

Minutes of the 28th Council of Experts Concerning the Follow-up of Market Restructuring

Date: Thursday, June 4, 2026 10:00 AM - 11:20 AM

Place: Tokyo Stock Exchange 15th Conference Room

Attendees: see member list

Watanabe, Director, Listing Department, TSE:

We will now commence the 28th Council of Experts Concerning the Follow-up of Market Restructuring.

Mr. Kanda and the Ministry of Economy, Trade and Industry, our observer, are attending online today, while Mr. Nagami is absent.

First, let us explain about the agenda.

Ikeda, Senior Manager, Listing Department, TSE:

Thank you for gathering.

We will be using two documents today.

Document one outlines future initiatives regarding management that is conscious of cost of capital and stock price. Through this summer, we will follow up on how companies are responding to the update to the request we made in April. In addition, we plan to conduct a survey of companies regarding expectations of and requests to investors, a survey of investors regarding companies that are making progress on initiatives, and approach companies that have yet to disclose. We would appreciate your feedback on how to proceed going forward, as well as any points to keep in mind as we move forward.

Document two covers the results of the growth market survey and future direction. We received a wide range of feedback from companies listed on the growth market and from startups considering going public. Regarding specific support measures moving forward, we plan to bring together representatives from startups to discuss them based on the results of this survey. If you have any comments or observations regarding this, please feel free to share them.

Watanabe, Director, Listing Department, TSE:

Now, we would like to explain the documents.

First, we would like to explain our future initiatives regarding management that is conscious of cost of capital and stock price in document one.

Monden, Senior Manager, Listing Department, TSE:

I will explain our future initiatives for management that is conscious of cost of capital and stock price.

First, page one provides an overview of our future initiatives, which can be broadly divided into four main points.

The first point is advancement of initiatives for appropriate allocation of management resources. We will follow up around this summer regarding investor feedback and companies' responses following the request update in April.

Regarding this update on the request, we have received feedback from investors and companies stating that it has clarified key points necessary for moving the initiative forward. However, from the perspective of raising awareness among companies, there are also voices pointing out challenges and calling for awareness-raising efforts to further support corporate initiatives.

The recent revision of the Governance Code also has some overlapping elements, such as its focus on the appropriate allocation of management resources. We hope to take advantage of such opportunities to support companies' initiatives.

The second point is the corporate survey. Until now, our efforts have largely focused on gathering feedback from investors and relaying it to companies. Going forward, we plan to gather expectations of and requests to investors from companies and share this information with investors as a basis for discussion aimed at promoting effective dialogue.

At the same time, we will gather information on the challenges companies face in dialogues, as well as the initiatives and approaches taken by companies that are engaging in meaningful dialogue. We will use this information as a basis for consideration by companies and incorporate it into our communications and other activities.

The third point is the investor survey.

To date, we have featured companies that are making good progress in our case studies. To highlight a broader range of companies, we will gather investor feedback through a survey regarding companies showing progress in their initiatives and the specific aspects investors value. We will then publish the results around summer, identifying these companies as "those whose progress has been well received by investors."

The fourth and final point is approaching companies that have yet to disclose. In line with the policy we outlined last time, we will gather feedback from investors and finalize the details around summer.

The following pages describe the details of specific initiatives. Page three is about the corporate survey.

I have already explained the overview. The target group consists of companies listed on all markets, including the prime market, the standard market, and the growth market.

The period is approximately one month, starting in early to mid-June. We hope to be able to report the results at our next follow-up meeting.

The bottom half of the slide shows a draft outline of the survey questions. Points one through three are the introduction. Here, respondents are asked to select from five options regarding investor interest in the company's initiatives, actions taken based on feedback received during dialogues, and whether meaningful dialogue is taking place.

We will then ask about dialogues that they find meaningful and those they do not find meaningful, respectively, inquiring about the reasons, specific examples, the characteristics of the institutional investors, and their specific names.

With regard to dialogues that they consider meaningful, since these are positive in nature and are believed to contribute to investor motivation, we plan to disclose the names of institutional investors.

On the other hand, we do not plan to disclose the names of investors with whom they feel the dialogue was not productive.

Finally, we ask companies to provide any comments or suggestions regarding institutional investors and their expectations for the exchange in the free-text fields.

We hope to publish the results of the survey after analyzing them through cross-tabulations based on market segments, market capitalization, and the four-quadrant diagram with PBR and ROE.

Pages four and five contain details on the survey questions, so I will omit the explanations.

Page seven is the investor survey.

From the perspective of management that is conscious of cost of capital and stock price, we will gather feedback from investors regarding companies that are making progress in their initiatives and the factors that contribute to their positive evaluation.

In doing so, we hope to feature as many companies as possible—more than in previous case studies. The plan is to divide companies in each market into two groups based on size, creating a total of four categories, and to ask investors to name up to 10 companies for each category.

The survey targets a wide range of institutional investors both in Japan and overseas, and the schedule is the same as that for the corporate survey.

We've included an image of the questions below. We envision a format where companies enter the company name, code, and evaluation comments for each category.

Regarding the survey results, we will compile and publish the names of companies mentioned by a certain number of investors, along with the points on which they were evaluated, in a simpler format than our previous case studies.

We will also use the feedback we received this time to update our case study collection around fall.

These are contents of the survey. Fourth, efforts to encourage companies that have yet to disclose are described on page nine.

We've made a few updates to our approaches we shared last time. First, for companies in the standard market that have yet to disclose due to a lack of resources or know-how, we plan to encourage them to take the first step toward disclosure.

In this regard, we plan to gather investor feedback—through follow-up questions to the investor survey mentioned earlier and interviews—on what specific initiatives and disclosures as a first step would lead to subsequent dialogue and refinements. We will then compile this feedback into key points and case studies, and aim to share the results around summer.

In addition, the support initiatives we have implemented to date—such as case studies, seminars, and individual visits—have proven to be effective to a certain extent, and we will continue to maintain and strengthen these efforts.

On the other hand, as we indicated previously, for companies—many of which are listed on the prime market—that have deliberately chosen not to disclose, we will encourage them to provide details regarding their reasons for not disclosing and their future plans. Together with the results mentioned earlier, we will begin notifying companies that have yet to disclose around summer.

The remaining slides are for reference. Page 10 covers our efforts to date.

On the left, we have listed our efforts to date to engage with management. We have been holding seminars and individual study sessions, and we have received feedback that these events have sparked discussions within companies after participants attended. We will continue to strengthen our top-down outreach efforts aimed at company executives and outside directors.

On the right, we have listed the support provided to the staff members in charge. We continue to provide case studies, seminars, and individual visits. Since these are already being utilized by many companies and there is a demand for them, we will continue to strengthen this initiative.

That concludes the explanation of the document. We would appreciate your broad feedback on any gaps or shortcomings in our future initiatives, points to keep in mind as we move forward, and any other related matters.

Watanabe, Director, Listing Department, TSE:

Now, we would be happy to receive your comments.

Kumagai, member:

Thank you very much for carefully compiling the document. I would like to make three points. First, I would like to comment on the advancement of initiatives for appropriate allocation of management resources.

In line with the revision of the Corporate Governance Code, Daiwa Institute of Research is engaging in discussions with listed companies. I feel that there is a difference in understanding regarding the allocation of management resources, as outlined in principles 4.1 and 4.2 of the draft revisions, between large-cap stocks and small- and mid-cap stocks. Among large-cap companies, disclosure of cash allocation is already well underway, and discussions are focusing on verification by the board of directors and methods of disclosing this information. On the other hand, some small- and mid-cap companies are unable to envision specific actions based on the guidelines, and there are voices of confusion coming from those companies.

The revision of the CG Code provides companies with an excellent opportunity to properly assess information in light of investor expectations and discuss it internally. Although the updated request document released in April is extremely useful, awareness of it among companies is not necessarily high. When I introduce the contents of the material, people often say they'd definitely like to take a look. Measures to raise awareness are extremely important.

The following is a very minor point: In some cases, the primary recipient of information on the company side within the “target” system—through which the Tokyo Stock Exchange disseminates information to

companies—may not necessarily be the department that actually needs the information. It is also considered effective to encourage companies to review their information-sharing systems to ensure that information is reliably conveyed. Since the requested update materials contain information that directly impacts management, it is desirable to have a system in place to ensure they reach the executive team, including the president.

Another common concern raised by companies is how to communicate to investors their investments in people—the source of the company’s added value—and the results of those investments. Since the results of investing in people are often difficult to see in the short term, many companies struggle to explain the value of such investments. It is also worth considering organizing investors’ perspectives and examples of disclosures.

Second, I would like to discuss the corporate survey on expectations of and requests to investors. I recognize that this is an important survey that will allow us to gather a wealth of information regarding dialogues. However, it seems that the definition varies depending on the investor and the company—for example, whether the dialogue is intended to gather information or to encourage actions aimed at enhancing corporate value. In question eight through question 11, differences in perception regarding dialogue between companies and investors may become apparent. I believe we should also consider providing definitions of the anticipated dialogue and other details to ensure that all respondents are on the same page. I believe that, in order to gather a wide range of information, one option is to deliberately refrain from providing it. I would appreciate it if you could give this some thought.

Finally, regarding “approaching companies that have yet to disclose.” Compiling key points and case studies for companies that have not yet taken the first step toward disclosure is extremely effective. When the request for “cost-of-capital management” first arose, even Japan’s leading companies were groping their way forward. At one company, they took a phased, gradual approach, starting with an analysis of the current situation and then, in the following quarter, disclosing measures taken to address the issues identified in that analysis. I believe that providing examples of actual procedures and workflows like this can also help encourage companies.

Sampei, member:

Thank you for compiling the document and preparing the survey.

You say that the corporate survey is targeted at all listed companies, and the investor survey will also be widely distributed to institutional investors both in Japan and overseas. However, I think it can actually be very difficult to approach institutional investors. I would like to hear how you plan to publicize this.

Monden, Senior Manager, Listing Department, TSE:

Regarding the investor survey, we will first publish the survey form on the Tokyo Stock Exchange’s website. Furthermore, since this alone would not allow us to reach many investors, we will collaborate with our internal investor relations department and overseas offices to individually notify the institutional investors with whom we have been exchanging views.

We have met with at least 300 to 400 institutional investors in the past few years alone, and we believe we have covered a significant portion of the institutional investors interested in Japanese stocks.

Sampei, member:

Understood.

Also, as an overall impression, I would like to start by expressing my gratitude for all the hard work and effort you have put into various initiatives so far.

You have been gathering feedback from companies and investors, and this time you will gather additional feedback through the survey. By gathering these voices and sharing the information, I believe you are ultimately helping to create a network of everyone's insights.

I believe that networking provides a valuable opportunity for each party to gain a fresh perspective on whether other companies in the same position hold different views or share the same views. This is a very important initiative, and while I would very much like to see this momentum continue, I imagine it will be a challenging task.

Do you all feel that this is a difficult task and are tackling it with that in mind? Or perhaps, since you're gathering so much information and survey responses, hearing these voices has further strengthened your sense of mission—that you must do even more—and is boosting your motivation?

I sometimes worry whether you'll be able to keep this up in the future. What are your thoughts on this?

Monden, Senior Manager, Listing Department, TSE:

Thank you very much. We have received positive feedback from many companies and investors indicating that they are making use of our published materials, such as our case studies, and this serves as a source of motivation for us. Therefore, we will continue to work on this as a team.

Koike, member:

Thank you for compiling the document.

First, regarding the corporate survey on expectations of and requests to investors. While there are many institutional investors, I don't think they all share the same perspective in terms of their approach, organizational structure, level of expertise, investment philosophy, dialogue skills, and engagement capabilities. If I am here representing investors, I strongly believe that investors need to significantly improve their capabilities.

Until now, we have mostly placed demands on companies, but as Mr. Sampei mentioned, I strongly feel that going forward, we need to take steps to promote and embed this concept among investors as well.

The Investment Management Association of Japan was newly established in April. I recently had the opportunity to present this initiative at the association's executive committee meeting. Institutional investors engaged in asset management are generally members of the association. Therefore, based on Mr. Sampei's assessment of the issues just mentioned, I believe that if this association facilitates the sharing of these initiatives and the current perspectives and challenges faced by companies, and then communicates this information to investors through the association, it will help foster a shared understanding of the issues among both parties and contribute to revitalizing the market. I would like to propose that you create such an opportunity.

Also, regarding the investor survey on companies demonstrating meaningful changes, when I speak with our in-house analysts and portfolio managers, I get the impression that some truly outstanding examples are emerging. While polarization is likely to continue, there are quite a few voices saying that the number of companies with which one can communicate with confidence—and that are worthy of investment—is on the rise.

Regarding approaching companies that have yet to disclose: In fact, even among companies that have yet to disclose, there are a number that are showing significant changes in their shareholder return policies and business strategies. We are debating whether we should highlight the changes taking place even within companies that have yet to disclose, or whether we should urge them to disclose since changes are indeed occurring.

If we were to highlight companies that are undergoing changes but have yet to disclose, there is a risk that this could be interpreted as implying that companies do not need to disclose if they are making changes, so we need to exercise some caution in how we handle this. Even among companies that have yet to disclose, there are some that have been driving change through dialogue with shareholders and investors, and I believe how to address such companies is a challenge for the future.

Uchida, member:

Thank you for your explanation. My opinion is pretty much the same as that of the other members. I hope we'll be able to gather a variety of insights from the wide-ranging survey of investors and companies that will be conducted this time.

As you analyze the survey results and provide feedback, I believe you should strive to provide companies with a clearer understanding of investors. I believe the approaches taken by executives, management, and the departments in charge of IR have changed, but I suspect there is still a gap in understanding and perception between them and those who are not involved in IR.

In order to bridge the gaps in understanding and perception, I would like to ask that, as part of the process of publishing the analyzed data as feedback, you find ways to showcase the faces and real-life profiles of the investor base.

If possible, I believe it would be helpful to publish a list of investors who responded to the survey—with their consent—so that companies can identify the overlap and differences between the investors they actually interact with and those who voice various opinions to the Tokyo Stock Exchange.

I hope that your analysis, outreach, or feedback will be in the form that helps companies gain a clearer understanding.

Okina, member:

Thank you for putting this together.

The topic of advancement of initiatives for appropriate allocation of management resources is also addressed in the updated requests and the proposed revisions to the Corporate Governance Code. Furthermore, I understand that the Ministry of Economy, Trade and Industry's Subcommittee on Value Creation Management—which Mr. Sampei attends and in which the Tokyo Stock Exchange participates as an

observer—is also discussing how to increase (ROIC minus cost of capital) multiplied by invested capital. I understand that the Tokyo Stock Exchange is also an observer.

I think this is, of course, something companies need to understand. The purpose of encouraging such initiatives is stated on the Ministry of Economy, Trade and Industry's website. I don't think the Ministry of Economy, Trade and Industry has fully concluded its review yet. I believe it is important to carefully monitor the initiatives being carried out in parallel by other government agencies while considering what the Tokyo Stock Exchange can do.

The corporate survey on expectations of and requests to investors is the first survey of its kind targeting companies regarding expectations of investors, and I believe it will attract a great deal of interest. I hope that you will conduct a thorough analysis and present your findings in a way that fosters better dialogue.

Regarding approaching companies that have yet to disclose, among companies listed on the prime market, the number of companies that have yet to disclose has become truly small. In this context, many of the companies on the prime market that have yet to disclose have their own specific circumstances, such as those that have just moved from the growth market or those that disclose information through different channels. I believe the appropriate approach is to listen carefully to each company's specific circumstances to understand their situation and, as necessary, encourage them to disclose.

On the other hand, the situation in the Standard market is different. As for how to proceed from here, I believe the Tokyo Stock Exchange should further continue its efforts to encourage disclosure.

Kuronuma, member:

I would like to make two points.

First, regarding the corporate survey on expectations of and requests to investors. While you have previously conducted interviews with investors to gauge their expectations of companies, you have never conducted a survey of companies to gauge their expectations of investors, and I believe this initiative is extremely important.

Since this survey covers all listed companies, the number of companies involved will naturally be large; however, if the number of responses is too low, the analysis may not be meaningful, so I would appreciate your efforts to encourage more companies to respond.

Furthermore, in a survey like this, I believe the number of responses received in the open-ended section will naturally be important for our subsequent analysis and for the Tokyo Stock Exchange's initiatives. Therefore, I would appreciate it if you could implement measures that encourage people to provide more responses in the open-ended comment section.

With regard to approaching companies that have yet to disclose, it is only natural to encourage companies that have deliberately chosen not to disclose to explain the reasons for their non-disclosure.

I've long felt that the relatively low disclosure rate in the standard market is a problem. According to the document, seminars for executives and staff members have been held to date, and it appears that companies in the standard market have also participated in them. However, I understand that this figure includes companies that have yet to disclose.

It would be surprising if there were any companies that have yet to disclose, even though they participated in seminars and other events. However, since it is certain that such companies intend to disclose, I would appreciate it if you could focus your efforts specifically on those companies.

Matsumoto, member:

Regarding approaching companies that have yet to disclose, I understand that a list of such companies has not been made public. I imagine there are specific circumstances for those companies. However, as evidenced by the significant impact of collections of best practices and bad practices, we are well aware that, in this country, how one is perceived by others can be a major source of peer pressure.

While it goes without saying that the Tokyo Stock Exchange discusses matters on a case-by-case basis—and it may be difficult to do so given the specific circumstances of each company—I think it might be worth considering publicly identifying companies that have yet to disclose in some form.

For example, among companies that have yet to disclose, there are some where, even though the details have been shared with frontline staff, it is unclear to what extent management is aware of the situation. I think it might be a good idea to consider publishing them in some form.

I think this applies to everything—it all comes down to how well you can engage the participants. While the Tokyo Stock Exchange has been highly engaging with companies and has been implementing the PDCA cycle, as I've been saying for some time, it seems to me that investors are lagging behind.

Regarding this investor survey on companies demonstrating meaningful changes, as Mr. Uchida mentioned, it is important information for companies to know which types of investors are responding when the Tokyo Stock Exchange reaches out to them and whether they are actively engaging with the Exchange's outreach efforts. This information may also be important for applying peer pressure.

Therefore, I think it might be a good idea to provide a clearer picture of the extent to which investors are engaging with the Tokyo Stock Exchange's initiatives—specifically, which types of investors are actively responding to them.

Watanabe, Director, Listing Department, TSE:

Thank you very much.

Next, we would like to explain the results of the growth market survey in document two and our future direction.

Monden, Senior Manager, Listing Department, TSE:

I will now explain Results of the growth market Survey and Future Direction in document two.

The second page provides an overview of the survey results.

This time, we conducted a survey and additional one-on-one interviews with companies listed on the growth market and startups aiming for a public listing. We received responses from a total of 145 companies: 109 publicly traded companies and 36 privately held companies.

The attributes of the responding companies are summarized below. I believe we've gathered a well-balanced range of opinions from companies of various sizes and at different stages of growth across a wide range of industries, including deep tech.

Starting on the next page, we'll present specific answers. The responses in the first half are from publicly traded companies, and those in the second half are from unlisted startups.

First, page four provides an overview of the challenges that publicly traded companies are facing. The issues most frequently cited by companies in their responses were growth strategy, lack of resources, lack of contact with investors, and low liquidity and stock price formation.

Following pages provide specific comments. Page five contains comments on the challenges of the growth strategy. A common theme was that both executives and staff were too preoccupied with securing short-term results, which prevented discussions from extending to the direction of medium- to long-term growth and made it difficult to commit to bold growth investments.

In addition, we heard feedback—primarily from companies with small market capitalizations—that they were struggling with the very process of formulating growth strategies, and that their growth scenarios lacked specificity and feasibility, and their direction remained undefined.

In addition, regarding M&A, we heard concerns that companies tend to take a passive approach due to a lack of resources, and that even when deals are brought to them, there aren't any good ones.

Page six is regarding the issue of resource shortages.

We've organized the comments into two categories: human resources and capital. First, regarding human resources, there are concerns that challenges in securing and retaining highly specialized personnel are constraining the implementation of growth strategies.

There were also concerns raised that there is a shortage of personnel to carry out M&A activities. With regard to IR, we received a great many comments indicating that they are responsible for multiple tasks, such as disclosure, and are facing a shortage of resources and personnel with the necessary expertise.

On the financial front, there were comments—particularly from companies with small market capitalizations—that sluggish stock prices made it difficult to raise additional funds.

Page seven provides comments on the lack of contact with investors.

With regard to individual investors, we heard concerns such as the challenge of raising awareness due to the company's low profile, as well as the worry that the company cannot attract interest unless it pays dividends. Regarding institutional investors, there were comments that, at the stage where market capitalization is in the range of several hundred billion yen, opportunities to make contact are limited, and there are constraints on the scope of investors that can be reached. In particular, regarding overseas institutional investors, the bar is set even higher; some companies reported that even when they tried to attend conferences to reach out to these investors, they were unable to secure opportunities to participate due to insufficient market capitalization, and felt they had hit a wall.

Regarding IR activities in general, there were comments that it was difficult to increase staffing due to a lack of understanding on the part of management, and that setting KPIs and measuring effectiveness were challenging.

Page eight covers liquidity and stock price formation.

There were many comments suggesting that it is difficult for institutional investors to invest because trading volume is low. Furthermore, even though sales and profits are growing, many companies struggle with the discrepancy between their self-assessment and the market's assessment because this growth is not reflected in their stock prices and is not properly valued by the market.

In addition, some R&D-focused companies, such as biotech startups, reported that it is difficult to present a vision for growth to investors.

In addition, on page eight, several biotech startups expressed frustration that whenever they released positive news, short sellers would immediately step in, causing their stock prices to fall back.

These are the challenges identified by the listed companies. Page 10 is about the support they desire.

The most common response was the sharing of case studies and knowledge; 70 percent of respondents cited this as a challenge. Other suggestions included expanding opportunities to contact with investors, providing support for disclosure practices, and addressing issues related to liquidity and stock price formation.

Page 11 is about the sharing of case studies and knowledge. Our past case studies and seminars have been very well received, and we have received many requests to continue them.

Additional topics suggested for coverage included case studies categorized by industry and growth stage, examples of both successes and failures, and IR case studies that also cater to individual investors.

Page 12 covers requests regarding seminars and networking. There were a great many requests for changes in management mindset through seminars for business owners and individual visits, as well as for knowledge sharing through networking with representatives from other companies.

Page 12 discusses increased contact with investors. We received many requests to hold events, such as joint information sessions, aimed at expanding their contact with both individual and institutional investors. Although such events are already held, there have been calls for them to be organized by a neutral body, such as the Tokyo Stock Exchange, in a cost-effective manner.

In addition, there were also calls to expand opportunities for interaction with analysts.

Page 14 is about disclosure and operational support. To reduce the burden associated with disclosure, there were calls for clearer guidelines, improved templates for English-language disclosures, and the sharing of best practices.

In addition, from the perspective of creating M&A matching opportunities, there were calls for networking with large companies such as those in the prime market; and from the perspective of refining their initiatives, there were also requests for feedback from a third-party perspective regarding their companies' growth strategies, market evaluations, and IR activities.

Page 15 is regarding addressing issues related to liquidity and stock price formation. There were requests for initiatives aimed at enhancing the appeal of the growth market as a whole, for publicizing these efforts, for raising awareness among investors, and, in particular, for improving the financial literacy of individual investors.

The above are the responses received from listed companies. The second half consists of responses from pre-listed companies.

Page 17 provides an overview of the current challenges. The topics most frequently cited by responding companies were growth strategies and IPO strategies, labor shortages, preparations for going public, fundraising, and the secondary market.

Page 17 provides comments on growth strategies and IPO strategies. We heard concerns about how to put a growth strategy leveraging a public listing into practice, as well as uncertainty regarding exit strategies, such as whether to aim for an IPO or an M&A deal in the first place. There were also comments from people who were concerned about the optimal timing for an IPO in relation to valuation. Compared to companies that are already publicly listed, their concerns were mostly relatively positive ones, such as how to make the most of their IPO, rather than worries about the business model itself.

Page 18 is about the labor shortage. As with publicly traded companies, we heard concerns that, in an environment of labor shortages, it is particularly difficult to secure specialized talent, and that companies' recruitment efforts and organizational capacity are unable to keep pace with their growth. In addition, within the corporate division, we heard many comments that the burden of preparing for the IPO was so heavy that they simply couldn't handle everything.

Page 20 covers issues related to preparations for going public.

For many people involved, preparing for an IPO is a first-time experience. Because there are limited information available and numerous stakeholders, such as securities firms and auditing firms, are involved, a "game of telephone" situation can easily arise, resulting in the process and key considerations appearing like a black box. As a result, there are claims that additional burdens are being imposed because securities firms are forcing a conservative approach, even though the Tokyo Stock Exchange has not stated that this is unacceptable.

In addition, some respondents mentioned that, since it was their first time, they didn't know what to include in the documents submitted during the listing review process or in the disclosures regarding their business plans and growth potential, which made the process time-consuming.

In addition, some pointed out a disconnect between the content of the review process and investor expectations; for example, noting that even when companies take actions in line with investor expectations after going public, the review process still requires them to take merely formal steps.

Page 21 covers fundraising and securing investors.

For late-stage companies valued at 100 billion yen, it becomes difficult to secure funding from domestic venture capital firms, so they must rely on corporate investors and overseas venture capital firms for funding. However, there were comments that it is particularly difficult to gain access to overseas venture capital firms.

It was also pointed out that, because the secondary market for unlisted stocks is underdeveloped, venture capital firms are pushing for early IPOs, which is leading to small-scale IPOs. There were also comments that, although there is a need to liquidate shares, such as stock options, the means to do so are limited in Japan.

Page 23 describes the support they expect. As with already listed companies, comments were made expressing expectations for the sharing of case studies and knowledge, improvements to the listing preparation and review processes, the creation of opportunities to contact with investors, and the development of a secondary market.

First, page 24 covers the sharing of case studies and knowledge. Regarding case studies, there were requests for examples of companies that achieved dramatic growth by going public; a collection of pre-IPO governance practices from companies where the founder holds a large stake; and case studies from other companies regarding issues raised during the listing review process and the documents required for that review.

In addition, as with already listed companies, there were calls for networking with other startups aiming for an IPO and with already listed companies, from the perspective of knowledge sharing.

Page 25 is regarding the listing preparing and the listing examination process. There were opinions that preparations for going public should be shifted from merely passing regulatory reviews to preparations that lead to growth after the IPO, as well as calls for flexible management that takes investors' perspectives into account rather than focusing solely on formalities.

Page 26 is regarding opportunities to contact with investors. From the perspective of improving the fundraising environment for later-stage companies, there were calls for support in gaining access to global fundraising networks, such as overseas venture capital firms. There were also calls to create an environment that would make it easier for operating companies to invest in startups.

In addition, several relatively large startups have expressed the view that it would be beneficial to have opportunities to engage with institutional investors and gather their feedback well before the offering process begins, in order to obtain their input and feedback at an earlier stage following the IPO.

Page 27 provides comments on the development of the secondary market. There were opinions both for and against this.

There were calls for a liquidity mechanism that operates once a year or at specific times, as well as suggestions that it would be beneficial to have a venue where funds could be raised and traded with a slightly lighter burden than on PRO Market. On the other hand, there were also cautious opinions suggesting that even under the current system, shares in high-growth startups can be transferred through private transactions, so there is no need for a secondary market, and even if this were in place, it would merely result in a watered-down version of a growth market.

The above represents the feedback we received from companies through this survey and interviews.

We have outlined our future plans on page 29.

We received a variety of opinions this time. Moving forward, as we work to finalize these measures, we plan to organize a forum bringing together startup stakeholders to engage in more in-depth discussions based on the feedback received this time, and then provide that feedback at a follow-up meeting.

We envision the review panel to include executives from publicly traded growth companies—including those in the deep tech sector—as well as executives from relatively large startups, such as pre-IPO unicorns; and, on the investor side, institutional investors focused on post-IPO companies and venture capital firms investing in pre-IPO companies.

Discussion forums related to startups have been held in various locations up to now. However, since we have received many specific suggestions regarding challenges this time, we intend to conduct discussions and deliberations that will lead to concrete measures as much as possible. Although the format of the discussion session has not yet been decided, we do not intend for it to be a formal meeting; rather, we hope to create a forum where practitioners can share their candid opinions.

That concludes the presentation of the document. As for the growth market, we will not be deciding on any specific measures today. However, based on the results of this survey, we would appreciate your broad range

of opinions on which issues and support areas we should focus on going forward, how we should prioritize them, and how we should proceed from here.

Watanabe, Director, Listing Department, TSE:

We would appreciate your feedback.

Kumagai, member:

Thank you very much for compiling this insightful document. I feel that this is a very helpful survey. I would like to offer my comments on the Study Group on Support Measures for the growth market on page 28, including future policy directions.

There are several committees on startups, both within the government and in the private sector, and they have identified challenges and proposed measures aimed at fostering the growth of startups. How this study group will collaborate with those organizations and how it will differentiate itself from them are key issues. When it comes to actually proposing and implementing measures, we need to clarify which areas should be handled by the Tokyo Stock Exchange and which by the government. Furthermore, it is necessary to draw a clear distinction between what can be addressed through institutional measures and efforts to change corporate mindsets and encourage behavioral change. Ultimately, I hope we can create a to-do list for each entity.

While the survey revealed a variety of opinions and expectations regarding support, it is essential to establish priorities. Aside from what there is a need for and can be addressed without taking up much time, the fact that this is a concern not only for companies in the growth market but also for those in the prime market suggests that it is likely an issue that companies universally perceive as a challenge. For example, the issues mentioned on page five, such as “we never get so far as debating the direction of growth in the medium to long term” and “since management prioritizes returns on investment within two to three years, we can't commit to bold growth investments,” and those on page six, such as “resources being diverted due to duplication in disclosure materials,” are challenges that are also common to the prime market. We need to address these issues as a matter of priority. Furthermore, the current situation, in which listing and underwriting reviews do not take into account post-listing growth or how companies engage with investors, needs to be addressed urgently.

At the same time, it is also necessary to raise awareness among companies in the growth market. An example is the understanding of short selling shown on page nine and page 15 of the survey results. Short selling is a type of trade that supports market health by increasing liquidity and facilitating price discovery. Furthermore, regarding the comment on page eight that 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, I believe they need to conduct an open-minded and objective analysis that takes into account the market's expectations of the company. One approach would be to use materials such as case studies showing discrepancies between the investor's perspective and corporate perception, which were created in connection with cost-of-capital management, to deepen companies' understanding. Because the market capitalization of the companies surveyed varies widely, it is necessary to provide appropriate awareness-raising efforts tailored to each company's circumstances.

It appears that it has become a target for some companies in the growth market to exceed 10 billion yen in market capitalization. I believe it is important to create an environment in which the market's overall market capitalization can grow and to foster investor confidence.

Matsumoto, member:

This survey contained a wealth of information and was very helpful. Thank you very much.

Before a company goes public, it cannot do so without a lead underwriter; however, upon reading this carefully, I really got the sense that while lead underwriters are quite proactive in their sales efforts leading up to the IPO to help companies go public, their support afterward is lacking.

I think the list of study group members on page 29 is fine as is. However, I believe that at securities firms, the departments in charge differ depending on whether a company is pre-IPO or post-IPO. Taking all of that into account, I strongly felt that it would be best to discuss with the securities firms acting as lead underwriters how to take a company public, and how to nurture and support it afterward. This may not be something this study group should be doing, but I think the Tokyo Stock Exchange needs to handle it properly.

Sampei, member:

Thank you for putting this together. To be honest, the more I read it, the more I feel—frankly—very disappointed, or rather, just kind of pathetic.

It seems that companies express various grievances after going public, but this may be because the reality differs significantly from their initial expectations. I think their understanding and awareness of what it means to start a business or go public are simply too naive. If they can't come up with a growth strategy, or don't even understand what one is, then why on earth did they start a business in the first place? Now that they've gone public, they need to start thinking about what comes next, don't they? I feel that these companies are far too naive.

It states that, regarding the type of support people expect, there are particularly many requests for case studies and knowledge sharing. This means a how-to guide, right? How to grow by itself. Given that the growth stage has already come to an end, I don't think it's of any use to simply provide how-to guidance at that point.

There are comments here and there that sound like complaints. It states, "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." However, when it comes to biotech startups—companies whose fate, whether they'll be a huge success or a complete failure, is anyone's guess—the market isn't going to be reassured by just a bit of positive news.

I was surprised that that's what companies think. I think companies don't understand this at all—there are just too many problems. What we should do is not to respond to each and every one of the various complaints listed here. I think the companies' way of thinking is just different to begin with.

For example, on page 24, under desired support, it states, "Please provide examples of companies that have achieved dramatic growth by leveraging an IPO." It means they want to learn from past examples and follow their lead. I wonder what these market players or companies, who should do things that have never been done before, will do with the lessons they learn from past examples. I'm not saying they absolutely shouldn't

learn it, but the very fact that they're saying they can't do it without studying past examples suggests that their mindset is just too different.

I have met with quite a few executives from startups in the US and Europe, as well as from pre-IPO and post-IPO growth companies. Everyone has such strong conviction and momentum regarding their future growth trajectory and the share of the market they aim to capture that I can't help but wonder if they're being too optimistic or too aggressive. So, when I looked at the results of this survey, I really felt that their perspectives were just too different.

The last page 29 lists the prospective members of the study group that is about to begin. Earlier in your explanation, you mentioned that the group includes representatives from unicorn-level companies. By "unicorn-level," I assume you mean companies that have experienced rapid growth and achieved significant success.

I think it would be great if entrepreneurs—who aren't just superficially "unicorn-level" but who also possess a drive to grow, a determination to succeed, and the confidence to back it up—could offer some tough love and encouragement in response to the somewhat disheartening answers found in the survey results. I think that unless people like that join, the fundamental shift in mindset wouldn't happen, and we wouldn't be able to convey that they can't continue with that kind of mindset. I hope the meeting will turn out that way.

Koike, member:

Thank you very much. This document itself covers a wide range of topics and incorporates a wealth of different perspectives, making it extremely helpful. On the other hand, it made me think about a lot of things. I'd like to comment briefly on my thoughts.

To put it simply, on page five, regarding the growth strategy, it states, "Since management prioritizes returns on investment within two to three years, we can't commit to bold growth investments." This is fundamentally at odds with the very concept of the growth market.

It also states that, "The majority of growth market companies cannot sustain growth for more than the short term." I wonder why these companies chose to go public on the growth market. Also, regarding M&A, which is the second item from the bottom, it states, "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." However, investors are well aware of this, and even if the company posts a significant loss, they want it to continue pursuing growth. Investors in the growth market are the ones who take that risk. Basically, I got the impression that the concept was quite off the mark.

I'm not really sure whether this is right or wrong, and there's no clear answer. However, given that so many companies are voicing these concerns, I can't help but wonder if, perhaps, the purpose and concept of IPOs are actually gradually changing in today's Japanese stock market. If we consider those planning an IPO as users, I can't help but feel that users' needs and preferences may have shifted slightly in the market. If that's the case, it's a big mistake. Therefore, I believe we need to once again thoroughly communicate how IPOs should be used in principle.

A moment ago, Mr. Matsumoto made a comment regarding securities firms. Speaking as someone with a background in investment banking, I would like to point out that securities firms don't just sit back and do nothing after a company goes public; I believe the real work begins once the company is listed. I imagine that every company is doing a thorough job of identifying financing and M&A opportunities to support its growth.

Since I'm currently on the institutional investor side, I'm aware of the challenge that analyst coverage has dwindled significantly. Securities firms assign analysts to cover companies until their IPOs, but after the companies go public, coverage in the secondary market tends to decrease somewhat, which can make it difficult for institutional investors to obtain information. I think we should discuss this point a little. Also, and this is just my personal opinion, as an institutional investor, I really wonder what the ultimate goal is beyond these growth market restructuring.

After all, we view the market as an investment opportunity. So, for example, even as the Nikkei 225 looks set to reach 70,000 yen in the near future, small-cap indices are falling or significantly underperforming. I wonder how this will be presented to investors. To be honest, the more I look at this situation, the more I feel that the image is gradually becoming disconnected from reality. It's only natural to expect companies to do various things. However, even if companies were able to disclose, improve their ability to respond to shareholder engagement, and see their stock prices rise, institutional investors would actually be unable to buy much of it. Even if the stock price doubles, whether liquidity will double or triple is another matter entirely.

It is also important to ensure that listed companies fully understand the concept of an IPO. However, as we move forward with this and continue the dialogue, we need to develop a clear vision of how the growth market will be utilized within Japan's capital markets and financial sector, and what role it will play. Otherwise, I think that even if stock prices simply rise, institutional investors will still not participate in IPOs. I have come to realize that, while our current efforts and discussions are helpful, they may not actually resolve Japan's fundamental challenges.

Okina, member:

Looking ahead, I believe a global perspective is essential for startups like these to grow.

I believe the Tokyo Stock Exchange could also provide a forum not only within Japan but also for Japanese professionals to engage in discussions with overseas investors and others, thereby encouraging them to look a little more toward the global stage and offering them opportunities to learn how global investors view the market.

In any case, I believe our goal is to help startups that will contribute to Japan's growth thrive and expand. To that end, a global perspective is essential, and I would like you to take that perspective into account in your deliberations.

Kuronuma, member:

I feel that this survey contains very important information. If we focus primarily on startups and publicly traded companies, the issues identified here relate to growth strategies, relationships with investors, and market dynamics.

While it is disappointing that some companies have not been able to formulate effective growth strategies, I suppose there is nothing the stock exchange can do about it—it's a matter that each company must address on its own. Without a growth strategy, there's no way market capitalization will increase no matter how much we improve our relationships with investors, so I don't think there's any point in trying to improve those relationships. Therefore, I think it's, in a sense, inevitable that the sharing of case studies and knowledge tops the list of the support these startups expect. Since it's hard to imagine that a company asks to help formulate its own growth strategy, I feel this must be unavoidable.

There have long been concerns that Japanese startups go public and then stop pursuing further growth, and if that's the case for all such companies, we need to rethink how IPOs are conducted. Even for startups that are already publicly listed, if there is still a path for them to grow from there, I hope they will explore it. In addition, several M&A-related issues have been raised here as well. In that regard, I feel that there are some areas where the exchange could provide support. I look forward to the discussions that will take place at future meetings.

Uchida, member:

Thank you very much. The survey results contain many candid opinions, some of which are a bit surprising. I'm not sure if this applies to companies listed on the standard market as well, or if it's a characteristic of the growth market. I think this is partly due to the fact that the criteria for going public have been broadened to some extent.

I think that even before a company goes public—during the stage of raising funds from investors—it already takes on a certain degree of public nature. I believe that internal management systems and the maintenance of internal controls at that time naturally vary depending on market segment, level, and scale. However, it is true that going public entails control costs. Securing talent has become a critical factor not only for companies listed on the growth market but for listed companies in any market. It might sound a little strange to say that they are “underestimating” the associated costs and maintenance expenses, but while it's unclear to what extent this can be reviewed during the IPO process, I believe we need to raise awareness of the importance of these issues.

Growth strategies and securing talent are fundamental issues, so I don't think there's much the exchange can do about them. I believe that one of the defining characteristics of the growth market is that it allows companies to go public even if they are still in the early stages of growth, regardless of the listing criteria, screening process, or organizational structure. As you move forward and discuss these matters in study groups and other forums, I think you could place a little more emphasis on the medium- to long-term management framework and organizational operations.

Koike, member:

I forgot to comment earlier. I strongly support the study group on page 30 that aims to support the growth market. However, I imagine the discussions by those participants will likely cover the same points that have been summarized in this document.

Therefore, I believe it would be best to invite individuals who serve as so-called “model cases”—those who founded startups, took them public, scaled their businesses through various financing and corporate actions, and moved to the prime market—to participate and help broaden the group's perspectives and ways of thinking. I believe that inviting such individuals would greatly enhance the significance of this group.

I also think it would be good to bring on board people who have experience with IPOs not only in Japan but also overseas—for example, on NASDAQ—as Mr. Matsumoto likely does. Regardless of whether they come from overseas or not, I don't think they have to be Japanese. If the growth market truly aims to be like NASDAQ, I think it needs to clearly communicate why the companies listed there started their businesses, why they went public, what they're thinking, and what they're aiming for. Otherwise, I think you'll just end up having the same discussion that's in this document. I hope that, as much as possible, you can have constructive discussions like this.

Sampei, member:

I think I've been nothing but critical just now. Although the document shows the difference in market capitalization, looking at this alone inevitably creates a negative bias, causing me to focus only on the negative aspects. There is an index called the JPX Start-Up Acceleration 100 Index. If you focus solely on the statements made by the companies that make up the index, I think you'll find that they're actually making quite sound arguments.

In addition, the Tokyo Stock Exchange's website features a special page listing the growth strategies disclosed by companies committed to "management aimed at high growth," and this serves to highlight the proactive companies that have voluntarily disclosed information. Even if people at those companies have concerns, they tend to be more positive in nature. If that's the case, there may be a spectrum of differences in awareness. Therefore, I believe that if you could clarify that point once more and hold a review meeting, it might lead to a more constructive discussion.

Kumagai, member:

Various opinions were expressed by the members, and based on those, I think the Tokyo Stock Exchange should consider taking the following steps. The points raised in this survey include a mix of valid observations and incorrect claims. So, I'd like you to clearly separate these two categories and, for the former, compile a to-do list for each relevant party outlining how to address them.

Regarding the latter, I would like the Tokyo Stock Exchange to provide its perspective, within reasonable limits. In doing so, I would like the Tokyo Stock Exchange not only to state its position on each individual claim, but also to systematically explain its overall perspective—delving deeper into matters such as its underlying philosophy and approach to IPOs. I would appreciate it if you could consider this categorization process in preparation for our next meeting.

Watanabe, Director, Listing Department, TSE:

Thank you very much. With that, we would like to conclude this meeting. Thank you very much. We are looking forward to having a valuable discussion next time.

[END]