out earnings briefings and IR on an ongoing basis, but still haven't been able to achieve a satisfactory stock price. While stock prices are determined by a combination of various factors, we are considering various measures such as increasing the number of tradable shares and disclosing our growth strategy, so we see this as a challenge. (¥10–25bn)
- ✓ Since listing, our challenge is that it is **difficult to gain investor approval based only on pre-listing business strategy;** the key is how well we can **make our growth strategy seem realistic enough to convince investors of our investment value**. I keenly feel that while disclosing KPIs to express the business's repeatability is important, the keys to investment decisions are in future investments, business partnerships, M&As, and creating new businesses. **If we could see clearly the specific areas for improvement in our IR activities, we could take concrete steps, but for now we are in a phase of trial and error.** (up to ¥4bn)
- ✓ Our challenge is that our stock price does not adequately reflect our business's growth potential or medium- to long-term earnings potential. We feel that particularly, changes in the business environment due to the rapid evolution of **AI** mean that **investors don't tend to have a clear outlook on future business models and competitive advantages**, impacting their valuations. (up to ¥4bn)
- ✓ We have medium- to long-term growth potential as an **R&D-driven enterprise**, but as we **lack adequate disclosure to investors on a vision or strategy that would instill confidence in the sustainability and acceleration of our growth, our corporate value is not appropriately reflected in the stock price**. Furthermore, we **do not adequately disclose quantitative KPIs or our progress regarding pipeline development and the accumulation of business value in a way that contributes to investment decisions,** leading to a situation where the **information is understood, but doesn't inspire confidence or lead to investment decisions**. (¥4–10bn)
- ✓ The business plan we outlined at the time of listing is not progressing as expected, causing delays in the growth strategy, which is raising doubts and dissatisfaction among investors and shareholders. Also, we are **continuing to secure operating funds through capital increases and other means, which is also a source of dissatisfaction among existing shareholders**. On the other hand, while **long-term research and development and investment from both domestic and overseas investors are crucial for biotech ventures**, institutional investors tend to view Growth Market stocks with a critical eye. (¥25–50bn)

Current Challenges (5)

Low Liquidity, Stock Price Formation (Market Valuations) cont.

- ✓ In the **biotech venture sector, even if positive news is released and sends the stock price up, short sellers immediately step in, causing the price to slump back to its original level**. If the price keeps moving in this way, individual investors become apprehensive and stop trading, and it becomes impossible to improve corporate value in the long term. I understand that this is a legal form of trading, but it seems problematic from the perspective of healthy stock price formation. (up to ¥4bn)
- ✓ This is something that **biotech venture companies on the Growth Market** just have to deal with, but **even minor disclosures can cause significant stock price fluctuations due to short selling**. This has an impact on market capitalization so cannot be ignored in some cases. Although I fully understand that gaining stable shareholders requires a clear growth strategy and its steady implementation, I cannot help but feel frustrated given that in reality, stock price remains the primary benchmark for valuations. (¥25–50bn)

Other

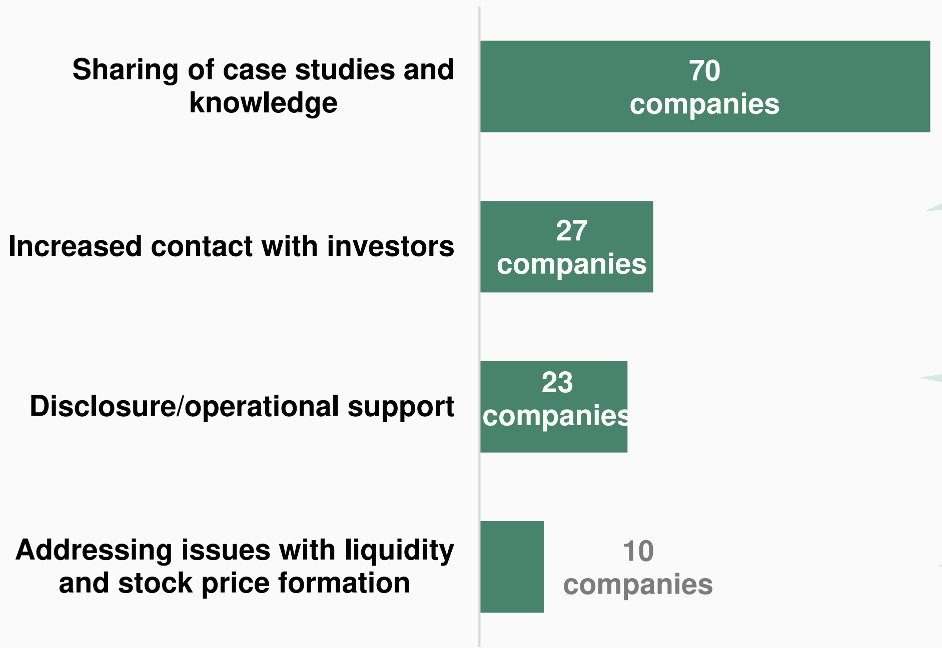
- ✓ Even if a company grows significantly while listed on the Growth market, there is a possibility that its growth will eventually slow. When thinking about changing markets at that point, the Prime Market presents significant barriers, while the **Standard Market lacks clear positioning. The options for Growth Market companies are not clear at the point when growth begins to slow**. (multiple, ¥10–50bn)
- ✓ The fact that companies that have achieved growth on the Growth Market tend to transfer to the Prime Market is one reason why the Growth Market indices underperform TOPIX. For this reason, **TSE must carry out brand awareness activities on an ongoing basis and create advantages to staying in the Growth Market**. (¥25–50bn)
- ✓ With an eye to adopting IFRS in the future, we are looking into the impact of changes in accounting standards and the necessary preparations. (¥50bn and above)
- ✓ We are developing a response strategy in case of increased pressure from activist shareholders. (¥10–25bn)
- ✓ We are struggling to deal with a major shareholder which is lax about submitting "Reports of Change" and is difficult to contact. (up to ¥4bn)
- ✓ As a Growth Market listed company, we are struggling to understand how much voluntary sustainability disclosure we should carry out. (¥50bn and above)

Desired Support (Overview)

Listed | Current Challenges | Desired Support

◆ There were **many requests in particular for knowledge sharing through case studies and seminars**. Other support requested by respondents included **support for contact with investors, further support for disclosure and practical operations, and enhancing the overall appeal of the Growth Market**.

Frequently Cited Issues



(Total responses: 109)

- ✓ **Enhancing case study collections/seminars** (provision of discussion material, fostering a shift in management mindset)
- ✓ **Support for building networks with other Growth companies** (knowledge sharing among personnel)

- ✓ **Support for expanding contact opportunities with individual investors**
- ✓ **Support for expanding contact opportunities with institutional investors/analysts**

- ✓ **Reducing the burden of disclosure/operations)**
- ✓ **Support for building networks with large corporations** (business expansion, promoting M&As)
- ✓ **Feedback on individual companies' growth strategy/IR**

- ✓ **Bringing in more investors by improving the appeal of the Growth Market**
- ✓ **Investor education** (emphasizing growth potential over returns)
- ✓ **Addressing short selling** (on biotech startups, etc.)

Desired Support (1)

Listed | Current Challenges | **Desired Support**

Sharing of Case Studies and Knowledge

✓ We are making use of the resources you provide including the **case study collections and seminars**. We would like you to **continue providing these**. **(Multiple responses)**

(Topics requested by companies)

- We would like to see the "Examples of Initiatives by Growth Market-Listed Companies That Were Well Received by Investors," published in December 2025, **enhanced by breaking it down into sectors and growth phases**, and **published on an ongoing basis** rather than as a one-off. (¥25–50bn)
- We would also like TSE to share **cases of failure**, not just success stories. (up to ¥4bn)
- We would like to see case studies and seminars on **strategies for increasing market capitalization from JPY 10 billion to JPY 25-30 billion (a level that makes the company an investment target for institutional investors).** We would also like to learn **how to create growth projections**. (¥10–25bn)
- We would like seminars and knowledge sharing on topics such as examples of growth-stage manufacturing companies **expanding overseas**. (¥25–50bn)
- Please provide **best practice examples of IR** from other Growth Market companies. **(Multiple responses)**
- We would like TSE to pick up examples of instances where management's active involvement in IR **led to a positive impact on stock prices and market capitalization**, as well as those where it had a negative impact. (up to ¥4bn)
- If TSE could introduce **actual disclosure examples and improvement processes** regarding the disclosure of growth strategies, explanations of M&A strategy, management that is conscious of cost of capital and capital efficiency, IR aimed at individual investors, and promoting dialogue with institutional investors, among other things, this would make it easier to apply these insights to our own initiatives. (¥10–25bn)
- Because we have few opportunities to learn about other companies' activities, we would like TSE to introduce not only good case examples of IR initiatives evaluated positively by institutional investors, but also **good examples of IR activities viewed favorably by individual investors**, such as those conducted at shareholders' meetings and through the use of social media. (¥25–50bn)
- We would like TSE to provide **practical examples of best practices in equity story building**, such as KPI design, story disclosure, and processes for improving market valuation, for companies with non-linear growth models such as in the biotech and deep tech sectors. (¥4–10bn)
- We would also appreciate **examples related to medium-term management plans and shareholder return policies**. (up to ¥4bn)

Desired Support (2)

Listed | Current Challenges | **Desired Support**

Sharing of Case Studies and Knowledge (cont.)

(Requests for seminars)

- ✓ We would like to see more **practical content aimed at improving corporate value** in seminars. (¥10–25bn)
- ✓ We would like TSE to **enhance its seminar offering for management** and **carry out dialogue with management through individual visits**. Given the **difficulty of changing management's mindset from within the company**, we would like TSE to also support efforts to **foster understanding of the importance of management engaging with the market directly**, and of an **awareness of positioning IR as a management issue.** (multiple, across a wide market-cap range)
- ✓ We would like to see more **panel discussions featuring staff on the ground**, like the recent talk session with companies featured in the best practices collection. (¥4–10bn)
- ✓ We ask TSE to hold **seminars to help employees in the administrative departments of listed companies to acquire the necessary knowledge**. (up to ¥4bn)
- ✓ We would like TSE to hold **seminars that enable listed companies to systematically grasp exchange-related operations**, as well as seminars on sustainability. (multiple, up to ¥4bn)

(Networking with other companies)

- ✓ Other companies on the Growth Market should be facing and working on similar challenges, so we would like support in building **horizontal networks with CFOs, IR departments, and corporate departments at other companies** to facilitate **knowledge sharing among staff members**. **(Multiple responses)**
- ✓ We are struggling with a lack of resources, so we would like to **connect with staff members at other Growth Market companies to ask them directly about how they are working on growth strategies and IR with limited resources**. (¥10–25bn)
- ✓ Since companies in the same sector are likely to share similar challenges, it would be helpful to have **networking events with other companies organized by sector**. (¥25–50bn)

Desired Support (3)

Listed | Current Challenges | **Desired Support**

Increased Contact With Investors

(Expanding contact with individual investors)

- ✓ Since it is difficult for us to attract investors on our own, we would like TSE to organize **company briefings and earnings briefings for individual investors that bring together multiple companies.** (multiple, up to ¥4bn)
- ✓ We are trying to widen our name recognition gradually by paying a fee to speak at individual investor events, but **since that incurs a certain level of cost**, we would appreciate if the **exchange could provide a venue for free investor briefings**. (multiple, up to ¥10bn)
- ✓ In addition to providing opportunities to build networks with individual investors, we would like TSE to provide **tools for reaching out**. (up to ¥4bn)
- ✓ We would like TSE to hold seminars for individual investors together with Growth Market companies with low stock prices. (up to ¥4bn)
- ✓ We would like TSE to collaborate with other exchanges to hold regional IR seminars for individual investors on weekends. (¥50bn and above)

(Expanding contact with institutional investors)

- ✓ We would like support in **establishing contact with institutional investors (especially those active in small and mid-cap stocks)** **(Multiple responses)**.
- ✓ Please consider holding **joint investor briefings hosted by TSE and establishing mechanisms to introduce institutional investors to issuers**. (¥10–25bn)
- ✓ We would appreciate the creation of more targeted investor contact opportunities, such as **matching events split by market capitalization level and growth stage, or sector-specific dialogue opportunities**. (multiple, ¥4–25bn)
- ✓ We hope that **the platform function that connects companies and investors from a neutral standpoint** will be strengthened. (¥10–25bn)
- ✓ We would like TSE to provide a forum for **matching opportunities with institutional impact investors**, regardless of market capitalization or liquidity. (up to ¥4bn)
- ✓ It would be useful to have a **forum where companies with less than three years since listing can receive advice directly from institutional investors.** (up to ¥4bn)
- ✓ We would like TSE to encourage securities companies to help build networks between Growth Market companies and institutional investors. (¥10–25bn)

(Expanding contact with analysts)

- ✓ We would greatly appreciate **support for interactions with analysts**, such as assistance with preparing company reports. (¥4–10bn)
- ✓ We think that holding **matching events for** mid-cap Growth Market companies (market cap in the JPY 30-100 billion range) with **sellside analysts and buyside institutional investors (particularly overseas investors)** would contribute to expanding coverage and broadening the investor base. (¥25–50bn)

Desired Support (4)

Disclosure/Operational Support

(Disclosure guidelines, reducing burden)

- ✓ We would like TSE to provide **guidance on the information that institutional investors expect Growth Market companies to disclose**. To improve the quality of disclosures, we would also like to see practical support such as **specific examples of disclosure rated by investors and guidelines on how to design and present KPIs**. (¥4–10bn)
- ✓ From a practical standpoint, having **clearer criteria or guidelines** makes it easier to confidently carry out work on disclosure and continued listing with limited resources, so we would like TSE to continue creating and maintaining these frameworks. (¥4–10bn)
- ✓ Rather than just making English disclosure mandatory, we would appreciate expanded **support to reduce the practical burden**, such as **standard templates, examples of recommended AI translation tools, and sharing of best practices from other companies**. (¥25–50bn)
- ✓ To improve visibility for investors and reduce the administrative burden on issuers, we would like the **disclosure items in earnings reports (*kessan tanshin*)** to be narrowed down to essential information and presented in a **simpler, more compact format**. (¥4–10bn)
- ✓ We would like TSE to **consider streamlining the "Matters Relating to Business Plans and Growth Potential," as its content overlaps with that of medium-term management plans and financial results presentation materials.** (¥10–25bn)
- ✓ There is **some overlap between disclosure required** by the Companies Act (financial statements and business reports), the Financial Instruments and Exchange Act (securities reports, semiannual reports, and interim reports), and the TSE regulations (*kessan tanshin*, timely disclosure). **Standardizing disclosures further** would lead to enhanced content, improved accuracy, earlier disclosures, and wider adoption of English disclosure. (multiple, up to ¥50bn)
- ✓ With timely disclosure, TSE has provided resources such as formal explanations and FAQs, it would be good to have an **environment that allowed us to easily ask questions about practical details specific to our situation**. (¥4–10bn)

(Support for growth strategies/IR)

- ✓ We would like TSE to provide opportunities to **connect with large companies** such as Prime Market companies, as well as **M&A matching opportunities both between Growth Market companies and with Prime Market companies**. (up to ¥4bn)
- ✓ We would like **advice on** formulating capital policy and on **measures to enhance corporate value that are tailored to specific companies**, not just general theory. (up to ¥4bn)
- ✓ We would like **feedback on the correlation and misalignment between our company's growth strategy and market valuation**. We would also like a quantitative evaluation of our company as a listed company (stock price trends, evaluation results, suggestions for improvement, etc.) (multiple, ¥4–25bn)
- ✓ If we could get annual **feedback**, after the financial results are released, **on the previous year's IR activities**, that would be encouraging for the relevant department. (up to ¥4bn)
- ✓ To verify the appropriateness of our IR activities and KPIs, we want TSE to provide **statistical reports regarding companies in the same sector or of the same size (by market cap), covering their IR implementation systems, frequency of meetings with institutional investors, and how these impacted stock prices and liquidity**. (¥4–10bn)
- ✓ We would like TSE to establish a platform to streamline measurement of the effectiveness of IR activities. Specifically, this should be the provision of **tools to enable analysis of changes in trading volume and easier visualization of changes in shareholder composition,** and **sharing of data unique to the exchange that would enable simple measurement of the impact IR initiatives had on the market**. It would also be good to have a framework allowing us to track investor attributes (individual, overseas, institutional, etc.) connected to day-to-day trading. (¥4–10bn)

Desired Support (5)

Addressing Issues With Liquidity/Stock Price Formation

- ✓ We would like TSE to take steps to **improve the appeal of the market in general, as this is impossible through the efforts of individual companies alone** – for example, communicating the investment story of the Growth Market as a whole, and promoting capital inflows through the use of new indices or other frameworks. We would also like **rule-based support to increase market liquidity.** **(Multiple responses)**
- ✓ If TSE further communicates the appeal of the Growth Market to stakeholders, we think this will lead to **increased activity on the market as a whole**. (¥10–25bn)
- ✓ We strongly request **proactive promotional activities and management that foster a positive atmosphere across the entire market**, such as **creating an environment where institutional investors can easily invest in mid- and small-cap stocks** (improving indices, advocating for tax incentives, etc.), and **TSE-led communication on the growth potential of Growth Market companies**. (¥4–10bn)
- ✓ We would like to see educational activities and provision of case studies that **help investors adopt an evaluation perspective that emphasizes top-line growth potential**, the key characteristic of the Growth Market, not just short-term profits. (¥25–50bn)
- ✓ For the sound development of the market as a whole, we would like TSE to strengthen its work to **improve the investment literacy of individual investors**. (¥10–25bn)
- ✓ Please consider **some kind of action on short selling of biotech venture companies**. A blanket ban would probably be difficult, since short selling itself it is a legitimate form of trading, but we wonder if there could be some way, such as limiting trading volumes. (up to ¥4bn)

Others

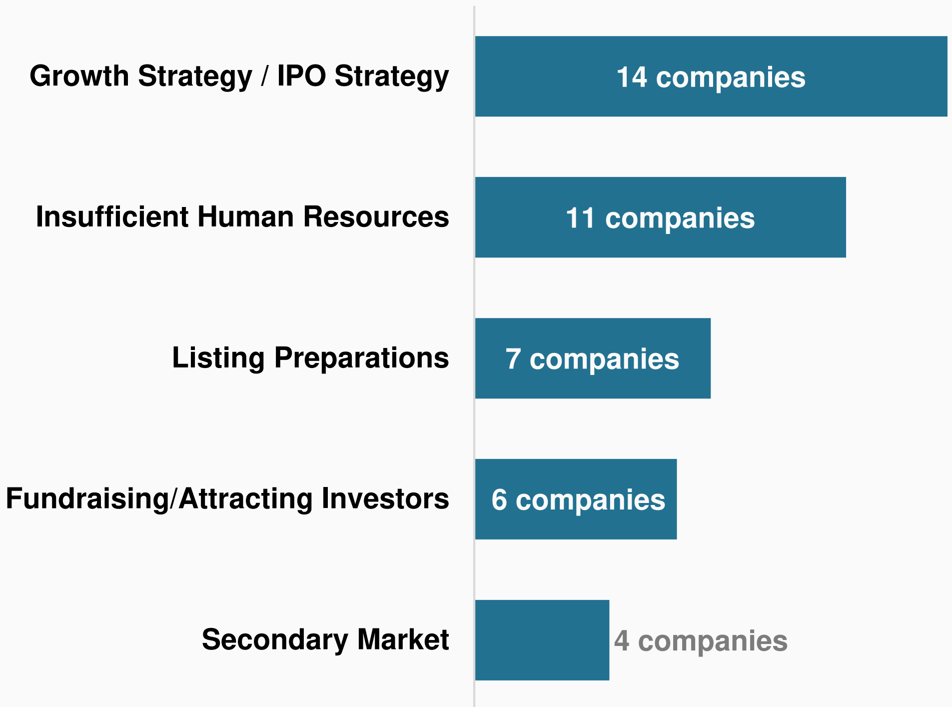
- ✓ Regarding alliances and mergers, TSE should widely communicate the point of caution that a market capitalization of or greater than the sum of the individual companies cannot necessarily be expected. TSE should make sure companies do not fall into the simplistic perception that a merger between two companies with market capitalizations of several billion yen is a way of meeting the criteria for market capitalization of JPY 10 billion. (¥10–25bn)
- ✓ We would like TSE to **support financing activities** to improve valuations. (¥4–10bn)
- ✓ We would like for disclosure of **institutional investor holdings** to be addressed through the Financial Instruments and Exchange Act or other legislation. We request support for surveys to identify beneficial shareholders among domestic and overseas institutional investors. (¥4–10bn)
- ✓ The positioning of the Standard Market has become difficult to understand. If TSE would provide clearer communication over whether the revisions to the criteria for transferring to the Standard Market are aimed at positioning the Standard Market as the "for the rest" market to help companies stay listed, or whether they are simply a temporary measure to mitigate the impact of the reforms, this would make it easier for impacted companies to discuss their plans of action. (¥10–25bn)
- ✓ TDNet is designed for Windows, which creates a significant operational burden for companies primarily using Mac technology every time they make a disclosure. We would like TSE to implement multi-OS support, given the expectation of more startups listing on the Growth Market. (¥25–50bn)

II. Responses From Pre-Listing Companies

Current Challenges (Overview)

- In addition to the need to flesh out growth strategies (including IPOs), **many respondents cited challenges related to a shortage of the personnel and capital required for strategy execution and IPO preparations**. They also raised concerns about issues encountered during the IPO preparation process, **as well as challenges related to fundraising and securing investors in the pre-IPO phase**, and issues concerning **the secondary market**.

Frequently Cited Issues



(Total responses: 36)

- ✓ **Deciding growth strategies** (utilizing an IPO, optimal timing for listing, post-listing growth strategy)

- ✓ **Securing staff to support business expansion**
- ✓ **Procuring sufficient staff to prepare for an IPO**

- ✓ **Insufficient information regarding the listing examination process** (misalignment of expectations among stakeholders, additional burdens resulting from a lack of information, etc.)
- ✓ **Discrepancies between items included in examination and investor expectations**

- ✓ **Financing and attracting investors in later stages**
- ✓ **Improving investors' understanding of the business and its growth potential**

- ✓ **Exit opportunities are heavily skewed toward IPOs** (the secondary market is underdeveloped)

Current Challenges (1)

Pre-listing | **Current Challenges** | Desired Support

Growth Strategy/IPO Strategy

- ✓ Our growth strategy leverages listing, but currently it is just at the abstract level of "raising substantial capital and executing investments centered on M&A." We need to have a more concrete plan based on **a deeper understanding of listing and the opportunities that come with being a publicly traded company**. (¥4–10bn)
- ✓ Given our current pace of growth, **the threshold of a JPY 10 billion market capitalization is extremely high**, and we are struggling to justify the decision to pursue an IPO. With the redemption deadlines for the funds that have financed us approaching within the next five years, **we have serious concerns about whether a realistic exit strategy is feasible under the current rules**. (up to ¥4bn)
- ✓ We are unsure whether to aim for an **IPO or an M&A as an exit strategy**. (up to ¥4bn)
- ✓ When it comes to growth strategies, one challenge we face as a deep-tech company is that it's **difficult to paint a clear picture of our future growth**. While we have our own strengths, it's very difficult to explain how those strengths will evolve with the industry. (¥4–10bn)
- ✓ Japanese investors place a strong emphasis on net income when assessing valuations, which tends to create a dynamic where companies feel pressured to prioritize profitability over growth investments. **Striking the right balance between upfront investments and profitability as we prepare for an IPO is challenging**. (¥50bn and above)
- ✓ Given our business model, we expect to operate at a loss for the time being. **We are currently considering the best timing for our IPO (whether to proceed while still operating at a loss or to wait until we become profitable) taking into account our valuation**. (¥50bn and above)
- ✓ While there has been a lot of discussion lately about support measures for startups, those that have already listed are vulnerable. If we focus solely on increasing the number of listed startups or encouraging listings, we will only end up with a trail of failures. **We need to address the startup ecosystem as a whole, including how to support their growth at every stage**. (up to ¥4bn)

Current Challenges (2)

Insufficient Human Resources

- ✓ **Securing specialized talent, such as engineers**, remains an ongoing challenge as we expand our business. In addition to growing our own operations, we are also facing challenges in **securing the human resources needed to pursue M&A opportunities**. As we pursue these growth strategies simultaneously, **our recruitment efforts and organizational capacity are struggling to keep pace**. (multiple, ¥4–25bn)
- ✓ Thanks to initiatives such as the Five-Year Startup Development Plan, **many startups have emerged, and funding and talent are currently spread across numerous companies**. While consolidation through M&As is expected in the future, **since startups are expected to achieve rapid growth in the immediate term, they require concentrated investment and the pooling of talent**. (¥10–25bn)
- ✓ To accelerate our growth, it is essential not only to expand our business organically but also to leverage M&A and strategic alliances. Our key challenges moving forward include expanding our customer base, broadening our service offerings, and acquiring talent and expertise through partnerships with companies that offer business synergies. **Therefore, we consider strengthening our recruitment framework and establishing a structure capable of appropriately evaluating and executing M&As to be critical management priorities at this time**. (¥10–25bn)
- ✓ **Preparing for an IPO requires a wide range of tasks. In addition to establishing internal control systems, we also have to handle investor relations.** To be honest, **our administrative department is struggling to keep up with everything.** Things might go more smoothly if we had someone with IPO experience, but without such personnel, it's quite a struggle. (¥50bn and above)
- ✓ Startups (particularly their corporate divisions) are **facing a shortage of professionals with experience in IPO preparation or working at publicly traded companies**, leading to fierce competition for such talent. To make it easier for these experienced professionals to join unlisted startups, I believe we could enhance talent mobility by encouraging companies whose growth has stalled after going public to revitalize their business through M&A or delisting. (multiple, up to ¥25bn)
- ✓ We see securing the necessary personnel **not only for IPO preparations but also for maintaining our listing after going public** as a challenge. (¥10–25bn)
- ✓ When considering post-listing IR and investor engagement, not all team members are well-versed in **disclosure practices and marketing to institutional investors.** Therefore, we believe the key challenge is how to provide **learning opportunities** in an efficient and comprehensive manner. (¥50bn and above)

Pre-listing | Current Challenges | Desired Support

Current Challenges (3)

Listing Preparations

(Areas for improvement in listing and underwriting examinations)

- ✓ **For many issuer representatives, preparing for a listing is their first experience and they have limited information. Because many parties are involved, a kind of "telephone game" easily occurs, and they can be swayed by information of uncertain accuracy**. As a result, they often do not know what is truly required and the process ends up looking like a black box. Although the situation is gradually improving with measures such as the exchange's publication of FAQs on listing examinations, I believe there are still cases where, **even though TSE has not actually said something is unacceptable, securities firms pressure companies to take a conservative approach simply because "TSE might view it as a problem**." (multiple, up to ¥50bn)
- ✓ While our understanding is that TSE does not categorically reject parent-subsidiary listings, investors in unlisted shares appear to hold a very strong perception that the exchange takes a strict stance on such listings, and we were asked to reconsider our capital policy. **Since investors in listed shares and those in unlisted shares have different levels of access to information regarding IPOs and the listing market, unless TSE communicates its stance more clearly, we risk being impacted by perceptions**. (¥50bn and above)
- ✓ After receiving approval for listing, the lead underwriter informed us that we were in violation of an internal rule requiring that a certain percentage of the offering be underwritten by institutional investors. As a result, we were forced to cancel our IPO. **Had we been made aware of this requirement at an earlier stage of our preparations for listing, we would have had ample time to address the issue.** I find it odd that, despite the fact that our shareholder base is expected to consist primarily of individual investors after listing, this rule requires us to secure institutional investors beforehand. (¥4–10bn)
- ✓ **When it comes to the various explanatory documents** (required for the Growth Market listing examination)**, we have no idea how to even begin drafting them, so we end up having to ask securities companies or consulting firms to prepare them for us.** (¥50bn and above)
- ✓ When I was in charge of preparing for our company's IPO at my previous job, **we received numerous comments from TSE regarding "matters related to business plans and growth potential" right before the listing** (a particularly busy time) and it was very difficult to address them all. **I wish I had been able to identify the common pitfalls companies face in advance.** (¥50bn and above)
- ✓ Recently, as the number of serial entrepreneurs has increased, there are now unlisted startup managers who already understand what the world is like after listing. However, **even when such managers are responding in ways that align with investor expectations after listing, they can still be required to take a formalistic approach during listing examinations and underwriting reviews**. For example, in the area of **internal control development** examined in the review process, there are Japan-specific practices—such as avoiding written resolutions of the board of directors and requiring detailed monthly checks of performance—**which in some cases differ from overseas practices and investor expectations**. While putting such formalities in place can, in one sense, help immature startups to grow, I believe it would be better to allow for a certain degree of flexibility. (¥50bn and above)
- ✓ I've heard that if a company engages in M&A while preparing for an IPO, the examination period tends to be extended so that TSE can verify whether its actual results match its projections and whether its internal controls meet listing standards. **It's frustrating that we have to hold back on implementing our growth strategy through M&A even though we want to pursue it.** (¥50bn and above)
- ✓ **The AI industry, in particular, is highly dynamic, making it difficult for AI startups to accurately match their forecasts with actual results**. In cases where investors do not expect exact alignment between forecasts and actual results (especially during securities companies' due diligence) it would be beneficial if there were some flexibility to accommodate this. (¥50bn and above)

(Securing external partners)

- ✓ **We are facing challenges in selecting underwriters and audit firms.** (up to ¥4bn)
- ✓ Companies that run the risk of failing to meet the continued listing criteria after going public are encountering a practical bottleneck: **audit firms and securities companies tend not to allocate resources to such firms, making it difficult for them to find external partners even if they wish to begin preparations for listing**. (up to ¥4bn)

Current Challenges (4)

Fundraising/Attracting Investors

- ✓ **Because domestic VC funds are limited in size, they are unwilling to invest in late-stage companies valued at anything from JPY 100 billion.** Currently, **the primary sources of financing for such companies are corporates or overseas VCs**. However, leading overseas VCs will **only meet with companies through referrals, and access to them is extremely limited.** (¥50bn and above)
- ✓ While the **space industry requires substantial financing and investment to reach commercialization**, investors tend to expect companies to turn a profit quickly after going public. For this reason, while we are still commercializing, **we would prefer to raise financing while remaining unlisted.** However, Japan's private market is still underdeveloped compared to the United States, and **raising equity capital in the range of tens of billions of yen is particularly difficult.** This situation influences the timing and scale of an IPO, potentially preventing us from going public at the optimal time. (¥25–50bn)
- ✓ **Securing lead investors and optimizing the shareholder structure** are key challenges. Reliance on specific shareholders risks compromising management flexibility, **so it is necessary to select investors appropriate for each stage of growth and to consider a balanced capital structure.** (¥50bn and above)
- ✓ We are **exploring effective ways to communicate information (IR activities) in order to help investors gain a deeper understanding of the company's future prospects and revenue model.** (¥4–10bn)
- ✓ As a space-related company, we need to make continuous and substantial growth investments. Consequently, it takes time to achieve profitability, and this makes it **difficult for our corporate value to be fully recognized based solely on short-term performance metrics.** (¥4–10bn)

Secondary Market

- ✓ **Because the secondary market in Japan is not sufficiently developed,** exit strategies other than IPOs are scarce. As a result, **VCs often urge companies to rush to go public, leading to small-scale IPOs at a stage when the companies have not yet fully matured. If JPX could establish a middle market that provides liquidity between the pre-IPO and post-IPO stages, I believe VCs would welcome it, and it would also be beneficial for issuers to be able to issue new shares in that market.** (¥50bn and above)
- ✓ I wish we could **trade employee stock options and executive shares on a secondary market**. Our company has many foreign executives and employees, and **while there are secondary markets overseas, I wonder why there isn't one in Japan.** (¥50bn and above)
- ✓ While it is reasonable to go public only after growing to a sufficient scale, **the longer a company remains unlisted, the more likely it is that certain issues will come to the fore**. These include **the liquidity needs of existing shareholders and executive/employee shareholders, differences in investment horizons and expected returns among shareholders, divergences in risk appetite between management and shareholders, and delays in enhancing corporate governance**, which is a process that tends to accelerate following an IPO. In particular, **ensuring the liquidity of equity-based compensation and stock options for employees and former employees is a critical issue that goes beyond mere cash-out opportunities. It is closely tied to talent acquisition and retention, as well as the effectiveness of equity-based compensation**. (¥50bn and above)

Current Challenges (5)

Other

- ✓ While the **revision to the continued listing criteria for the Growth Market is an important first step toward improving market quality**, from the perspective of institutional investors actually considering a stock as an investment target and building, holding, and selling a significant position, the required levels of market capitalization, free-float market capitalization, daily trading volume, shareholder composition, disclosure, and governance often exceed JPY 10 billion in market capitalization by a considerable margin. Startup executives need to fully understand that an **early listing may not necessarily be the optimal choice**. If **sufficient liquidity or the possibility of institutional investor holdings cannot be secured after listing, appropriate price formation may not occur in the public market, which could also affect the overall credibility and appeal of the Growth Market.** (¥50bn and above)
- ✓ **In founder-led startups, nomination and compensation mechanisms are often viewed as constraints on managerial autonomy and decision-making speed, creating structural barriers to their implementation. As a result, critical aspects of being a public company** (such as CEO evaluation, succession planning, disciplined executive compensation, oversight by independent directors, and the management of conflicts of interest in capital policy and M&A) **may not be sufficiently discussed at the time of listing or afterward, or may be addressed only on a surface level.** (¥50bn and above)

Desired Support (Overview)

◆ **In addition to the need for sharing insights through case studies and seminars and for creating opportunities to engage with investors,** requests were also made for **improvements to the rules, such as streamlining the IPO preparation and examination processes, as well as developing the secondary market.**

Frequently Cited Issues

(Total responses: 36)

- ✓ **Provision of examples of companies that achieved dramatic growth by leveraging listing**
- ✓ **Provision of case studies that raised issues during the listing review process** (including cases where the issues were resolved and the company was listed, and cases where the issues remained unresolved and the company withdrew its listing application)
- ✓ **Support for building networks with other companies** (information sharing)

- ✓ **Creating a listing preparation/examination process that leads to post-listing growth**

- ✓ **Support for expanding connections with overseas venture capital firms and corporates to raise growth capital**
- ✓ **Support for expanding engagement with institutional and individual investors in preparation for a future IPO**

- ✓ **Facilitating shareholder transitions during the pre-IPO phase and ensuring the mobility of executives and employees**

Desired Support (1)

Case Studies and Knowledge Sharing

(Case study provision)

- ✓ **Please provide examples of companies that have achieved dramatic growth by leveraging an IPO.** While I have been gathering information at various seminars and study groups, the content does not focus specifically on what was made possible specifically by the IPO framework or because the company went public, so many of these cases lack replicability. (¥4–10bn)
- ✓ Since there are few practical case studies available on how founder-led startups considering an IPO should gradually implement functions such as nomination and compensation, CEO evaluation, succession planning, oversight by independent directors, and conflict-of-interest management in capital policy and M&A, **it would be helpful to have a "Pre-IPO Governance Best Practices Guide" that founder-led companies can use to address these issues with confidence.** (¥50bn and above)
- ✓ **Please provide examples of cases where issues arose during the listing examination process but were resolved through preliminary consultations and clarification of the issues, leading to a successful listing**, as well as cases where issues were identified during the review process and the listing was ultimately not approved. (¥25–50bn)
- ✓ **It would be helpful if TSE could provide examples from other companies, to the extent possible, so that we can understand how to write the various explanatory materials.** (¥50bn and above)
- ✓ **Regarding "Matters Related to Business Plans and Growth Potential,"** we would like you to **share common pitfalls that companies often encounter through case studies, seminars, and other channels.** (¥50bn and above)

(Requests regarding seminars)

- ✓ I believe it would be extremely helpful to have **seminars on other companies' preparations for going public and their post-IPO growth strategies.** (¥4–10bn)
- ✓ We would like JPX to organize IPO study sessions and seminars to support our internal preparations and corporate operations in preparation for our IPO. (¥4–10bn)
- ✓ Please organize **seminars on preparing for an IPO, broken down by phase.** (¥10–25bn)
- ✓ It would be great if there were **more seminars for companies in their first year of listing.** (¥50bn and above)
- ✓ We would like **TSE to hold regular meetings to exchange views with startups and other stakeholders.** (¥25–50bn)
- ✓ We would greatly appreciate it if TSE could arrange **regular opportunities for us to share our perspectives as an unlisted company**. (¥50bn and above)

(Networking with other companies)

- ✓ It would be great to have **opportunities to network with CFOs from other companies before and after going public**, as well as **chances to hear from established public companies**. (¥50bn and above)
- ✓ It would be helpful to have **opportunities for issuers to network with one another so they can learn about other companies' preparations for going public and their post-listing growth strategies.** (¥10–25bn)
- ✓ We would like TSE to share examples of how other **companies of similar size facing similar challenges are approaching their capital policies and business plans.** (up to ¥4bn)

Desired Support (2)

Improvements to the Listing Preparation/Listing Examination Process

- ✓ There is a big gap between what is required before and after listing. Before listing the focus is on the prescribed elements of an organizational structure, whereas after listing, companies face navigating equity markets without the necessary expertise. Is it not **important to switch the focus so that IPO preparations concentrate not just on passing the listing examination**, but also on **growth after listing?** (¥50bn and above)
- ✓ Rather than overemphasizing formality, **if there are no substantive issues when viewed from the perspective of investors after listing**, it would be desirable to **allow flexible responses, whereby companies can explain and justify their approach—saying, in effect, "this is how we think and how we operate**"—under a framework similar to the "comply or explain" system in the Corporate Governance Code. (¥50bn and above)
- ✓ Rather than applying one-size-fits-all examination criteria, we would like you to consider **flexibly tailoring listing examinations to match companies' growth phases and sector characteristics.** (up to ¥4bn)
- ✓ Audit firms and lead underwriter securities companies find it difficult to take on new contracts because of a lack of resources, so we'd like TSE to **encourage them proactively and create an environment that facilitates the acceptance of new contracts**. (up to ¥4bn)
- ✓ While we strongly support the revisions to the continued listing criteria, there are **few institutional investors who will participate in book building for the IPOs** of startups whose market cap. is less than JPY 10 billion. This means that even if companies pass TSE's listing examination, if they can't proceed to the book building process, they have to postpone or give up on listing. So, we would like you to consider revising the rules to include a special provision for small IPOs (of between JPY 1 and 2 billion), whereby the book building process is skipped and the public offering price is based on valuation reports prepared by analysts at lead underwriters. (¥4–10bn)
- ✓ In light of recent cases of improper accounting, we believe that in addition to the current rules, where issuers bear the cost of audits required by the Financial Instruments and Exchange Act and the Companies Act, it could also be an option for **audits to be carried out by external organizations at TSE's expense**. (¥50bn and above)

Desired Support (3)

Pre-listing | Current Challenges | **Desired Support**

Creating Opportunities to Connect With Investors

- ✓ If TSE, securities firms, and other organizations could take the lead in **providing opportunities to access global financing networks, such as overseas venture capital firms, it would be of great significance.** (¥50bn and above)
- ✓ For large-scale financing, domestic investors alone are not enough, so we need to engage with overseas investors as well, but **we would appreciate it if we could turn to Japanese investors more.** (¥25–50bn)
- ✓ With the trend for cross-shareholdings to be sold off, it has become difficult for corporate entities themselves to hold shares. We would like measures to address this as well as **support to make it easier for corporate entities to invest in startups.** (¥50bn and above)
- ✓ We would be **grateful for opportunities for unlisted companies to engage with institutional investors from an earlier stage**, not just directly before listing. Specifically, we believe it would be **useful to have a mechanism that enables companies to determine investor expectations from the pre-IPO stage**, in terms of equity story, KPIs, growth investment strategy, capital policy, expected levels of disclosure, and governance systems, and market capitalization/liquidity levels expected after listing. (¥50bn and above)
- ✓ As we develop our equity story, we want to make sure we present it in a way that will be well-received. Starting from around the second business year before the listing application, we would appreciate any opportunities to **hear investors' feedback on the content and presentation of our equity story** through discussions or in other ways. (¥50bn and above)
- ✓ We are hoping for regular **IR events and seminars** to be held to raise the profile of startups among a **broad range of investors, including not only institutional investors but also individual investors with medium- to long-term perspectives**. (¥4–10bn)
- ✓ We believe it is particularly important for investors to internalize assessing corporate value from a medium- to long-term perspective, so we would like TSE to **enhance its information provision to investors and provide more dialogue opportunities**. (¥4–10bn)

Desired Support (4)

Pre-listing | Current Challenges | **Desired Support**

Development of the Secondary Market

- ✓ For unlisted growth companies above a certain size, it would be **useful to have a liquidity mechanism to be used once a year or at predetermined times.** This should be available only to participants such as qualified institutional investors, professional investors, existing shareholders, and executive shareholders, and be subject to the issuing company's approval and certain disclosure requirements. Overseas, tender offers by or involving issuers, liquidity programs for employees and former employees, secondary markets driven by institutional investors, and intermittent private equity trading markets are all expanding. However, they are **not just a means to convert equity into cash**. They also **function as capital management tools enabling companies to avoid rushing into an IPO so they can transition to the public market when more mature.** (¥50bn and above)
- ✓ While **secondary trading through transfers between existing shareholders and investors is on the rise** in Japan as well, we believe it would be **beneficial to establish a pre-IPO market** to help ensure liquidity for existing shareholders and executive shareholders, alleviate pressure for overly hasty IPOs, optimize shareholder structure at listing, curb post-listing supply-demand imbalances, and increase the likelihood of institutional investor participation**. Practical guidelines would also be helpful.** (¥50bn and above)
- ✓ I believe that if the secondary market becomes more active, it makes exiting easier, which **makes it easier to attract new investors and raise funds**. **While the TOKYO PRO Market exists,** requirements such as J-Adviser contracts and ongoing disclosure place a heavy burden on companies looking to raise funds or trade on the spot market, **so it would be beneficial to have a platform that lightens that burden**. (¥25–50bn)
- ✓ If an IPO is deemed unfeasible, we would like TSE to **offer support for M&As and other ways of transitioning to the secondary market**, with exit strategies for funds in mind. In addition to enabling matching with other companies and investors, we would like you to provide necessary expertise. (up to ¥4bn)
- ✓ Even with the current system, **as long as the shares are in high-growth startups**, they can **be traded through OTC transactions between professional investors** who know each other, so **there is no particular need for an unlisted secondary market**. If the number of promising companies and astute investors both increase, making it harder to obtain information outside the exchange, it might be worth TSE providing matching services. However, at this point, **forcing the creation of such a market would only result in a subpar version of the Growth Market**. (¥50bn and above)

Other

- ✓ To stimulate the Growth Market and attract and build a base of investors, **we would like you to create indices or similar tools that group companies with growth potential,** but that are not included in the JPX Startup Acceleration 100 Index, **by category**. (¥10–25bn)
- ✓ To revitalize the Growth Market as a whole, we are hoping you will **create an environment that is easily accessible to investors and distribute sector-specific information**. (¥4–10bn)
- ✓ Instead of lumping all Growth Market stocks together, why not **create special criteria specifically for stocks with exceptionally high growth potential**, such as AI Shooting Stars? (¥50bn and above)
- ✓ Our understanding is that the purpose of **having companies disclose their objectives for listing on the TOKYO PRO Market** is to enable them to proactively share information to secure the support of investors and other market stakeholders toward achieving their targets. Such disclosure is meaningless if it does not secure enough support and just finishes up a formality. For this reason, **we want TSE to also communicate each company's information to investors and stakeholders** and, in addition, **hope that it will take a step further and establish a mechanism to provide support with other stakeholders.** (up to ¥4bn)

III. Future Direction

Future Direction

- TSE has received numerous comments from Growth companies and startups regarding the challenges they currently face and their expectations.

⇒ With these comments in mind, **we will hold a <u>study group with startup stakeholders</u> to discuss future initiatives and provide feedback at the Council of Experts.**

Study Group on Support Measures for the Growth Market (Tentative Title)

- **The study group is expected to consist primarily of practitioners with in-depth knowledge of the current state of the Growth Market and the startup sector.**

Potential Participants:

- ✓ Executives from Growth Market listed companies (including deep-tech companies)
- ✓ Executives from unlisted startups
- ✓ Institutional investors focused on small- and mid-cap stocks
- ✓ Venture capitalists
- ✓ Other stakeholders

Reference: Status at the time of the 2024 hearings

Interview Summary

- **Interviews were conducted with startup owners and related supporting parties**

Respondents	• Owners of unlisted companies aiming for significant growth/owners who utilize M&A as an exit strategy • Owners who grew their company to a large size before going public/owners actively engaged in M&A after going public • Venture capitalists that provide active support even after listing • Institutional investors that actively invest in the Growth Market Etc.
Topics Covered	<u>Current Issues</u> • Mindset of business owners aiming to go public • Mindset of business owners after going public • Environment surrounding business owners <u>Future Measures</u> • Stricter initial listing criteria • Stricter continued listing criteria • Other measures Etc.

Current Issues: Mindset of Business Owners Aiming to Go Public

Mindset of Unlisted Company Owners	● Rather than doing something for Japan, **business owners' mindset is that they can get higher price through IPO than through M&A, and they want to make a small fortune.** They are **all starting businesses in areas with no potential for market expansion** in the first place. (Listed company owner) ● Many managers **have the vague notion that they should go public, as that as what many business owners before them have done. Their goal is just to go public, without a clear idea of what they should do afterwards.** (Unlisted company owner)
Understanding of IPOs/M&As	● **Without a growth strategy that will allow your company to continue to grow by at least 20% per year for at least 10 years after listing**, **there is no point in going public** and doing so will only lead to struggle. It is strange to go public when your business and organization aren't growing. (Unlisted company owner) ● **When considering an exit strategy, you should first think about M&A and only go public if you are confident that your company can achieve significant growth.** In the U.S., if a company doesn't have growth potential, owners will exit through M&A and then start a new company with the aim of growing it to a certain level. These practices, however, are not widespread in Japan. (Unlisted company owner) ● The background to this is that M&A is difficult to coordinate between the parties involved, including the buyer. There is also a lack of public understanding (it looks like you are selling yourself), and valuations are lower for IPOs. However, unlike the U.S., **in Japan there is also the problem that nobody tells you about the option of M&As in the first place.** (Unlisted company owner) ● **A very successful business owner** told me not go to public until I have made JPY 10 billion in profit, **because going public without that kind of growth will not lead to further growth. It is also important to have people around you who can give you this kind of advice.** (Unlisted company owner)

Current Issues: Mindset of Business Owners After Going Public

Mindset of Listed Company Owners	
	● Many business owners who dreamed of going public and actually did so **found themselves unable to raise capital for investment, losing staff, and with no room for growth in the market. This left them in a difficult situation**. (Unlisted company owner) ● Even if a listed company is stagnant, business owners can still make a reasonable living at the individual level. **Their sole purpose in life is to stay in charge of the company**, so they **do not take proactive measures to raise the share price or consider selling the company to do something else**. Even if someone wants to do something about it, nobody listens to them. (Unlisted company owner) ● The managers of listed companies **are caught in the trap of having to manage the company for their entire lives**. There are many managers who started a business without thorough consideration of a growth vision, and although it saw some success and was listed with a market capitalization of several tens to several hundreds of billions of yen, **they have continued to manage the company without making any progress**. (Venture capitalist, institutional investor, etc.) ● Our company **often approaches the management of other companies in our industry about an M&A**. **The companies we approach are also keen on a capital tie-up, but for some reason most of the management want to maintain their listing, so we never end up making them a wholly owned subsidiary. It seems that the status of being "the owner of a listed company" holds a strong appeal for owners who want to be the masters of their own castle.** (Listed company owner) ● **It used to be that the people who were respected as owners were those who steadily raised their share prices after going public**, but this is not the case in today's industry. **Even without growth, they are still pampered as "owners of listed companies."** (Unlisted company owner)

Understanding of Listing	
	● Listing on the stock exchange should mean **exposing yourself to a competitive world where if you can't manage your company well, you will be forced to step down.** After listing, however, **many owners do not act conscious of this possibility.** They lose the fire in their belly. They may talk about expanding their business, but **their actions and enthusiasm are inferior to how they were before listing**. (Venture capitalist, institutional investor, etc.) ● **There are cases where small companies that are not growing well want institutional investors to invest in them**, but they should understand that there is **no demand for institutional investors to do so**. They should first **analyze the reasons why their company's market capitalization is consistently low and then take steps towards improvement**. (Venture capitalist, institutional investor, etc.)

Current Issues: Environment Surrounding Business Owners (1)

Influence of Ecosystem Stakeholders	

Influence of Ecosystem Stakeholders

- The influence of venture capitalists is also significant in the case of startups **going for IPOs rather than M&As**. As long as they are aiming to maximize returns, the structure is such that they seek IPOs, which can be sold at a higher price than M&As, and they hope for an early IPO because of the investment period. They are **optimized to quickly turn over the cycle of conducting small-scale IPOs and using the funds recovered to make the next investment**. (Unlisted company owner)
- Originally, **venture capitalists should have been making startups aware of the importance of growth potential from the time they were unlisted**. However, there is also the **problem of who provides the funds to the venture capitalists**. For example, companies are looking for business partnerships, so they are not necessarily looking for IRR as long as they do not lose their initial investment. (Unlisted company owner)
- Recently, **there have been cases of former listed company executives becoming venture capitalists**. I think that **if investors who understand how to manage a company after it has been listed join the industry, the companies they invest in will naturally improve**, and I think this will lead to changes in the venture capitalist industry as well.(Unlisted company owner)
- **As other surrounding market stakeholders make going public their primary goal,** when I advise someone against waiting on going public until they achieve further growth, they express great disappointment. (Unlisted company owner)

Fundraising Environment

- **Recently it is possible for companies to raise funds even if they are not listed.** However, because the unlisted secondary market is not functional, companies have no choice but to go public in order to raise funds for existing shareholders. (Unlisted company owner)
- From personal experience in the field, **there is enough funding available for solid startups**. I think the biggest issue is that there are not many managers who know what to do after a company goes public. (Venture capitalist, institutional investor, etc.)
- There is also "Startup Development Five-year Plan", and funding is beginning to flow to unlisted startups. However, in addition to such support, is it **not important to think seriously about how to use that funding**? If funding is provided to companies that are not trying to grow, **it will only spoil them**. (Venture capitalist, institutional investor, etc.)
- **Especially recently, institutional investors' money has stopped flowing into the Growth Market.** In addition to the fact that scrutiny of growth stocks is increasing worldwide, **large companies in the Prime Market are buried in working to improve their corporate value**, so it is not clear whether we will see any companies listed as unicorns. The tide has changed from a few years ago, and **it is becoming quite difficult to get out of the situation where venture capitalists leave after an IPO and institutional investors do not come in.** (Venture capitalist, institutional investor, etc.)

Current Issues: Environment Surrounding Business Owners (2)

Governance	
	• In Japan, **independent directors are brought in just before a company goes public, but ideally, independent directors who understand what happens after a company is listed should be brought in at a stage when IPO discussions begin, and the board should discuss whether the company should go public**. The current structure does not have effective governance, and the interests of management and venture capitalists take priority. No one is considering what is right for the company, and the environment is such that companies are often forced into going public. (Venture capitalist, institutional investor, etc.) • Even after listing, **if governance is truly functioning, the company would not be able to leave their stock price in a slump. They would think about how to respond, including outside directors, and they would give serious consideration to whether or not to accept an M&A offer as a company. With no venture capitalist governance, no functioning institutional investor governance, and no effective independent directors, this does not happen**. (Venture capitalist, institutional investor, etc.) • From the time we went public until we grew to a size that made us a target for institutional investors, **venture capitalists left but no institutional investors stepped in. This left us with no one around to motivate us.** We became the "king of the mountain" because we were more successful than we had imagined, and **it was difficult to maintain our high motivation.** (Listed company owner)

Future Measures: General Remarks

Necessity of Alliances and Coalitions	- The Japanese market **needs consolidation (integration between companies).** In the Prime and Standard Markets, we are starting to see this trend through the promotion of “Management That is Conscious of Cost of Capital and Stock Price”. In the Growth Market, however, **companies with similar businesses and business models are unable to grow and get left behind. Human resources are scattered unnecessarily, and each company bears the cost of maintaining its own management structure, which is inefficient**. Companies that are small in scale and unable to generate sufficient profits are **unable to make proactive growth investments.** (Venture capitalist, institutional investor, etc.) - The Growth Market is full of **small system companies and consulting firms, each of which has its own sales and management departments, which is inefficient**. Of course, each of these companies is running a business that is necessary for society, and **it is necessary to consolidate these to create a large company**. (Listed company owner)
Owners’ Perspective	It is definitely more impressive to **raise the share price after listing** than before, and **using M&As to create a company with growth potential that can compete on the world stage** is a good thing. It is **becoming the norm** for both the buyer and the company being bought. **It is important to establish this way of thinking as a culture**. To do this, it is **necessary to work together with those involved to improve the mindset of owners**. (Listed company owner)